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What's in Your Data? Hidden Opportunities and Risks in Mergers & Acquisitions

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When companies merge, they do so in the belief that combining business activities will provide opportunities to improve performance and reduce cost. Some of these opportunities come from integrating information, hardware, software, data storage and other IT assets, and it is the CIO's job to find these synergies in order to create value.

There are forces, however, which make it difficult to take full advantage. Depending on the timing of the deal, the CIO's office may be challenged to have a clear view of the target company's systems and data. It can be hard to quickly separate important information from useless data clogging up storage space while serving no business or legal purpose. And finding the bandwidth and level of expertise is often another issue.

At the same time, information integrations are not without risk. With everything moving so fast—involving many people who are not used to communicating with each other—care must be taken to protect the data, for example from the possibility of inadvertently moving to delete electronic documents that may be needed later as part of legal actions. In order to maximize value and minimize risk, the CIO's office must know the right questions to ask and work closely with their counterparts in the legal department when executing IT-related decisions.

Here are four questions CIOs must be able to answer in order to identify opportunities and minimize risk.

1) Do I understand the digital landscape of the target company?

Getting a handle on the systems and data landscape in the pre-merger process gives CIOs and CFOs the tools to realistically assess what opportunities exist and allows for early decision-making and identification of issues that must be resolved quickly. It also permits CIOs to identify the decision owners for each issue, which spurs speedy resolution.

Consider two merging companies that operate different email systems. They may be counting on savings from decommissioning one of those email systems. However, if data from one of the systems cannot be deleted because it may contain information related to lawsuits, it makes delivering on the commitment to capture cost synergies very challenging, if not impossible.

Not all company data holds the same business value or possesses the same legal risk profile. For example, looking again at the example of the email systems: A fresh look, perhaps by a different legal team, as part of the merger may allow lifting of the preservation order.

When CIOs understand the target company's inventory of files for legacy applications, departed colleagues, legacy backup tapes, old versions, drafts and the like, this presents the opportunity to ask:

- Do we have a clear understanding of what data resides in which systems (inventory of system of record with clear data ownership)?

- Does the data provide business value?
- What legal risk exists if we dispose of the data? How do we rate that risk?

The Data Integration Framework

• What positive or negative synergies will result from the decisions we make?

• What systems need to be involved in these decisions to ensure business and legal risks are managed appropriately?

•Do we have the opportunity for more synergy than we initially anticipated?

2) How much digital debris does the target company have?

In an integration, there is no need to bring over data that no one will ever look at again. According to a 2012 Compliance, Governance and Oversight Council survey, 31 percent of corporate data was either subject to legal hold or needed for business purposes. The remaining 69 percent could be considered "digital debris," which is not useful but still costly to store.

When targeting other companies, organizations should develop a well-prepared set of diligence questions that focus on understanding the data landscape and short-term delivery of data integration value drivers. This will allow CIOs to estimate the volume of digital debris in the target company. The questionnaire should also identify elements that will impact financial synergies, quantify opportunities to reduce costs and pinpoint integration projects.

3) How do I know what I need to keep and what I can safely dispose of?

The idea of data deletion is scary for many organizations. Not only do businesspeople often live by the mantra, "but I may need it someday," but the legal team also worries about being unable to produce potentially responsive data for litigation.

According to the EDRM, only 1 percent of data in corporations is subject to legal hold. The only way to address the concerns of the legal department while dealing with the realities of data storage is to employ a methodology that takes into consideration risks and opportunities. In these situations, employing a data integration tool kit—including elements such as an articulation of vision, information integration playbook and due diligence questionnaire—can prove essential to quickly assess the data landscape, internal policies and procedures, legal and compliance obligations, data privacy and security requirements. Armed with this information, CIOs can identify data integration synergy opportunities. The tool kit also creates documented defensible processes that decrease exposure to risk based on regulatory obligations.

4) Who else should be involved with data integration?

IT has long considered itself the custodian for enterprise data, but integrations are complex and require many other parts of the company to make risk-informed decisions. Assembling a cross-functional team early allows for this type of informed data integration decision-making. Along with the general counsel, a pre-merger team should consist of HR, compliance, finance, procurement and records management personnel as well as outside counsel.

M&A activities create an enormous amount of work that must be done in a short time period. CIOs can be left feeling like they are drinking through a fire hose. There are often simply not enough—or the right—resources to work through all the complex issues, make the right decisions and execute them properly, so it may be necessary to get help from outside experts. Remember, the goal of M&A is to increase performance and reduce costs over time. It is crucial to take whatever steps are needed in the short term to minimize risk and maximize the opportunities that are the reason for the deal in the first place. CR

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