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Avoiding Corporate Catastrophes: Do You Know Who Your Business Partners Really Are?

By Susan Divers, Nov 16 2015

Several years ago a successful US high tech company was approached by a South American bank to upgrade the bank's information technology system. Contract negotiations went well and the estimated profit margin was over 20%. At the last moment, however, the company's due diligence revealed that the bank's major shareholders had associations with drug cartels. Further research turned up more (not less) red flags. The US company terminated negotiations. Improving IT systems that were probably handling drug money wasn't consistent with its values or compliance program.

Recently, a worldwide engineering firm preparing to bid on a high speed rail project in Russia met with the government entity preparing to issue the RFP. The officials let it be known that certain local subcontractors had been pre-approved and hinted strongly that teaming with them would enhance the chance of winning. Due diligence on the preferred subcontractors showed they were both recently incorporated in the Cayman Islands. The CEO of one was a former fashion model with no technical or corporate experience. When asked for further information about their shareholders and expertise, neither company provided any relevant information. The engineering firm declined the team, recognizing that there were significant corruption red flags and a lack of transparency.

***Knowing your business partner is a major aid to avoiding ethical, business, legal and regulatory problems as well as fraud or other catastrophes*.**

Of course not every sub consultant, vendor, partner or business associate can be fully vetted through extensive due diligence, but identifying those that pose the highest risk or present red flags can allow companies to target their due diligence efforts effectively.