Responsible Data & AI Diligence for M&A

Overview
The Data & Trust Alliance is a not-for-profit consortium established in September 2020. It brings together leading businesses and institutions to learn, develop, and adopt responsible data and AI practices. It is co-chaired by Ken Chenault, chairman of General Catalyst and former chairman and CEO of American Express, and Sam Palmisano, former chairman and CEO of IBM.

Data & Trust Alliance

About the Data & Trust Alliance

- 5M+ employed by Alliance member organizations
- $3T+ market capitalization of Alliance companies
- $1.6T+ revenue of Alliance companies in 2021

Member Companies & Institutions (as of September 2022)

- American Express
- Breyer Capital
- CVS Health
- Comcast
- NBCUniversal
- Deloitte
- Diveplane
- General Catalyst
- GM
- Humana
- IBM
- Johns Hopkins University
- Johnson & Johnson
- Mastercard
- Meta
- NFL
- Nielsen
- Nike
- Pfizer
- Regions
- Smithsonian
- Starbucks
- Transcarent
- Under Armour
- UPS
- Walmart
Businesses across industries are transforming into data enterprises and investing at record rates in AI-focused acquisitions. Yet, neither the risks nor the opportunities presented by these acquisitions are adequately assessed by traditional due diligence.

Risks such as algorithmic discrimination, lack of transparency and unreliable performance are increasingly the causes of AI failures. Critically, the start-up’s culture—the values, people and processes that govern its use of data and AI—is arguably the best indicator of its long-term value as an acquisition. Clarity on these criteria is needed for both acquirers and startups, from the beginning of their conversations.

Therefore, the Data & Trust Alliance has created Responsible Data & AI Diligence for M&A, a new tool for use by M&A teams in their target screening and due diligence to assess the value and risks of data, algorithms, and the cultures in which they are built.

01 Responsible Culture Diligence

10 questions that assess a target’s mindset around data/Al and the mechanisms used to sustain a culture of responsibility and rigor.

This diligence set is a strong indicator of values alignment and is therefore suggested for the target-screening process.

02 Data Diligence

27 questions that assess how data is sourced, used, and responsibly governed in order to understand its true value and utility for an acquirer.

03 Algorithmic Diligence

39 questions that assess a model’s design, deployment, and monitoring to ensure the model performs as claimed, in a way that minimizes unintended consequences.

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1 Global Total Corporate Artificial Intelligence (AI) Investment from 2015 to 2022, Statista, May 2022

2 State of AI 2021 Report, CB Insights Research
When to use Responsible Data & AI Diligence for M&A

The modules were designed to be used during two phases of the M&A process: Target Screening and Due Diligence.

How to use Responsible Data & AI Diligence for M&A

The modules were developed with different acquisition strategies in mind. Here are the following module combinations we recommend depending on the types of acquisitions you typically make:

**Deals where DATA is the main value driver**

01 Responsible Culture Diligence + 02 Data Diligence

**Deals where AI is the main value driver**

01 Responsible Culture Diligence + 03 Algorithmic Diligence

**Deals where TALENT is the main value driver**

01 Responsible Culture Diligence
Adapting Responsible Data & AI Diligence for M&A to your organization

Responsible Data & AI Diligence for M&A is designed to be used in its complete form but can be adapted to fit the goals and sizes of your acquisitions.

Adoption of these diligence modules means your organization uses all three modules. However, which questions you use are at your discretion.

Importantly, many of these questions are designed for use pre-acquisition. We have outlined a subset of “high priority” questions that are strongly recommended for use pre-acquisition, as it may be difficult or impossible for you to remedy those issues at a later point in time.
AI/ML models are fundamentally different from previous information technologies; their underlying hypotheses must be constantly tested and monitored. That testing and monitoring is carried out by the organization’s people. Without a culture of responsibility, AI failures can grow in frequency and intensity. Assessing the skills, values, and mindset of the people who design, deploy, and manage these technologies is just as important as assessing the technology itself.

This module includes 10 questions to assess a target’s mindset around data and AI and the mechanisms in place to create a culture of responsibility and rigor. Maturity in this area is a strong indicator that a wide range of risks may have been considered and mitigated.

This module contains:

- **Questions**: 10 core questions to help facilitate the conversation, and education on why each question is important
- **Response Guidance**: Guidance to help assess target responses
- **Scorecard Sheet**: A scoresheet to grade and compare targets

**Expertise needed for this diligence**

1. An M&A lead who is generally knowledgeable about data and AI. Deep technical expertise is not required. If this is not possible, invite a member of your data science or AI risk organization who has experience running teams.

2. The business unit lead who will oversee the team being acquired.
02 Data Diligence

Companies increasingly acquire targets for their data assets. Current data diligence includes a focus on privacy and security, but assessment of other aspects of data, such as data quality and data governance, is necessary to uncover its true value and additional risks.

Data diligence is meant to supplement an organization’s existing technology diligence, privacy diligence, and security diligence.

This module contains:

Questions
27 questions targets respond to in writing, with relevant documentation

Response Guidance
Guidance to help assess target responses, with education on why each topic is important

Expertise needed for this diligence

1. Expertise can be drawn from data diligence teams, data science teams, and/or information technology teams.

2. Legal and compliance expertise is also necessary (with respect to regulation around data privacy and security).
Like many early-stage technology markets, the AI/ML start-up space is constantly evolving, which can hinder accurate determinations of a company's value and technological prowess.

Algorithmic Diligence is designed to assess an algorithmic model's design, deployment, and monitoring to ensure that a model performs functions as claimed and was developed in a way that minimizes unintended consequences.

This module contains:

- Questions
  - 39 questions
targets respond to in writing, with relevant documentation

- Response Guidance
  - Guidance to help assess target responses, with education on why each topic is important

**Expertise needed for this diligence**

1. Expertise can be drawn from AI model evaluation teams, model risk teams, and/or AI governance teams.

2. Legal and compliance expertise is also necessary (with respect to emerging regulation around automated decision-making systems).
Contributors

The Alliance engaged a breadth of backgrounds and expertise—from M&A and due diligence to AI ethics and culture—in the development of Responsible Data & AI Diligence for M&A.

80+ experts
from 15 industries

300+ hrs
of interviews and build sessions

55%
of contributors
from the Alliance

45%
of contributors from outside the Alliance

Key Areas of Expertise

- **M&A**: 26.5%
- **Due Diligence**: 8.4%
- **Data Risk**: 7.2%
- **Venture Capital**: 4.8%
- **Start-up**: 9.6%
- **AI Ethics & Culture**: 21.7%
- **Other**: 3.6%
- **Law**: 18.1%
Leadership Council members of the Data & Trust Alliance came together to guide this work and offer their expertise in data and AI, M&A, and organizational culture.

**Chair & Oversight Team**

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**Development Group**

A diverse group of experts was assembled from both inside and outside the Alliance to help build the content.

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