Exploring Success Factors for IT Carve Out Projects

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EXPLORING SUCCESS FACTORS FOR IT CARVE OUT PROJECTS

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Abstract

Carve out projects have recently become an emerging issue in practice and theory given the diversity of strategic foci of companies as well as recent merger and acquisition activities. This paper highlights the relevance of IT in such carve out projects. IT depicts their characteristics and specific features with regard to general IT projects as well as success factors for the management of IT carve outs. Based on a systematic literature review, we conducted 18 exploratory expert interviews with different stakeholders involved in the management of IT carve outs. We show that the perception and acknowledgement of the IT function within the overall carve out project is broadly underestimated. We elaborate on learnings for the successful management of the IT function within a carve out project: the involvement of IT executives in the early phases of contract negotiations; improved IT due diligence processes for a better anticipation of IT costs; early analysis of the target enterprise architecture. Additionally, we identified success factors of managing IT carve out projects. This paper is among the first to shed light into the research field of IT carve out projects including exploratory empirical data and gives recommendations for future research of IT carve outs.

Keywords: IT projects, IT project management, carve out, mergers and acquisitions, demergers

1 INTRODUCTION

Acquiring and divesting of whole companies or business units have been common instruments of strategic management for years (Kromer and Stucky, 2002). Increased globalisation and deregulation as well as the corresponding expectations of protecting market shares or capturing new markets are seen as the key drivers for this development (Jaeger, 1998; Jansen, 2007). So far, the main focus of research was concentrated on purchasing and consequently integrating these objects into companies. Surprisingly, the other side of entrepreneurial activities, i.e. the disintegration and carve out of business units in general as well as the according consequences for the IT in particular have rarely been researched (Müller, 2006). A general framework of how to consider and manage information technology within a carve out project has not been established so far (Wirtz and Wecker, 2006).

Especially businesses in either dynamic or consolidating industry sectors, such as information technology, media and telecommunications often use carve out activities to right-size their portfolio
The general intent of a carve out is the separation of a part, e.g. a business unit, of the company into a so called carve out object. This carve out object is to exist as an independent and viable company and can then be integrated into another company or exist as an independent stand-alone company (Müller, 2006). Challenges for the divesture of the designated carve out object occur especially in the context of shared services and gateway functions, such as information technology. However, these challenges often receive an inappropriate attention compared to their complexity and importance for the remaining as well as the newly established parts of the company.

With regard to the economic impact, carve outs have become almost as popular as mergers and acquisitions and have gained great importance especially for the private equity business. In this area, carve outs already represent more than 35 percent of the transactions of the private equity market (Taub, 2006). In numbers, this equals about 10 billion EUR according to the German buyout market with a volume of about 30 billion EUR in 2005 (Spill, Taudte and Bradley, 2006). The average value for carve out deals has grown by 70 percent between 2004 and 2006 (Taub, 2006). Meanwhile, there are several well-known examples of carve out projects. One of the most popular ones is the carve out of the semi-conductor branch of Siemens and the establishment of Infineon in 1999. In May 2006, Infineon itself carved out the memory chip branch and established a new company named Qimonda (Qimonda, 2006). Another example is the carve out of Agilent Technologies Inc. of Hewlett Packard. Agilent Technologies Inc. itself carved out its Semiconductor Products Group (Taub, 2006).

2 RELATED LITERATURE OF IT CARVE OUT PROJECTS

2.1 Reasons for the divesture of companies and business units

Along with internationalization as well as mergers and acquisitions activities, the portfolio of many companies became fairly diversified. Among the most prominent examples are enterprises like General Electric and Siemens. Both do business in a variety of industries and deliver a variety of different products and services. However, such a strategy of diversification is only reasonable if leveraging synergy effects or economies of scale and scope.

If these opportunities cannot be realized the company should reconsider the reasons for keeping this bunch of business units within the borders of the same enterprise. In this case it might be more sensible to carve out and divest parts that do not belong to the core business of the company.

Regarding the literature one finds a variety of reasons for the divesture of companies and business units. Becker (1994) provides a detailed analysis of motives for carve outs along macro economical, micro economical, and organisational aspects. As a detailed analysis of different motives and their categorization is beyond the scope of this paper, we follow the categorization of Cascorbi (2003). She conducted a meta analysis including the work of e.g. (Dohm, 1988; Odenthal, 1999; Rechsteiner, 1994; Schultz, 1998; Weston, 1994) and elaborated on the basis of several empirical investigations the relative impact of motives for carve outs in general. She found three major categories for the development of general carve outs:

**Focus** – while many enterprises followed a strategy of diversification in the 1970s, this trend has decreased since the 1980s as stated by (Schultze, 1998). On an empirical basis Porter found out that more than half of the investigated companies either carved out or divested the acquired and integrated companies within a few years of their acquisition (Porter, 2001).

**Weak economical results** – besides the strategic component Cascorbi identified economical failure as a major reason for the divesture in her analysed studies (Cascorbi, 2003). Problematical business units and assets get rather carved out than reorganized.
Need for capital – another reason for the divesture of business units is a need for capital. Disinvestment generates cashflow that can be used for a contraction of debts or investment in other focus areas.

Other reasons to be mentioned as motives for divesting are the impact of competitors, take-over resistance, “fair” assessment, as well as legal, regulative and contractual motives. Although literature provides a vast variety of reasons for carve outs, the three factors put forth by (Cascorbi, 2003) are the most prominent and fundamental motives. Factors summarized by other authors are mainly a derivate of these fundamental aspects.

2.2 Definition of IT carve outs

For a better illustration of the characteristics of carve outs one needs to point out specific characteristics in contrast to other IT projects as well as to other types of company mergers and demergers. In particular, this includes Spin-Off, Equity carve out, M&A and IT outsourcing.

Spin-off - The separation of a business unit accompanied by the issue of shares and their distribution among the former shareholders is called Spin-Off (Michaely and Shaw, 1995).

Equity carve out - In the case of an accompanying stock issue with acquisition of new capital, the separation is called Equity carve out (Michaely and Shaw, 1995).

Mergers and Acquisitions - M&As consider the buyer’s perspective and therewith the opposite view of carve outs (Wirtz, 2006). From the buyer perspective of the carve out object, the scope of a carve out is its preparation for the following M&A transaction.

IT outsourcing – The temporary turnover of certain or all IT tasks to another company is called IT outsourcing (Krcmar, 2005). Thereby, the establishment of an independent company or subsidiary is not in the main focus of activities.

Carve out - Michaely and Shaw define carve outs as followed:

“[..] the outcome of [...] a carve out is a newly traded firm [...]” (Michaely and Shaw, 1995).

This implies, in addition to the separation of a business unit, its transformation to an independent and viable company. Even more specific is the definition of Broyd and Storch that we also follow in this paper: “Generaly speaking, carve outs involve the separation of a set of related assets, which are not strategic for the company but currently integrated in its operations, into a new subsidiary. Third-party capital is then introduced into the new entity or it is sold entirely to a strategic buyer” (Broyd and Storch, 2006). Broyd and Storch point out, that it is also possible to integrate the carve out object into the buyer’s infrastructure in addition to the formation of a new company.

IT carve outs as one part of an overall carve out project focus on the separation of all information and communication technology related issues (“set of related assets”) due to the fact that they cannot be shared any longer. Eventually, the carve out object must be able to be integrated into an existing IT infrastructure (“sold entirely to a strategic buyer”) or be able to work independently as a new company (“new subsidiary”). This task of separation contains special challenges that are beyond other sub projects of the carve out as well as other IT projects. Those peculiarities arise due to the high complexity of the enterprise architecture and intertwining between the IT systems, especially ERP systems, like SAP.

2.3 Types of carve outs

A variety of carve out types exists depending on the various objectives stated before and also depending on the involved stakeholders. Those different types and configurations entail several consequences and issues for the IT to consider. Following (Penzel, 1999) who analyzed mergers and
acquisitions in the bank sector, Table 1 illustrates different types of carve outs as well as the consequences for the IT management.

<table>
<thead>
<tr>
<th>Types and carve out objects within carve out projects</th>
<th>Stand alone carve out</th>
<th>Merger carve out</th>
<th>Joint Venture carve out</th>
</tr>
</thead>
<tbody>
<tr>
<td>Carve out object as stand-alone company without integration into other existing infrastructures Special case: independent subsidiary (spin-off)</td>
<td>External company as buyer</td>
<td>Fusion of two equipollent companies or business units to a new company</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Example</th>
</tr>
</thead>
<tbody>
<tr>
<td>Siemens Dematic carve out</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Consequences for the IT management</th>
</tr>
</thead>
<tbody>
<tr>
<td>No or only little customization for the target architecture necessary, because usually there is no buyer’s IT architecture to integrate</td>
</tr>
<tr>
<td>Adaption to the target enterprise architecture necessary because the buyer already has an existing IT infrastructure in place</td>
</tr>
<tr>
<td>Evaluation of the IT architectures of seller and buyer in order to choose the optimal target enterprise architecture</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Task for the IT management</th>
</tr>
</thead>
<tbody>
<tr>
<td>Adaption of the existing IT architecture of the carve out object</td>
</tr>
<tr>
<td>Appropriate adaption of the IT of the carve out to the IT of the buyer</td>
</tr>
<tr>
<td>Appropriate adaption of the IT to the dominant IT architecture or design of a complete new IT architecture</td>
</tr>
</tbody>
</table>

Table 1. Different types of IT carve out objects (adapted and extended from Penzel, 1999))

2.4 Different layers of information technology resources in carve out projects

Regarding M&As information technology resources can be divided into IT infrastructure and applications (Kromer and Stucky, 2002). As M&As and carve outs are quite comparable ventures highlighting a similar event from different angles, we adopt this distinction in our study. The *infrastructure* involves the separation of the commonly used networks. This includes both the local area network (LAN) that makes connectivity available at single locations and the wide area network (WAN) that connects different locations with each other. The infrastructure also contains the voice network. If the out carving company uses Voice over IP (VoIP) for speech communication direct implications for the LAN and WAN connections arise. The infrastructure area is not necessarily limited to hardware, but can also include tasks for system software components. Sometimes the integration of the carve out object calls for a change of the operating system on desktop computers. In particular, this task is complex with regard to software running on server systems because of high dependency and complexity of server systems. Infrastructure also concerns the separation of server systems, such as file servers, antivirus and printer infrastructure in terms of necessary changes in the administration of IP addresses, domain names and directory systems.

The *application* area contains the separation of all application software that is deployed in the out carving company. The most important and furthermore most complex software is the ERP system because it is usually operated and maintained centrally. The ERP system joins all corporate data and functions in one system and represents a kind of central nervous system of the company that is highly interwoven with the business processes (Davenport, 1998). Besides the central ERP systems, also decentrally managed applications have to be considered. The most urgent challenge in this field is to ensure data consistency and availability of all IT services along the entire process of the carve out.

2.5 Phases and milestones of IT carve out projects

IT carve outs can be structured along three main phases that are separated by milestones which are the basis for the planning and realisation of the carve out. These phases correspond with the general phases of M&As, called *initiation*, *transaction* and *integration* phase (Meckl, 2006). The initiation
phase ends with the signing of the (pre-)contracts, the transaction phase ends with the closing and finally at the end of the integration phase the M&A process is finished. As literature does not provide a specific distinction of phases for carve out projects in particular, we adopt and adapt the phases suggested by (Meckl, 2006). We call the first milestone “Signing” when the contract is signed. This represents the establishment of the legal fundament for the carve out. The most important conditions have to be agreed upon once this milestone is set. The following milestone is called “Closing”. This milestone represents the transfer of the carve out object to the buyer and implies the change of the overall responsibility for the carve out object. From this milestone on, the buyer is the official owner of the carve out object and can configure and customize it for a possible integration phase (Borowicz, 2006). These two milestones have to be adhered to within the overall carve out project. The third milestone, i.e. “Cutting”, is only relevant for the IT work stream. All IT systems of the carve out object have to be separated and physically isolated up to this third milestone. This milestone also determines the end of the carve out project.

In accordance with the described milestones three project phases can be derived: The first phase is called “Presigning”. Main topics in this phase concern all aspects regarding the signing of the contract. Thereby, it is important to set the dates for the Closing, the following phase of transition and the Cutting. Moreover, the contract partners have to agree upon the cost calculation for the overall carve out. Additionally, in this phase preparations should made to ensure a quick project start after the contract signing. This also includes the installation of a project management office. A critical issue is the accomplishment of a due diligence during the Presigning. If not established in the Presigning phase, a working project management that includes representatives of all stakeholders must be installed in the next phase called “Preclosing”. The first day after the Closing when the separated carve out object acts as an independent company is often called “Day One”. The complete separation of the carve out object takes place in the “Transition” phase between Closing and Cutting. The Transition phase ends with the Cutting milestone. From that moment, the carved out object as a regular, independent business partner.

![Figure 1. Phases of IT carve outs](image)

2.6 Success factors of carve outs

The main focus of this article is the identification of success factors for IT carve outs. The identification of these factors can take place at different levels. In general, it is possible to classify company properties or factors of production as well as a suitable strategy or the use of appropriate planning and controlling instruments as success factors (Steinle, Kirschbaum and Kirschbaum, 1996). The methodological approaches can be distinguished into a direct and indirect elaboration of success factors (Haenecke, 2001). When applying a direct approach, the experts are asked for variables that have a positive effect on success in a direct manner. In contrast, the indirect approach uses statistical methods or intellectual analysis to identify the factors that influence the success. On the one hand, we use the direct approach for this research in terms of expert interviews, on the other hand, we use the indirect approach in the form of qualitative content analysis (cf. publications in the field (Peters and Waterman, 1982)). In this article, we classify all aspects as success factors that are mentioned by the experts explicitly as success factors or critical obstacles. We do not include external factors such as the industry, competitors or market structure because they are exogenous and therefore cannot be designed by a single company or only in a very restrictive manner.
As a guideline and framework for our research to structure the empirical results we could gather we will focus on the operational and organizational structure of a carve out project. Both aspects are well established concepts and perspectives in general project management (Burghardt, 2002) and also correspond with the approach of (Meckl, 2006) who called these the main issues during M&As, the counterpart of carve outs. Consequently, these two perspectives will be the guiding structure in order to depict the empirical results.

3 RESEARCH METHOD

3.1 Data Collection

To shed light into IT carve outs from an empirical perspective we interviewed 18 experts involved with 12 different IT carve out projects with semi-structured interviews. As experts we defined persons who had participated in at least one carve out project actively. The interview partner selection relied on theoretical sampling. The term was introduced in the context of social research to describe the process of choosing new research phenomena (Glaser and Strauss, 1967) and to gain a deeper understanding of analysed cases and facilitate the development of an analytical frame. It is based on the idea that theory-building research is begun as close as possible to the ideal of no theory under consideration and no hypotheses to test. Theoretical sampling can be viewed as a variation of data triangulation: using independent pieces of information to get a better insight on something that is only partially known or understood. As there is no strong theoretical foundation to build upon in our research, we will follow the approach of (Glaser and Strauss, 1967) to gain a broad understanding of the new research phenomenon of IT carve out cases instead of a representative capture of statistical groups or a test of hypotheses.

This study was part of a research project with several industry partners. One the one hand, we used these contacts to identify experts or to get recommendations for people who had participated in at least one carve out project. One the other hand, we used the social business community Xing and its messaging system to address people who had self-reported experience with carve out projects.

The interviews took place from July 29, 2007 until August 28, 2007; seven were conducted face-to-face and eleven by phone. The interviewees can be divided into three groups. Eleven of them worked in the company or subsidiary where the carve out was realized. We call them “internals”. Another group contained six interviewees, which worked for an external consulting company. In the following, they are called “externals”. Finally, we conducted one interview with a responsible person from a buying company. We call this group “Buyer”. Fifteen interviewees came from Germany, two from England and one from China. Table 2 depicts the interview partners and their main characteristics.

We enquired various areas with the help of interview guidelines in semi-standardized interviews: the initial situation of the selling company before the IT carve out was conducted, especially with respect to the IT architecture, application landscape and delivery model of the IT. Furthermore, we were interested in the design of the project management with regard to the planning, structure and progress control, milestones and responsibilities as well as applied methods and tools. Finally, we asked for lessons learned and best practices in the retrospective view.

<table>
<thead>
<tr>
<th>Interviewee</th>
<th>Position of the interviewee</th>
<th>Group</th>
<th>carve out object, workforce and share in the seller</th>
<th>Type of interview</th>
</tr>
</thead>
<tbody>
<tr>
<td>Alpha</td>
<td>CIO of the out-carving company, changed to the carve out object as Head of IT Services</td>
<td>Internals</td>
<td>Mobile communication sector 7,000 employees, 1.5%</td>
<td>Face-to-face</td>
</tr>
<tr>
<td>Beta</td>
<td>interim manager with focus on IT project and program management, external consultant at the out-carving company</td>
<td>Externals</td>
<td>div., three carve outs, electronic sector 900 employees, 2-5%</td>
<td>Face-to-face</td>
</tr>
<tr>
<td>Gamma</td>
<td>main project manager for the carve out of the concern department</td>
<td>Internals</td>
<td>Agriculture sector Not stated</td>
<td>Telephone</td>
</tr>
</tbody>
</table>
### Table 2. Overview of interviewed experts

The surveyed data is based on twelve different IT carve outs, whereby some of the interviewees participated on more than one IT carve out. Thus, some interviewees could pass their experience from different points of view.

#### 4 RESEARCH FINDINGS

4.1 Organizational structure of an IT carve out: Project management

The arrangements and set up of a project management of the overall carve out project were very diverse in the different carve out projects we could gather insight. In general, we could identify a horizontal and vertical dimension. The horizontal dimension leads to a functional breakdown structure, like HR, contracts and IT. The vertical dimension, in contrast, results in a geographical allocation with respect to technical or cultural differences in different countries. *Iota*, for example, implemented a horizontal and vertical dimension of the project management for the carve out project. Hereby, *Iota* divided the horizontal dimension into several functional work streams that represented the design of the upcoming company, and into operative work streams that are affected by the carve out and...
correspond with the value chain. This includes among others the procurement chain, the procurement management and the IT. The horizontal distinction of the IT carve out work stream mainly consists of the infrastructure, applications and contracts. This work stream contains in some cases a separate organisation unit and regional coordination of the countries.

With regard to established project management tools, we found that most of the companies did not use any kind of systematic process models or methods in their carve outs, but rather planned and realized the project based on experiences. Often, that was because the carve out units were still in the process of being established. Therefore, it was not possible to pass experience and knowledge about carve out projects systematically along by the help of templates or the like.

Altogether, we could reveal a deficit of tools and templates as guidelines for an IT carve out. This is particularly important for this kind of projects because the controlling of carve outs is strongly influenced by the project characteristics.

4.2 Operational structure of an IT carve out

Although we already proposed a theoretical differentiation of IT resources between infrastructure and applications according to (Kromer and Stucky, 2002), in practice we found that such a differentiation is not an optional, but a mandatory prerequisite. In IT carve out projects IT infrastructure and applications have to be considered separately and treated differently due to legal reasons and a specific order of the tasks to be fulfilled in the process of separation. According to several interview partners legal and financial restrictions require a sequential separation of infrastructure and applications. Iota mentioned that the separation of the applications – especially business critical ones like booking systems in SAP – must be separated before the Closing, while the separation of the infrastructure can also be done after the Closing. Usually, all other work streams except for the IT infrastructure are finished before the Closing. One of the main concerns of the IT carve out part is the separation of applications with fiscal and legal relevance. The interviewees described the following strategies for an IT separation:

Logical separation – ERP systems, for instance, get logically separated by installing a copy of the client on the same hardware. After that, all data that is no longer relevant to the company must be removed. Beta emphasizes the critical separation of the master data that is often underestimated. The logical separation meets the legal requirements and must be certified by an auditor.

Physical separation – One step ahead is the operation of the applications on a separate system. Epsilon mentioned that this is not necessary until one year after turning over the majority of shares of the carve out object.

Stepwise separation – This approach is often applied due to ambitious schedules for the Closing and a very short timeframe between the announcement release and the Closing according to Eta. In this case, the logical separation is used as an interim solution for the provision of hardware.

All three types enable establishing the carve out object as an autonomous company. Usually, the separation of the infrastructure is already planned at the beginning, but not realized until after the Closing. Normally, the procedure is distinguished in four phases. First, a firewall that routes all data between the out carved and involved parts is installed. In the next step, all domains are isolated and after that the logical separation of the LANs and WANSs is realized. Finally, the whole physical separation is conducted. The carve outs at Ny, Xi and Omikron followed similar phases with four milestones. The logical separation of the LAN and WAN as well as the separation of the employees is to be completed in the first phase. The installation of separate email accounts, internet access and remote LAN access was conducted in the next step. In the third phase the cutting, i.e. the interruption of the client back office, took place. The physical separation followed in the fourth phase.
4.3 IT carve outs as a specific type of IT projects

In general, IT carve outs could be compared to common IT projects. Nevertheless, the interviewees pointed out some distinguishing characteristics. The interviewees most often mentioned the aspect of time criticality. The dependences between the IT tasks and the overall project strengthen this effect. These dependencies occur because of the high penetration of all business processes with IT (Lacity and Willcocks, 1994; Lacity, Willcocks and Feeny, 1994). Especially the accounting is highly affected, because all accounting and administrative functions must work at a contractually agreed point in time to ensure the correct booking of all payment flows and bills. Delays can lead to a failure of the overall project. In addition, the project schedule is relatively short and tight compared to the range and breadth of tasks. Also the fact of a comparatively short lead time for doing all the relevant planning activities is a peculiarity given that the IT work stream is only a small part and dependent on the overall project management of the carve out project. The Closing milestone must be strictly adhered to in order to prevent legal and financial problems. Because often no dedicated business unit for conducting carve outs exists, there is also no appropriate knowledge available in the project team. O usually results in temporary overload for the team members because they can hardly be released from their daily business. Figure 2 illustrates the central differences of IT carve outs gathered from the analysis of the interviews.

![Figure 2. Distinguishing characteristics of IT carve outs in comparison to other IT projects](image)

4.4 Discussion: Lessons Learned and success factors

The analysis of the interviews revealed a high importance of experience for managing an IT carve out. Table 3 illustrates rooms for improvement in future IT carve out projects. The suggestions, success factors, and best practices and their order was derived based upon the frequency and emphasis the interview partners put into this issue.

One of the main findings of the empirical investigation was the identification of an inaccurate relationship between the carve out project and the IT carve out sub-project with regard to the consideration of the particular efforts and expenses. IT often represents the greatest cost position within the overall carve out. Rho and Lambda mentioned that the IT expenses are often underrepresented in comparison to the other cost pools. Astonishingly, despite this economic impact, in none of the cases IT representatives were involved in the contract negotiations of the whole carve out and no IT due diligence was accomplished. From the perspective of the buyer, IT is often regarded as relatively unimportant. Xi stated that the buyer is not interested in the structure and processes of the IT, but is rather interested in customers, duration and value of existing contracts and the transfer of customer contracts from the bought carve out object. However, the disregard of the IT is fatal and can become very expensive, especially in terms of assets, licenses and IT equipment. IT expenses are a significant aspect in the purchase decision, although it is difficult to estimate them as mentioned by
Surprisingly, the consideration of IT in the due diligence and within the purchase price is quite rare, as noted by Sigma.

<table>
<thead>
<tr>
<th>Room for improvement</th>
<th>IT specific?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Early integration of the IT into relevant negotiations to prevent a weak initial position</td>
<td>Yes</td>
</tr>
<tr>
<td>Improvement of the IT due diligence and attempt to include the IT costs into the buying price</td>
<td>Yes</td>
</tr>
<tr>
<td>Analysis of the target enterprise architecture</td>
<td>Yes</td>
</tr>
<tr>
<td>Better documentation with regard to future IT carve outs</td>
<td>Yes</td>
</tr>
<tr>
<td>Involvement of all departments (esp. IT) already before the Signing</td>
<td>No</td>
</tr>
<tr>
<td>Cooperation and involvement of external partners</td>
<td>No</td>
</tr>
<tr>
<td>Faster, earlier and more prompt communication, esp. in the countries</td>
<td>No</td>
</tr>
<tr>
<td>Resource allocation in an earlier stage of the project</td>
<td>No</td>
</tr>
<tr>
<td>Ongoing control of the countries: parallel to the team structure, assign responsibilities in the countries and an overall responsible person for the carve out</td>
<td>No</td>
</tr>
</tbody>
</table>

Table 3. Lessons learned and room for improvements in future IT carve outs

Another finding is related to the consideration and adjustment of the carve out object to the buyer’s business model and his target enterprise architecture. In the case of Pi the buyer wanted to manage the IT on his own. The seller, however, prepared everything to arrange an outsourcing delivery model because prior to the carve out endeavour, the buyer received IT services from their own internal IT service provider - a subsidiary of the company. This neglect of the buyer’s need almost doubled the IT expenses for both the selling and buying company, according to the experience of Pi.

In accordance with the empirically identified lessons learned, the analysis of the interviews brought up several success factors for IT carve outs. The following ten success factors were the most frequently mentioned ones by the interviewees.

Communication – Communication turned out to be the most important success factor in IT carve outs. This implies in particular an accurate and frequent information provision of all involved stakeholders.

Early involvement of IT in contract negotiations – The interviews revealed an inappropriate consideration of IT within contract negotiations. Regardless of the strategic impact, the IT expenses are responsible for a large share of the overall carve out costs. One interviewee estimated them up to 50% of the total costs.

IT Due Diligence – It is recommended to conduct an IT due diligence in advance of the negotiations to support an appropriate consideration of the IT. Knowledge about the value of the IT empowers the seller to estimate the effort for the IT carve out and to take the value of the IT into account for the pricing.

Awareness of the IT carve out as a fully recognized project – For an ideal allocation of all resources, it is necessary to implement the IT part of the carve out as a project. It must be ensured that the required team members are released from their proper work to fulfil the tasks in the context of the IT carve out.

Project management – Regular and disciplined tracking of milestones and activities was stated very often as success factors by the interviewees. This is necessary for an effective and efficient project management especially given the time restrictions of the carve out project.

Make use of external consulting – A lack of experience with carve outs among the employees makes the use of external consulting necessary (Gamma). Availability of appropriate knowledge is a key factor for the success of a complex and time-restricted carve out.

Harmonization of the seller’s and buyer’s needs – The harmonization ensures a high alignment between the seller’s and buyer’s requirements and therewith prevents redundant work. Otherwise, problems can occur with the delivery model or IT governance, for instance.
Short escalation paths – Due to the extremely short timeframe, it is important to ensure fast decisions.

Organisational separation of the residual and carve out object – It is important to separate and consider the requirements of the different parties early, to prevent conflicts of interest.

Consideration of regional aspects in a global context – communication and coordination between the central project management unit of the carve out and the regional responsibilities was often mentioned as a weak point. It is important to consider regional distinctions.

5 CONTRIBUTIONS, LIMITATIONS AND FUTURE WORK

In the past carve outs were primarily carried out by financial and legal experts who did not consider the IT part appropriately. However, the analysis of the underlying empirical investigation underpins the assumption of IT as a critical factor within the overall carve out project. The analysis of the interviews revealed that IT is often the largest cost position of a carve out project. However, this fact has not been considered in terms of an appropriate participation and acknowledgement of the IT in negotiations and pricing processes, yet.

Our empirical investigation based on 18 interviews and 12 carve out cases offers three key issues to future research:

1. The most often mentioned success factor for IT carve outs is communication to the involved stakeholders, the early involvement of IT in contract negotiations accompanied by an IT due diligence as well as an ongoing project management in terms of regular tracking of milestones and project activities. Especially the IT due diligence has not received appropriate attention.

2. Methods and models for the support of IT due diligence are not existent yet. The identification of the high impact of IT within carve outs in terms of effort and expenses on one side, and the fact of an underrepresented awareness of the importance for IT on the other side, emphasize the urgent demand for the development of methods and models for the support of IT due diligence.

3. Process models and tools are considered highly desirable to ensure a continuous dissemination of specific knowledge about carve outs. Their use can help to make implicit and distributed knowledge accessible in future carve outs.

All three aspects are relevant for practice and research in equal measure and provide a great opportunity for Information Systems research. But the promising results certainly need some words of caution that render our findings strictly exploratory and preliminary. The findings - based on 18 exploratory interviews - are only an initial step towards a more comprehensive understanding of carve out projects and the essential role of the IT part within an overall carve out project. Our insights can provide a foundation for future positivist research where the different issues, involved stakeholders, and processes have to be validated on a broader empirical basis to advance this exploratory approach. Subsequent research should thus take into account the preliminary nature of this study.

References


