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When diligence is due

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When diligence is due

From finance, legal and HR, to technology, intellectual property, strategic fit and more, all disciplines require expert review before any significant business acquisition is executed. But now, evidence is mounting that a new due diligence discipline is on the rise for M&A.

Categories Mergers & Acquisitions

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Environmental and Social Governance (ESG), the practice of reporting on non-financial objectives demonstrating ethical organisational behaviours, is being driven by broader stakeholder demand for better transparency and disclosure. Many investors are now demanding ESG be factored into the due diligence process.

Bruce, our Sector Principal for Private Equity: “In the past, issues like climate change and diversity were often deemed peripheral to ongoing commercial viability, but board rooms and executive teams looking to create a truly long-term value proposition are now taking them very seriously.”

Having provided business and technology management consulting expertise to UK and international clients for almost 30 years, we list value creation during the M&A due diligence process as a core capability.

“When assessing the technology assets and enterprise architecture of acquisitions for Private Equity clients to evaluate commercial risks of outdated, unlicensed or insecure infrastructure, we also identify and unlock opportunities to increase the value proposition. Value can be found through operational cost and/or risk reductions, or through new revenue streams embedded in organisational data. This makes ESG due diligence an obvious service expansion for us because ESG disclosure must be evidenced by data,” says Bruce.

ESG due diligence analyses the environmental and social topics and objectives an organisation has chosen to disclose, comparing them to those being disclosed by peers and against the expectation of the organisational stakeholders.

For environmental issues, compliance with relevant regulations and standards may need to be assessed including topics like energy, greenhouse gas emissions, water usage and waste.

For social, issues like diversity, inclusion, labour standards and health and safety are a top priority.

With governance, due diligence looks at risk management systems, policies around anti-corruption, and remuneration transparency.

Waterstons acknowledges that ESG due diligence is not a one-size-fits-all.

“Different industry sectors and business size can impact the extent of diligence required,” observes Helen Fawcett, Executive Consultant.

“Many frameworks are available to support ESG reporting: UN Sustainable Development Goals, the Carbon Disclosure Project and Global Reporting Initiative, but there is no agreed standard in place. Knowing which to apply based on what is material to an organisation, or whether ESG disclosures are simply greenwashing, are among the biggest challenges.”

Waterstons’ strength lies in its culture and diverse team from a wide variety of backgrounds who share the same values. With a value creation mindset, where reimagining business by unlocking organisational potential through technology is baked into everything they do, Waterstons is well-placed to support M&A activities.

If you’d like to know more about Waterston’s M&A Technology and ESG due diligence assessments for your next acquisition, visit the website here.