

# Operational Issues Rarely Kill Deals, They Kill Returns

***Unless You Systematically Assess Risk Throughout the Hold***

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## **If Operational Risk Is So Dangerous, Why Didn't We Walk-Away?**

Because most operational issues aren't fatal.

They don't trigger walk away discussions.

They don't invalidate the thesis.

They don't blow up the model.

Instead, they show up as:

- Execution that's slower than expected
- EBITDA that's real but late
- Initiatives that stall quietly
- Leadership bandwidth that evaporates

That's not deal failure, that's return erosion, and the reason it keeps happening is simple:

*It is too easy to assess operational risk once, during diligence, and then assume it stays static, but it doesn't.*

## **Operational Risk Is Not a Diligence Finding, It's a Lifecycle Variable**

Operational risk is dynamic.

It changes:

- When strategy shifts
- When leadership roles change
- When growth accelerates
- When integrations begin
- When cost pressure rises
- When markets soften

Yet many treat risk as if it were fixed at close. They capture it in a memo or note it in an appendix, and they move on. And that's how known risk turns into missed EBITDA.

The firms that protect returns do something different:

*They formally reassess operational risk at each stage of the investment life cycle, with the same rigor they apply to capital allocation decisions.*

## **Stage 1: Pre Close, Risk Identification Is Not Enough**

Traditional operational diligence does a decent job of identifying issues.

What it rarely does well is:

- Quantify execution risk
- Tie risk directly to EBITDA timing
- Distinguish between "fixable" and "structural"
- Test whether management has actually led change before

Pre close risk assessment should answer:

- Where will execution slow down first?
- Which assumptions depend on behavior change?
- What risks will consume leadership attention?
- Which risks directly threaten year one EBITDA?

If risk isn't translated into financial impact and timing, it gets ignored. Not maliciously, but structurally. And that's why EBITDA is missed before it's ever lost.

## **Stage 2: Post Close (0–180 Days), Re Score Risk Immediately**

This is an inflection point. The opportunity to set the tone, to get ahead of plan, to stabilize.

The moment ownership changes:

- Decision rights shift
- Expectations rise
- Capacity is stretched
- Weak systems are exposed

Yet many firms operate on a dangerous assumption:

*"We already diligenced this risk."*

In reality, they diligenced the old operating reality.

Post close, operational risk must be formally reassessed against:

- New performance targets
- New governance expectations
- New capital constraints
- New leadership dynamics
- The impact of Scaling

This is not an update meeting. It's a reset of the risk profile.

The firms that outperform explicitly re score:

- Execution risk
- Leadership bandwidth risk
- Process stability risk
- Data and metric reliability
- Cultural resistance to change

And they do it **before** launching value creation initiatives.

Why?

Because unmanaged risk doesn't block initiatives, it absorbs them.

*continued*

### Stage 3: Mid Hold, Risk Migrates as the Business Scales

Growth introduces new risk faster than most teams realize.

Mid hold, I repeatedly see:

- Informal processes breaking under volume
- Decision bottlenecks re emerging
- Metrics lagging reality
- High performers burning out
- Risk accumulating in middle management
- Problems are solved through capital and labor (throw money at the problem)

The deal still looks “on track.” But execution drag is growing.

This is where periodic, structured risk assessment matters most. Not to stop growth, but to protect it.

Firms that reassess operational risk at this stage catch:

- EBITDA leakage before it compounds
- Capacity constraints before they cap growth
- Leadership gaps before credibility erodes

This is where risk discipline becomes return discipline.

### Stage 4: Pre Exit, Risk Is Value, Whether You Admit It or Not

By the time exit approaches, operational risk doesn't disappear. It gets priced. Think of this as a sell side Operational Diligence. Like getting a home inspection before you sell your home and pre-emptively address risks and issues the buyer will see.

Buyers may not call it “risk,” but they feel it:

- In conservatism around forecasts
- In diligence questions that won't go away
- In integration concerns
- In multiple pressure

The irony? Most of this risk was visible years earlier.

Formal risk assessment before exit allows you to:

- Eliminate or mitigate known issues
- Prove operational control
- Convert “potential” EBITDA into demonstrated performance
- Defend the multiple with evidence, not stories

At exit, operational risk is no longer theoretical. It's valuation math.

### Why “Good Management” Is Not a Risk Strategy

Every IC memo says it:

*“Strong management team.”*

That's not a risk assessment.

Strong people still fail inside:

- Weak systems
- Unclear decision rights
- Conflicting metrics
- Chronic firefighting environments

Formal operational risk assessment is not about judging people.

It's about understanding whether the **system they operate in can deliver the returns you're underwriting.**

Without that discipline, you're betting on heroics. Heroics don't scale.

#### The Pattern I See Repeatedly

Across portfolio companies, the pattern is consistent:

- Risks are known
- Risks are discussed
- Risks are never formally reassessed
- EBITDA is missed
- Returns disappoint quietly

Operational issues didn't kill the deal.

*The absence of ongoing risk assessment killed the return.*

#### Final Thoughts

Operational issues don't kill deals.

They kill returns when risk is acknowledged once, and then ignored.

The firms that win treat operational risk assessment as a **core ownership discipline**, not a diligence artifact.

That's not process.

That's how you protect returns.