YOUR EYE ON THE WORLD

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KNOWLEDGE EQUALS POWER

Something you are going to hear a lot in networking conferences and meetings is the term, Due Diligence. Some of you may know what this is. Some of you THINK you know what this is. My goal is expand your idea of what Due Diligence is and what it can do for you in a very short period of time. I also want you to get an understanding of how Due Diligence is congruent with the cooperative spirit that I find to be very important in successful business transactions.

The Miriam Webster dictionary defines Due Diligence:

Main Entry: due diligence

Function: noun

:the care that a reasonable person exercises under the circumstances to avoid harm to other persons or their property

While due diligence is a fairly new term for business, meaning it is not a common term in every day lingo, much less something that people always practice, I became curious as to when due diligence actually began .

The first practical example of Due Diligence that I could find comes in a form you don't quite expect. I share this with you in sincerity and also with a bit of tongue in cheek attitude. But I wanted to show you something a bit extreme to get you out of the box, thinking Due Diligence is all about crunching the numbers and looking at the finances of a business arrangement. It is not.

In the 15th Century the first written evidence of a Due Diligences effort was recorded by Keyser von Eichstad, a retired solider who compiled a manuscript in 1405 about the art of war and military equipment, in his book "Bellifortis". IN this book he included a drawing , and on this drawing was the inscription "Est florentinarum hoc bracile dominarum ferreum et durum ab antea sit reseratum" ("breeches of hard Florentine iron that are closed at the front"). If you're not clear what I am talking about, take a moment to hazard a guess.

What I have just described for you the first record of the chastity belt.

During this time period, it was assumed that if your property was under attack that all property was the spoils of the winner. The average mentality was "What is not protected will be lost." What was being protected was not just the physical well being of the women of the kingdom, but the actual heritage of the gene pool. So along with the efforts of “protect and avoid harm”, we see the intent was to also perpetuate the heritage and the legacy.

Now, if we jump forward to today, at this moment, our standards have changed quite a bit. Or have they? We have investment programs, 401k's, financial plans. Most of you have visions that you want to become reality. And usually these realities entail something that can be bought or sold or even an enduring endeavor to be passed along to your children. So isn't this again, perpetuating the heritage and the legacy?

However, what has changed is our demeanor and attitudes that are engaged in this effort we call Due Diligence. Now remember, Due Diligence is nothing more than the care that a reasonable person exercises under the circumstances to avoid harm to other persons or their property.

So when building your vision, which in turn is just the practical matter of building a business plan, what efforts have you taken to avoid harm to other persons and their property. While you are answering this, you will be including yourself in the definitions of persons. And you will also be including your property in this definition as well.

In our more developed society, our attitudes have grown from the "rape and pillage" business example to that of one "we can cooperate and prosper".

Cooperation does NOT mean however, that you loose your ability to think and ask questions before making a decision. Cooperation is also not a substitute for the word trust. You can trust someone but choose not to cooperate with them or you can choose to cooperate with someone while not having a complete trust in them and/or their abilities.

Sharing a cooperative spirit also does not mean that everyone who is like minded in their business strategies and outlook is a good match for your business or that you are a good match for theirs. There is more to a good match than someone who thinks like you do or has a clear background, free of negative records. And there are times when someone may have a very smudged background and still be the right person for the position you are looking to fill.

So in our kinder, more highly developed, sophisticated business models, we actually have created a new set of obstacles. **How** do I get the information I need to make a sound business decision? You also may not know what information you need or why you need it.

"I [never met] the senior manager who knew what information was available for decisions. Very few senior executives have asked the question, "What information do I need to do my job?" In part because they've all been brought up with the accounting information that they understand. But the other type of information system, they don't understand." **Peter F. Drucker - A Meeting of the Minds** CIO Magazine, Sept. 15, 1997

So many times, people know what they need in a specific area because that is where their training or experience is. But how many of us really know every detail needed for every job that makes up the company we are here to build?

What I have found in my business experience though that is the biggest hindrance, is that people are UNCOMFORTABLE in asking for information from others, for fear of OFFENDING THEM!

And the reverse of that problem is that sometimes people give away TOO much information in an effort to appear a team player or to show they are cooperating.

Now I am going to give you some examples of question that you want answered when you are doing business and I just want you to make a note if asking that questions would make you comfortable or uncomfortable.

1. **Are you financially sound?**
2. **Now ask it the question this way – have you filed bankruptcy in the past ten years and do you have enough money in the bank to pay your bills for the next 6 months?**
3. **Have you ever been arrested?**
4. **Why?**
5. **What type of business are your close relatives involved in?**
6. **What type of neighborhood do you live in? What is the estimated worth of your home?**
7. **How many vehicles do you own?**
8. **Are they paid for?**
9. **Have you been sued or sued anyone? What was the suit about?**

10. **What kind of records does your local police dept have about you? (This involves non criminal charges that were not filed.)**

11. **What do your neighbors think about you?**

12. **What kind of person do you think you are – what are your strong suits? What are your weaknesses?**

13. **What kind of driver are you? How many accidents have you been involved in?**

14. **What are your hobbies and what kind of expense is involved in them?**

15. **Have you ever had another name or SS#? If yes, then why?**

IF you were able to say you were comfortable asking these type of questions, I bet you are doing some form of due diligence in every relationship you have. If you are not comfortable, with these, I think you can see that you might have missed some important details during your decision making process, unless you had hired someone to perform this type of research for you.

So where this is leading us is that having a cooperative nature does not mean that you agree to trust everyone you come in contact with who shares your ideology. And it is not even just a simple matter of trusting someone, it is also a matter of making sure the person or the financial structure or the business plan or whatever it is you are considering is a good match for you and your needs.

I am not a psychologist so I am not even going to speculate on how this attitude has developed. However, I can tell you this seems to be a predominantly American attitude. As a rule, we Americans seem to be almost apologetic in asking for money or results when interviewing others in business arrangements. A standard way of saying no in this country is just to not return the other persons call. This is not an example of a cooperative spirit. An example so saying no in a cooperative fashion would be to point out the reasons why you are saying no and then just to say no.

For example, I get calls from all kinds of people with all kinds of problems. People from Asian and European backgrounds, not native born Americans have no problem in the course of a consultation in asking me, "This is my problem (two sentences or less) What will you do for me, Why will you do it that way and how will you get the job done and how much is going to cost me? All pretty much in the first five minutes of conversation. And I know within ten minutes or so within the conversation if this is a new client for me or if they are not convinced my company is right for them and then they confirm it by telling me so.

When I get a call from an American, I spend the first 15 minutes listening to their problem, them telling me why they think they need to hire me and asking me if I agree with them. Then if I do not take the conversational lead with asking them more questions and offering up information myself, there would be a huge lull in the conversation. It's not that they don't want to know if I can do a good job. It's not that they don't want to know how much it will cost, it's just they are not comfortable in asking me.

Ironically, my clients tell me that one of the reasons I earned their trust quickly is I offer up the answers to those questions quickly, and efficiently and encourage them to compare my information with other companies. Most times, they do not, even though I still encourage them to. So this is a great example of how a cooperative attitude EARNS you trust.

Now let's go back to what some of you wrote about the business decision you wrote about when we first started. You don't have to share what you wrote, but just answer this in your own mind – is anywhere on this list the answer – I liked this person?

Liking a person usually leads to immediate trust. WE like to be around people that make us feel good. If we feel good, it's seems only natural to want to share with this person and if you share, you build the bond of trust, wouldn't most of you agree?

But I want to put this idea before you for consideration, it is possible to like someone and not trust them and it is equally possible to not like someone and to trust them. So what is trust really about?

What lead me into the business I am in now was in my very early adult years I owned, not one but two bail bond companies. A bail bond company posts money to secure the appearance of a person in court so they are not required to stay in jail while awaiting trial. This in itself is a due diligence effort on several levels. The state acts on the idea that a person is innocent until proven guilty. In the meantime though, they want some assurance this person is no out committing crimes and will appear for trial. So the bond company provides the "insurance policy" for the person's freedom. If the person does not show up for court, the bond company pays the bond amount to the state or they put the person back in jail or both.

Now as the bondsman, I didn't know these people. So part of another due diligence effort required that along with paying my fee, the person either put up collateral or had to find a co signer or both. They also had to check in weekly and I had to be able to contact them. If they moved or disconnected their phone number, this was grounds for nullifying their bond and having them arrested. So here we have the basics of due diligence on several levels.

But the real reason I bring this up is to talk about trust. Due to my circumstances I owned these companies in the beginning, but knew nothing about the bail bond business and I did not manage or operate them. Circumstances changed and I suddenly found myself running these businesses and I did not even know where all the jails in Dallas County were located.

My second wakeup call was that I found as the clients came in to fill out paperwork after being released from jail was that often times, I could not tell the client who had been arrested from anyone else that I met on the street. It wasn't like they had a big C on their chest for criminal. Many of them were just average people you see in the store or on the street. And many of them… too many really, had very likeable personalities.

I was not expecting this at all. ***I was not expecting to like my clients.***

Now I already knew that these people could not be trusted. I had posted bond to get them out of jail. Innocent or not, they had been charged with a crime, so that made them questionable on some level. But I really had my first lesson in the difference in liking and trusting a person, the first time I had to put a client in jail that I really liked. This person came to my office almost every day, brought me new business, told me trade secrets about what he did and I thought that we had a level of trust when he told me was guilty and how did he committed the crime. What we had though was a level of con. I was conned to give him time to plan his escape and then to keep me off his back after I knew he had run out on his bond.

So I knew from that day forward that I could like people no matter what their background, but trust in earned and it is not earned in a short period of time.

And even though this person had done all the right things for several months, what I knew about him was that he lacked integrity. And integrity is the basis of real trust.

So trust is built upon integrity and the ability to see commitments through, start to finish.

So this is the basis of real due diligence – The integrity of the person or business in question.

What does Due Diligence Involve for most Companies?

Due diligence involves a detailed research into a company and its plans. It involves the advisor checking out:

The **business's identity** - how it is owned and constituted and what changes will be necessary prior to taking the company to the market, if it is a new start up.

The **business's financial health** usually based upon a detailed examination of past financial statements and an analysis of the existing asset base. This includes verification of contracts, custom lists and potential contracts and marketing strategies.

The **credibility of the business's owners, directors and senior managers** - including validation of the career histories of all the main players in the business is a necessity.

The **future potential** of the business, reflected in the strengths of its products and the probability of earnings growth over the medium- to long-term.

An **assessment of the risk involved in your business**, in terms of your markets, your strategy and likely future events.

Your company's **business plan**, in terms of how realistic it is, how solid are the assumptions used and how well it conveys your business's potential.

Due Diligence of an individual includes much of the same thing:

An **Individuals' Identity** - Verifying the person is who they say they are. A background includes confirming basic identifying information such as name and SS#.

An **individual's financial health**, can include litigation records, UCC filings, liens and bankruptcies and credit history.

An **individual's credibility** – Criminal records, verification of past employment and business relationships, education and activities in the community help establish if this person is the right choice for the position you are considering them for.

An **assessment of the risk involved in your business based upon an individual**, can be further analyzed by doing just that, assessing the individual with an in depth assessment profile.

Reasons for Due Diligence: To prevent any unnecessary surprises while conducting business!

1. **Business relationships with new clients or investors. (By both parties)**
2. **Past land usage of real estate acquisitions – (Pollution tort cases)**
3. **Public information about your competitors.**
4. **Use of patented processes/equipment.**
5. **Trade mark verification or prevention of potential theft**
6. **Intellectual property theft/usage.**
7. **Pre-employment background checks**
8. **Product liability defense.**
9. **Collection processes**
10. **Civil/Criminal defense research for the benefit of company or officer**

Now going back to the issue of trust and integrity. I want to share with you some examples between a person who lacks integrity to a person who has made mistakes.

I'm not going to share names with you as I don't have permission with this particular story. Basically this gentleman had big dreams with little experience and in the course of building his business plan, made some mistakes that ultimately put him in trouble with the Federal Trade Commission. He did what he needed to settle the problem and I don't believe he served any time. However, because of the seriousness of the matter, the man should have been poison in the market place and not been able to find investors for anything else.

What he did though was draw up another business offering, and in that offering he included what he had learned during his legal problems, how they had been handled and how this problem could be avoided in future endeavors. He was up front about what he had done and why it was illegal and did not hold back on any of the details. Because of his honesty he raised all his capital and today this company is a large, national car rental corporation and has very happy investors. This is a great example of a person who has made a mistake but still maintains his integrity.

Recently I did a very short and very inexpensive due diligence on a potential investor. It's not just the people asking for money that need to be checked out, you should also do a check on the people offering money as well.

This investor was bringing to the table 10 million dollars that would have been more than enough for this venture. When I reported back the results, my client declined the offer. Not because of the pending embezzlement charges against this investor. He would not have access to any funds for this business plan. What kept my client from accepting the money was the fact that this person was a registered sex offender. My client's level of integrity could not accept the idea of doing business on any level with a person who was convicted of this type of crime.

He in no way wanted his name or company affiliated with this type of activity.

So going back to our first definition of due diligence, the care that a reasonable person exercises under the circumstances to avoid harm to other persons or their property.

What you want to know is:

- **Can the person do what is required of them?**
- **What can they add to my organization that I do not have already?**
- **Can they be trusted? Do they have integrity?**
- **Am I proud to be affiliated with them or would it damage my reputation or cause me embarrassment or even shame?**
- **Do I trust this person yet?**
- **Do I respect them at least?**

- **Do I like them or is that even necessary for me to have a business relationship with them?**

Only you can initiate these questions in your business.

However, we at ISGU can help you find these answers and more.