How Bullshit Affects Private Equity: Acquisitions, Exit and Day-To-Day Work

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Private equity is a segment of the knowledge economy that promotes the use of intellectual assets, innovative thinking, and diverse human capital to boost business productivity. Yet, there are numerous examples from recent years—which will be detailed below—where companies have taken on ideas, tasks, and jobs whose outcome is, at best, symbolic or, at worst, outright parasitic. What we are dealing with is an indifference to truth, more commonly known as "bullshit", which has become not only prevalent in contemporary society but has been demonstrated to increasingly permeate also the business world[1,2].

This whitepaper firstly recaps the key points made in one of our earlier whitepapers—Bullshit in Private Equity: What it is and why it is spreading—where we outlined what bullshit is and why it has spread into the broader knowledge economy that private equity is a part of. Secondly, this paper extends the discourse by discussing how it affects the three stages of private equity: at the acquisition of an asset, in day-to-day work, and during exit.

What is bullshit, and why does it spread?

Bullshit, as stated above, can be understood as the symptom of a culture indifferent to truth. It is also symptomatic of a more democratic use of information technologies, like social media, that blur the lines between personal and professional communication. Bullshit becomes inevitable when people are expected to speak on matters they know little about, for example, public figures who take a stand on this or that contemporary conflict[3]. It is because and not despite of feeling a personal responsibility that one spreads bullshit.

[1] Petrocelli, J. V., Silverman, H. E., & Shang, S. X. (2023). Social perception and influence of lies vs. bullshit: A test of the insidious bullshit hypothesis. Current Psychology, 42: 9609–9617.
[2] Johnson, A. (2010). A New Take on Deceptive Advertising: Beyond Frankfurt's Analysis of 'BS'. Business and Professional Ethics Journal, 29(¼): 5–32.
[3] Frankfurt, H. G. (2005). On Bullshit. Princeton University Press.

Apart from being a symptom of something else, bullshit can also be understood as the source of indifference to truth. It spreads because people tolerate it. That tolerance stems from bullshit being superficially attractive—it helps us evade boredom and serves as a stand-in for meaning[4]. This is why mis- and disinformation spread quickly, whereas critical thinking and methods to detect and deflate such information are time-consuming[5]. In relation to information technologies, such as the internet, a rule of thumb is that refuting a claim takes ten times more energy than that needed to produce it.

One outcome of tolerance to bullshit is that many organizations eventually develop elements of functional stupidity[6]. This stupidity—which in the literature is also described as "bullshit jobs"[7]—has no productive function for solving the stated task, but is functional in the sense that they keep people busy. Their primary function is, in brief, to keep a job rather than clarrying it out.

Having provided a brief background to what bullshit is and why it spreads in the knowledge economy, we now turn to describing how it affects the three stages in private equity.

How bullshit affects private equity

While bullshit poses a general hazard, such as the over-evaluation of a company or investment in the wrong sector, misinformation can lead a private equity to acquire the wrong company within that sector. Conversely, bullshit is a problem in day-to-day operations, exemplified by how company leaders adapt to societal trends to avoid negative publicity, whereas disinformation represents an

[4] Cova, F. (2024). What's Wrong with Bullshit. Ergo, 11(22).
[5] Thatcher, J., Shears, A., & Eckert, J. (2018). Thinking Big Data in Geography: New Regimes, New Research. University of Nebraska Press.
[6] Alvesson, M., Yiannis, G., & Paulsen, R. (2017). Return to Meaning: A Social Science with Something to Say. Oxford University Press.
[7] Graeber, D. (2018). Bullshit Jobs: A Theory. Simon & Schuster. P. 9–10.

action more common during the later stages of a company sale.

Acquisition vs. Exit stage

Before reviewing the two stages in detail, it is important to clarify how principal-agent conflicts and information asymmetries affect the acquisition process and exit strategies. The principal-agent conflict concerns a separation of ownership (principals, typically founders or investors) and control (agents, such as company management)[8], while information asymmetry concerns how one side of the market possesses far better information than the other side[9].

Although the principal-agent conflict is present to some degree in every firm, an agent's potential for exploitation is amplified in situations characterized by a wide information asymmetry, such as during M&A transactions.

During the acquisition stage, the private equity firm (the acquirer) buying an asset is, in this scenario, particularly vulnerable to receiving bullshit in the form of misinformation. The selling company's management, who possess more detailed knowledge of their operations, may unintentionally or deliberately present overly optimistic projections or conceal negative information.

For instance, sellers may strategically inflate revenue projections or downplay liabilities to make the company appear more attractive, which can result in buyers paying a premium for an investment that fails to deliver the expected returns. Additionally, sellers may themselves be overly optimistic about the company's future prospects and overestimate their current market position. This optimism, often rooted in a biased

[8] Jensen, M. C. & Meckling, W. H. (1976). Theory of the firm: managerial behavior, agency costs, and ownership structure. Journal of Financial Economics, 3, 305-60.
[9] Akerlof, G. A. (1978). The market for "lemons": Quality uncertainty and the market mechanism. In *Uncertainty in economics* (pp. 235-251). Academic Press.

view of the company's capabilities, market conditions, or growth potential, can lead to inflated deal prices that jeopardize the investment's long-term success[10].

The issue with misinformation lies not so much in the availability of financial or market data but rather in the analysis, interpretation, and presentation of these and other sources of information. This includes, but is not limited to, employee- and customer satisfaction.

Nevertheless, the tendency to overvalue companies—due to misleading financial statements or misrepresented data—come at the expense of the private equity firm's objectives. It can potentially lead to significant financial and strategic missteps. Consequently, buyers must critically assess these optimistic projections during the due diligence process, which includes conducting independent audits and verifying assumptions and key metrics.

Conversely, during the exit stage, the dynamics shift. Here, the private equity firm (now the seller), now considerably more knowledgeable about the company, often sells to another investment firm or other agent with a similar level of expertise to what they themselves had as the acquirer. In this phase, the risk transforms from receiving misinformation to using and communicating disinformation. Motivated by their interests—such as securing better deal terms—selling agents might strategically present overly favorable information, subtly concealing potential risks or downplaying liabilities. This disinformation aims to enhance the asset's perceived value but carries the risk of causing the firm reputational damage, potentially undermining its long-term success.

[10] Jayesh, C.N. (2012). Why do Mergers and Acquisitions quite often Fail? Advances in Management. Vol. 5. Pages 21-28.

In addition to conflicts between the acquirer and the seller, conflicts of interest arise also within each party. For example, the acquiring management (agents) might employ misinformation or other manipulative tactics to secure better outcomes for themselves, potentially compromising the acquirer's (principal's) long-term objectives. This could be because bonuses for management are tied to the revenue they can generate through acquisitions, but with little consideration for the quality-cost ratio of said revenues. As a result, they may focus on closing deals rather than securing the best possible deals, taking advantage of their greater knowledge compared to their owners. Similar issues could also arise within the selling organization. As a result, both acquiring companies and sellers need to be vigilant and monitor management behavior to ensure that their actions are in line with the firm's long-term goals.

To be clear, this divergence in practices—misinformation during acquisition, and disinformation during exit—stems from information asymmetries and differing strategic goals between the parties involved at each stage. In the acquisition stage, the private equity firm must navigate the potential for over-optimism from a less sophisticated seller, while during the exit, the firm must avoid using disinformation as part of divesting the asset. In both scenarios, the principal-agent conflict manifests through misalignment of interests and information asymmetry, occurring both between the buyer and seller and within each party, where agents prioritize their benefits over the principal's long-term goals for the transaction.

Day-to-Day Work Stage

The day-to-day operations of a company are most at risk from the general hazard of bullshit, which despite its initial appearance of value, does not contribute to the company's objectives. These

tasks, in organizational research described as bullshit jobs, nonsense research, or functional stupidity, are characteristic of conformist company cultures[11]. Conformism refers here to a tendency of using circular rationales and self-referential metrics to motivate a closed informational ecosystem. In addition, all of the above risks are exacerbated by principal-agent conflicts, for example, where employees prioritize tasks that enhance their own job security, prestige, or career prospects within the internal hierarchy over tasks that increase productivity and the company's long-term value.

Bullshit becomes a problem in private equity when there are few methods or incentives for critical thinking that can deflate attractive but unfounded claims[12]. One example here in the day-to-day work is when organizations turn to technical terms, even using otherwise correct conclusions, but for the purpose of avoiding transparency and accountability in the methods used to reach those conclusions[13]. The actual value and performance of private equity investments are, in this case, obfuscated by complex narratives that mask mediocrity as excellence.

Mediocrity prevails in these companies because the task of detecting and deflating bullshit goes against the grain of a tendency related to conformist cultures, namely that of safety. Based on studies of corporate-, media, and academic environments in the US, social psychologist Jonathan Haidt and journalist Greg Lukianoff argue that the present-day emphasis on safety negatively impacts free speech, intellectual diversity, and the ability to engage with and debate controversial or initially challenging ideas. Their findings is that organizations that are unable to facilitate conversations and confrontations between

[11] Cf. Graeber (2018); Alvesson et al (2018).
[12] Knowledge at Wharton. (2012). Private Equity: Fact, Fiction and What Lies in Between.
[13] Hooke, J (2021). The Myth of Private Equity: An Inside Look at Wall Street's Transformative Investments. Columbia University Press.

differing viewpoints instead resort to suppression tactics, for example, language policing or the cancelation of certain individuals or ideas[14,15].

One contemporary trend, where the trajectory is as of yet unclear, concerns how information about societally sensitive issues or events is increasingly labeled mis- or disinformation. This corresponds to growing demands from policymakers in Western countries to police content that can be deemed harmful to citizens and society at large. Without methods to discuss such information agnostically—making the case both for and against, as described by Haidt and Lukianoff earlier—regulatory authorities build up bureaucracies for monitoring and managing what topics can be deemed tolerable. This bureaucracy risk aggravating corresponding corporate requirements on regulatory compliance, counter-measures against mis- and disinformation and functional stupidity that creates more, not less, bullshit jobs.

To further detail what the consequences for private equity's day-to-day work are, we will here describe adaptations to one societal trend in particular—diversity, equity and inclusion (DEI). We use DEI as a case study because private equity was an early adopter of these ideas and whose effect has been extensively scrutinized by scholars and intellectuals. Hence it is a topic that offers low-hanging fruits for lessons learned in recent years about the quintessence of corporate bullshit.

Proponents of DEI initiatives make the argument that private equity should be an early adopter because of the sector's involvement in restructuring existing organizations. Both recruitment to and governance of portfolio companies significantly influence subsequent

[14] Haidt, J. & G. Lukianoff. (2018). The Coddling of the American Mind: How Good Intentions and Bad Ideas Are Setting Up a Generation for Failure. Penguin Books.
[15] cf. Lukianoff, G. & R. Schlott (2023). The Canceling of the American Mind: Cancel Culture Undermines Trust and Threatens Us All—But There Is a Solution. Simon & Schuster.

investment decisions of many smaller companies. DEI's affirmative action is best suited for private equity, this reasoning goes, because it is a segment of the knowledge economy with the greatest impact on its other parts[16]. If this is true, one should assess DEI initiatives based on their premises for success: does DEI strengthen social justice and meritocracy? And does it increase the productivity of a company?

With regards to the first question, entrepreneur and author Vivek Ramaswamy summarizes numerous cases indicating that DEI's main function is as a marketing strategy, cynically using activism to attract investments while shielding companies against criticism, but without contributing to either meritocracy or to the professed social justice cause. To illustrate this argument, we use Ramaswamy's example of "Fearless Girl"—a statue in New York City depicting a young woman facing up to the Wall Street Bull. This statue was commissioned by the financial institution State Street Global Advisors to promote a fund that invested in companies with gender-diverse leadership. While widely celebrated as a symbol of female empowerment in finance, Ramaswamy details how the main motive behind "Fearless Girl" was to detract attention from State Street's ongoing lawsuit on charges of underpaying female employees compared to male colleagues[17].

The counterargument made by proponents of DEI against Ramaswamy is that "Fearless Girl" merely demonstrates symbolic or failed attempts at social justice and meritocracy, but says little about the performance of companies that actually diversified their organizations[18].

[16] EY (2021). Can PE win deals if it doesn't deal with DEI?.
[17] Ramaswamy, V. (2021). Woke, Inc.: Inside Corporate America's Social Justice Scam. Center Street.
[18] McKinsey (2021). How private equity can catalyze diversity, equity, and inclusion in the workplace.

Let us then review such cases where DEI initiatives were successfully implemented and examine their effect on company productivity. Regarding a private equity's exit strategies, including initial public offerings (IPOs) or sales to strategic buyers, measuring the effects of DEI is relevant for bolstering the perceived value or future prospects of portfolio companies[19]. The most comprehensive study on this is Green and Hand's rebuttal of consultancy firm McKinsey's claim that corporate DEI initiatives have a positive financial impact[20].

McKinsey's study series on DEI, which includes "Diversity Matters" published in 2015, "Delivering through Diversity" in 2018, "Diversity Wins" in 2020, and "Diversity Matters Even More" in 2023, claimed a statistically significant positive relationship between the racial/ethnic diversity of executive teams and the firm's financial performance. Specifically, these reports claim that companies with more diverse leadership teams outperform their less diverse counterparts, using metrics like industry-adjusted EBIT margins.

Green and Hand provide a quasi-replication study. After applying the same empirical testing approach as McKinsey's, looking at the financial performance of firms in the S&P 500 Index during the period 2015–2019, the authors demonstrate no statistically significant difference between firms with high and low executive racial/ethnic diversity[21].

In brief, McKinsey's studies do not assert a statistically significant positive correlation between DEI activities and company performance. In fact, Green & Hand suggest that DEI initiatives are indicative of a reversed causality where better

[19] Collis, J., & Hemsley, E. (2024). The Diversity Deficit: Inside Private Equity's Inclusion Crisis. Stanton House. https://www.linkedin.com/pulse/diversity-deficit-inside-private-equitys-inclusion-crisis-utcmf/

[20] Green, T., & Hand, J. (2022). The Financial Impact of DEI Initiatives: Myth or Reality? Journal of Organizational Behavior, 43 (2): 354–370.

[21] For instance, Green & Hand (2022) observed that 54.0 percent of S&P 500 firms in the top quartile of executive diversity had a positive industry-adjusted EBIT margin, compared to 51.2 percent in the bottom quartile.

financial performance enables companies to diversify their executive teams[22].

Subsequent studies have since supported and elaborated on Green and Hand's findings that DEI initiatives fail to increase financial performance[23]. It is worth clarifying that also earlier studies warned against how a lack of methods for scrutinizing diversity metrics, and claims that these benefit businesses, risk leading to a sort of symbolic compliance with prevailing societal norms that overshadow value creation and organizational effectiveness[24].

Concluding remarks

The organizational problem with bullshit is that economic health becomes more about managing impressions and expectations than about addressing systemic issues. The knowledge economy's reliance on intellectual assets is what makes it vulnerable to bullshit. Whereas fragilities in industrial logistics are apparent as soon as they break down, flaws in intellectual learning can take years, even decades, before they are discovered, analyzed, and addressed.

Private equity face different sorts of bullshit at different stages of operation. During the acquisition and exit stages, there is what we call a principal-agent conflict—the dynamic owners (principals) and operators (agents). Information asymmetry can lead to private equity making an inflated offer during the acquisition, which is a form of misinformation. During the exit, when the private equity is more knowledgeable about the asset, the risk is instead to spread disinformation, for example, the seller obscuring liabilities to the buyer or where

[22] Green, T., & Hand, J. (2022). The Financial Impact of DEI Initiatives: Myth or Reality? Journal of Organizational Behavior, 43 (2): 354–370.
[23] Edmans, A. (2025, in press). Discernment matters even more. In May Contain Lies: How Stories, Statistics, and Studies Exploit Our Biases—And What We Can Do about It. University of California Press.
[24] Moore, Jason S. (2006). The Effects of Diversity Initiatives on the Distortion of Applicant Information. Bowling Green State University.

the buyer and seller join against the investor to settle the deal. In this case, short-term incentives of agents stand against the firm's reputation and business viability in the long run.

With regards to day-to-day work, there is the element of functional stupidity, in general, and bullshit jobs, in particular. These are unintended consequences of knowledge economies adapting to societal trends. For example, private equity firms deploy consultants, administration, and management tasked with avoiding negative publicity or complying with or counteracting regulation requirements. That being said, bullshit is more readily tolerated in conformist corporate cultures. Over time, it is this sort of culture that aggravates controlling elements of the knowledge economy at the expense of its productivity.

So what is to be done? During the acquisition stage, misinformation can be avoided by triangulating sources as part of verifying claims. Conversely, displaying your triangulation safeguards against disinformation during the exit stage. Aligning buyer and seller incentives is a means to limit the prevalence of mis- and disinformation and, in general, the principal-agent conflict. Dual key performance indicators (KPIs) for both quantity and quality of assets, for example, demonstrate more skin in the game for all agents.

It is important to remember that bullshit is not only an individual failure, but also an institutional one. Public proclamations or policies about an organization's purpose—for example, that you support innovation or seek to combat misinformation—lack teeth without incentives to use the methods that could enable critical questioning, counterintuitive thinking, and risk-taking.

Figure 1 below concludes this whitepaper by summarizing the challenges associated with bullshit, including mis- and disinformation at the three stages, along with our proposed solutions to these challenges.

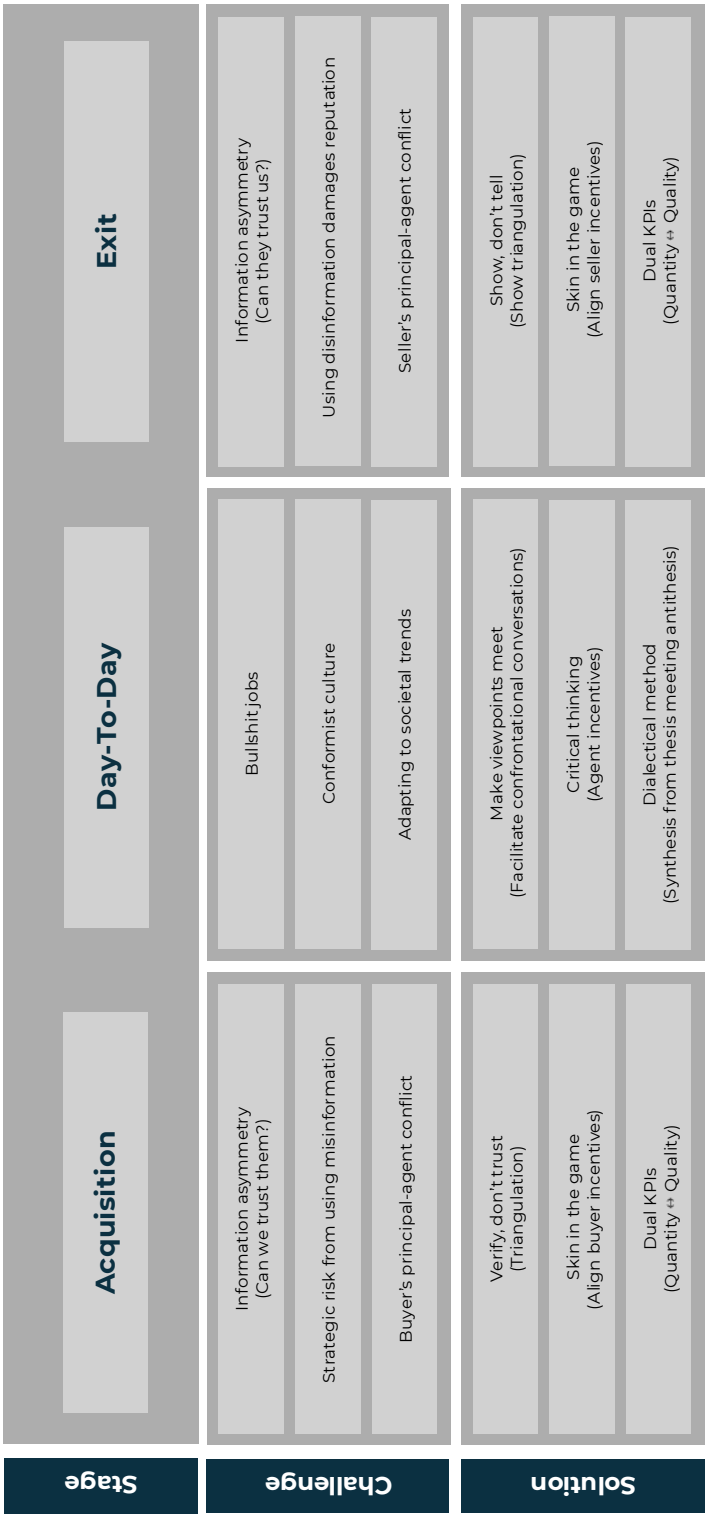

Figure 1: *Bullshit in private equity, three stages*

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