KCS Group Europe

Intelligence failure: the inside perspective

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We have already examined some of the main reasons why intelligence can fail, and the traps that analysts must be wary of in determining the truth of a matter. But this is only one half of the coin – there are also internal, inherent failures in reacting to and organising such intelligence on the corporate side.

There are a number of attitudes which are just as much a threat to solid business planning and benefitting as poor quality or incomplete intelligence is.

Cost*.* This is a frequent mental imposition to a program of quality diligence – that to do this properly will require an outlay (albeit not always having to be a significant one) for, potentially, nothing to show for it (ie, no derogatory information has been identified). Given that margins and client costs must be monitored, this feeds into the mindset that diligence is one of those things that can be ignored as a needless expense. Nothing could be further from the truth – even if there genuinely is no problem with a target company or individual, it surely makes sense to get surety and clarity on these issues.

Tick box. Sometimes due diligence is looked upon as a necessary evil: mandated under terms of a contract but with no distinction about the breadth or depth that it should take. So, the bare minimum is requested: strict terms that offer no leeway or exploration to dig down properly and investigate. The result therefore will be a watered-down imitation of what it could be but will be *'just enough'* to tick the box that a client needs without thought given to whether this is appropriate.

Desire for the deal. Sometimes characterised by *'dollar signs behind the eyes'* – essentially, wanting the sale or the deal to the extent that this blinds a corporation to the potential problems, as these do not in the thought process speak louder than the benefits of securing a signature. For some, even the chance to do a deal worth millions or to land a particularly high-profile client, is the priority that overrides all others. There are clear warning signs here that can go unheeded: not just the danger that *'a deal that looks too good to be true'* might very well be so, and a wider attitude that the duty of care to shareholders/partners is superseded by a deal at any cost.

There is nothing wrong with a firm having a healthy risk appetite, but this is never without consequence.

Assumption. *"We don't think there are going to be any problems with this company." "I've known the chap for thirty years and trust him". "We did a quick search online and nothing seems out of the ordinary."* These recur time and time again and are rarely, if ever, comfortable reasons for eschewing diligence. Perception differs from reality.

It's already done. On occasions, the project has already been agreed or the deal done – with due diligence intended only as an afterthought on the expectation that it will not reveal anything of concern. When quite the opposite happens, this can be not only embarrassing but also put the client in a very difficult position: knowing what it now knows, it may have to creatively try to exit from the deal – which will not go well for them.

The unknown unknowns. Perhaps crudely put, but *'certainty'* is a variable currency in business and it is likely that the full story cannot be determined without some level of due diligence, particularly when considering the possibility of hidden relationships, expunged criminal records and deliberate concealment. But in some instances, a client cannot know how to solve a problem if they are not aware of the problem in the first place. Even if some issues have been clarified, there may still be those which could break a deal which would not come to light at all was diligence not conducted.

These represent the Intelligence Gap in action: the difference between what you know and what you need to know. Not being skeptical, thorough and cautious could turn out to be negligent at best and actively damaging at worst.