




Role of due diligence in business takeover

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Abstract

Motivation: The topic of the article is of paramount importance in today's ever-evolving business landscape. As companies strive to expand their operations and stay ahead of the competition, mergers and acquisitions have become a popular strategy. However, the risks and complexities associated with these transactions cannot be overlooked. Understanding the role of due diligence is essential for any organization considering a business takeover. It serves as a powerful tool to uncover potential risks, assess the viability of the transaction, and make well-informed decisions. By conducting a thorough due diligence process, companies can identify financial discrepancies, legal liabilities, operational inefficiencies, and hidden risks that may impact the success of the transaction.



Aim: The goal of the research was to analyze to what extent is the resulting value of a business is affected by improperly performed due diligence. The method used for data collection was in-debt literature research based on the Web of Science database. Subsequent content analysis was used to identify the 10 most common errors that can occur during the process of due diligence. The following research used the data obtained from answering the first research question with. Ishikawa fishbone diagram was used as a specific method of causal analysis.

Results: The main findings include the identification of the most common errors occurring during the performance of due diligence, such as wrong financial analysis, incomplete financial accounts, Incomplete accounting statements, or adjusting entries for receivables. The main causes include excessive work pressure on auditors, past due receivables, poor supplier vetting, or failure to document the application of prices. The research is beneficial for auditors or audited companies so that they could avoid such errors. However, there are also several limitations as it is very time and cost-consuming to deal with due diligence on a company-by-company basis. Also, the application of Ishikawa fishbone diagram and brainstorming prior to diagram depends on the number of experts involve. Another limitation is that the research results applied under current accounting legislation only, and there are different laws and regulations in different countries.

Keywords: *due diligence; in-debt literature review; Ishikawa fishbone diagram; business takeover; business valuation*
JEL: M21; M4

1. Introduction

Due diligence is for investors like a two-dimensional concept, which draws from theoretical and legal research with the aim to deduce clear and enforceable obligations to themselves and those who influence their investments (Rivas-Ramirez, 2022). The protection of enterprise is a contemporary trend, as the third party may take part in an unlawful conduct, which results in a wrong conduct in terms of ethics and legislation compliance (Roy et al., 2022). It has become an important factor in determining whether the reasonable expectations of investors result in a protection in accordance with FET standard. The due diligence of investors in accordance with FET standards exceeds the risk commercial due diligence, which investors create for their own benefit (Levashova, 2020).

There are no general principles of due diligence in international law and states participate in activities called due diligence whose certain elements may, but may not, result from legal requirements (McDonald, 2019). There are objections that due diligence cannot be characterised as a general principle of international law, as it has a wide range of its content in various fields of international law and it relies on main rules concomitant with it (Peters et al., 2020). The principle of due diligence ensures that states do not use the territories or premises under their jurisdiction for the purposes in violation of international law (Stuckburger, 2018). It is very important for investment protection and investors ought to act with the help of it to benefit from protection standards stipulated in investment

contracts and to ensure compliance with the law of the host state (Burgstaller & Risso, 2021).

Due diligence is an evaluator for a real case of selling an enterprise and valuating due diligence, therefore, it is possible to effectively influence an investment decision within fusions and acquisitions by proper obtaining and selecting information for subsequent determining the risks and potential advantages of related transactions from its process (Matuszewski, 2020). Both parties agree up on the cooperation in enterprise valuation when the seller provides all the documentation agreed up on for the valuation of the enterprise. The need for due diligence results from the fact that the requirements of investors and buyers focus on transparent information about the subject of their investment or purchase in current market relations. Therefore, it is a research instrument that can acquire a realistic enterprise valuation, set the trends in its financial situation and business development, and obtain information that qualitatively influence the effective decision-making of the management (Novikov et al., 2018). It is the insufficient information in a due diligence process that could significantly influence the value of enterprise.

The aim of the work is to assess how erroneous due diligence influences the resulting value of enterprise valuation. The following questions will help to fulfil the aim:

- Due diligence is a process that is not automated; it is performed by a person who can make a mistake. This fact prompted to ask the first research question:
- RQ1: What errors can be made in due diligence?

Performing due diligence prior taking over the enterprise renders the purchaser better informed, he or she obtains better ideas about its assets, debts, and the general situation of enterprise. Should a fault occur in, e.g., asset structure or debts, it could significantly influence the value of enterprise. This fact prompted to ask the second research question:

- RQ2: How do the individual types of errors influence the correct determination of enterprise value?

2. Literature review

Sultan and Mohamed (2022) examined the issue of implementing due diligence by customers in the form of semi-structured interviews with chief clerks in charge of fulfilling regulations and it was found out that the main problems lie in the obsolescence and quality of databases and the unregulated part of economy and society. Guenther et al. (2022) extended the processing theories with the arguments of social network theory to discover that arbiters have access to a greater quantity and the result is a deeper and more consistent valuation. Contrary to that, Basu et al. (2018) observed that companies that proactively publish the faults of internal control decrease information asymmetries between informed and uninformed investors. Borochin et al. (2019) also explored in-

formation asymmetry in connection to the value of company around the time of fusion and acquisition to find out that information asymmetry is an important factor in selecting the aim and the diversification of business deals. It is confirmed by Celik et al. (2022), who indicate that acquirers' due diligence reveals mere 30% of private information and increases profits from fusions by 59% by removing information frictions. The study by Soepriyanto et al. (2020) examined the connection between the quality of time difference and partner's gender for a due diligence contract, where the study used a multi-dimensional regression model to reveal that gender is not an important predictor of due diligence quality. Pham et al. (2020) used an in-depth research of papers from Scopus and Web of Science databases to suggest a framework for a future research agenda. Crain et al. (2021) scrutinized the relation between launching into the market prior due diligence and the process of book creation during determining the share prices of primary public offer to discover a complementarity between both processes. The study by Stein et al. (2018) explored gaps in due diligence research with setting the technological range to discover that there are gaps in mutual relation to another area of due diligence audit, for instance. Stafylas et al. (2018) examined the methodology of creating hedge fund indexes by the content analysis of case studies from database suppliers to find out that although it follows a similar process like due diligence, there are significant differences.

Schleper et al. (2022) explored how the costs and benefits of due diligence are divided in supply chains by conversations with experts and discovered that the contextualisation of cost sharing into the conflicting supply chains of minerals is missing. The use of conflict minerals was also explored by Hofmann et al. (2018), they introduced a holistic concept of supply chain due diligence, which decreases the probability of effective using conflict minerals. A holistic approach is also supported by a paper by Macchi (2021), who examined due diligence in human rights and claims that such a standard must support the principles of the environment and human rights. Martin-Ortega (2018) argues that it is possible to create transformation instruments to improve working conditions in supply chains by the corporate due diligence of human rights. Gustafsson et al. (2022) determined a market-oriented and polycentric discourse by a content analysis of legal documents and laws, which followed the instituting of mandatory due diligence (MDD) in Germany and France. This issue was also examined by Weihrauch et al. (2022) by applying the principle of discursive approach to talks with key parties that paved the way for MDD in Germany. Camoletto et al. (2022) observed that there is a significant room for the improvement of due diligence, which can be achieved by a normative intervention.

Matos (2022) revealed by content analysis that the most consistent approach is to deal with the investor's due diligence as if it were a technique for assessing investor's adequacy and prudence. Roegiest and McNulty (2019) failed to disclose significant differences between lawyers with diverse level of expertise in due diligence by re-examining contracts in legal studies. The comprehen-

sion of due diligence was also explored by Will and Manger-Nestler (2021) with the method of extrapolation to find out that there is a potential to develop international law by applying due diligence as a secondary rule. Bhaduri (2022) discovered that due diligence involves the best structural manner to approach a specific investment by using the matrix of advantages and disadvantages of structural forms. It is confirmed by Porsgaard et al. (2018), who performed a research by semi-structured interviews and former M&A cases, and revealed that operative due diligence is a basic step in the process of decision-making about a purchase. Gada et al. (2021), with the use of completed M&A deals with public companies, found out that directors with greater focus on prevention extend the period needed by their companies to complete M&A deals. Rzepczynski and Black (2022) argue that valuating managerial skills for alternative investments is very difficult with due diligence. It is confirmed by Cavagnaro and Wang (2019), who examined the samples of investment buyouts and discovered that the negative relation is governed by the ability to perform due diligence and process the information from current investments. Reuer and Sakhartov (2021) located due diligence with the help of formal model into the context of economies of scale in the market of mergers and acquisitions. In the temporal perspective, Thompson and Kim (2020) found out that business deals with optimal time for implementation have better performance, which supports the due diligence hypothesis. Debnath et al. (2022) revealed, with the help of company data with annual observations, that a group of clients of large audit companies are less likely to participate in earnings management and providing due diligence. The Coleman and Wu (2021) study determined by the observation and ridge regression of panel data of non-financial listed companies that a board of directors' due diligence had a positive ROA and ROE.

Yuan et al. (2020) used difference-in-difference design and found out that a transparent process of background-check is a contribution to the improvement of auditor's supervision. Bi et al. (2020) used content analysis of transactions of enterprise acquisition to determine whether it is more probable for acquiring companies to appoint a new auditor of due diligence in the case of poor accountancy. In contrast, Kim et al. (2021) adopted casual analysis to present a dynamic behaviour and sets of causes in the whole system. Suarez-Barraza and Rodriguez-Gonzalez (2019) used Ishikawa fishbone diagram as a direct method of causal analysis, it enabled to examine the basic causes in companies that attempted to improve certain organisational processes. Darrough and Deng (2019) analysed information from due diligence process during obtaining a credit and revealed that a debtor is more motivated to subsequently participate in a sub-optimal investment decision when a creditor lacks a motivation to disclose such information. The research conducted by Mueller et al. (2021) explored construction documentation by content analysis to find out that a substantial part of all relevant digital construction documents is not suitable for the automated extraction of information. In his study, Wijek-Roy (2023) analysed the value of due diligence and determined a theoretical construct viewed

from the perspective of game theory, it was discovered that the construct adapts to the feature although due diligence broadly increases information effectiveness in the market.

The content analysis of resources from the in-depth research on papers from Web of Science will be used for data collection and analysis as well as for the first research question. The second research question will be based on the first research question and causal analysis and Ishikawa fishbone diagram will be used for data analysis.

3. Methods

The in-depth research in Web of Science resources will be employed as a method of data collection for the first research question. More specifically, papers and studies dealing with due diligence or audit will be searched for. Papers addressing erroneousness in audit and in due diligence process will especially be sought. Above all, papers with the highest number of references and citations will be searched for in order to ensure the highest quality of resources. 30 most frequent errors which may be made in the course of due diligence process and are committed, repeated and mentioned in papers dealing with this subject the most frequently will be selected by content analysis from this in-depth research of Web of Science resources. 10 most frequently repeated errors which may be made in due diligence process will be selected by content analysis from these 30 most frequent errors, they will be inserted into Table 1 where they will be placed in order in accordance with the frequency of the occurrence of given errors. The frequency of given errors will be determined from the papers dealing with this issue, how often they re-occur in the papers. The most common errors will be a basis for Table 1. The solution of the research question will be important for the data for the second research question.

The second research question will use the obtained data from the first research question, i.e., 10 most common errors which can be made during due diligence process. Causal analysis for estimating the influence of individual errors on the resulting value of enterprise valuation will be used for data analysis. Ishikawa fishbone diagram will be used as a specific method of causal analysis. The example of Ishikawa fishbone diagram is shown in Diagram 1.

The main presumption for this method is based on in-depth research from the first research question. More specifically, in this diagram the second research question will be determined as a backbone, or the problem, to which a direct line will represent a problem being solved. The findings from the first research question will be a basis to determine the main categories of the causes of the problem, i.e., 10 most frequent errors in performing due diligence, which will be the branches from the main horizontal line as it is depicted in the scheme in Diagram 1. Each of the 10 most common errors will be separately taken into consideration and in the case of every error the question of ‘why is it happening?’ will be posed, the individual errors will be further branched out due

to the causes in accordance with the scheme resulting from the first research question. The deeper causes of the issue will be further sought by asking ‘why?’ and the layers of branches will indicate the causal relations. When all the ideas and findings from the content analysis of the first research question have run out, a special attention will be paid to areas that are the thinnest in the diagram and all the causes and errors will be valued by weight coefficient. Weight coefficient will be a total of 100 points, certain weight will be assigned to every cause and error to make the aggregate 100 points. It will be clear from the weight coefficient, which causes and errors may influence the correct valuation of enterprise the most. The determined information from this research question will be important for determining the case revealing which causes and subsequent errors may influence the correct determination of the value of enterprise.

4. Results

4.1. Errors in applying due diligence

The research of Web of Science resources was used as method of data collection for the first research question. 30 errors that can be made during the process of due diligence were selected by content analysis of the in-depth research of Web of Science. Mainly papers focusing on erroneousness in audits and errors made in the process of due diligence were searched for.

Gold et al. (2022) used semi-structured interviews with Dutch auditors in their study with the purpose of exploring how they deal with the tension resulting from existing public and regulatory requirements for flawless audits, while mistakes are seen as opportunities for learning. They found out that auditors express a positive attitude to openly reveal audit errors, but they essentially hold negative emotions and defensive strategies for the fear of consequences. In accordance with this study the main error results from the quantity of work and excessive pressure on auditors. Further case of error was identifying a mistake by an auditor, when the client was notified of a proposal of accounts, however, the auditor failed to inform that the enclosed auditor’s statement is a copy of a statement from the previous year (with faulty data) that ought not to be submitted to the Chamber of Commerce. Agarwa et al. (2019) explored the sets of accounts and questionnaires of auditors in their study to find out that the most frequent error is in incomplete accounts and Incomplete accounting statements. From the accounting perspective it was examined by Chi and Pan (2022) who scrutinized the main error, which is accounting revaluation. Transfer pricing is becoming the main focus of financial authorities and that is why they must be under increased scrutiny within due diligence. The determination of prices in trading within a group by multinational production companies was explored by Tambunan (2020) to find out that it results in underestimation or overestimation of market value, causes conflicts over transfer prices, which bear a sub-

sequent influence on due diligence. Adjusting entries for receivables or errors in tax or accounting depreciations are a very frequent error in an audit. This issue was researched by Cheng et al. (2020) who were the first to assess it as the main one.

Ahmad (2019) emphasized main errors, i.e., auditor's memory, cognitive errors, judgement, decision-making and their role. De Lima Amorim et al. (2021) examined working capital because it is very important to carry out the analysis of working capital during due diligence. Nurmet et al. (2021) also scrutinized erroneous in the indicators of working capital. Li and Evans (2019) researched financial analysis, they are the wrong data for financial analysis or erroneousness in financial analysis that seem to be a significant problem. Their paper deals with an appropriate methodology which could be adopted for an analysis of various financial events. Donado (2021) researched the issue of defects in various contracts in a due diligence audit where there can be disadvantageous obligations in a long-term or either high or inappropriate contract fines that may eventually be in contradiction to the rules of economic competition. There has been a substantial recent increase of the number of companies reporting annual profits before the completion of audit versus the number of companies reporting after completing it. Marshall et al. (2019) maintain that profits reported prior to audit completion are related to the lower quality of accounting and the perception of investors, the profits are likely to be overvalued while the profits reported after the audit are less likely to be modified in the future. It could significantly influence the right or wrong performance of due diligence.

In the case of due diligence of real property that an investor intends to use after acquisition, it is very important to scrutinize the quality of lease contracts, including the period of rent and the possibility of termination, within audit. It was researched by van Kints and Spoor (2019) to demonstrate that it can substantially influence the presentation of financial position and the outcomes of companies involved. At large companies' unions may participate and it is possible that a collective agreement has been made or a collective agreement of higher level is applied. Lianos et al. (2019) explored the issue of labour law to deal with the conflicts between labour law and competition law. They explain that such a conceptualisation is problematic as it results in the risk of conflicts between both disciplines and certain insecurity in terms of their scope, which may result in the harm of labour protection. Moore et al. (2019) scrutinized auditing contracts where it is necessary to audit the consequences and implementation of a transaction in terms of a contract. A wrong change of control is indicated as an error, which marks a clause in contracts limiting the change of control of the party to the contract.

Dalibor and Tamara (2019) explored the companies' real requirements for approving credit products. Unstandardized decision-making about loans to potential clients can be a result of a wrong performance of due diligence. The main errors encountered by them were wrong data on the size of turnover, number of employees, EBITDA and own capital. It is necessary to remark that tax

risks are an integral part of the whole system of risk management. Tax risks were examined by Lavrenteva (2019) who argues that the control of these risks is a key for a stable operation of enterprises and the economic development. Therefore, it is very important to identify potential tax risks and to suggest the solution in due diligence process. A due diligence process also involves evaluating the reliability of calculations and the adopted assumptions. Ren et al. (2022) maintains that assessing the reliability of calculations and the duration of project is crucial for a successful project management. Therefore, the main mistake may be erroneousness in calculations and budgets. A due diligence process especially differs from a statutory audit by focusing on a future development of an enterprise where it also uses the financial indicator of net working capital. Banos-Caballero et al. (2020) examined the relation between net working capital (NWC) and the value of company. They found out that the NWC value differs in individual countries, and it depends on both the protection of investors and the financial and economic development of a country. They also discovered how incorrect NWC data can influence the value of a company, and the shareholders appreciate more an NWC in countries with a strong enforcement of investors' rights and a better financial and economic development.

10 most frequent errors in the process of due diligence were selected from the in-depth research of Web of Science resources and placed into the Table 1.

4.2. Influencing the correct value of enterprise

The second research question used the data obtained from the first research question, i.e., 10 most frequent errors that can be made in due diligence process. Causal analysis for revealing the influence of individual errors on the resulting value of enterprise valuation was used for data analysis. Ishikawa fishbone diagram shown in Diagram 2 was used as a specific method of causal analysis. The main currently solved problem can be seen as a backbone in the Diagram 2 from which the main errors, established in the solution of the first research question, branch out. Specific causes resulting in errors or related to errors were selected for every error and subsequently evaluated by weighted coefficient so that the weighted coefficient was 100 points in total of all errors and causes.

The major cause of the errors inflicted by a wrong financial analysis was determined as 'wrong data on the size of turnover'. The major cause of the errors in adjusting entries for receivables was determined as 'past due receivables'. The biggest causes of errors in incomplete accounts were determined as 'a failure to perform continuous billing' and 'a failure to verify the accounts'. The biggest causes in terms of Incomplete accounting statements were determined as 'an incomplete profit and loss account' and 'an incomplete balance sheet'. The biggest cause in terms of the wrong identification of tax risks was determined as 'a wrong examination of supplier'. 'A failure to provide the application of prices' was determined as the biggest cause in terms of transfer prices. 'The workload' was determined as the biggest cause in terms of excessive working pressure

on auditors. ‘Wrong information on amortization’ is the biggest cause of the errors in accounting depreciations. The dangerous clauses in concluded contracts are the biggest cause of errors in ‘long-term disadvantageous obligations’. ‘Unrefined earnings after the audit’ are the major cause of errors in reporting profits prior to audit completion.

5. Discussion

What errors can be made in due diligence? In this research question 30 most frequent errors most frequently made in due diligence process were selected by collecting data with the help of in-depth research in Web of Science resources and, subsequently, by content analysis. Contrary to this, Pham et al. (2020) used a bigger sample and volume of papers. 10 most common errors were selected from this sample of 30 most frequent errors and placed into Table 1.

It is clear from Table 1 that the most common error in due diligence process is a wrong financial analysis. It is quite logical as wrong data for financial analysis, which was explored by Dalibor and Tamara (2019), can influence due diligence process. Errors in adjusting entries for receivables are the second most frequent error. Adjusting entries ought to reflect the risk of unpaid claims or their enforcement, therefore, it is important to arrange for customers not to pay past due receivables within a company acquisition. The third error are incomplete accounts, while the fourth error are Incomplete accounting statements. It can mean the same in terms of due diligence as it is in terms of financial analysis, as if there is a document incomplete or unavailable, it is not probable that a due diligence process takes place without any errors. The wrong identification of tax risks is the fifth most common error, especially if risk analysis is incorrectly performed, or the supplier vetting is incorrect. Lavrenteva (2019) tended to examine the risks from a taxational perspective; however, risks are viewed from several perspectives in this paper.

The sixth error are transfer prices. Tambunan (2020) explored the disputes about transfer prices, which bear influence on due diligence, however, the direct causes of transfer prices dealt with in this paper were not examined, therefore they must be increasingly scrutinized within due diligence. The seventh error is an excessive work pressure on auditors. It is quite logical as current time is accelerated, the number of companies and enterprises is rising as there is heavier workload in a shorter period for auditors, which may influence their decision-making or the quality of due diligence. The errors in accounting depreciations are the eighth cause. In my opinion it is due to the fact that accounting depreciations are often the same as tax depreciations. Therefore, the information about fixed assets depreciations is not provided. This problem may easily be solved by decreasing the purchase price and requiring accounting corrections and compensations. The ninth error are the dangerous clauses of concluded contracts as the purchaser is only interested in the contracts with key business partners in terms of due diligence. However, there is a problem as there may

be, for instance, disadvantageous obligations in a long term or disproportionate contractual fines that the purchaser is not informed about. Contrary to Donado (2021), who explored this issue from a legal perspective, the in-depth research in this paper is predominantly viewed from an economic perspective. The tenth error is the reporting of profits prior to audit completion, as it is very probable that profits will be overvalued and, consequently, will not be modified into real data in the future.

In-depth review is generally ideal for dealing with this issue as it takes a broader perspective on erroneousness in due diligence. Contrary to the research by of Schleper et al. (2022) and Hofmann et al. (2018), who use semi-structured interviews, there is a greater objectivity resulting from the research of Web of Science in comparison with actual interviews, which tend to be rather subjective, and a greater objectivity could be achieved by using a larger sample if interviews.

How do the individual types of errors influence the correct determination of enterprise value? The data from the first research question, i.e., 10 most frequent errors in due diligence, were used in this research question. A method of specific analysis, which is Ishikawa fishbone diagram, was used for a data analysis which was used by Suarez-Barraza and Rodriguez-Gonzalez (2019), who tended to focus on improving organisational processes, and weight coefficient was used in the case of this research. Ishikawa diagram is displayed in Diagram 2.

It is clear from the diagram that all the 10 most frequent errors have certain causes. Causes that are the most frequent and serious are valued by the highest weight coefficient. The highest weight coefficient from Ishikawa fishbone diagram relates to the cause of ‘dead debts’ within the mistakes in adjusting entries for receivables whose weight coefficient is 5 out of 100. Adjusting entries for receivables should specifically express recoverability and it is important for clients not to pay for dead debts within taking over an enterprise. Overall, it could significantly influence the valuation of an enterprise. Cheng et al. (2020) examined this issue, however, a bigger quantity of causes was achieved as a consequence of using Ishikawa fishbone diagram in this research. Another cause with weight coefficient of 5 out of 100 is ‘the quantity of work’ belonging to the error that is the excessive work pressure on auditors. Specifically, the quantity of work in a reduced time period is tightly related to further causes, which are ‘auditor’s decision-making’ and ‘auditor’s cognitive errors’.

Another relatively significant cause with a weight coefficient 4 out of 100 is ‘poor supplier vetting’ in the case of incorrect identification of tax risks. This cause is very closely related to poor risk analysis, which is of great importance, as in the process of due diligence, it is essential to identify potential tax risks and propose their solution. The weight 4 out of 100 is assigned also to ‘failure to document the application of prices’ in the case of transfer pricing. As in the case of transfer pricing, there is a risk of tax assessment by the tax authority against the application of prices different from prevailing prices, this cause

(failure to document the application of prices) can be mitigated by the preparation of transfer pricing documentation. For accounting depreciation errors, the weight 4 out of 100 is assigned to the ‘incorrect depreciation information’, which is crucial in terms of fixed assets and their useful life. However, these depreciation inaccuracies can be addressed by an accounting correction or indemnity. The cause of ‘unreported post-audit profits’ for reporting profits prior to audit completion is the last cause with a weight coefficient of 4 out of 100. Marshall et al. (2019) analysed reporting profits prior to audit completion. Their research and the research submitted are consistent on this issue; however, the used Ishikawa fishbone diagram yields a greater number of causal relationships of other causes to a given cause.

6. Conclusion

The goal of the research was to analyse to what extent is the resulting value of a business is affected by improperly performed due diligence. Based on the findings, it could be stated that the goal of the research was achieved.

A relatively large number of mistakes can be made in the process of due diligence. The errors identified based on the research submitted are often related to the incomplete or lacking documentation or incorrect information in financial and accounting statements. To a large extent, this can be due to the excessive work pressure put on auditors, who may end up making mistakes by only looking at contracts with major customers or suppliers and omitting less important contracts which may have some dangerous provisions that could be fatal to a takeover. It is also very much related to the amount of work, since with growing amount of work and thus less time for the performance of due diligence, there are more cognitive or auditors’ decision-making errors. In practice, this could be avoided by reducing the amount of work per auditor, but this would require audit companies to employ a higher number of qualified auditors, which would reduce their profits. What also plays a role is the extent to which the company wants to have a quality due diligence or the size of the company and the volume or scope of information for due diligence.

If there are no general principles of due diligence embedded in international law, this research identifies the most common errors in the process of due diligence, thus providing an overview of which errors should be avoided and which areas to focus on in the process of creating general principles. Since business protection is the current, the benefits of this research consists in the overview of errors that could be relatively easily avoided. This research is also useful for auditors to avoid the aforementioned errors, or companies that plan the implementation of due diligence. It also applies to investors who plan the acquisition of a company. However, the research has also its limitations and shortcomings, as it is very difficult to deal with due diligence in each company separately. Although the errors identified and their frequency in this research are very similar to each other, the errors are different when performing due diligence in a dif-

ferent company. Therefore, it would be useful, although costly and time-consuming, to perform due diligence in companies operating in different sectors. Another limitation is that the results of this research are valid under current accounting legislation, but laws and regulations are different in different countries. The use of Ishikawa fishbone diagram has its shortcomings and limitations as well. In an ideal case, the creation of Ishikawa fishbone diagram and brainstorming, which precedes the diagram, should include the highest possible number of scientists and/or experts specializing in the given issue. This would ensure better quality results and a more detailed analysis of the causes. This research should thus be followed by other research including a higher number of scientists and/or experts and thus a more objective sample of causes and the causal relationships between them.

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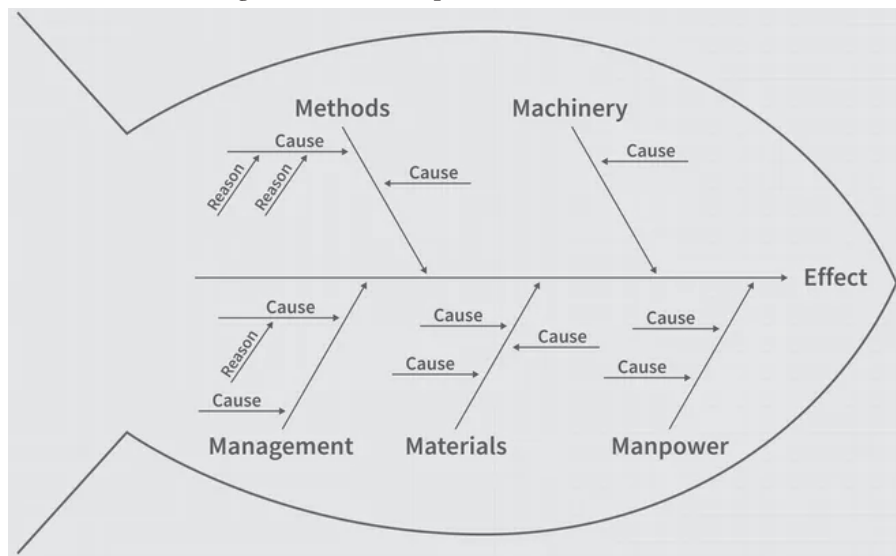
Appendix

Table 1.
The most frequent errors in due diligence

Order	Error	Studies
1.	wrong financial analysis	Dalibor and Tamara (2019)
2.	errors in adjusting entries for receivables	Cheng et al. (2020)
3.	incomplete accounts	Agarwa et al. (2019)
4.	incomplete accounting statements	Agarwa et al. (2019)
5.	incorrect identification of tax risks	Lavrenteva (2019)
6.	transfer prices	Tambunan (2020)
7.	excessive work pressure on auditors	Gold et al. (2022)
8.	errors in accounting depreciations	Tambunan (2020)
9.	dangerous clauses in concluded contracts	Donado (2021)
10.	reporting profits prior to audit completion	Marshall et al. (2019)

Source: Own preparation based on WoS resources.

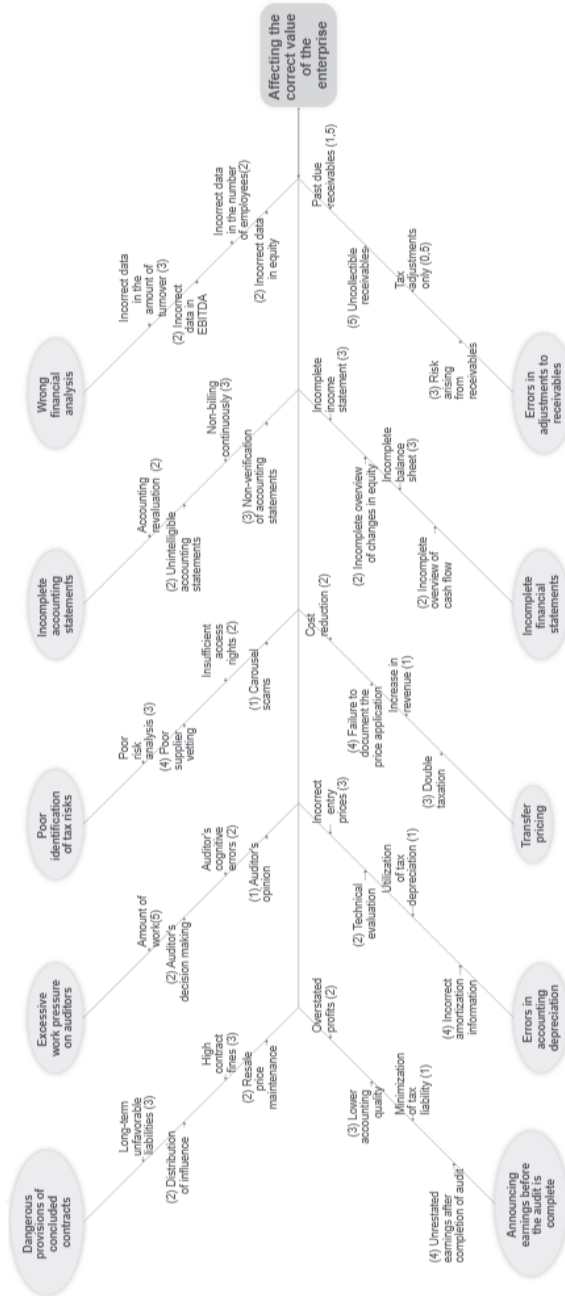
Diagram 1.
Ishikawa fishbone diagram from Investopedia



Source: Hayes (2023).



Diagram 2.
Ishikawa fishbone diagram



Source: Own preparation.