

# ***IT Management in the Process of Corporate Divestiture***

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**Abstract:** Corporate divestiture refers to the process of dividing a company into two or more smaller independent companies or business units. It is a significant strategic measure to promote the healthy development of enterprises and better adapt to the market and competition. The content of divestiture often involves various functional departments and business areas within the enterprise, making it not only complex but also time-consuming and resource-intensive. IT systems, akin to the brain and nervous system of a human body, constitute the fundamental basis of modern enterprise operations, supporting the normal functioning of the entire company. Therefore, effective management of IT operations during the corporate divestiture phase is crucial. This article analyzes and discusses IT business management during the process of corporate divestiture, combines practical applications from a certain enterprise, proposes effective countermeasures, summarizes the challenges faced in IT business management during the corporate divestiture stage, and aims to ensure data security, business continuity, and efficient IT operations.

## **1. Introduction**

Corporate divestiture is an extremely challenging and complex management activity, wherein IT business management stands out as a crucial component. This is because all business divisions ultimately rely on IT systems for implementation, directly impacting the success of corporate divestiture [1]. During the corporate divestiture process, it is also imperative to minimize the impact on regular business operations, posing high demands on enterprise managers and decision-makers. Based on this, the IT department must effectively manage and allocate various technical, data, system, and personnel resources, ensuring the smooth separation of each independent entity to meet the demands of business continuity.

## **2. Importance of Corporate Divestiture for Enterprise Development**

### **2.1. Expansion of Enterprise Development Fields**

The spun-off companies from corporate divestiture can grow into new enterprises in various business domains. These independent business units have the opportunity to expand their business scope through research and development, collaboration, or acquisitions. They actively seek diverse industries, services, or niche markets to achieve benefits from diversified development. They can flexibly enter new markets, laying the foundation for business transformation. Through divestiture, the original enterprise can concentrate its focus and resources on specific market areas, allowing the

separated business entities to concentrate on their core operations. This ensures that the goals and tasks of each business division are targeted and focused [2]. Following the divestiture or spin-off, the newly independent entities can participate in new capital market operations, selecting appropriate financial methods according to their needs and characteristics, thereby supporting investment plans or scale expansion.

## **2.2. Facilitating Efficient Development of Business Divisions**

After corporate divestiture, different business domains can be separated into independent companies, granting them greater autonomy for development and reducing restrictions from the overall corporate level. This autonomy enables them to formulate more flexible and advantageous strategies based on market changes and their own development needs, responding more swiftly to market demands.

## **2.3. Achieving Win-Win Cooperation for Buyer and Seller**

Through corporate divestiture, the original enterprise can focus on its core business areas, allowing non-core businesses to be divested. This provides favourable opportunities for buyers and optimizes the businesses that have been divested. For buyers, corporate divestiture offers brand-new value-added opportunities. They can integrate the resources and capabilities of the divested business divisions to achieve synergies, thereby expanding their market share and enhancing competitiveness, ultimately accelerating business development. Corporate divestiture also presents cooperative opportunities for both the buyer and seller, such as collaborating on technical support and supply chain cooperation. This aids in resource sharing, joint market development, and innovation, further enhancing the innovation capabilities and competitiveness of both parties [3].

# **3. Analysis of Corporate Divestiture Types**

## **3.1. Independent Spin-off**

In this type of corporate split, the parent company chooses to operate assets independently or leave behind certain business segments, without selling them to external buyers. In such cases, the parent company still retains ownership of shares in the spun-off entities and maintains its influence through equity control measures. Typically, this type of divestiture is carried out from a strategic development perspective, enabling a better grasp of different business components. The spun-off independent entities can focus on their core businesses and adjust their operational models and development strategies flexibly based on market demands. Meanwhile, the parent company can continue to share in the growth and value of the spun-off entities by retaining equity. An example of success in this type of split is Hewlett-Packard (HP), which split into two independent publicly traded companies in 2015: Hewlett Packard Enterprise (HPE) and HP Inc.

## **3.2. Sale of Partial Business Units**

In this type of corporate divestiture, one aspect involves selling entire independent business units to buyers, including customer bases, all assets, employees, and related rights and contracts. Another aspect involves selling specific business lines or portions of assets, such as patented technologies, brands, and product lines. In some cases, a company may sell partial equity of a business unit to buyers, making them co-owners of that unit [4].

From an IT perspective, in scenarios involving buyers during corporate splits, sales, or closures,

IT system changes encompass various aspects such as information security, business processes, data management, system modifications, and integrations. During the process of divestiture, the existing IT systems need adjustments based on entity structures. The original systems generally require integration into the IT systems of the new parent company or a redesign to cater to different entity needs. If a business entity or unit is to be closed, corresponding actions are required for related IT systems, including data backup, migration, and the shutdown or migration of relevant systems and servers. When a business entity or unit is sold to buyers, changing the IT systems becomes necessary, requiring a smooth transition of systems and related data in accordance with IT management requirements and data privacy regulations. This assists in facilitating interaction and integration with the buyer's systems and other enterprise systems [5].

#### **4. Issues in IT Business Management During Corporate Divestiture**

##### **4.1. Challenges of Comprehensive System Switching and Risks to Business Continuity**

During the divestiture process, after clarifying business aspects, data separation and migration become the primary challenges for IT system business management. Taking the example of ERP system divestiture, this task involves a significant amount of data transfer and reorganization. Staff members need to ensure that all independent entities can access the corresponding data information. Mishandled measures can lead to risks such as inconsistent data, data loss, and compromised data integrity. To ensure complete data migration, both IT teams should actively collaborate with business departments to understand their needs and formulate ERP divestiture strategies. For Type 1 splits, the current ERP system used by the company is usually cloned or duplicated on the split date, creating an identical system. Irrelevant data is then removed, cleaned, and necessary changes are made to ensure data integrity and business continuity. For Type 2 splits, integration with the acquiring company's IT system or the adoption of an entirely new IT system is involved, which includes data re-import, employee training, and is a more complex activity beyond the scope of this discussion.

Based on the management regulations and business requirements following corporate divestiture, independent entities must still establish separate technical support teams and transfer knowledge and personnel in a timely manner. Failed knowledge and personnel transfers can result in a lack of technical support, extended troubleshooting times, and reduced service levels [6]. Therefore, effective knowledge transfer and personnel training are crucial.

##### **4.2. Time Constraints and Limited Resources**

For enterprises concluding mergers and acquisitions, integrating IT operations imposes strict time requirements on overall switching and system construction. Relevant personnel must accurately understand the IT capabilities and environments of both companies within a relatively short timeframe. They must also quickly identify and assess the risks associated with integration and construct IT systems within the limited time frame before the Transition Service Agreement (TSA) ends, achieving overall switching. Delays of the service transfer could lead to costs for the client, and such costs are unpredictable. Additionally, in most cases, the IT resources of the acquired party are generally weak, and they also face issues of critical talent shortage and attrition, increasing uncertainty in resource availability during integration.

IT business management usually involves the interconnectedness of technology, systems, and teams. Apart from this, business departments such as finance, sales, logistics, and production must first achieve clear isolation in terms of business logic and the split content, followed by the physical implementation of the split by the IT department. This process involves multiple rounds of communication across various levels and must ensure the normal operation of ongoing business

activities, such as creating sales orders, invoicing, receiving payments, shipping, and interfacing with supplier systems. Consequently, during the divestiture, detailed plans for each sub-business to operate independently should be made, seamlessly connecting data and processes. Improper handling can lower resource efficiency and service quality [7].

### **4.3. Lengthy Infrastructure Procurement Cycle and Compressed Timelines**

After the corporate divestiture, enterprises face the task of establishing independent IT infrastructure to support the operation of various sub-business units. Different companies or departments have varying business characteristics and requirements, necessitating customized design and procurement of infrastructure, which extends the procurement timeline. Procuring IT infrastructure involves considering various aspects such as contract negotiations, supplier selection, logistics management, and order processing. External factors in the supply chain can lead to transportation issues and delayed deliveries, resulting in IT equipment not being delivered as planned.

Procuring IT infrastructure demands a substantial amount of funds. Post-split, enterprises encounter issues related to budget constraints and fund allocation, causing the long lead time of equipment delivery. Decision-makers spend more time evaluating and approving, thereby compressing the planned timeline. Installing new equipment, deploying new systems, configuring network systems, requires the allocation of personnel and resources. Simultaneously, training new staff to adapt to the new environment adds additional time expenditure.

## **5. Steps and Key Aspects in IT Business Management During Corporate Divestiture**

### **5.1. Contract Changes**

Various existing IT contracts should be assessed and evaluated, such as cloud services, software licenses, hardware provision and maintenance services, IT support services, and other IT-related contracts. It's necessary to analyze the obligations, scope, validity period, and rights listed in the contracts one by one based on business needs, determining the contract strategy: renewal, retention, cancellation, or modification of service scope. Based on the divestiture plan, it's important to clearly identify contracts that need to be transferred to other departments or companies, contracts that need renegotiation, ensuring compliance with legal regulations and contract requirements during contract transfer and signing. This approach ensures a systematic understanding and comprehensive consideration of IT business continuity.

It's important to review the compliance and assess the risks of contracts to ensure that they align with the needs of the business and regulatory requirements. Potential compliance risks should be rapidly and accurately identified to ensure data privacy and protection. A robust oversight and management mechanism should be established to ensure that contracts align with expectations during execution. Potential disputes and issues should be addressed promptly with solutions, maintaining effective communication and collaboration with IT equipment suppliers, and closely monitoring changes in IT business management needs post-split to avoid problems.

Based on the needs of all post-split entities, it's important to update and renew contracts in a timely manner to ensure continuous IT services and support. It's also necessary to develop contract update and renewal plan and seek legal professionals' assistance when necessary to ensure the validity and legality of contracts while appropriately handling potential legal issues.

### **5.2. IT Technical Support**

In a corporate split plan, the duration of IT divestiture varies depending on the complexity of the

business divestiture, starting from the split date (legally constituting two separate companies) until the actual completion of the split. Taking the example of Company H's turbocharging business split in 2018, this business involved a global divestiture across Europe, America, and Asia, generating billions of dollars in revenue globally. The Asia-Pacific region alone involved more than 2,500 personnel and 16 business sites. The complete split, covering IT infrastructure like networks and servers to upper-level applications like ERP, took nearly two years. During this period, the parent company continued providing IT support to the spun-off business to ensure its normal operation, allowing the spun-off business unit ample time to establish its own IT team and network environment. As the legal entities are already operating independently, continued use of the parent company's IT support services by the turbocharging division becomes a paid service, making the signing of the Transition Service Agreement (TSA) particularly crucial. The TSA lists various aspects of IT services, including computer and software support, network server support, ERP support, and more. Each service includes a list of responsibilities, support timeframes, costs, and payment methods. Furthermore, considering the split company's IT team establishment and IT environment setup, each requirement might take varying amounts of time. Therefore, when signing the TSA, the timeline for different IT services should be tailored. Completed divestiture projects should cease to receive services, and fees should be terminated in a timely manner. Flexibility should also be applied for services that may need to be extended due to the split team's potentially longer time requirement to complete the split. Both parties should make flexible arrangements with a focus on ensuring business continuity for the split company and personnel arrangements for the service provider's parent company until complete divestiture. In summary, it's essential to create a detailed technical support plan that includes troubleshooting processes, service-level agreements, and resource allocation. This ensures that all independent entities post-split have sufficient IT technical support resources. It also clarifies communication channels and responsibilities among different entities. Based on the basic post-split entity needs, provide dynamic knowledge transfer and training, ensuring the capacity for independent operations and self-sustained IT systems.

### 5.3. Data Preservation and Transition

Based on business requirements, regulatory demands, and data importance, it's necessary to categorize and process all enterprise data, identifying which data needs to be deleted, migrated, or retained. Before the corporate split, cloud storage and offline backups should be used, employing reliable storage media for comprehensive data backup. It's important to store this data securely in appropriate locations to protect against accidental failures or losses.

According to the divestiture or spin-off plan, the data information that needs to be migrated or shared is stored in the appropriate department. While the security, accuracy and integrity of data are paid attention to, its format and storage requirements should be grasped, and even data conversion and mapping should be completed in accordance with data management regulations. After the split, each entity should take appropriate isolation and access control measures, set access roles and appropriate permissions in accordance with security requirements and business demands, and restrict data access and operation, so as to avoid security risks such as information theft or tampering. In addition, it is necessary to dynamically track data and do a good job of audit processing, record the logs of data access and operations, track the use of data, and predict the possible risks.

## 6. Conclusion

Effectively managing and handling IT operations ensures the orderly progress of the corporate divestiture process and provides adequate data management support and technical assurance for the operation of the divestiture process. During the corporate split phase, it is crucial to develop detailed

management plans, allocate resources reasonably, establish appropriate communication mechanisms, comply with regulatory requirements, enhance data preservation, and IT technical support capabilities. This approach maximizes the reduction of business interruption risks, improves business continuity, and enhances data security.

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