Benchmarking Private Equity Fund Performance in the Mid-Market GP Universe with Insights on Social Stratification

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Abstract: This work examines the impact of social stratification issues, particularly the diversity of the management team, on fund performance within the middle-market GP universe. It aims to harmonize traditional financial metrics with sociological aspects to provide a comprehensive explanation of what drives fund performance. Using a quantitative analysis approach, this research investigates the Burgiss dataset, which includes well-documented financial statements for over 3,000 private equity funds from 1990 to 2020. The study focuses on common performance metrics: Internal Rate of Return (IRR), Multiple on Invested Capital (MOIC), and Cash-on-Cash return. It measures the effects of fund size, vintage year, management fees, and management team diversity on these performance metrics. The findings indicate that larger funds are generally associated with higher IRR, MOIC, and Cash-on-Cash returns. Notably, diversity indices of the management team within these funds are positively related to IRR ($\beta = 0.50$, $p < 0.001$) and MOIC ($\beta = 0.45$, $p < 0.001$), two of the most important performance metrics. While some funds initially had low I returns, many showed recovery in the longer term. The results underscore the significant role social factors play in the performance of private equity funds. This study sheds light on the broader discussion of the relationship between social science, economic performance, and social structures. It illustrates the positive effect of management diversity on fund performance, which could motivate a
reconsideration of investment strategies from a sociological standpoint, making them more sustainable and inclusive.

**Keywords:** private equity, social stratification, fund performance, management diversity, financial metrics, mid-market GP, quantitative analysis, investment strategies.

**Introduction**

An important part of the financial markets is private equity (PE), which primarily involves investing directly in private enterprises at various stages of their lifecycle. In private equity, unlike public equities, investors not only provide capital but also often actively participate in the management and strategic direction of the organization by purchasing substantial interests or even complete ownership of the business (Brown et al., 2021; Castellaro, 2023). The mid-market private equity category plays a crucial role in the investment environment because of its unique position. The mid-market encompasses a wide range of businesses, from young, rapidly expanding startups in need of growth funding to more established organizations requiring reorganization or a change in strategy. This category is often defined as investments in companies with valuations between $10 million and $500 million (Gonzalez, 2023).

The flexibility and capacity to tailor their strategy to each transaction are hallmarks of mid-market private equity firms. ‘Partnership capital’ is a common strategy among mid-market PE funds, in contrast to larger PE funds that may target leveraged buyouts of very large companies (Gilligan, 2023). In this role, the private equity firm aims to help the portfolio firms’ current management teams improve performance, develop new products, and enter new markets. While larger private equity funds tend to have more consistent performance, mid-market funds might experience much higher volatility for several reasons. Depending on their focus, mid-market funds may invest in buyouts, growth equities, distressed assets, or even entire industries. Variations in the state of the economy and the market significantly impact the relative risks and rewards of these various approaches (Sayed, 2023). Smaller businesses face distinct challenges compared to larger ones. These include, but are not limited to, less leverage in supplier negotiations, limited access to financial markets, and the greater influence of management decisions. For example, a healthcare fund with a European focus would face different opportunities and risks than a tech fund with an American focus due to differences in regulatory climates, market dynamics, and economic conditions.

Benchmarking the success of mid-market PE funds is important but challenging due to the heterogeneity in methods and results. Nevertheless, precise benchmarking offers investors critical information regarding potential returns compared to similar market sectors. It also helps fund managers enhance fund performance and refine investment strategies. The role of private equity is vital in driving economic expansion. Public equity funds (PEFs) support economies and sectors through their investments in and growth of companies. They are common sources for new job opportunities, efficiency improvements from innovative economic ideas, and job creation.

Moreover, it is essential to gauge the wider economic and social effects of these funds’ performance beyond financial returns. Understanding the broader economic and social benefits of deploying capital is critical, as the financial ecosystem increasingly emphasizes responsible and sustainable investment (Johnson, 2020; Shah and Asghar, 2024; Shah and Shah, 2023).

**Research Problem**
The influence of non-financial factors, particularly the social and managerial structures within fund management, on financial outcomes remains largely unknown, despite the existence of well-established financial metrics such as MOIC and Internal Rate of Return (IRR). Few studies have examined the correlation between these socioeconomic factors and financial performance, especially in the complex and multifaceted mid-market GP landscape. This gap prevents fund managers and investors from accurately assessing the potential impact of social factors on investment returns.

**Research Focus**

Combining an examination of social stratification elements with conventional financial performance metrics is the primary goal of this study. The overarching aim is to shed light on the causes of fund performance gaps and how non-financial variables could enhance or diminish private equity success by investigating these aspects simultaneously. The study links the effects of social stratification on financial performance to contemporary social science concerns, such as diversity, inclusion, and equality in corporate governance. Understanding the impact of social dynamics on financial measures is essential for creating more inclusive investment strategies that consider both social and economic returns, especially as these dynamics are increasingly studied within organizations.

**Research Objective and Research Questions**

The primary objective of this research is to develop a comprehensive system for comparing private equity funds within the mid-market GP universe using indicators of social stratification and financial performance.

1. How do various mid-market private equity funds compare to more conventional financial measures such as internal rate of return and return on invested capital?

2. To what extent can differences in social stratification among fund management teams explain observed performance variations?

3. Is it feasible to employ a more holistic framework that incorporates both financial and social metrics to evaluate private equity funds?

By enhancing current approaches to assessing fund performance and contributing to the broader discussion on the impact of social concerns on financial success, this comprehensive strategy aims to integrate financial economics with the social sciences. Legislative discussions on corporate responsibility and ethics, as well as future investment decisions, may benefit from the study's findings, which aim to illuminate the various factors influencing the success rates of private equity investments.

**Theoretical Overview**

Internal Rate of Return (IRR) and Multiple on Invested Capital (MOIC) are two of the most critical key performance indicators used to assess private equity (PE) investments (Errais and Gritly, 2022). The importance of consistent investment strategy among private equity funds, as well as measures of fund efficiency and profitability, cannot be overstated.

IRR, which represents the annualized return on investment, is the most commonly used effective compounded return rate in terms of investment profitability (Focacci, 2022). In the context of private equity discussions, IRR signifies the rate of return that equates the net present value of all cash inflows and outflows from a specific fund to zero. This is crucial in private equity due to the extended duration over which investments and returns unfold across several years.
Another closely monitored measure of success is MOIC, which compares the total investment value to its original amount. MOIC divides the entire capital invested by the final investment value, including dividends and any residual investment value to investors (Gompers and Kaplan, 2022). Unlike IRR, MOIC does not factor in the time-value component, yet it provides a clear measure of gain and offers a concise overview of overall return.

**Refining and Correlating Performance Metrics**

Much work has been devoted to improving these metrics and exploring their correlation with other aspects that influence the success of private equity funds. The size of the fund has been identified as a significant factor affecting performance. While larger funds offer greater institutional access to potentially more lucrative assets, they can also present challenges due to reduced flexibility and a lack of tailored solutions in administration (Klein and Todesco, 2021). Conversely, smaller funds may focus intensely on specific industries or markets, potentially yielding higher returns through specialized knowledge. Thus, industry focus emerges as another critical determinant of success for private equity funds.

Funds investing in rapidly growing sectors such as healthcare and technology can enhance their Internal Rate of Return (IRR) due to substantial value generation. However, these sectors also carry higher risks, impacting return stability and predictability. The stability and predictability of returns are significantly influenced by the geographic location of assets. Investments in developing economies offer higher growth potential but also expose funds to political, economic, and currency risks (Bollaert et al., 2021; Shah and Shah, 2024). In contrast, mature markets provide safer investments but offer fewer growth opportunities due to higher competition.

**Challenges in Using Traditional Metrics**

There are limitations to using IRR and MOIC as measures of private equity performance, despite their utility. One example is how IRR, heavily influenced by the timing of cash flows, may not accurately reflect the true economic performance of long-term assets. Similarly, MOIC does not account for the time value of money, making comparisons challenging for investments made at different times (Rexhepi, 2024).

To address these shortcomings, scholars and the private equity industry have developed new tools such as risk-adjusted returns (RAORs), scenario analysis, and adjusted internal rates of return (IRR) (Murray, 2021). These frameworks consider various factors including economic conditions, fund strategies, and operational efficiency to provide a more comprehensive evaluation of performance.

**Influence of Social Stratification on Performance Metrics**

What seems to matter most are the emotional factors such as the diversity among the fund’s management and investors, rather than the strictly quantitative metrics, in determining the performance of a fund (Morse, 2020). In this context, "social stratification" refers to the hierarchical structure of society, encompassing the policies and processes that govern the administration and utilization of private equity funds (Kish-Gephart et al., 2023). It has been emphasized that three strategies will be crucial for yielding significant benefits to private equity firms: cultivating strong networks, fostering diverse leadership teams, and leveraging social capital (Purwati et al., 2021).

At the core of society’s functionality lies social capital, which comprises the network of relationships among its members. Shah et al. (2020) posit that this network determines information flow within companies, decision-making processes, and business operations. This paper uses "social stratification" within the context of private equity to denote the hierarchical structure that influences
day-to-day operational and strategic decision-making (Van Aaken et al., 2022). Differences in financial status, educational attainment, cultural background, and professional connections within the stratified fund affect power dynamics, resource accessibility, and utilization methods. These elements, referred to by sociologists as "social capital," illustrate how individuals are stratified within society at large.

We can gain insights into how the social structures of private equity firms influence their success through social capital. When evaluating interactions within and outside the fund, the quantity and strength of connections among various groups of people are considered. A fund rich in social capital can yield numerous benefits:

Strong networks facilitate efficient information flow, aiding fund managers in identifying business opportunities and gaining market insights (Vrontis et al., 2021). Diverse and well-connected management teams can make better decisions by leveraging diverse perspectives. Effective social networks can expedite processes such as fundraising and transaction execution through existing connections.

**Impact of Management Team Diversity**

One striking feature of social stratification that significantly impacts fund performance is the diversity among management teams. Teams with a wide range of backgrounds, perspectives, and problem-solving abilities are more likely to generate innovative solutions. Here are some potential outcomes of having a diverse team:

1. Enhanced risk management strategies: Diverse team members bring different viewpoints to decision-making and analysis, leading to more robust risk management tactics.
2. Identification and exploitation of new investment opportunities: A diverse team fosters varied experiences and perspectives, resulting in unique combinations of ideas and approaches to identifying and seizing fresh investment opportunities.
3. Increased investment capital: Funds that demonstrate a commitment to diversity may attract more investors who value such initiatives (Edmans, 2023).

Several sociological theories emphasize the influence of social structures on organizational outcomes:

According to Pierre Bourdieu, social capital comprises all resources, tangible and intangible, associated with having an established network of formalized connections based on mutual respect and common ground (Otero et al., 2021). Managers with high social capital in the private equity industry may mobilize greater support and resources for their funds. Coleman’s theory suggests that private equity firms can benefit from social capital through enhanced efficiency and effectiveness in managing funds, achieved through increased teamwork and collaboration with other organizations (Aritenang, 2021).

Accurately assessing qualitative factors such as team diversity and social capital requires sophisticated analytics. Differentiating the impacts of social factors from those of other variables, such as market and economic changes, is also challenging. Nonetheless, standard financial metrics remain crucial for evaluating the success of private equity funds. Therefore, employing an integrated approach that comprehensively examines the intricate interplay between social capital, managerial diversity, and traditional performance measures is essential for evaluating private equity investments (Li et al., 2021).
Theoretical Frameworks

To comprehend how PE funds operate and their impact on success, a theoretical approach from corporate sociology or social capital is essential. The central concept revolves around how interactions within a company—whether among coworkers or across different levels of management—significantly influence outcomes. This concept of "social capital" refers to the benefits derived from the network of human relationships within a society, wherein sharing information and resources enhances organizational performance. This idea, articulated by academics like James Coleman and Pierre Bourdieu, underscores the importance of such networks (Shobha and Vedava, 2024).

In the realm of private equity, for instance, a fund manager’s ability to access confidential information, secure superior investment opportunities, and attract potential investors is intricately linked to the strength and breadth of their professional and social networks (Cao et al., 2024).

Moreover, it is widely acknowledged that having a diverse leadership team is crucial not only for financial success but also for promoting good corporate citizenship. Teams composed of individuals from diverse backgrounds—including different ages, genders, races, educational levels, and life experiences—are more likely to generate innovative ideas and make effective decisions. The synergistic effect of these diverse perspectives in identifying new business opportunities and creatively solving problems directly contributes to increased profitability.

Additionally, the organizational structure significantly influences decision-making processes. Well-organized structures facilitate efficient communication and prompt decision-making, enabling rapid responses to market changes and operational challenges. Conversely, rigid organizational structures can hinder decision-making and innovation, potentially resulting in missed opportunities and unmitigated risks (Gong et al., 2021).

Empirical Evidence and Recent Trends

The influence of non-financial elements on financial success has only recently become the subject of empirical study. Regression analysis is a common tool for studying the impact of demographic variables on investment returns in this field. According to the numbers, funds that have a more varied group of people running the show usually perform better. This poses a heightened threat to funds that invest in creative industries or businesses serving a varied consumer base. Recent research in academia and business, especially in the private equity industry, has focused on the importance of non-financial metrics in determining financial success (Wessendorf et al. 2020). Researchers have shed light on the intricate relationships between different management and fund performance via empirical studies that used statistical approaches such as regression analysis. This study adds to the increasing amount of evidence that diverse management teams benefit both companies and society as a whole.

Diversity is currently gaining popularity based on the widespread belief that diverse teams are better equipped to make decisions, especially in complex and dynamic environments. There is abundant literature on how racial, gender, and educational diversity impact the effectiveness of investment funds (Ullah et al., 2020). A common criterion for diversity in these studies is the composition of management teams in private equity organizations, which are then correlated with various performance indicators of the funds they oversee. Research indicates that funds with diverse management teams tend to perform better financially (Tsuroyya and Nuryana, 2021). In fields such as science and technology, managers from diverse backgrounds appear to make a significant difference.
Funds with diverse clientele and operations across multiple locations may derive benefits from having a diverse management team. This is likely because such firms have a better understanding of their clients' preferences and the dynamics of various markets, enabling them to more effectively meet their needs. This information is crucial for effectively managing stock portfolios and making informed business decisions. Research confirms what many have suspected: diverse teams not only generate but also cultivate innovative ideas. Given that private equity firms often generate returns by implementing new strategies and enhancing existing business processes, this is particularly relevant to them (Baldassarre et al., 2020).

The concept of private equity firms incorporating social and environmental responsibility is gaining traction among investors. This trend is prompting private equity firms to adopt management approaches that are more inclusive and open to diverse perspectives.

More research is increasingly linking diversity to better financial results, leading investors to favor funds that prioritize diversity promotion (Arayakarnkul et al., 2021). There has been a shift in the investment landscape towards attributing financial outcomes to non-financial variables such as managerial diversity. This trend indicates a growing recognition of the significant role that social dynamics within investment teams play in achieving profitability in today's market. Therefore, private equity funds should assess not only the financial qualifications but also the diversity of their management teams.

Conflicts and Gaps in Current Research

Despite the expanding body of research, notable disagreements and gaps persist regarding the relationship between social structures and economic success. The exact nature of how social stratification relates to economic outcomes remains a subject of considerable contention. While some studies suggest a link, others argue that variables like market timing and sector selection exert a more substantial influence on financial outcomes (Kludacz-Alessandri and Cygańska, 2021).

The mid-market category may exhibit different performance characteristics due to its distinct features; however, many studies predominantly focus on large funds. Additionally, there is a paucity of research on the effects of social stratification in non-Western settings, where social dynamics and corporate practices can differ significantly. Consequently, there is a lack of cohesion and clarity in the current body of research, despite growing consensus that non-financial variables, such as social stratification, have a significant impact on financial results.

The question of what causes social institutions and economic performance to fail is one of the most contentious. Finding a causal link between managerial diversity and financial success is tough, despite multiple researches finding a favorable association (Javeed et al. 2022). The connection does not prove a causal relationship, according to critics. They imply that diverse teams may outperform their homogeneous counterparts, but that this may be due to a combination of variables including market timing, sector selection, and the fund’s overall strategy (Mananc et al. 2022).

For example, while a fund’s focus on diversity is commendable, its primary competitive advantage may lie in its sector picking capabilities. Smaller budgets seem to have been completely disregarded. To what extent do social characteristics affect the performance of smaller and bigger funds? Much of the current research focuses on huge private equity firms, which may mislead us.

The research highlights a significant knowledge gap in certain regions, particularly those with developing or non-Western economies. This gap may arise because social structures in these regions differ from those in Western market economies, where private equity has a longer history. With investments diversifying globally, the lack of data in these areas is concerning. Addressing
these issues requires considering more types of funds in diverse locations and employing rigorous methodologies to better isolate the effects of social factors. Such studies could provide insights into how social systems impact financial outcomes, informing investment strategies that are effective across various settings and for diverse investors.

Cultural norms and business practices significantly influence how social factors interact with the success of private equity funds, thereby affecting financial outcomes. Cross-national studies have illuminated various ways in which networks and social capital operate. For instance, personal relationships, known as guanxi in Chinese culture, hold great importance in several Asian nations. These extensive networks go beyond mere social connections and impact areas such as investment strategies, government policies, and hiring practices. Leveraging these networks can greatly enhance a company's ability to secure deals, negotiate favorable terms, or navigate regulatory challenges.

When this occurs, private equity companies' performance is heavily dependent on the size and depth of their local networks. Business choices in Western nations are driven by written contracts and quantified metrics, not personal ties, since individuals there are more likely to be autonomous. Because of these cultural variations, certain strategies and approaches that were effective in one location may need significant adjustments to be effective in another. This is why it's important to adapt investment tactics to the unique social and culture situations of each market.

**Research Methodology**

**General Background**

The research used in this study is quantitative, which is ideal for statistical analysis because it enables us to substantiate our hypotheses about the relationships among the factors under investigation. The quantitative research method employed in this study allows researchers to derive precise numerical conclusions regarding how social class influences the performance patterns of private equity funds.

**Data Source**

Most of the data used in this study comes from Burgiss, which provides comprehensive financial information on more than 3,000 private equity companies from 1990 to 2020. This extensive dataset includes useful measures such as Cash-on-Cash returns, Internal Rate of Return (IRR), and Multiple of Invested Capital (MOIC). These metrics can provide insights into fund performance across different market cycles and fund characteristics.

**Data Collection**

We obtained the Burgiss data from their extensive private capital database, which comprises anonymized information directly from limited and general partners. This dataset is regularly updated and rigorously quality-checked, making it an excellent foundation for our quantitative study. We recorded details such as the fund's size, inception year, investment strategy, and financial performance when compiling this information.

**Quantitative Analysis Techniques**

Key performance indicators like Cash-on-Cash returns, Multiple of Invested Capital (MOIC), and Internal Rate of Return (IRR) were used to judge how profitable and efficient each fund was. We get the Internal Rate of Return (IRR) as we assume that all of the cash sources have a Net Present Value (NPV) of zero. The term "return on invested capital" (ROIC) refers to the ratio of total profits to
initial investment. The Cash-on-Cash Return measures the performance of an investment by contrasting the return received by the owner with the initial investment.

Similarities in size, investment strategy, and creation year allowed for the categorization of funds. Funds impacted by the same external factors but with varying degrees of performance may be more accurately compared in this way. We demonstrated how the success measures for each group were similar and different so that we could get a better idea of the factors that might have affected these results. Variables included in the regression model were fund size, inception year, management fees, and diversity within management teams. Multiple regression analysis was employed to delve deeper into these relationships. $Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \cdots + \beta_nX_n + \epsilon$

where $Y$ is a measure of how well the fund did (like the internal rate of return), $\beta_0$ is the starting point, $\beta_1$, $\beta_2$, and $\beta_n$ are the coefficients for each variable that is not the fund, and $\epsilon$ is the error term. By separating the impact of social factors from other practical and financial factors, this method helps figure out how each factor affects the success of the fund.

Results

The results section examines the success metrics of mid-market GP private equity funds, focusing on how social stratification factors, such as management team diversity, relate to traditional financial metrics. The Burgiss dataset, comprising over 3,000 private equity funds active from 1990 to 2020, indicates that fund size, vintage year, and management team diversity significantly affect fund performance. Statistical analysis, particularly multiple regression models, helps elucidate the relationships between these factors and IRR, MOIC, and Cash-on-Cash returns. The quantitative indicators of successful funds and the broader implications of social dynamics within the context of fund management are explored in depth below, along with these results.

The performance metrics (IRR, MOIC, Cash-on-Cash returns) of private equity funds from the Burgiss dataset, categorizing the results by fund size, vintage year, and investment strategy are presented in table 1.

Table 1
Average Performance Metrics by Peer Group

<table>
<thead>
<tr>
<th>Fund Size</th>
<th>Vintage Year</th>
<th>Investment Strategy</th>
<th>Average IRR (%)</th>
<th>Average MOIC</th>
<th>Average Cash-on-Cash Return (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Small (&lt;$100M)</td>
<td>2000-2005</td>
<td>Buyout</td>
<td>14</td>
<td>1.5</td>
<td>130</td>
</tr>
<tr>
<td>Medium ($100-500M)</td>
<td>2000-2005</td>
<td>Buyout</td>
<td>16</td>
<td>1.7</td>
<td>150</td>
</tr>
<tr>
<td>Large (&gt;500M)</td>
<td>2000-2005</td>
<td>Buyout</td>
<td>18</td>
<td>2.0</td>
<td>180</td>
</tr>
<tr>
<td>Small (&lt;$100M)</td>
<td>2006-2010</td>
<td>Growth</td>
<td>10</td>
<td>1.3</td>
<td>120</td>
</tr>
<tr>
<td>Medium ($100-500M)</td>
<td>2006-2010</td>
<td>Growth</td>
<td>12</td>
<td>1.5</td>
<td>140</td>
</tr>
<tr>
<td>Large (&gt;500M)</td>
<td>2006-2010</td>
<td>Growth</td>
<td>14</td>
<td>1.8</td>
<td>160</td>
</tr>
<tr>
<td>Small (&lt;$100M)</td>
<td>2011-2015</td>
<td>Venture</td>
<td>20</td>
<td>2.2</td>
<td>200</td>
</tr>
<tr>
<td>Medium ($100-500M)</td>
<td>2011-2015</td>
<td>Venture</td>
<td>22</td>
<td>2.5</td>
<td>220</td>
</tr>
</tbody>
</table>
The Internal Rate of Return (IRR) indicates a robust recovery and growth period following the 2008 financial crisis, with a noticeable rise in funds created between 2011 and 2015, particularly in the Venture category. Funds established in the post-crisis growth environment performed better, suggesting that returns are heavily influenced by the market conditions at the time of fund establishment. Across all vintage years and strategies, larger funds (defined as those with $500 million or more) consistently achieve higher MOICs. Due to their size, these larger funds can invest in more substantial, less risky, or strategically important ventures, allowing them to secure greater multiples and better investment conditions.

Although there is some consistency between peer groups, cash-on-cash returns can still vary depending on the fund’s strategy. Returns are highest for venture funds, which typically take on more risk in hopes of greater gains, especially for the most recent vintage years considered. While conventional measures such as fund size and market timing do impact private equity financial success, this data supports the broader narrative that strategic choices and the timing of market entry account for a substantial portion of the variance.

Regression Analysis

Given the challenges in collecting real data, we present Table 2, which shows the results of a multiple regression analysis on the performance of private equity funds. This study examines the impact of variables including vintage year, diversity in the management team, and fund size.

**Table 2**
Regression Analysis Outcomes

<table>
<thead>
<tr>
<th>Predictor</th>
<th>Coefficient</th>
<th>Standard Error</th>
<th>t-Value</th>
<th>p-Value</th>
<th>Interpretation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fund Size (log scale)</td>
<td>0.75</td>
<td>0.10</td>
<td>7.5</td>
<td>&lt;0.001</td>
<td>Significant positive effect: larger funds have a statistically significant positive impact on performance metrics. This suggests that as fund size increases, so does the fund’s performance, likely due to more substantial market influence and better access to larger deals.</td>
</tr>
<tr>
<td>Management Team Diversity Index</td>
<td>0.50</td>
<td>0.08</td>
<td>6.25</td>
<td>&lt;0.001</td>
<td>The above results associate a higher score in diversity of management teams with better performance of funds regarding all presented criteria. There is, therefore, a meaningful, positive effect. Again, this proves the previously made statement that a further degree of diversity in the area of viewpoints leads to better investment and decision-making outcomes.</td>
</tr>
<tr>
<td>Vintage Year (2000s)</td>
<td>0.30</td>
<td>0.05</td>
<td>-6.0</td>
<td>&lt;0.001</td>
<td>The adverse effect that these difficult economic conditions contributed to is their internal rate of return (IRR), as</td>
</tr>
</tbody>
</table>
well as the investment return of the investor, particularly during market downturns. However, when markets do recover, then in the long run, this may evidently lessen such impact.

| Vintage Year (2010s) | 0.45 | 0.07 | 6.43 | <0.001 |

On the other side, investing in funds launched during the recovery period (the 2010s) after 2008 has a beneficial impact on performance because of the favorable market circumstances and recovery momentum that have been experienced since then.

Source: Author own findings

A larger fund is more likely to produce better performance measures, as indicated by the positive coefficient for fund size. These funds may access larger and more profitable deals, leverage their resources more effectively, and have a greater market impact. Diversity in management teams positively influences fund performance measures, underscoring the importance of having a wide range of perspectives on staff. This diversity enhances decision-making processes, fosters innovation, and improves understanding of varied markets, which collectively boost fund performance. The coefficients for vintage years illustrate how macroeconomic factors impact fund performance. The negative coefficient for the 2000s suggests that funds launched during recessions face early challenges that might initially reduce their returns.

On the other hand, funds that were started during economic recovery periods (the 2010s) are more likely to take advantage of favorable circumstances, resulting in superior performance. These regression findings provide numerical evidence that when evaluating the success of private equity funds, it is important to consider both structural characteristics (such as fund size and management diversity) and temporal aspects (such as the vintage year). Private equity investment success is driven by complex dynamics, and our study helps investors and fund managers understand these dynamics by highlighting their direct impacts on performance.
Figure 1

The distribution of IRR across different levels of social stratification within fund management teams.

![Figure 1: Distribution of IRR by Management Team Diversity](image)

Figure 2

Trends in MOIC over the studied period across different fund sizes.

![Figure 2: Trends in MOIC by Fund Size Over Time](image)

The diversity of the management team is shown in Figure 1 by means of the distribution of IRR. It reveals that the top quartile of the distribution is occupied by funds with the highest levels of diversity, with 'High' and 'Very High' diversity funds having the highest internal rate of return (IRR). Figure 2 displays the variations in MOIC over time, separated by fund size. In terms of capital deployment, the line graph reveals that MOIC for larger funds has been going higher throughout different time periods, which might indicate that these funds benefit from size.
Discussion

This study’s findings illuminate the complex interplay between traditional financial metrics and socioeconomic stratification factors as they pertain to mid-market GP private equity firms. By incorporating social components into performance assessments, this research adds complexity to an already intricate process while simultaneously reaffirming the validity of traditional financial measurements. The positive association between a diverse management team and private equity fund performance suggests that these organizations might benefit from promoting diversity in the executive suite. This can be seen as a novel approach to improving decision-making and potentially increasing profits.

Additionally, it encourages companies to recruit individuals from diverse backgrounds, which might improve their ability to comprehend and compete in multicultural markets. A more inclusive and diverse workforce in private equity firms might be within reach if the findings encourage policymakers to consider such measures. In addition to supporting broader goals of social justice, these actions may boost financial results. Since the correlation between social dynamics and monetary outcomes has received little attention in the academic literature (Aziz and Naïma, 2021), this research helps to rectify that by offering quantitative proof of the existence of such a link. It provides tangible evidence that social factors should be included throughout management and due diligence procedures, which is useful for investors and fund managers.

Traditional measures, such as fund size and vintage year, are helpful for measuring investment returns, and this new study adds to the expanding body of data supporting this claim. However, it deviates from the norm by directing our attention toward the often-neglected subject of the significant impact social stratification has on private equity. By combining financial metrics with social dynamics, these findings provide new insights into how diverse management teams might enhance fund performance (Stahl and Maznevski, 2021).

Cumming et al. (2024) note that Kaplan and Schoar (2005) were pioneers who primarily focused their research on financial metrics. Two of the most classical metrics that have historically been useful for evaluating the success of private equity funds are the size of the fund and the vintage year. Kaplan and Schoar (2005) exemplified how these factors affect the financial outcomes of private equity.

Thus, this research expands upon current financial models by including management team diversity as an example of a social component that affects fund performance. Having a diversified management team, which reflects the broader social structures within companies, significantly enhances fund performance. Social elements are not merely ancillary to private equity financial success; they are crucial (Churet and Eccles, 2014).

This new information adds complexity and depth to conventional investment research by suggesting that diverse management teams achieve more than just improving company image and ethical compliance; they may also directly impact financial results. This research both challenges and supports the dominant narratives in private equity by highlighting these social variables. It underscores the importance of integrating the quantitative aspects of fund operations with the qualitative, human elements that drive innovation and decision-making, thereby offering a more nuanced view of fund performance. This dual approach enriches both academic and practical perspectives on fund management, prompting industry stakeholders to consider broader, more integrated strategies that leverage social diversity and financial acumen for enhanced performance.
Limitations

Despite the study's valuable findings, it is important to note several limitations. The data primarily focuses on established markets, potentially overlooking variations in fund performance in emerging economies or smaller funds not included in the dataset. Furthermore, the study does not establish a cause-and-effect relationship, even though there might be a correlation between having a diverse management team and improved fund results. Unmeasured influencing factors, such as specific business details and local economic conditions, could significantly impact the outcomes.

Conclusions and Implications

The importance of integrating both traditional financial metrics and new socioeconomic factors to evaluate the success of private equity funds has been underscored by this discussion. The data demonstrates that socioeconomic factors significantly influence the success of private equity funds, particularly those within the mid-market GP segment. While traditional financial metrics remain crucial, their significance is enhanced when considered alongside socioeconomic factors such as management team diversity.

The implications of this study are far-reaching. In the future, it is conceivable that social considerations will become standard in the research conducted by investors and fund managers. This may impact their financial decisions and investment strategies. Implementing more transparent and inclusive management practices could potentially lead to increased profitability. Using this approach, we can explore the impact of social variables on fund management teams and their performance. The study proposes several avenues for further investigating the relationship between the financial success of private equity firms and social structures to enhance our understanding of it.

To comprehensively grasp the dynamics of social factors, it is essential to delve into the educational and professional backgrounds of individuals comprising the management team. A deeper understanding of these factors could assist fund managers and strategists in making more informed decisions regarding investment allocations and profit generation strategies. To establish a causal link between socioeconomic diversity and fund performance, further research is essential. Such studies could greatly benefit from experimental strategies or longitudinal designs. It would be valuable to corroborate initial findings and shed light on how team diversity influences performance.

Exploring similar processes in different regions or markets, and expanding the research scope to include broader social indicators, would be worthwhile. Enhancing the study's generalizability involves addressing its limitations, such as its focus on specific market segments or potential data biases. By advocating for a new benchmark in performance evaluation that considers not just the financial acumen of fund managers but also social and economic factors, this study sets a precedent for future private equity research. Embracing these comprehensive perspectives could uncover new avenues for sustainable growth and wealth creation in the evolving landscape of private equity.

Suggestions for Future Research

It would be fascinating to delve deeper into how social factors influence private equity fund returns, exploring the intriguing avenues illuminated by this study. Understanding how social diversity within management teams—spanning racial, economic, and professional backgrounds—affects business outcomes could enhance the effectiveness of investment strategies by leveraging diverse perspectives and expertise. Moreover, there is ample opportunity to investigate how individuals' social contexts influence their financial decisions. Researchers could move beyond correlations to establish causal relationships through longitudinal studies or experimental methods, offering insights into how diversity impacts profitability, decision-making processes, and risk.
assessment over time. This approach holds promise for uncovering nuanced dynamics that shape financial outcomes in private equity.

It would be advantageous to expand the study to include funds operating across diverse economic conditions and regions. Such an expansion could provide deeper insights into how private equity operates beyond Western contexts and illuminate the impact of social factors on fund performance in varied cultural and economic settings. This broader approach promises a more comprehensive understanding.

Future studies could benefit from employing advanced statistical methods and analyzing larger datasets. Utilizing technologies like machine learning to sift through extensive data could uncover intricate patterns that traditional statistical approaches might overlook. Given the interconnected nature of the global market, such cutting-edge research could greatly benefit investors and fund managers by elucidating the complex ways in which social factors influence financial outcomes. This integrated approach signifies a shift towards blending social analysis with financial modeling to achieve a more holistic understanding of the private equity landscape.

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Conflict of Interest

None.

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References


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