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Opinion 4 things private equity firms can do when faced with an underperforming investment

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Businesses fail for any number of reasons. A company could be decades old with a track record of healthy profit margins before taking a sudden downturn; conversely, distressed investments can easily pivot with the proper guidance. Particularly when it comes to private equity investments, it seems one thing rarely endures: the status quo. According to the Harvard Business Review, an estimated 70 percent to 90 percent of all acquisitions fail to achieve their anticipated strategic and financial objectives. Fortunately, this doesn't have to be the case, if you take the necessary steps to align your team and use the data and tools at your disposal. Here are 4 steps that can turn around an underperforming investment:

1. Identify company leaders

Take a look at the company leadership and assess who is onboard with new ownership and wants to move the company forward — and who isn't. Gather input from those already onboard as well as any detractors, and develop a way forward based on common ground. You'll need buy-in from everyone, as both investors and management must be in alignment about company objectives for them to have a shot at success. After all, investors only have so much operational capacity. So, build the plan together.

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2. Be transparent

Once you have a plan in place, be 100 percent transparent — not just with managers, but with the entire team, if possible. Communication about the company should be straightforward and shared in a supportive, caring environment. Bad news and unpleasant realities are never easy to discuss openly, but it's necessary to have those difficult conversations so that everyone understands what's happening at every stage. The whole team needs to understand what's at stake and common goals must be established before all parties can begin to move in the same direction with the appropriate sense of urgency.

3. Make use of available data

Make sure to track all sales, operational and other key metrics for the company. Investors always enter into an acquisition with a clear investment thesis, but rarely does everything go according to plan. The biggest impediment to outsized returns is time, so if you've been tracking the right data all along, you'll be able to identify problems earlier, allowing you to make any necessary changes to get back on track without losing too much time or going too far down the wrong path.

Even the most logical of investment theses is likely to fail, so don't be stubborn. If the numbers are telling you to pivot, then pivot. If they're telling you that customers want something different, change your product. And if they're telling you that an underperforming investment has turned into a failed investment, unfortunately a tough decision awaits. Let the data bear the brunt of the decision-making burden — when you aren't operating on your gut alone, it's much easier to pull the trigger on big, albeit needed, decisions.

4. Do sweat the details

For professional investors to realize the returns they seek, a great deal needs to happen between the point of acquisition and the point of exit. Troubles with integration, management turnover, lackluster sales, or any number of other problems could arise that take the company off course, so pay close attention to budgets and trends and err on the side of action.

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If you take the time to align your leadership and let the numbers be your guide, an underperforming investment doesn't have to remain so. And when available data or team bandwidth are lacking, don't be afraid to bring in outside counsel for help. Make these four steps a priority and you'll be well on your way to turning a distressed investment into one that drives outsized returns.

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