Team Stability and Performance: Evidence from Private Equity

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Abstract

We examine the relation between team turnover and firm performance studying the private equity industry. Using a unique data set that tracks over time teams in 138 PE managers and their performance, we uncover a positive relation between turnover and fund performance. We propose and confirm in the data two channels that explain our findings: i) in the short-run, performance improves when bad performers are fired, ii) in the long-run, turnover helps teams to adapt and replenish their skills in response to shifting external demand. Our findings suggest that frictions coming from informational asymmetries may deter optimal turnover. These findings are surprising given the common belief among PE investors that team stability is key to long-term success.

JEL classification: G30, J24, J63, L20, M54.

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