

The Trials and Tribulations of a Venture Capital Backed Turnaround

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Being a venture capitalist must be one of the toughest jobs going - you are as popular as a traffic warden who used to be an investment banker. Your odds of success are probably no more than one or two projects in ten. Although you perform as much [due diligence](#) as you can, you are still more or less reliant upon the representations that the management team make. If you are successful no one likes you, if you fail you deserved it. Yet without this very important source of capital, some of our largest and best companies in the world could never have made it – Google, e-bay, Amazon.

I believe there are only three ingredients to a successful venture-backed business [excellent people](#), timing and luck.

Timing is becoming an ever more important factor in the success of a venture-backed business. The technology highway is littered with the road kill of fantastic technology that was too soon for the market - companies that perhaps burnt too much fuel too early and didn't have enough to make it to the ultimate destination.

During these types of circumstances the venture capitalist backing a bleeding edge technology company then starts to get more and more involved in the day to day running of the business. Eventually the VC has a difficult decision, "do I bring in another investor and suffer severe dilution?" or "do I cut back to the bare bones, batten down the hatches and ride out the storm until the timing is right to then find passage to the new world?" The problem with the latter course of action is that in the acrimonious debate as to why the company hasn't lived up to expectations and why the VC is limiting further investment quite often the original management team either bail out or are pushed out. Who will then steer this corporate boat?



The issue for the VC is that they have to steer the boat themselves or bring in a new team. If a new team is brought in, the new team appear like a hired gang of gun slingers - kicking over the bodies of the fallen trying to see where the treasure is buried. But why would the hired hands believe in the vision of a company which has failed once already? Why would a top class executive leave a top class job to take on this challenge? The truth is most won't. The VC will have to find executives who are "out of a permanent role" who will "give it a go". Therein lies the VC turnaround problem, the new

interim management team are people who don't believe in the product or the company and will give it a go until either they suffer a conversion and the company turns around or something else more permanent comes along. There is no passion or belief from the new management team only from the investor – the cart is very definitely before the horse.

In the meantime the VC has had to put in another round of funding to give the team some sort of running chance. The board room becomes an audience to phrases like "It's not my money, but if it were I would do". One of the most dangerous phrases in the board meetings I have found.

Some of the best IT successes have come about after a turnaround, but just like second marriages the odds are stacked against rather than for. The challenge for the VC must be to find a co-investing entrepreneur, a team from a previous success or to retain some essence from the original founding team who can spread the belief. But what about interim management?

An Interim finance director (or [interim FD](#) as they are more familiarly known) can add significant value to both the VC and the company in a turnaround situation because they have the experience and ability to deal with difficult situations objectively. At Isosceles we do this for a living. In a turnaround situation we can act swiftly and decisively providing a dispassionate analysis of costs and potential returns. And because our FDs like what they are doing and are not looking for "a better permanent option" they stay long after the successful turnaround to keep the company on track.