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HOW BLOCKCHAIN TECHNOLOGY IS REVOLUTIONIZING DUE DILIGENCE IN M&A

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Introduction

India is rapidly turning into one of the hottest markets in the world; in the process, M&As get a fillip as companies look for ways to accelerate their growth. Blockchain technology has turned out to be one such transformative force in this age that can revolutionize the process of M&As. Blockchain brings immense and varying benefits to the table that help alleviate some of the problems racking traditional due diligence, such as the reduction of transactional and legal costs, simplification of processes that are both intricate and time-consuming, and giving more transparency and confidence to stakeholders involved.

Integrating blockchain in M&A transactions would change the game by bringing about an immutable decentralized ledger that ascertains data accuracy and reliability. Due to this fact, a company is highly confident about its data's accuracy and security through blockchain. This will then enable a smoother and more informed M&A deal.

The paper strives to explore how blockchain technology is revolutionizing due diligence in M&A and illustrate effectiveness of the process. By focusing on the positive impacts of blockchain, this paper underlines how this new technology can help in meeting the changing requirements in the M&A landscape in India and beyond.

What is Blockchain Technology?

Blockchain, also known as Distributed Ledger Technology, is one such system of recording information that inhibits the possibilities of changing, hacking, or even the acceptance of fraud. In a nutshell, it's basically a digital ledger copied in duplicate across all the nodes of a blockchain's entire computer system network. The transactions take place on every block of the chain, where each new transaction adds a record to the ledger of each participant. Unlike

traditional, centralized databases, blockchain is a decentralized technology and has no single central authority controlling the entire database. In blockchain, the digital ledger is distributed across the network among myriad nodes (computers), each carrying an identical copy of this ledger to enhance the security and transparency. The blockchain is immutable; once data is put in a block, it can hardly be changed without influencing all following blocks in the chain—a move that, however, must win the consensus of a certain network. Immutability guarantees that the stored information is tamper-proof and reliable.

Blockchain implements cryptographic techniques securing data, with each block having a unique hash (a digital fingerprint) and the hash of the previous block, hence the chain of blocks. This cryptographic interlinking guarantees that any change in the data of a block would mean changing all the blocks that follow, which would be computationally impractical. Second, blockchain allows for smart contracts: they are self-executing contracts where the terms of contracts are directly written as lines of code that implement the enforcement and execution of the agreement.

Traditional Due Diligence Challenges

Mergers and acquisitions (M&A) have long been complex undertakings, requiring meticulous due diligence to ensure a smooth and successful transaction. Traditional M&A due diligence involves numerous challenges that can complicate the process. One of the primary difficulties lies in the sheer volume of information that needs to be reviewed. This includes financial statements, legal documents, contracts, and operational data, all of which must be meticulously examined to uncover any potential risks or liabilities.

Data silos and fragmentation are significant issues traditional due diligence faces. The information is in silos when different departments or systems within a company store it independently and do not share it at all. The information in such cases is isolated which makes it hard for one to access a comprehensive picture of operations of the target company. The opposite problem of data fragmentation is when data is located across different platforms, formats, and locations. These dispersions make due diligence very complicated because it requires enormous effort to compile, standardize, and analyze information from different sources. It thus creates inefficiency, in terms of time taken for verification and the risk of errors which impacts the traditional due diligence with respect to its effectiveness and reliability while being more time-consuming and costly.

Another key challenge is that traditional due diligence processes are very time-consuming. Normally, there is an enormous amount of manual work required for data collection, verification, and analysis. This prolongs not only the timeline of the transaction but also the potential risk of human error. The longer the due diligence process extends, the more likely market conditions or financial health of the parties involved might change, adding further risks.

Massive resources are used in gathering, verification, and analysis of data. One of the major challenges in traditional due diligence processes is the high costs. Travel expenses, document handling, and administrative overheads further inflate the costs. There is also the issue of confidentiality. This requires sharing of sensitive information amongst parties involved in the transaction, and there exists the possibility of it leaking out or data being breached. Traditionalist nature of due diligence can get pretty long, thus contributing to a delay in the overall timeline of the M&A transaction.

Blockchain's Impact on Due Diligence

Blockchain technology addresses many of these traditional due diligence challenges, offering a more efficient and reliable approach.

1. Improved Data Integrity and Transparency

The technology of blockchain significantly improves data integrity and transparency within the due diligence process through its mechanism of a decentralized ledger that takes an immutable record of transactions in linked blocks. It is irrevocably timestamped, making the entered data unchangeable or deletable to create an immutable audit trail that turns paramount in nature while verifying historical data. The fact that data gets decentralized among nodes on the network makes it such that no one node would be able to control the dataset as a whole, reducing the risk of manipulation and thus guaranteeing authenticity. It allows for transparency through access to the same real-time data of all participants, which aids in building trust and makes the verification of data authenticity and origin easier.

2. Streamlined Processes

Added efficiency through process streamlining and automation in due diligence is brought in by blockchain technology. Much manual effort is required by traditional due diligence, which is time-consuming and error-prone. Blockchain automates these processes through smart contracts, which represent self-executing contracts with the terms of the agreement

directly written into lines of code. Smart contracts automatically enforce and verify the agreements of the parties involved upon the fulfilment of predefined conditions, eliminating the need for intermediaries to a great extent, hence minimizing the possibility of errors.

3. Reduced Costs

It significantly reduces costs in the due diligence process by making the operations smooth and minimizing the involvement of intermediaries. Traditional due diligence requires so much manual work and many experts, for example, lawyers, accountants, and consultants, which is costly. Blockchain automated many of these processes through the use of smart contracts, which self-execute and verify terms when predefined conditions are met, reducing the reliance on human intervention and thereby cutting labor costs.

4. Secure Data Sharing

Blockchain technology facilitates secure data sharing in the due diligence process through its decentralized and encrypted platform for information exchange as advanced cryptographic techniques are used to secure data. In traditional due diligence documents and records are normally shared through email or even less secure means, hence leaving them open to breaches and unauthorized access.

Blockchain is decentralized means that data is spread over a network of nodes, rather than stored in any single, central location, thereby improving security further by having no single point of failure that cyberattacks could target. Each node contains a copy of the blockchain in its entirety; therefore, data redundancy and availability are guaranteed.

Due diligence allows for the secure sharing of data, implying that parties in a merger or acquisition can share sensitive information safely and efficiently. This instills trust and breeds confidence among stakeholders to have a smoother and more secure due diligence process.

By using blockchain technology, which has secure data sharing, firms will stand a better chance of avoiding the risks associated with data exchange through traditional means of due diligence, hence keeping sensitive information safe throughout. At the close of the day, it will help to ensure effective, secure, and trusted transactions in mergers and acquisitions.

5. Improved Accuracy

Blockchain technology offers immense support to increase accuracy in due diligence processes by providing a reliable system for recording data transparently and verification

of the same. The traditional due diligence may be inaccurate with manual entry of data, keeping inconsistent records, and the likelihood of human error. The fact that blockchain is an immutable, decentralized ledger; hence, data entered it acts as a permanent and unalterable record. There is hardly any scope for the risk of errors or unauthorized changes in such a record. Every transaction or entry of data therein is checked and, through cryptography techniques, linked with the previous one, thereby rendering the record whole, consistent, and accurate.

Blockchain smart contracts involve self-executing contracts according to predefined conditions, which are written into lines of code. As such, these contracts enforce and verify the terms of an agreement on their own, without manual checks, hence greatly reducing the possibility of errors. In a way, this step of automation adds more accuracy to the due diligence process by consistently applying and verifying data according to predefined rules.

Conclusion

This blockchain technology is about to rewrite the rules around due diligence in mergers and acquisitions by bringing accuracy, efficiency, and security to new heights. It has a completely immutable decentralized ledger that makes sure all data are stored in a permanent, tamper-proof form. It supports just one record of truth, reducing errors and discrepancies.

Blockchain security is enhanced to prevent unauthorized access and breach of sensitive data, ensuring that it is shared between parties who require the information in a secured manner. This enables secure sharing of data among parties, which creates transparency and fosters trust among parties involved in a negotiation and transaction.

The adoption of blockchain technology will solve a lot of problems which traditional due diligence had and opens the way toward improvements to M&A practices in the future, making more successful and informed mergers and acquisitions.