

## **“The Effect of Private Equity Takeovers on Corporate Social Responsibility”**

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Good evening everyone and welcome

My name is Leeora Black and I am the Managing Director of the Australian Centre for Corporate Social Responsibility.

First and foremost, I would like to thank ANZ for their generous support in hosting this event. I would like to give special thanks to Renee Hancock, ANZ's Manager of CSR, for all her hard work in making this event possible.

As most of you are aware, the Australian Centre for Corporate Social Responsibility is Australia's leading specialist provider of corporate social responsibility services. This program tonight, CSR Connected, is part of our executive development and learning program. We set up CSR Connect.ed in response to requests from our learning program participants for casual networking and learning opportunities.

Tonight we are discussing the effect of private equity takeovers on CSR. With the private equity spotlight increasingly on some of Australia's leading companies, the implications for corporate social responsibility are as yet, unclear. The total value of the companies that private equity investors had their eye on in Australia last year was \$39.3 billion, covering about 20 firms. That's about the same size as the recently-proposed buyout of TXU – a deal which, if it goes ahead, would make it the single largest private equity deal ever seen.

That proposal has attracted a lot of attention not only because of the vast sum of money involved, but because it includes a commitment by the potential buyers, Texas Pacific Group and Kohlberg Kravis Roberts, to reduce TXU's carbon dioxide emissions to 1990 levels by 2020. This means abandoning plans to build 8 out of 11 proposed new coal-fired plants.

The proposal, brokered by Goldman Sachs among others, came after the private equity firms consulted environmental groups to address their concerns, in an attempt to avert what promised to be years of costly litigation over environmental issues.

But that proposal was unusual. Private equity investors, who have been labelled "raiders", "barbarians" and "locusts" in the media, are worried that they are becoming the ugly new face of capitalism. They have cause to worry. In March this year both the Australian government and UK parliament announced inquiries into the economic impacts of private equity buyouts. The international federation of trade unions, the IUF, has set up a Private Equity Buy Out Watch on its website to try and get private equity firms to disclose more about their CSR approach.

The private equity industry is responding. In the UK, the British Venture Capital Association formed an independent working party this year to draw up a voluntary code on a "comply-or-explain" basis to address the transparency of the industry and levels of disclosure. They have also set up a five million pound charitable foundation to try and allay their critics.

This followed similar moves in the US last December, when a number of leading private equity firms announced the formation of the Private Equity Council to increase understanding of private equity.

It is not clear at this point whether the private equity firm's apparent lack of CSR credentials is because the private equity model itself is flawed, or they just haven't thought about it yet.

On the one hand, if you believe, as I do, that CSR is part and parcel of enlightened modern management, driving value for companies as well as communities, then private equity managers should be just as responsible as public company managers, if not more, given they've got "skin in the game". After all, no-one wants to buy a

dog of a company. If these companies are to be returned to public ownership at some time, surely they need to address the CSR and sustainability issues that affect company value.

But on the other hand, one of the greatest drivers of CSR is stakeholder pressure. In the past this has come from environmental, social, and labour groups. They pressure companies who have big social and environmental impacts by virtue of their size and visibility. If companies are removed from public view, stakeholder pressure for good CSR practices may decline.

According to a report published last year by Business for Social Responsibility in the US, there are four CSR issues to consider in private equity buyouts.

First is the question of transparency. Private equity investors have been most sensitive to this criticism with their pledges for voluntary codes of conduct on transparency, but will this be enough to ensure meaningful attention to CSR by these firms?

Second is the question of human capital. Building human capital is integral to CSR. It is tempting for private equity firms who are looking for high returns to cut costs by reducing staff and employee development activities. Indeed the European private equity firm, Permira has become the target of British trade unions because its takeover of the Automobile Association, a roadside car repair company, led to 1,000 people being laid off.

Third is the question of stakeholder engagement. Effective CSR requires engagement and relationship building with a wide range of stakeholders over the long term. This may be at odds with the three to five year time horizon and could have a negative effect on the ability of these firms to spot new sources of risk that can flow from emerging stakeholder issues that are ignored.

Fourth is the question of program vulnerability. Again, where private equity investors are looking for high returns in the mid-term, CSR programs that typically have long-term returns and goals may be at risk unless there are mid-term returns that are competitive with the returns from other activities over the same time period.

So what are we to make of all this? To help us make sense of private equity buyouts as an emerging CSR issue we are very lucky to have three experts with us tonight. We will hear from Alison Tate, International Officer at the Australian Council of Trade Unions, who will address the key issues from a labour perspective. She will also share with us some international examples of private equity takeovers and their effect on workers. Alison is an economist and has extensive expertise in human rights and development issues.

We will then hear from Bob Welsh, CEO of VicSuper. VicSuper is one of Australia's largest public offer superannuation funds and has \$5.4 billion in assets under management. Under Bob's leadership VicSuper adopted sustainability as its central operating principle more than five years ago, and was the first superannuation fund in the world to release a sustainability report.

But first, we will hear from David Tonuri. David is Head of ANZ Capital, a division of ANZ which is responsible for making private equity investments in small- and medium-sized companies. Since ANZ Capital was established in 2000, it has made 73 private equity investments totalling almost \$400m of investment. The recipients of this private equity funding have spanned a large number of industry sectors and the funding has supported growth, acquisition, new business initiatives and ownership succession. Before he joined ANZ, David worked in senior investment banking roles at UBS, Grant Samuel Private Equity and Bankers Trust.

It is with great pleasure that I now welcome David.