

Analysis on the Influence of Digitization as an Instrument to Leverage Mergers & Acquisitions Processes in the Context of Global Risks

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Please cite this paper as:

Weiss, P., Pleșea, D., Olaru, S.M. and Bothe, J., 2021. Analysis on the influence of digitization as an instrument to leverage Mergers & Acquisitions processes in the context of global risks. In: R. Pamfilie, V. Dinu, L. Tăchiciu, D. Pleșea, C. Vasiliu eds. 2021. *7th BASIQ International Conference on New Trends in Sustainable Business and Consumption*. Foggia, Italy, 3-5 June 2021. Bucharest: ASE, pp. 420-424

DOI: 10.24818/BASIQ/2021/07/054

Abstract

Digitization is enabling many businesses to improve and automate processes in order to both reduce risks such as human errors and save costs and time. In general, digitization is transforming the business landscape in many aspects, including also the pace of processes in combination with the evolving requirements of customers and business partners. In this paper we are exploring the mergers and acquisitions (M&A) processes and how they are influenced by digitization, as well as highlighting the accompanying risks that digitization brings to this field. Therefore, a brief description of the digitizing business processes and the most common digital technologies is presented. In this paper, these digital tools are investigated and assessed in terms of the process steps where they lead to an improvement but also on what associated risks they bring about. In the global context, digitization aims to break boundaries such as different time zones, physical travel times but also to create the ability for rapid decision making based on accurate and reliable data. This new form of business intelligence enables the business leaders to make better decisions based on high quality data but also allows them to focus time and effort on truly value-adding tasks. The challenges for companies implementing digital technologies are investigated upon, highlighting the opportunities and risks that accompany corporations in this process. The paper highlights the most significant risks and opportunities in relation with increasing the level of digitization in mergers and acquisition processes. The research results are part of a comprehensive research project on business management and digitalization developed as part of doctoral research at the Bucharest University of Economic Studies.

Keywords

Digitization, digitalization, mergers and acquisitions, digital business processes, global risks

DOI: 10.24818/BASIQ/2021/07/054

Introduction

In a continuously evolving business environment where the VUCA (volatile, uncertain, complex, ambiguous) framework is dominant and influences the business landscape in numerous ways (Weiss and Grab, 2020), not only are the quality of data and the necessity of deciding faster competitive factors but also the ability to adopt digitization approaches for the business long-term success (Marquardt, et al., 2018). Digitized business processes provide a large number of benefits but also harbor many inherent risks (Grab, et al., 2019 and Fogoros, et al., 2021). Also, as the degree of automation becomes

higher, so do the requirements for the human workforce to monitor these fast processes and data evaluation. (Mingaleva, et al., 2021).

In this paper the focus is on the influence of digitization as an instrument to leverage mergers and acquisition processes (M&A processes) in consideration of the potential risks that can emerge as a result. The key specificity of the M&A business is the enormous discretion required during projects, where no leakage of any information or rumors may occur at all. When information on such a project does leak, the consequences can have a devastating impact on all involved parties. Therefore, the risks of the digitalization of the M&A processes must be observed in detail and assessed. The combination of the significant advantages that digitalization brings to the process and the risks that arise in the application thereof is inherent (Zillmann, 2020).

Research Methodology

The authors used a descriptive research method to summarize their research objective. Information was gathered from numerous sources of secondary literature, mainly specialist books and articles from the field of information technology, management and digital transformation. Furthermore, an inductive approach was applied with the aim to draw a conclusion on the opportunities and risks in implementing digital technologies in the mergers and acquisitions processes. Furthermore, the results of the desk study contain important findings on the influence and effects of digitalized processes to be considered when implementing into fundamental business processes.

The Mergers and Acquisitions Process

In general, there is a wide array of M&A processes that can occur, following varying methodologies. In this paper we are focusing exclusively on the sell-side process, meaning the perspective of a seller of a business using a simplified form of the general process steps in M&A. The following illustration shows the various phases and process steps.



Figure no. 1. Exemplary simplified M&A process (sell-side)

Source: own illustration

In general, the sell-side process is divided into two phases. The first phase is the structuring or preparation phase, and the second phase is the execution phase. The first step in the structuring phase is the preparation of a so-called teaser and its communication to potential buyers and investors. The teaser is a general description of the company to be sold but formulated in such a way that no conclusions can be drawn about the company. Furthermore, a more detailed presentation (information memorandum) is generated where all the financial and business data including SWOT-analysis and market overview are included and potential buyers and investors are identified in what is referred to as the long list.

In the marketing phase all the relevant information on the business is handed over to interested parties, all secured by a signed and negotiated non-disclosure agreement (NDA). This is signed to maintain confidentiality about the sale of the company. Interested buyers and investors are requested to submit an indicative offer. The complexity of the situation makes it necessary to have a firm grasp of the sales process as well. (Bothe, 2019) Afterwards, selected parties are invited to conduct a due diligence. In this phase, the potential buyer or investors have access to all the relevant data in a data room and can ask all the necessary questions in order to get a clearer, overall picture of the target company.

Subsequently, the interested buyers or investors are requested to hand in a binding offer. In the negotiation and signing phase, based on the due diligence, a sales and purchase agreement (SPA) is negotiated and consequently signed. The process ends with the legal and economic transfer of ownership of the company to the new owner.

The influence of digitization on the M&A process and associated risks

Digitization is making inroads into many business areas and business processes with very different opportunities and risks. In this section we are mainly focusing on the risks that go in hand with digitization in relation to M&A. Also due to the size of the paper, only selective areas of digitization are picked out. The due diligence in the M&A process is one of the process steps where digital technologies can be applied in the most efficient way (Feix, 2020). There are various technical tools in the due diligence phase such as the use of machine learning, artificial intelligence or others in order to optimize or automate some process steps. A complete automation of tasks within the due diligence is not yet possible, but there approaches by the usage of big data, special search engines or machine learning to optimize efficiency, time spent and personnel capacities required (Feix, 2020).

Especially the usage and the scope of services with regards to digital data rooms have been expanded to great extent. The concrete improvements are translations from and into different languages which is very important as cross-border transactions are increasing continuously. So far, the risks identified refer to the moments when data is released for download and has been translated by online translation tools from which they may be published in an uncontrolled manner. Therefore, inline translation tools have been developed to protect and ensure the security of data room content (Beckmann, et al., 2019).

Another big contribution is the automated allocation of unsorted data to data space indices (Beckmann, et al., 2019). The advantage is that many documents are correctly assigned without further manual intervention. This only applies in case the data has a high degree of standardization. Furthermore, the financial due diligence requires much more depth in terms of analysis. The retrieved raw data of ERP-systems of the selling company is structured in greater detail and efficiency in order to identify the real value drivers. Nevertheless, the quality of data in many cases is a huge challenge. The use of the new analytical tools and data processing solutions is improving the quality of data and helping to efficiently clean irrelevant data, thus preparing it for the further analysis steps (Beckmann, et al., 2019).

The biggest risk of digitization in the M&A process is data privacy as well as cyber security. Especially in the already mentioned virtual data room, blockchain technology is used to secure data rooms and also the dependence on limited and less convenient forms of data storage (Lucks, 2020). This digital information is captured through the blockchain technology and becomes tamper-proof, ensuring data integrity. The risks and challenges of such a digital transformation of processes are, besides the handling of IT security and data protection, the capturing of reliable data and dealing with regulatory demands (Verbeeten and Heinen, 2021).

Beside the COVID-19 pandemic, enterprises were asked to estimate the biggest changes which were caused by digital technologies. The biggest perceived change was the reduction of process lead times which reflects the effect of the usage of digitization in the M&A processes where applicable. The reduction of lead times correlates directly with an increase in customer and employee satisfaction.

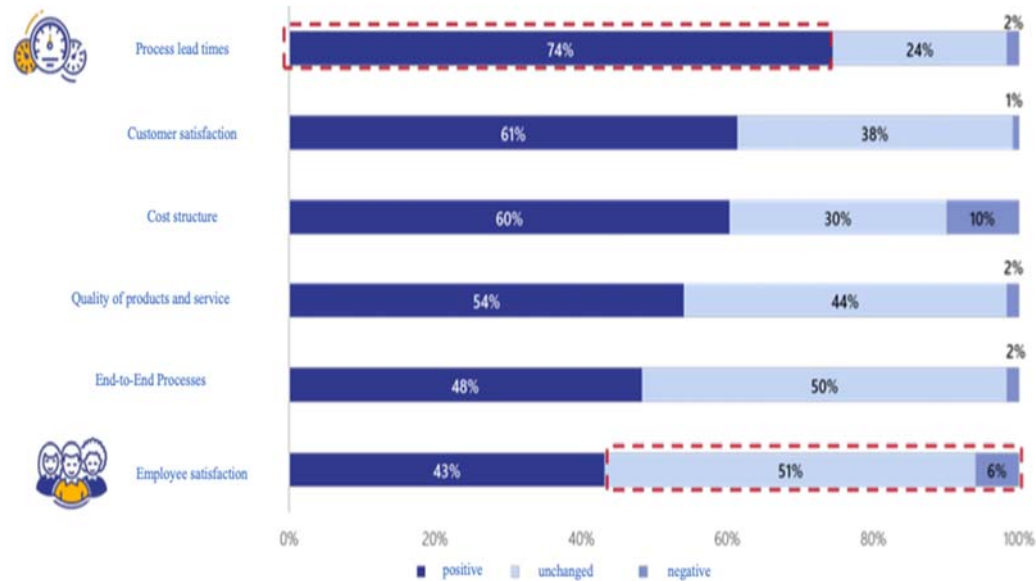


Figure no. 2. Changes through digital technologies

Source: Zillmann, 2020

In the perception of global risks, a survey of the World Economic Forum shows that failures of cyber security are assessed by business leaders to present dangers in a short-term perspective (World Economic Forum, 2021). This is a critical issue that companies are confronted with and it also applies to the M&A processes, as the protection of data and the leakage of information concerning the project of a pending sale of a company is critical knowledge if it gets into the wrong hands.

Conclusions

The influence of digitization as an instrument to leverage the M&A processes can be very powerful. The digital technologies used to transform the different processes digitally must be considered and addressed on the hand with regards to efficiency but on the other hand in terms of cyber security. The biggest risk to occur for the M&A business is the leakage of information or data, that is why security measures have highest priority and the treatment of sensitive data must be protected by a clear strategy.

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