

OPERATIONAL DUE DILIGENCE AND ITS ROLE IN ASSESSING
THE RELIABILITY OF A COUNTERPARTY

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Abstract: The article discusses the issues of operational due diligence as a modern consulting service. The conducted research examines the main directions of this service, indicating the main sections of the checkout. Considerable attention is paid to methods for identifying and assessing risks during operational due diligence. In order to reflect the role of modern digital tools in conducting counterparty verification for trustworthiness, the possibilities of specialized online services are considered, which in modern conditions are becoming innovative analytical tools for collecting information about the counterparty and its generalization. The conclusion of the study summarizes the main factors hindering the development of this service and substantiates the need to solve the problems they cause.

Keywords: operational due diligence, risks, counterparty, online services.

JEL Classifications: M49

Introduction

In modern conditions, considerable attention is paid to the issues of assessing the reliability of a counterparty, since the results of such an assessment will be useful for the implementation of tactical and strategic objectives in the field of risk management in enterprise management. Currently, the due diligence service, which is quite popular, involves conducting this assessment, which is comprehensive and involves a comprehensive diagnosis of the organization's activities. During the development of this service in the consulting services market, the financial, tax, legal and accounting areas of due diligence initially gained special popularity. At the same time, the assessment of a potential business partner for the possibility of cooperation with him also involves other aspects for research: environmental activities, management decision-making issues, marketing activities, information security. A separate area that is currently developing quite dynamically is operational due diligence, an examination of the company's management organization that allows assessing the quality of management, the risks of managing the business as a whole, and the effectiveness of the enterprise.

Basic Content of the Paper

The importance of conducting operational due diligence is due to the possibility of reducing business risks in cooperation with a counterparty in the following positions:

1. During this line of due diligence, attention is paid to the analysis of the external and internal business environment, which helps to assess commercial, industrial, financial and reputational risks.
2. Within the framework of operational due diligence, special attention is paid to the principles of cost and financial management of an economic entity, which, in turn, makes it possible to predict financial, tax, commercial and managerial risks.
3. Conducting an assessment of the effectiveness of the organizational structure and the level of corporate governance is informative enough to assess managerial and financial risks.

4. The analysis of the quality control system at all levels of the enterprise structure will provide information for assessing commercial, industrial, financial and managerial risks.

5. An assessment of the organizational and legal structure and personnel strategy of an organization is necessary to predict the likelihood of production and management risks.

6. The analysis of the effectiveness of production processes and investment is informative in the context of identifying production, financial, tax, commercial and compliance risks.

Operational due diligence involves studying the constituent documents in order to gain an understanding of the specifics of the business structure, determining the amount of property of each owner or shareholder. During the operational due diligence, the correctness of accounting for securities transactions and settlements with the founders is also checked. Specialists also focus on personnel issues, the specifics of building management, the quality and level of effectiveness of the current management system.

Conducting operational due diligence involves the following areas, summarized in Table 1.

Table 1. The main areas of operational due diligence

№ p/p	Areas of operational due diligence	Verification Sections	Information sources
1	Basic information about the organization	<ul style="list-style-type: none"> - the history of the organization's creation and activities; - the counterparty's positioning in the market; - the specifics of the organization's work and functioning; - the main financial and economic indicators of the company's activities (sales volume, profitability, liquidity ratios, financial stability, etc.) 	Extract from the Unified State Register of Legal Entities; Online services; Information provided by the counterparty
2	The organization's development strategy	<ul style="list-style-type: none"> - the main strategic goals and performance indicators of the organization; - to what extent do the goals of the organization meet the SMART principle; - stakeholders and groups of people influencing the development of the strategy; - the main directions of the organization's investment policy 	Information provided by the counterparty
3	Organization management structure	<ul style="list-style-type: none"> - compliance of the organizational structure with the set goals and current activities; - ways to optimize the management structure 	Information provided by the counterparty, Online services
4	Business processes	<ul style="list-style-type: none"> - composition of business processes; - advantages and disadvantages of business process organization 	Information provided by the counterparty

Source: compiled by the authors, based on [3].

To analyze the trustworthiness of the counterparty, the specified information can be used in the following context:

1. An analysis of the history of the organization's creation will allow to conclude the position of an economic entity in the market and its segment, which inevitably affects its financial condition and should certainly be taken into account when deciding on the possibility of cooperation with the specified counterparty.

2. An analysis of the organizational structure is necessary to identify possible one-day firms, since the absence of the necessary production units in the structure may indicate that the counterparty under review belongs to one-day firms. In addition, the information received on the specified verification section allows to establish a tree of links between the organization and affiliated persons.

3. The analysis of business processes and the degree of their integration allows to conclude about the ability of the organization to continuously continue its activities, which is one of the key factors for successful business cooperation and interaction with a business partner.

4. The study of the main directions of the investment policy of a potential counterparty is informative enough to assess the prospects for the development of an organization and its attractiveness as a possible partner.

During the operational due diligence, various methods and approaches are used, among which it should be noted separately:

1. Risk assessment models. The construction of cognitive maps and heat maps of risk has become particularly widespread. The purpose of constructing cognitive maps is to model various scenarios of possible developments. This allows you to predict the occurrence of events that may have a negative impact on the financial stability of the company. The cognitive model is based on certain factors that have a certain causal relationship. As a result, the cognitive map represents the final subjective assessments of experts about certain laws and patterns that are inherent in the modeled system. At the same time, building a risk heat map allows you to evaluate each identified risk according to two parameters: probability and financial effect. It also serves as a visualization tool for current and potential threats to an investment project, assessed by experts in a single coordinate system. Thus, specialists conducting operational due diligence, using these tools, can predict possible risks and project them onto the further development of a business partner.

2. Scenario method implemented through stress testing. This method is an artificial simulation of an unfavorable situation or scenario created to determine the readiness of the audited organization, a potential counterparty, to overcome the expected negative factors or minimize their negative impact. Stress testing involves several successive stages: scenario formation, performance evaluation, and results analysis. The formation of the scenario consists in determining the possible directions of the development of events (in particular, taking into account the peculiarities of the external economic situation). The second stage is the analysis of all significant risks through the synergy of quantitative and qualitative approaches. At this stage, a risk map is being built using a point system. At the final stage, based on the results of the preparation of the risk map, an action plan is developed and, if necessary, adjustments are made to the areas of work of the structural divisions [2, pp. 21-25]. The considered method is used for making managerial decisions and conducting operational due diligence, since a firm is a promising and reliable partner only if it is able to withstand external risks and maintain its financial stability.

3. The construction of scoring models, involving the assignment of appropriate points for meeting certain criteria.

4. Drawing up a standard risk register, which includes a list of identified risks that an organization may face in its activities. During operational due diligence, the compilation of a standard risk register can be informative for understanding the degree of flexibility and adaptability of the audited organization in countering internal and external threats [1, pp. 32-35].

In the context of digitalization, the operational due diligence service has undergone a number of changes and it has become possible to use specialized tools for information collection and analysis. Table 2 summarizes the functionality of such tools in the context of this type of due diligence.

Table 2. Functionality of online services for operational due diligence purposes

№ п/п	Name of the online service	Tools	Application potential for operational due diligence purposes
1	SafetyCulture	Ready-made templates for conducting operational due diligence	The use of checklist templates to standardize approaches to counterparty verification
2	DiliTrust Governance Suite	Automation of due diligence Electronic signature integration	Ensuring interaction between due diligence specialists
3	Resolver	Cloud-based risk detection solution	Risk ranking
4	StandardFusion	Roadmap and risk register	Cross-functional interaction between team experts, built-in risk assessment tools

Source: compiled by the authors, based on [4].

Thus, the use of specialized online services during operational due diligence has a number of advantages, among which the following can be noted:

1. Allows you to identify the risks of instability in the supply of products and goods;
2. Creates prerequisites for predicting problems with production processes;

3. It becomes possible to detect risks in the field of information security: shortcomings in the automation of business processes and their inconsistency with modern requirements;

4. Allows you to diagnose risks in the field of logistics procedures: inefficient functioning of the logistics and warehousing system, disruption of supply chains;

5. Involves the identification of risks in the field of financial efficiency: analysis of financial processes, budgeting, cost management, cost optimization and increasing the profitability of the organization.

As a result of the operational due diligence, the customer organization receives a comprehensive report that reflects the following aspects:

1) expert opinion on the compliance of current approaches to the organization's management with the rules set out in regulatory documents (both external and internal);

2) consultants' conclusion on the application of the best management practices of the organization applied in the industry;

3) a description of the main business processes with an indication of their possible problem areas;

4) recommendations on the future trajectory of cooperation with this counterparty.

Conclusion

The operational due diligence service allows to predict the risks associated with possible cooperation with a counterparty. Its development is largely hindered by a number of factors:

1) the lack of a unified methodological framework developed in the form of a standard or standards at the federal level;

2) the need to take into account industry specifics, which requires the involvement of relevant specialists in the expert team;

3) the difficulties that arise at the information collection stage: a potential counterparty is not always ready to provide all the information of interest, given that it is quite specific for operational due diligence purposes; information is added to online services with a certain time lag;

4) insufficient awareness of the benefits of operational due diligence among potential consumers of this service.

Solving the above problems will contribute to the development of this type of consulting service, as its potential for implementing business risk management strategies is enormous. It is also worth noting that the prospects for further development of this service should be considered in close connection with the development of other areas of due diligence: financial, tax, legal, reputational, informational, marketing. Each of the considered areas is aimed at analyzing specific aspects of the organization's activities, which ultimately makes it possible to create the most complete "portrait" of a potential counterparty. At the same time, operational due diligence is aimed at analyzing the deep processes taking place in the organization with the ability to predict financial, tax, legal and commercial risks.

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