# IT Due Diligence

## Evaluating the IT Capabilities and Compatibility of a Merger or Acquisition Target

Corporate merger and acquisition (M&A) activity flares up during good times, because large companies have the money to acquire smaller ones, but downturns also force companies to merge in order to survive.

"Due diligence" – the study of confidential information about an acquisition target, prior to closure, under strict non-interference rules – is now a well-known discipline. But while it always covers the finances of the company, its legal position (lawsuits as well as intellectual property), and usually its technology portfolio, human resources, and facilities, Information Technology is generally absent from the table, even though it significantly affect the success of the integration.[1]

**cébé IT & Knowledge Management** offers a systematic methodology to assess the IT capabilities and maturity of the target of an acquisition or merger, and to identify opportunities and challenges presented by the integration of the two organizations. This methodology

was developed from our experience with multiple acquisitions in the semiconductor equipment, telecommunications, and IT consulting domains.

Many IT issues that can affect the speed, complexity, cost, and chances of success of the integration. A top-level outline is shown in the box at bottom left. For each of these areas, we conduct extensive interviews and interpret the results in terms of the impact on the integration, specifically distinguishing areas of IT in which:

- Company A can extend its approach to company B
- Company A should adopt B's approach, which may be a more difficult political and human decision
- Both companies have strong and incompatible approaches, which will need to be reconciled rapidly
- A and B can continue to practice different strategies for a while without significant impact
- A and B are both weak, making things even worse in the larger combined entity, and the two companies will need to work together to fix that vulnerability.

The IT Due Diligence study consists of four phases:

1. Explain the methodology to both parties, and reach agreement on the scope of the work. Understand the acquirer's strategy, including its willingness to adopt any areas of strengths from the other entity.
2. Perform the assessment itself, using an extensive questionnaire that covers all the above aspects.
3. Evaluate the data collected, asking follow-up questions as needed.
4. Present the results and recommendations in the form of a SWOT (Strengths, Weaknesses, Opportunities, Threats) analysis.

- Business-IT alignment and communication
- Business Process Management (BPM)
- IT organization and governance model
- Size, skills, and motivation of the IT staff
- IT budget – and budgeting process
- Enterprise architecture awareness, governance, and specifics (IT standards, Master Data Management, Service Oriented Architecture, middleware, etc.)
- IT sourcing strategies and organization
- Business applications portfolio
- Infrastructure (data centers, disaster recovery, networks)
- Information Security
- Collaboration culture and tools
- Innovation process
- User support
- Quality system and metrics

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[1] "M&As: Can IT Make the Difference between Success and Failure?" Cutter IT Journal, Vol.18 No.10, October 2005.