

Business and Legal Uses of Corporate Structure Information

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It is often quite difficult to identify and understand how various segments of a large corporation are linked, or to find the parent company of a subsidiary or smaller corporate entity. Yet, knowledge of corporate family information can be critical for several important business and legal activities.

This white paper will identify and describe the key reasons when and why organizations should consider researching corporate family structure and linkage. The topics of focus in this paper are:

Contextual and Definitional Matters

Specific Applications

- Due Diligence
 - Legal
 - Investment
 - Partnerships and Ventures
- Marketing and Sales
- Business and Competitive Intelligence
- PR, Reputation Management and Customer Service
- Purchasing
- Socially Responsible Business Research
- Other Applications

Additional Resources

Context and Definitions

Why might an organization need to discover the structure and linkage of a particular organization? There are several important reasons which I outline in this paper. Before doing so, though, it is worth first briefly defining terms, as there are several specialized labels and categorizations that you will encounter in this field.

The key terms are those used to define the controlling larger entity, plus the various pieces and “family members” reporting to the parent corporation. These include official legal terms, informal but commonly used generic terms, and categories created by information firms in the field to apply to their own products, but which have also worked their way into the larger business vocabulary.

The following are the most important official legal terms you should know about when undertaking family corporate research:

- **Corporation:** An entity that has been incorporated. This may be a public or private entity.
- **Subsidiary:** An entity controlled by another corporation (a “Parent” company). This means that the controlling company owns more than 50% of the voting stock. Note that subsidiaries often do not have the same legal name as their parent corporation.

Applied more informally, but still used in a generic sense, are these corporate structure terms:

- **Affiliate:** Technically, an affiliate is an entity where another firm has a minority interest (less than 50% of the voting stock). However, the term is also used more casually to apply to firms that have a common linkage to a third firm.
- **Branch:** A company office located in a different location from the company’s headquarters.
- **Division:** An internal unit of a company. Generally that unit focuses on a specific function of a company (e.g. a practice area, marketing, sales, type of customer, etc.)

There are also categories created by major legal and business information providers to apply to their own information products. These might include terms like “ultimate parent” or “unit.”

Specific Applications

Due Diligence

Perhaps the most important, as well as most common, professional use of corporate structure information is within the context of performing due diligence. What is due diligence?

The term itself is a broad one that can seem vague, but it does have a real meaning. From a technical standpoint, *Black’s Law Dictionary* defines due diligence as “such a measure of prudence, activity or assiduity, as is properly to be expected from, and ordinarily exercised by, a reasonable and prudent man”

More informally, it means doing the necessary and required research and work for whatever a particular business endeavor requires.

In business and legal contexts, there are several instances where doing proper due diligence means performing an analysis of corporate structure. Probably the most important area is in the legal field when due diligence is performed to avoid conflicts of interest in litigation. When taking on a new client, a law firm must be absolutely sure that it does not already have that client’s adversary as an existing client. Because subsidiaries often don’t have the same name as its parent company, it may not be immediately obvious that the opposing side might, in fact, already be a client.

A related legal related activity where due diligence involves researching corporate structure is in merger and acquisition work. In M&A work, it is important to know which entities are connected to others—this is particularly true in spin offs and cross-border transactions.

Finally, strictly from its own business standpoint, there are other reasons why it is also important that a law firm have a due diligence system in place. Doing so can avoid a potential lawsuit against the law firm if it neglected to do necessary conflict of interest management work. Furthermore, being able to show that the firm has a solid due diligence system in place can be used as a sales and promotional point to provide confidence to potential new clients.

What about the use of corporate structure information for due diligence work in non-legal oriented business activities? There are several situations where access to such data is important. One, similar to law firms' conflict of interest concern, is the circumstance where a competitive business, such as an advertising agency, wants to avoid taking on a new client when it already represents a direct competitor. Another application includes investment-related work to find potential exposure to financial weakness of related firms or the parent company. An additional function is when a business is looking to partner or set up a strategic alliance with another firm. In this case, due diligence should be done to determine the financial stability of the corporate parent as well as the appropriate match of the potential partner's parent or affiliates. For example, does the potential partner report to a firm engaged in activities that would conflict with your own company's ethics policies?

Marketing, Sales and New Business Development

Understanding corporate structure and linkage can be important in marketing and sales. From a marketing perspective, if a firm is trying to attract a new customer and discovers that the firm already has one or more existing clients in another part of the same company, then that perhaps will mean a cross-sale or up-sale opportunity. There may even be a potential to leverage an existing purchasing agreement with the current client and offer it to a new prospect in the same organization.

A company's sales function can also benefit from corporate structure research. Knowing which entity is connected to which can inform the establishment and assigning of appropriate sales territory regions. Sales executives and managers also need to know when a client has sold one of its subsidiaries to another firm—this can have implications on the renewal, servicing, and other aspects of the current business relationship.

Company, Industry and Market Intelligence

There are many reasons why a firm may initiate a research project to learn about a company, an industry, or a specific market. Sometimes it's done to get a sense of the overall competitive landscape: who's out there and how are these firms doing? Sometimes it's done by firms to inform how to introduce a new product or service, and it can be an important research element of new business development.

At other times the work is done to engage in more general secondary market research in order to find information to do a better job on enhancing existing products, adding new features, developing new marketing campaigns, etc. General company research may also be done to locate recent mergers and acquisitions, examine ad campaigns, get business market shares and rankings, and countless other reasons.

Sometimes this research is performed by the company's librarians and information professionals; other times it is done by staff in marketing research, competitive intelligence, strategic planning or other research-oriented functions. In each case, it is always critical to be sure you are searching on the correct company name or names so as to retrieve comprehensive and accurate results and to understand who owns whom for a full and accurate understanding of the competitive landscape under study.

PR, Reputation Management and Customer Service

Persons who work in PR, Reputation Management, and Customer Service need to keep their finger on the pulse of how their customers and the public view the firm, its activities, and products. Today, this activity sometimes is done by monitoring not just traditional news sources, but social media sites too: what people are saying on blogs, Facebook, Twitter, and so on. If you find someone saying something very negative about your firm, you may want to find out how much influence the person has in the industry. While often these comments are made by individuals without a company affiliation, in cases where they are associated with a small firm you are not familiar with, you may wish to find out if there are connections to larger entities.

Purchasing

There are a variety of reasons why purchasing departments need to make sure they fully understand the context and connections of their bidders and suppliers. Some of these can be categorized under the activity known as "spend analysis," that part of a larger spending management plan that looks at where money is going to ensure that procurement costs are kept as low as possible. A key part of spend analysis is to look for and eliminate areas of redundancies and inefficiencies, and this includes knowing as much as possible about a company's various bidders and suppliers.

For example, if a purchasing department has negotiated a discount price with a supplier for its goods, it wants to make sure that it receives the same discount from other parts of the same company. Similarly, if a firm can determine that it is already doing large volume purchases from different parts of the same corporation, it can use that knowledge to negotiate a lower price. Other efficiencies can come from providing a shorter and simpler bid process if a boilerplate is already in place with the same supplier; to identifying and reigning in "maverick spending" where staffers in your own firm are paying full price to companies where a discount is in place; and to speed up ordering and avoid duplicate orders from the same firm. All of this is done in the service of ensuring contracts are being administered as efficiently as possible and to reduce administrative costs.

There are other reasons why discovering corporate linkages can be important in the procurement process. A key one is to make sure the firm's own internal policies are being administered properly. For instance, this would include avoiding potential conflicts of interest, as well as abiding by your own company's minority recruitment goals.

Other reasons why understanding corporate structure is important in purchasing include locating the correct decision-makers in an organization, including knowing who the ultimate responsible payer is, and ensuring that multiple bids are not being made by members of the same organization.

Socially Responsible Business Research

An organization that is investigating socially irresponsible activities of a specific business – whether it relates to environmental practices, questionable investment policies, or other potentially unethical activities – needs to know that firm's ultimate parent. This would be critical information for targeting the responsible management, for directing any publicity towards the appropriate party, and potentially for identifying individuals on boards and putting pressure on those individuals to try to get the corporation to change its unethical practices.

In a related activity, investigative journalists doing research into potential illegal and unethical activities by a particular company would need to find the parent companies, for the same reasons.

Other Applications

While the above are the most important and common legal and business applications for researching corporate family structures, they are not the only reasons. Others would include:

Executive recruitment firms

Applications would include locating appropriate matches for a client, as well as to ensure that the same client is not being presented to two divisions or subsidiaries of the same organization simultaneously.

Accounts Receivable

When a particular business is not paying its bills, if the parent firm can be identified, it may be possible to collect from that larger entity.

Other

- Job searches
- Political lobbying
- Targeted fundraising

Additional Resources

To learn more about corporate family structure resources, I recommend the following sources:

International Business Information: How to Find it How to Use It (Oryx Press 1998) by Ruth A. Pagell, and Michael Halperin. Chapter 7: Corporate Affiliations and Corporate Change. Available as a free preview on Google Books at:

<http://tinyurl.com/yc5vh9j>

Researching Corporate Relationships by Shannon Vivic, reference librarian at the Denver office of Holland & Hart LLP, published in 36 *The Colorado Lawyer* 103 (November 2007). Reproduced by permission on the American Association of Law Libraries site at:

<http://www.aallnet.org/chapter/coall/lrc/lrc1107.pdf>

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