



Corporate Social Responsibility in Due Diligence:

***‘why current due diligence standard
practice is inadequate’***



Presentation overview

- Overview of Due Diligence Process
- Corporate Social Responsibility
- Linking Due Diligence and CSR
- Case Study

Transactional scenarios

- Transactions - buying, selling, merging a business or business assets
- To increase share value through
 - access new markets and increased market share;
 - achieve competitive size and operational synergies

Transactional scenarios

➤ Two scenarios:

➤ Property transactions (owner)

- investment banks
- short-term hold

➤ Transfer of property and ongoing operations (owner/operator)

- corporations
- long-term hold

Due diligence

***‘focus on
tangible
issues’***

- assessment of BUSINESS RISK:
 - accounting & financial
 - legal tax & pension
 - environmental
 - HR, IT & Insurance
- 6-8 week process
- different advisors review different aspects

Factors that affect post-transaction integration

***‘mainly
intangible
issues’***

- Insufficient integration of due diligence
- Personnel issues and cultural clashes
- Poor communications
- Systems integration
- Acquirer has 3-6 months to effect the changes that can really make an impact to value

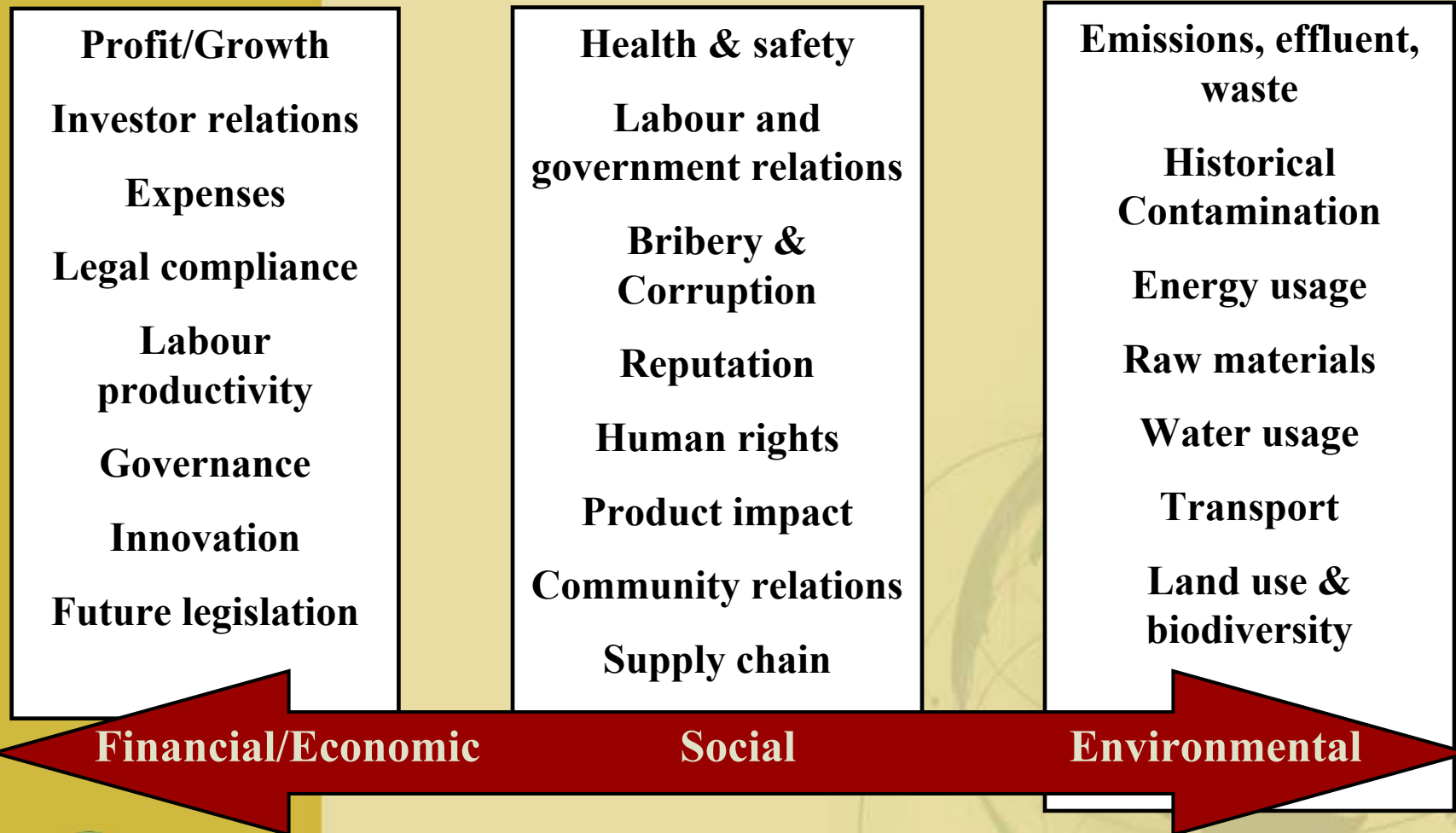
Due diligence standard practice is inadequate!

- Traditional due diligence is based on analysis of tangible (accounting-based) factors

BUT

- Intangible factors can account for 80-85% of market value
 - Corporate values and behaviour
 - Stakeholder capital (relationships)
 - Human capital (workplace, employee quality)
 - Environmental sustainability

Material issues affecting liability and ongoing performance



Key Areas of Regulation

- European Union - more than 40 pieces of major legislation planned 2000-2010
 - Air
 - Climate Change
 - Industrial controls
 - Waste and producer responsibility
 - Water

CSR Screening in Due Diligence

- CSR issues may represent significant off balance-sheet liabilities
- General disclosure clauses in sales/purchase agreements require identification of all materialities
- Inferences regarding management quality

Methodology for CSR Screening

- Corporate governance and business ethics
- Reputation and stakeholder relations
- Innovation, R&D
- Environmental, health & safety
- Social
- Product stewardship and supply chain
- National and international regulatory developments

Methodology for CSR screening

- Company and all subsidiaries
- Multi-lingual, literature-based search
- Public information

Methodology for CSR screening

- Over 36,000 information sources accessed:
 - company reports and press releases
 - business, trade journals and periodicals
 - media reports, including local newspapers
 - global prosecution database
 - government information
 - NGOs, trade unions, industry associations
 - specialist and individual sites

Methodology for CSR screening

- Deliverables:
 - overview of risks and opportunities
 - performance relative to sector benchmark
 - back-up of all data cited
- Completed in 10 working days

Case Study: Acquisition of manufacturing operations

- acquisition of publicly traded German subsidiary
- two alternative portfolios
- manufacturing, distribution and sales
- wanted off balance sheet information

Case Study: Acquisition of manufacturing operations

- Environmental -both companies identified SD initiatives in annual reports
 - significant differences in:
 - implementation and performance wrt water and energy usage, waste management
 - future liabilities wrt EU legislation

Case Study: Acquisition of manufacturing operations

➤ Social

- significant differences in:
 - reputation at a local level with community and suppliers
 - Company A had ongoing liability associated with Human Rights
 - transparency

➤ Management Systems

- comparison of overall approach indicated Company A had a consistent long-term approach while Company B was constantly 'reinventing' itself
- inferences wrt management quality

Summary & benefits

- holistic approach to due diligence
- identifies off balance sheet risk that may represent significant ongoing liability
- confirmation of underlying value
- blueprint for post-transaction integration
- can be done within timeframe (or prior to) due diligence