



Fiduciary Architecture in Private Equity Turnarounds

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A First 100 Days strategy for stabilizing fiscal and legal liabilities to enable accelerated enterprise growth

Abstract

Private equity turnarounds succeed when the sponsor's financial thesis is converted into a legally disciplined operating system. Leverage, compressed holding periods, lender pressure, and management disruption can accelerate value creation, but they also compress the time available to discover hidden liabilities, repair the control environment, and establish credible stakeholder governance. The central argument of this paper is that the first 100 days of a private equity turnaround should be treated not merely as an operational reset, but as a fiduciary architecture project: a structured alignment of decision rights, cash authority, legal exposure, reporting integrity, board oversight, creditor communication, and growth priorities. Academic research describes private equity as an ownership form that uses concentrated control, incentives, leverage, and active governance to improve performance.^{1,2} Yet the same mechanisms can amplify liquidity risk, conflict risk, and institutional fragility when they are not disciplined by an integrated fiduciary framework. This paper proposes a First 100 Days model that stabilizes fiscal and legal liabilities while preserving the enterprise capacity required for accelerated growth.

The Turnaround Problem: Value Creation Under Compressed Fiduciary Risk

A private equity turnaround is not a normal budgeting exercise conducted under more urgent conditions. It is a control transaction in which ownership, financing, governance, incentives, and institutional credibility are simultaneously reset. Kaplan and Strömberg describe leveraged buyouts as transactions in which private equity firms acquire control of mature businesses, use concentrated ownership and leverage, and seek returns through governance, operational improvement, and exit discipline.¹ Gompers, Kaplan, and Mukharlyamov further show that private equity managers describe value creation as a combination of valuation discipline, capital structure decisions, governance intervention, management incentives, revenue growth, cost reduction, and exit planning.² The practical implication is clear: the PE sponsor does not merely advise the business; it changes the institutional architecture through which the business is governed.

That change creates opportunity, but it also creates a narrow window of fiduciary vulnerability. The first 100 days are the period in which the sponsor, board, management, lenders, employees,

suppliers, and regulators form their first durable view of whether the new control group understands the company. If the new ownership group can show reliable cash visibility, control over commitments, legal triage, disciplined board reporting, and a credible growth thesis, confidence compounds. If it cannot, every subsequent growth claim is discounted as promotional rather than fiduciary.

The empirical literature is appropriately mixed about the broader consequences of private equity ownership. Davis and colleagues find that buyouts are associated with meaningful reallocation of jobs and establishments, including gross job creation and destruction rather than a single uniform employment effect.³ This matters for turnaround governance because restructuring is not simply a financial model; it affects people, plants, customers, counterparties, and institutional trust. A PE turnaround therefore requires a framework that can distinguish value creation from value extraction, decisive action from procedural recklessness, and growth investment from risk-shifting.

Why Audits and Quality of Earnings Are Not Enough

The transactional record often begins with audited financial statements, a quality-of-earnings review, and a management presentation. Those inputs are essential, but they are not sufficient. PCAOB auditing standards define audit risk assessment around identifying and assessing risks of material misstatement of the financial statements.⁴ That is a financial reporting lens, not a complete institutional risk lens. A company may have statements that are auditable, EBITDA that is explainable, and revenue that is recognized in accordance with policy, while still carrying undisclosed operational fragility: informal authority structures, weak disbursement controls, stale contract obligations, unreserved litigation, tax exposures, lender covenant ambiguity, related-party conflicts, workforce instability, cybersecurity gaps, or compliance practices that no longer match the sponsor's growth plan.

Fiduciary architecture closes this gap. It treats financial stewardship as a governance discipline rather than as a reporting function. COSO's internal control framework emphasizes that internal controls have value beyond external financial reporting and can support objectives, strategy, and sustainable growth.⁵ COSO's enterprise risk management framework similarly places risk in relation to strategy and performance rather than treating it as a stand-alone compliance register.⁶ In the PE turnaround context, these frameworks point to a practical conclusion: the first 100 days should integrate accounting reliability, cash governance, legal triage, board oversight, and strategic decision-making into one operating cadence.

Defining Fiduciary Architecture

Fiduciary architecture is the designed system by which a distressed or underperforming enterprise converts fiduciary responsibility into daily operating discipline. It is not limited to formal fiduciary duties as a matter of corporate law. It includes the mechanisms by which fiduciaries and fiduciary-adjacent actors actually make decisions: board reserved powers,

delegated authority matrices, treasury approval rights, lender consent protocols, litigation holds, disclosure controls, conflict registers, insurance reviews, compliance calendars, related-party transaction procedures, and management incentive plans.

The architecture has five functional components. First, it creates authority clarity: who may commit the company, draw on debt, approve capex, modify customer terms, settle claims, or communicate with lenders. Second, it creates information integrity: which financial, legal, operational, and compliance facts are reliable enough to support decisions. Third, it creates liability sequencing: which exposures must be stabilized immediately, which can be negotiated, and which require board-level risk acceptance. Fourth, it creates stakeholder coherence: the company's communications to lenders, employees, suppliers, regulators, LPs, and the board must be consistent with the documentary record. Fifth, it creates growth readiness: once the enterprise is stabilized, management can pursue pricing, throughput, add-on acquisitions, commercial expansion, and working-capital improvement without triggering avoidable fiduciary or legal risk.

The First 100 Days Fiduciary Architecture Map

The First 100 Days model is best understood as a staged control system, not as a linear checklist. Each stage produces an artifact that allows the next stage to operate with more authority and less uncertainty. The following map summarizes the recommended cadence.

Period	Primary Objective	Core Fiduciary Work Product	Enterprise Growth Link
Days 0-10	Establish command, cash visibility, and authority control.	Control-room charter; bank signatory review; delegated authority matrix; litigation and document preservation notice; preliminary stakeholder map.	Prevents uncontrolled commitments and creates the factual base for fast decisions.
Days 11-30	Stabilize liquidity and identify legal/fiscal liabilities.	13-week direct cash forecast; aged AR/AP triage; debt covenant dashboard; payroll/tax/lease inventory; litigation and regulatory exposure register.	Creates lender confidence and protects the operating platform from avoidable liquidity shocks.
Days 31-60	Repair the control environment and reset reporting reliability.	Close calendar; balance-sheet reconciliation plan; reserve review; contract-control review; compliance remediation plan; board reporting pack.	Turns stabilization into an auditable operating cadence that can support investment decisions.
Days 61-100	Convert stabilization into growth architecture.	12-month budget; 3- to 5-year strategic forecast; KPI tree; incentive plan; pricing/throughput/working-capital roadmap; stakeholder narrative.	Links fiduciary discipline to accelerated enterprise growth rather than mere cost containment.

The Turnaround Management Association's First 100 Days guidance is consistent with this approach: it treats short-term cash forecasting as a primary tool while the company faces cash pressures and expects a first-year budget to be developed early in the process.¹¹ In practice, the

first 100 days should produce a cash model, a legal exposure map, a board cadence, and a growth forecast that all reconcile to one another. A turnaround plan that contains financial projections but no authority map is incomplete. A legal risk memo that does not connect to cash timing is incomplete. A growth plan that does not identify fiduciary constraints is incomplete.

Days 0-10: Install the Control Room Before Diagnosing the Patient

The first ten days determine whether the turnaround is governed by facts or by inherited narratives. The sponsor and board should establish a control room chaired by a responsible financial officer and linked directly to legal counsel and board oversight. The first work product is not a strategic plan; it is an authority-and-information freeze. Bank signatories, debt draws, wire authority, purchasing rights, customer discount authority, settlement authority, and capex approval thresholds should be documented. The company should identify who can bind the enterprise and immediately suspend extraordinary commitments outside approved channels.

At the same time, the company should issue document preservation instructions for finance, legal, HR, procurement, tax, IT, and executive communications. This is not defensive bureaucracy. It is a fiduciary act. A turnaround team that cannot reconstruct the facts behind a payment, reserve, customer concession, related-party arrangement, or lender communication cannot credibly claim to be stewarding institutional value.

The first ten days should also produce a preliminary fiduciary population map. This map identifies directors, officers, sponsor representatives, management committee members, fund personnel exercising control-like influence, delegated decision-makers, and outside advisers. The purpose is not to overlegalize management; it is to prevent control from becoming informal. PE turnarounds often fail because actual authority migrates away from documented authority. Fiduciary architecture forces authority back into a visible structure.

Days 11-30: Convert Liquidity Into Governance

The next phase is liquidity and liability triage. A 13-week cash flow is the central instrument because it translates strategy into receipts, disbursements, timing, and runway. It should be built using the direct method, reconciled to bank activity, and reviewed in a weekly cash committee with authority to approve payments, defer spending, negotiate with vendors, and escalate covenant or insolvency issues. McKinsey's work on cash preservation emphasizes the importance of cash-war-room governance and embedding that rigor into continuing governance structures.¹² The point is not merely to preserve cash. The point is to create a reliable decision forum in which cash, legal commitments, and operating priorities are evaluated together.

The 13-week model should be connected to a liability register. The register should classify liabilities into operating payables, payroll and benefits, payroll taxes, sales and use taxes, income taxes, leases, debt service, trade-critical vendors, litigation, warranty or product claims, environmental or regulatory exposure, customer credits, and contingent obligations. Each item should be assigned an owner, documentation source, timing, legal constraint, cash impact, and

proposed action. This step often reveals the real turnaround problem: not that the business lacks a strategy, but that management has been operating with fragmented knowledge of claims on future cash.

This phase is also where lender and stakeholder communication must become disciplined. Communications should be factual, consistent, and board-approved where appropriate. The company should avoid optimistic statements that cannot be reconciled to the cash forecast. It should also avoid legalistic silence that destroys commercial confidence. Fiduciary communication is neither promotional nor evasive; it is accurate, sequenced, and tied to the company's actual capacity to perform.

Days 31-60: Repair the Control Environment and Legal Risk Surface

The third phase turns emergency control into institutional control. The accounting close must be stabilized. Balance-sheet accounts should be reconciled, suspense accounts cleared, reserves reviewed, inventory policies tested, revenue recognition practices validated, lease and debt schedules refreshed, tax accounts reconciled, and related-party transactions identified. The objective is not to create a public-company control environment overnight. The objective is to create a reliable management control environment strong enough to support board decisions, lender reporting, and growth investment.

Legal triage should move from inventory to remediation. Contracts should be reviewed for change-of-control provisions, termination rights, exclusivity clauses, anti-assignment language, most-favored-customer provisions, data privacy obligations, indemnities, and liquidated damages. Litigation should be evaluated not only by probability of loss, but by liquidity impact, disclosure implications, management distraction, insurance coverage, and settlement authority. Compliance calendars should be rebuilt around tax, payroll, licensing, industry regulation, environmental obligations, employment law, data security, and customer-specific covenants.

This phase requires careful attention to fiduciary duties in distress. Under Delaware law, the zone of insolvency does not give creditors direct fiduciary claims against directors.⁹ In *Quadrant*, however, the Delaware Court of Chancery recognized that a creditor of an insolvent corporation may pursue derivative fiduciary claims if insolvency is properly pleaded and proved under traditional balance-sheet or cash-flow tests.¹⁰ The practical lesson is not that directors should manage solely for creditors. It is that distressed governance must be documented, conflict-aware, and supported by a reasonable record of decision-making.

The Sponsor, the Fund, and the Portfolio Company: Three Fiduciary Lenses

Private equity turnarounds contain a structural fiduciary tension: the sponsor may owe duties to the fund, the portfolio company board owes duties under entity law, and management owes duties to the enterprise it operates. The SEC's 2019 interpretation states that investment advisers owe fiduciary duties to their clients, including a duty of care and a duty of loyalty.⁷ In 2024, the Fifth Circuit vacated the SEC's private fund adviser rules and emphasized that, in the private

fund context, the adviser's client is the fund itself, not each investor in the fund.⁸ That distinction is legally significant, but it does not eliminate practical conflict risk inside a turnaround.

The fiduciary architecture must therefore separate four categories of decision: fund-level decisions, sponsor-control decisions, portfolio-company board decisions, and management operating decisions. Dividend recaps, management fees, monitoring fees, intercompany charges, related-party vendor arrangements, debt amendments, sponsor guarantees, equity cures, and asset sales should be reviewed through a conflicts protocol. The protocol should identify the decision-maker, beneficiaries, adverse stakeholders, required approvals, documentation, valuation support, and alternatives considered. In a distressed setting, the appearance of value extraction can become as damaging as the extraction itself.

Days 61-100: Convert Stabilization Into Growth Architecture

A turnaround that stops at stabilization is incomplete. The purpose of the first 100 days is to make growth governable. By day 100, the company should have a 12-month budget tied to a 13-week cash forecast, a 3- to 5-year strategic forecast, and a KPI tree that connects enterprise value to operational drivers. The KPI tree should include liquidity, gross margin, throughput, pricing, customer concentration, churn, procurement savings, inventory velocity, capex return, regulatory milestones, litigation exposure, and management accountability.

Financial distress models such as Ohlson's probabilistic bankruptcy model and Altman's discriminant-analysis model are useful as diagnostic screens because they emphasize liquidity, leverage, profitability, scale, and solvency.^{13,14} They should not be treated as mechanical answers. In PE turnarounds, the more useful question is whether the company's forward operating architecture is reducing the probability of distress while increasing the probability of disciplined growth. This requires scenario planning. A base case, downside case, and upside case should be built around explicit assumptions for revenue, margin, collections, vendor terms, covenant headroom, capex, labor cost, customer retention, and legal resolution timing. Scenario-based cash planning is particularly useful when uncertainty makes static budgets unreliable.¹⁵

The growth architecture should also reset management incentives. Incentives should not reward EBITDA growth that is purchased by uncontrolled working-capital deterioration, deferred maintenance, unpaid taxes, regulatory shortcuts, or litigation risk. A fiduciary incentive plan should balance EBITDA, cash conversion, covenant compliance, safety or compliance metrics, customer retention, and strategic milestones. This is where financial stewardship becomes a growth discipline: the company grows because decision-makers are measured on durable value rather than short-term optics.

The Board Packet as the Fiduciary Operating System

The board packet is the central artifact of fiduciary architecture. It should not be a backward-looking slide deck assembled for ceremonial oversight. It should be the operating system through which the board sees cash, risk, control, and growth in one integrated view. The first 100 days

board packet should include: (1) a 13-week cash forecast with actual-to-forecast variance; (2) covenant and liquidity headroom; (3) aged AR and AP; (4) top customer and vendor exposures; (5) legal and regulatory matters by risk tier; (6) control remediation status; (7) management decisions requiring approval; (8) related-party and conflict disclosures; (9) KPI dashboard; and (10) growth initiative status.

This packet creates fiduciary memory. It allows the board to show what it knew, when it knew it, what alternatives were considered, what constraints existed, and how decisions were made. In a high-stakes restructuring, that memory is indispensable. It protects leadership from hindsight narratives and allows stakeholders to evaluate decisions against the information available at the time.

Failure Modes: Where Private Equity Turnarounds Lose Fiduciary Control

Five failure modes recur. The first is liquidity blindness: management reports EBITDA while the company runs out of cash. The second is authority leakage: undocumented actors make commitments that later bind the enterprise. The third is legal deferral: litigation, tax, employment, or regulatory exposures are treated as future problems until they become financing obstacles. The fourth is stakeholder incoherence: lenders, employees, LPs, suppliers, and the board receive inconsistent narratives. The fifth is growth without control: the company pursues new revenue or acquisitions before cash governance, accounting reliability, and legal exposure are stable.

Each failure mode is preventable if the first 100 days are designed as fiduciary architecture. Liquidity blindness is addressed by the 13-week forecast. Authority leakage is addressed by the delegated authority matrix. Legal deferral is addressed by the liability register and compliance calendar. Stakeholder incoherence is addressed by board-approved communications. Growth without control is addressed by the KPI tree and scenario-linked budget.

Conclusion: From Turnaround Activity to Institutional Stewardship

The best private equity turnarounds do more than cut costs, change managers, refinance debt, or accelerate sales. They create a new institutional architecture in which cash, law, governance, and strategy reinforce one another. That architecture is fiduciary because it makes responsibility visible. It is financial because it begins with liquidity and reporting integrity. It is legal because it identifies the claims, constraints, and duties that shape enterprise action. It is strategic because it converts stabilization into a credible path for accelerated growth.

The First 100 Days should therefore be judged by a simple test: can the board, sponsor, and management team explain the company's cash runway, legal liabilities, authority structure, stakeholder obligations, and growth priorities from one integrated source of truth? If the answer is yes, the turnaround has moved beyond emergency management. It has established fiduciary architecture. If the answer is no, the company may still produce activity, but it has not yet produced institutional stewardship.

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