

Due Diligence Reviews Saves Your Business From Headaches

Monday, June 24, 2024

Vendors provides a lot of services and products to customers, big and small. For customers like governments, higher education, nonprofits, or corporations, vendors are a key partner to helping meet its goals and objectives. As a customer in these sectors, having the right vendor is important to your operations. However, you get the wrong vendors and you create unnecessary risks that can impact the bottom line. That is why it is important to perform due diligence reviews of all vendors that you will be doing business.

What is due diligence review?

Due diligence can be summed up as performing a background check on a vendor to see if there are any red flags or questions that may be raised in doing business with the potential provider of needed services and goods.

Why perform a due diligence review?

As previously stated, a due diligence review is good for identifying any issues, red flags, or questions that are raised and may impact your organization. Due diligence reviews can help minimize potential risk that impacts your organization from areas that include reputational, financial, operational, regulatory, and legal. Due diligence reviews help in deciding whether to do business with the vendor or if there is a right fit for partnership.

What are some areas to cover when doing a due diligence review?

There are many areas for you to cover when doing due diligence reviews of vendors. Many of these areas include the following:

- Business licenses
- Banned/Suspension listings
- Sustainability
- Business dealings with foreign governments or entities
- Professional licensing
- Judgement/Legal actions
- Financial documents
- Client referrals
- Social media activities
- Principal/Owner resumes
- Contact information
- News media
- FinCEN Beneficial Ownership Information registration

This list is not all inclusive, but gives you an idea of areas for doing due diligence reviews of vendors that you do business on regular basis.

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When to perform due diligence review?

The best time to perform due diligence reviews are before you go into any business arrangement. This will allow you time to vet the vendors before any money is exchanged, services provided, and products made. Many times, businesses do not perform a thorough due diligence of prospective vendors before signing agreements. As a result, the business runs into issues that create legal, financial, and reputation headaches. When you perform due diligence reviews of vendors before the agreement is signed, you are promoting transparency and accountability for you and the vendors. The vendors know you mean business and is paying close attention to their actions.

Many forget that due diligence reviews are not a one-and-done action. Another time to perform due diligence reviews is at least on an annual basis. Periodic due diligence reviews during the calendar or fiscal year ensures that you and the vendors are maintaining the necessary accountability, ethics, morals, and values to deliver quality products and services to your clients. Periodic due diligence reviews such as those on an annual basis, forces everyone to check to see if they are on or off the proverbial radar. Based on the results of the due diligence reviews, you and the vendors would take the necessary actions to address the issues.

Takeaway

Due diligence reviews are becoming more important than ever in today's growing regulatory and social atmosphere. As a business or someone doing business, it is important to make sure you are doing as much scrutiny of vendors as you can to minimize risks to your reputation, money, and business. If you cannot do due diligence, then have someone with experience to help do the necessary work to keep you and your business out of trouble. Another key point is to make sure you develop a habit of doing due diligence reviews on regular basis or at least on an annual basis. This keeps everyone aware and minimizes and surprises or risks to your business. Overall, due diligence reviews will save you, your business, and vendors the financial, legal, operational and reputational headaches in the long term.