The State of AI Ownership in Lower-Middle-Market Private Equity

Why funds need a mechanism that connects AI capability to portfolio value.

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ABOUT THIS WHITEPAPER

This paper is for lower-middle-market PE partners deciding who should own AI and what that person should do first.

It draws on ten deep qualitative interviews I conducted between February and June 2026 with lower-middle-market funds and independent sponsors, plus follow-up questions.[1] Participants were split roughly evenly between the US and Europe, with the European group concentrated in DACH, Czechia, and Benelux. I combine that research with PE advisor conversations, public evidence, and anonymized delivery work.[2]

This is not a statistically representative market survey. It is an operator view of a decision that keeps appearing across funds.

My thesis is that most lower-middle-market funds do not need an AI department first. They need a **dedicated owner of the AI value-creation lever**. Where that capability does not already exist, the practical answer is an **Embedded AI Operating Partner** with access to builders and authority from the managing partner.

01

The Lower-Middle-Market AI Ownership Gap

The meeting starts with agreement.

AI matters. The investment team is experimenting. Portfolio CEOs are hearing from vendors. One company has useful automations; another cannot get clean data out of its systems. Someone asks whether Microsoft 365 Copilot already solves most of the problem.

Then the useful questions begin.

Who owns this at the fund? Who calculates the value? What should be paid centrally and what should sit with the portfolio company? What should happen before the fund creates a full-time role? How do we separate real value from another technology cycle with better demos?

I heard versions of this conversation across all ten interviews. The funds were not asleep and they did not lack interest. They lacked a mechanism that could turn interest into a value hypothesis, a redesigned process, a business case, a build decision, and changed work.

The lower-middle-market AI gap is not conviction. It is mechanism.

The comparison with large-cap PE shows why the gap matters.

Large platforms already treat AI as an operating capability. CVC applied a generative AI lens across more than 120 portfolio companies.[3] Vista built internal capacity across more than 85 companies, while Apollo created a center that reviews ROI and routes companies to implementation partners.[4]

These cases prove the operating model exists. They are not a blueprint for a fund with 10 or 15 portfolio companies and a smaller fee base.

Adoption does not prove value. McKinsey's broader 2025 survey found that only 39% of respondents reported any enterprise-level EBIT impact from AI, and most of that group attributed less than 5% of EBIT to it.[5] Both McKinsey and BCG identify workflow redesign, rather than tool deployment alone, as a condition for material impact.[5, 6]

The useful lesson is narrow: assign ownership, connect AI to the value-creation plan, and create a route from opportunity to execution. Some funds will use that mechanism to assess AI risk faster, build value hypotheses earlier, remove SG&A friction, and improve commercial coverage. Others will buy licenses and wait.

AI capability is already unevenly distributed. That distribution is the opportunity.

The interviews showed what that uneven distribution looks like inside lower-middle-market PE. Six patterns recurred across the research and delivery work.[1, 7]

1. Ownership is unclear. Some partners drive AI informally; other funds push it to portfolio companies or local champions. Informal ownership starts activity but rarely creates a repeatable portfolio capability.

2. Executive bandwidth is scarce. Lower-middle-market CEOs and CFOs cannot absorb vague AI programs. They need help attached to a specific workflow, number, owner, and decision.

3. The value case is underdeveloped. Many funds can say AI is important. Fewer can identify the P&L line, workflow, data source, owner, business case, and implementation path that should come first. The phrase that matters is not “we saved time.” It is “this can change the EBITDA bridge.”

4. Data and process foundations remain uneven. Acquired companies often have fragmented systems, manual workarounds, and processes that live in a few employees' heads. PwC describes the same reality in middle-market portfolio companies.[8] The first AI work often makes the business understandable enough to change.

5. The starting point changes with the asset. A factory may have spent two decades improving production while leaving SG&A and other indirect workflows untouched. A service company may find value in its core delivery process. In Germany, employers must inform and consult works councils on planned working procedures involving AI. Works councils also have statutory rights concerning certain monitoring technologies, personnel planning, and dismissals.[9]

That does not make cost work impossible. My German-market conversations suggest that headcount-led cases can be slower to execute, making account coverage, lead qualification, pricing, quote speed, or cross-sell a better first wedge. This is a market observation, not a universal rule.[1, 2]

6. Advice without execution is not trusted. This final pattern sits underneath the others. Consultants are seen as too high-level or slow to keep pace. Implementation partners still matter, but the fund needs buyer-side judgment first.

These are not separate AI problems. They describe one missing operating mechanism.

02

The Missing Owner

This is the question I would put in front of a PE partner:

Who calculates what this value-creation lever is worth?

Not who runs a workshop or buys software. Who can examine a finance process, sales workflow, diligence task, quality report, or procurement burden and define what AI can do, which process must change, how the value will be realized, and what to build, buy, or ignore.

The investment team knows the deal thesis, the CEO knows the business, and IT knows the systems. None necessarily understands current AI capability or owns its translation into EBITDA. Consultants can diagnose, vendors can implement, and analysts can experiment.

None of those roles is automatically the same as owning the lever.

The owner has to see four things at once: the fund's value-creation agenda, the portfolio company's operating reality, the current frontier of AI capability, and the work required to change an organization.

The more PE-native title is **Embedded AI Operating Partner**. It is an operating-partner role first, with AI as the domain.

The role should report to the managing partner. Process change cannot be delegated to a collection of volunteers. The operating partner needs direct access to investment teams and, when portfolio work begins, to the CEO, CFO, functional owners, and relevant systems.

The role can begin fractionally. It still needs a builder path: a fractional builder, a trusted external bench, a portco resource, or eventually a HoldCo team. An operator without builder access becomes an advisor. A builder without PE judgment becomes a vendor. The capability needs both.

Dedicated ownership does not always mean a new hire. If a digital operating partner already understands AI, has enough capacity, and can commission builders, give that person the mandate. A rollup may already have the owner, builder, and data capacity inside its HoldCo. A fund with a small portfolio of minority investments and limited operating rights may be better served by a portco-led project around one visible problem.

In practice, the exception is narrow. Heidrick & Struggles describes the intersection of PE experience, strategic judgment, and technical understanding as scarce.[10] Most funds I interviewed lacked one person who could connect current AI capability to organizational change and remain accountable through execution.[1]

The person also needs to be enough of a tinkerer to test a model, prototype a skill, challenge a vendor, see where an agent will fail, and know when to call a specialist builder. Fresh eyes matter because management teams naturally see processes through the systems and assumptions that created them.

The test is not the title. It is whether someone already owns all four requirements:

01	**Value judgment.** Connect a workflow to the deal thesis, P&L, cash, growth, risk, or exit case.
02	**AI judgment.** Understand what current models, agents, and automation tools can and cannot do.
03	**Change authority.** Secure decisions, data access, process owners, and management attention.
04	**Execution path.** Bring in a builder or vendor and remain accountable after the diagnostic.

Where one person passes that test, create the mandate and measure it. Where nobody does, distributed ownership becomes another name for nobody owning the result.

03

What the Role Actually Does

The Embedded AI Operating Partner works across three arenas.

Fund. Establish approved tools and governance. Train the team. Create reusable AI skills for research, memo preparation, and knowledge retrieval. Maintain a searchable playbook library and evaluate vendors.

Deal cycle. Build bounded AI skills for sourcing, screening, diligence, AI exposure and risk, IC preparation, value hypotheses, and 100-day planning.

Portfolio company. Map workflows, quantify opportunities, redesign processes, and oversee implementation across SG&A, commercial work, and core operations.

In each arena, the role performs four moves.

Map. Make the work, systems, data, owners, and recurring friction visible.

Size. Translate the opportunity into cost, revenue, cash, quality, risk, or decision impact.

Decide. Choose a tool, agent, vendor product, custom workflow, process redesign, data work, or no action.

Govern. Assign an owner, approve rules, track the case, resolve blockers, and decide whether to stop or expand.

The job is not to bolt AI onto every process. AI may remove a step, make a new control affordable, or justify rebuilding the workflow.

Do not buy an AI roadmap before you have an AI operating map.

04

From AI Opportunity to Portfolio Value

An AI opportunity is not yet a business case. The operating partner has to translate it through four layers.

Start with the baseline. Record annual process volume, time per activity, loaded labor cost or external cost, cycle time, error or rework rate, and the operating result that matters. For a commercial workflow, the baseline may be lead coverage, conversion, quote turnaround, price realization, retention, or revenue per employee.

Define the addressable opportunity. AI rarely removes an entire process. Which steps can change? What work must remain with a person? What percentage of volume is sufficiently repetitive? What new control, analysis, or customer interaction becomes economical?

Name the realization mechanism. Saved hours are not automatically EBITDA. Value appears when headcount, overtime, or contractor spending falls; an outside cost disappears; or a planned hire is avoided. It can also appear when throughput rises, working capital improves, or the same team produces more revenue. If management cannot say what happens to the released capacity, the model should not count it as realized value.

Calculate net value and confidence. Subtract software, implementation, builder time, process-change costs, ongoing oversight, and a contingency for technical failure and adoption risk. Record the owner, timing, dependencies, value range, confidence level, and the metric that will prove or disprove the case.

The result is a business case that the portfolio CEO or CFO can challenge and approve. It separates gross technical potential from addressable opportunity, quantified EBITDA opportunity, and realized impact. That distinction prevents a portfolio scan from becoming a list of inflated savings claims.

WHAT INDIRECT WORK AROUND A FACTORY CAN HIDE

The translation becomes clearer in a real workflow. In a recent diagnostic I delivered through my advisory practice for a Tier 1 automotive supplier, we examined office-based and indirect work across procurement, quality, finance, HR, logistics, and IT.[7] Production had been improved systematically; the work around it had not. Processes were Excel-heavy, manual, and short on data transparency. The realization in the room was blunt: nobody had reviewed that layer systematically for 10 to 20 years.

One quality workflow followed an 8D problem-solving process from the opening of a customer claim through the final customer presentation. Another opportunity sat in repetitive work inside direct procurement. These were not better drafting tasks. They involved work moving across documents, spreadsheets, systems, decisions, and handoffs.

The design questions were operational: which steps could a computer-use agent perform, where did the data sit, which handoffs caused delay, and where was human approval essential? A computer-use agent can navigate software and complete a bounded sequence of tasks across tools rather than only generate text.

Management was surprised by how much work current agents could complete across tools while a person approved critical steps. The company lacked someone who understood both the process and current AI capabilities well enough to connect them.

The diagnostic produced a menu of opportunities: where value may sit, what must change, what data is required, what should be tested, and how the impact would enter the EBITDA bridge. That was enough to decide which cases warranted investment. It was not yet realized value.

The same diagnostic will produce a different menu in a service company, where the largest opportunities may sit in the core delivery process rather than indirect SG&A.

AI IS BECOMING PART OF THE EXIT STORY

The same discipline also changes what the fund can credibly present at exit. A PE fund advisor recently raised the point directly: funds are increasingly expected to explain what AI means for their portfolio companies when they sell them.[2]

An AI story alone does not create a valuation premium. Buyers can distinguish licenses and pilots from a credible plan. EY says buyers want an AI strategy backed by strong data and a path to future value.[11] McKinsey reports that buyers are examining AI readiness across functions and that sponsors are preparing roadmaps with quantified impact, ownership, and implementation evidence.[12]

This creates a concrete deliverable during ownership: an opportunity map, quantified cases, product or workflow specifications, implementation roadmap, early evidence, required investment, data dependencies, and governance. It must separate realized value, validated but unimplemented value, and hypotheses.

That distinction matters in sell-side diligence, often called vendor due diligence in Europe, and in management presentations. A buyer may value proven performance or a credible roadmap with explicit costs and upside. It will discount demos presented as strategy.

The same capability matters at fund level. McKinsey found that 53% of 300 LPs ranked a GP's value-creation strategy among their five most important manager-selection criteria.[13] AI is not a fundraising shortcut, but a repeatable method for finding and executing opportunities can serve as evidence of a stronger value-creation model.

The AI story should therefore be built during the hold period, not assembled shortly before exit.

05

Where a Fund Should Start

The fund can start fund-first, deal-first, or portco-first. The maturity scorecard should be the first working session. Score six areas from zero to three: tool access and governance; fund skills and training; deal skills; portfolio value mapping; value tracking; and funding and ownership. Zero means ad hoc and three means value-linked. Select two or three areas to improve rather than trying to improve everything at once.

The Embedded AI Operating Partner should then establish a monthly AI board for the partners. This is a decision forum, not a presentation meeting. It reviews opportunity menus, business cases, implementation status, blocked management decisions, builder or vendor requests, value estimates, and exit-readiness implications.

PERSONAL AI IS NOT APPLIED AI

One distinction should be settled early because it shapes tool choice and expectations. Many partners ask a reasonable question: “We already have Copilot. Is that it?”

Microsoft 365 Copilot can work inside familiar applications and draw on permitted emails, chats, documents, and meetings.[14, 15] That makes it a useful governed baseline for preparation, summaries, drafting, analysis, and search.

Used this way, it is **personal AI**. It makes an individual faster.

Applied AI changes how work moves through the organization. It connects to business systems and has an owner, value case, controls, and route into production. The 8D workflow is applied AI; a drafting assistant for the quality manager is personal AI.

Both matter. They create value differently. Personal productivity only reaches the P&L when saved capacity is deliberately removed, redeployed, or used to produce more valuable output. Applied AI starts with the operating result and redesigns the workflow around it.

ChatGPT or Claude business offerings may fit some research, analysis, or skill-based tasks.[16, 17] Vendor products or custom systems may fit applied workflows. The durable decision is which tool belongs in which workflow, with which data, owner, and value case.

Once the fund knows which kind of work it is pursuing, funding becomes easier to decide. The first question is stake. Does the fund control the company? Does it own enough of the economic upside to justify paying centrally? Who else captures the benefit?

The second question is reuse. Fund-level governance, training, deal skills, vendor judgment, portfolio triage, and exit-readiness methods should normally be paid by the fund because they serve multiple investments.

The third question is where the benefit lands. Implementation inside one company can often be funded by that company. A rollup may place builders at HoldCo. In minority or shared-control situations, the economics and decision rights should be explicit before work begins.

The principle is simple: match the cost to the beneficiary and do not hide portfolio implementation inside vague fund overhead.

A FAIR SIX-MONTH TEST

The mandate also needs a time-bounded test. The question is not whether AI transforms the portfolio or produces realized EBITDA in six months. The test has three decision gates, not three maturity stages.

Diagnose. Select two or three maturity areas, approve the necessary tools and rules, and map one portfolio company deeply enough to establish baselines and a quantified menu of opportunities.

Prove. Build the first reusable fund or deal AI skills, validate business cases with management, and move at least one workflow into implementation with a named operating owner and measurement plan.

Institutionalize. Establish the monthly AI board, record what the fund has learned, and determine the structure required for the next period.

The value case should be signed off by the portfolio CEO or CFO. It should separate realized value from quantified opportunity and record the baseline, required investment, operating owner, implementation risk, and method for tracking impact.

At the end of six months, the managing partner should be able to make a better structural decision: continue fractionally, give the mandate to an existing executive, hire a full-time operating partner, build a HoldCo capability, expand the builder bench, or stop.

The test is not whether people are excited. It is whether the fund can now find, size, decide, and execute AI work with discipline.

06

The Smallest Capability That Can Repeatedly Change Work

Lower-middle-market PE should learn from large-cap PE without copying it.

The answer is not an AI department by default. It is the smallest capability that can repeatedly change work: one accountable owner, buyer-side judgment, access to builders, and a monthly forum that makes decisions.

That owner may already exist. In most lower-middle-market funds, the combination of transformation ability, current AI judgment, hands-on curiosity, and execution access will be difficult to find internally. That is why the Embedded AI Operating Partner is a rational place to start.

The right question is not whether the fund is “doing AI.”

The right question is whether anyone owns turning AI into changed work, better decisions, a credible exit story, and measurable portfolio value.

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