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# INTEGRATING MANAGEMENT ACCOUNTING SYSTEMS IN MERGERS AND ACQUISITIONS: THE ROLE OF MANAGEMENT ACCOUNTANTS

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### Key findings:

- Management Accounting System (MAS) integration goes through four phases, namely, pre-integration, integration planning, implementation options, review and evaluation.
- Management accountants tend to focus mainly on task aspect of MAS integration.
- Regardless of industry and implementation strategy, similar activities are performed at pre-integration and planning stages.
- Activities performed at implementation stage is contingent on the size of the firm and implementation option adopted.

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### Overview of project

Mergers have become part of the business landscape and a popular strategic choice for companies' growth and expansion. To quote Jemison and Sitkin (1986; p. 107), *'the use of acquisitions to redirect and reshape corporate strategy has never been greater.'* Yet despite the popularity and strategic importance of mergers and acquisitions, several major consulting, advisory services firms and academics have reported that about 60–80% of all mergers are financial failures when measured in terms of their ability to deliver profit increases or wealth gains (KPMG, 1999; Mergerstat, 2000; PricewaterhouseCoopers, 2000; Henry, 2002). Mergers and acquisitions (M&A) are clearly beset by numerous problems and the issue of mergers and acquisitions' failure is central to research in M&A studies.

Systematic research evidence indicates that one of the reasons attributed to mergers and acquisitions' failure to create value for shareholders is lack of effective and successful integration of the two companies. Researchers have addressed the issue of post-acquisition integration process from human resources, cultural and corporate points of view. However, in the context of management accounting integration, we know very little about what management accountants do when two companies are merged. A MAS which encompasses accounting systems designed to provide information for use by managers within an organisation, is regarded as the most important formal source of information for all aspects of business planning and control. Moreover, it is argued that acquisition success is, to some extent, contingent on the effective management of the integration process.

Therefore, the actions that are taken to manage the task involved in management accounting integration are a key to successful performance.

The high rate of M&A failures, the dearth of research and the lack of explanation of the role of the management accountants in M&A integration process raises some important questions for senior financial managers charged with the responsibility of integrating the various functions and tasks inherent in the MAS integration process. This study attempts to rectify this position by examining and mapping out the role played by management accountants in the integration process of MAS in mergers and acquisitions with a view to providing a guide for practicing accountants and senior managers

### Objectives

The main purpose of this research is to examine and map out the role of management accountants in the integration process of MAS in mergers and acquisitions. The study focuses on the role played by management accountants prior to, during and after the M&A of the two companies involved. Specifically, this study attempts to answer the following research questions:

- What is the role played by management accountants in the M&A integration process?
- What are the main factors influencing the MAS integration process?

### The role of management accountants in MAS integration in M&A

Using in-depth interviews with eight companies, the study finds that the integration of management accounting systems goes through four sequential stages with a number of activities being performed by management accountants. Our framework for MAS

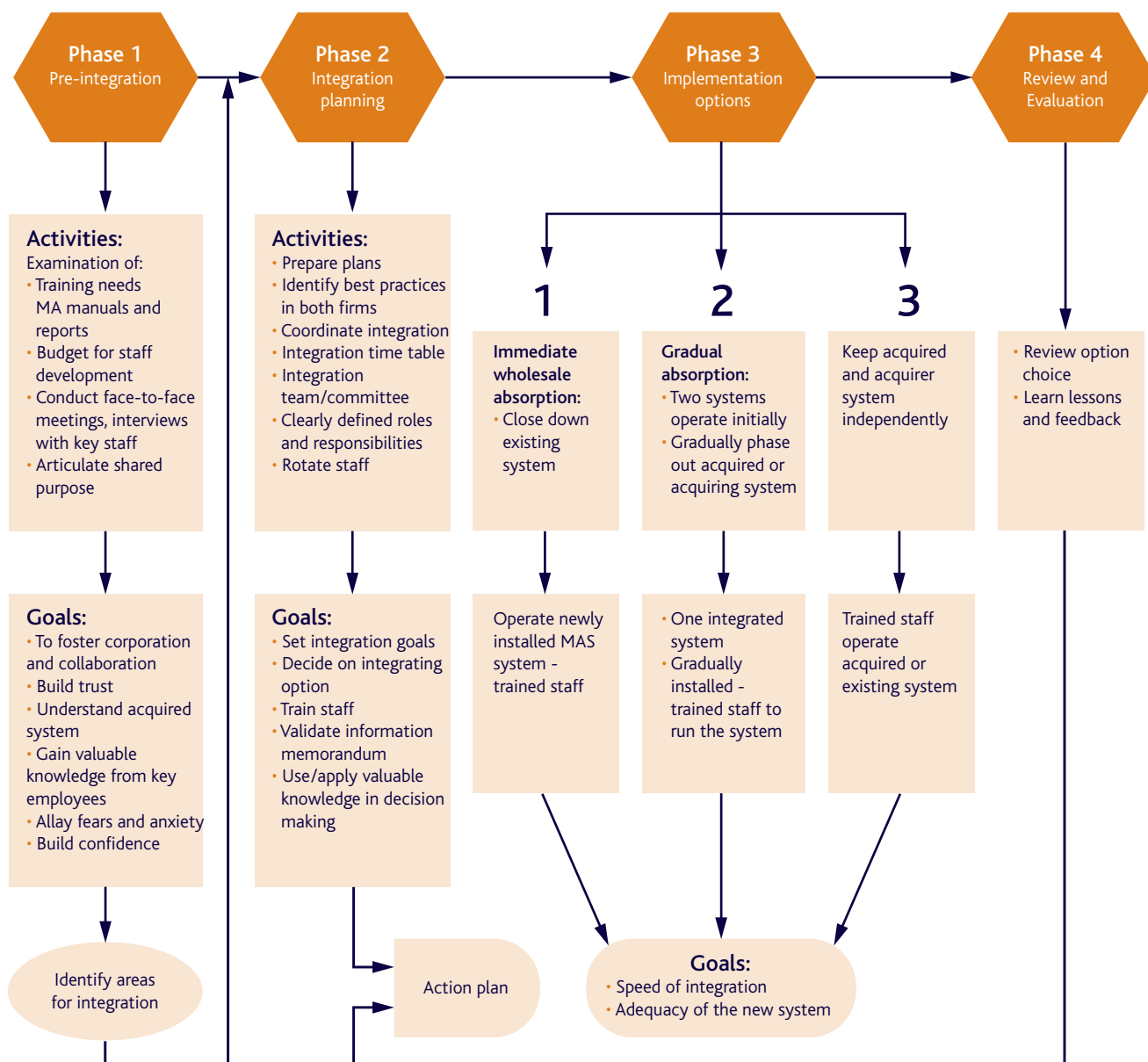
integration suggests a three staged process which encompasses the following:

- Pre-integration stage is designed to foster co-operation, trust and understanding of the acquired MAS to help plan the integration.
- Integration planning stage aims to develop a blue print and decide the integration option to follow.

- The choice of integration option to achieve speed of integration, hold on to or retain customers and key staff members, provide relevant and reliable information for performance evaluation and the achievement of synergies.
- Review and evaluation is designed to learn from and rectify problems arising out of implementation.

Figure 1 captures the activities which are performed and goals of each of the four phases are discussed below.

Figure 1: framework for MAS integration in M&A



### Phase 1: pre-integration

The first phase pre-integration stage involves the acquirer preparing the ground for the integration to take place. This involves information gathering with a view to develop trust through various means of communication. It is important to point out that it is in this stage where employees of the acquired and acquirer will have to work with each other in order to obtain information to accomplish the goal of successful integration. As a result, communication is intense and done mostly on a face-to-face basis where feasible, and in some cases through telephone and emails. This point was emphasised by a number of respondents. A respondent indicated that *'at the early stages of the integration process, communication cannot be done remotely on the telephone, and it is a lot easier if people spend some time with the person who hands it over to you.'* This is supported by the respondent who said *'trying to get people from the acquired company on board by communicating carefully actually helps.'* Communication with key management accounting staff, and continuous communication with all employees and unions to clarify issues such as possible redundancies, at the early stage is therefore central to the achievement of the effective integration and reduction of employees' resistance. The extent of the acquired accounting employees' participation at this stage has a tremendous influence on the integration outcome hence it is important that the acquirer's management accounting team acknowledges the importance of the acquired accounting employees' role and handles it through continuous and face-to-face interaction. During this phase, the following activities are carried by the management accounting staff.

The acquirer management accounting staff undertakes regular on-site visits to:

- conduct face-to face meetings, interviews with key members of accounting staff
- examination of MAS manual and reports
- distribute and collect an information request form (also called information memorandum) from management accountants giving details about the acquired company MAS
- articulate shared purpose through regular meetings with the management accounting staff
- jobs rotation – where key members of staff in both target and acquired firms exchange jobs and/or work together to familiarise themselves with the management accounting systems in both companies.

These activities are carried out to foster co-operation and build trust, and to facilitate understanding of the acquired MAS. More importantly, this phase helps to draw a list of priority areas to take immediate control of, to ensure continuous flow of information for customer retention, facilitate the identification of training needs, preserve quality of data and areas to integrate, increase shareholder confidence, ensure costs are controlled and integration synergies are capable of being measured and achieved during the integration.

### Phase 2: integration planning

The second phase aims at creating a plan for integration. This phase is very important as it outlines the integration process. It may be argued that every merger deal is unique and may involve different sets of problems, however, it should be recognised that the performance of certain common activities will result in a higher level of synergy and promote the eventual success of the integration. Prominent among the activities performed at this stage are:

- selection of integration/installation team
- validation of information memorandum
- set integration goals
- prepare the blueprint for integration with time table
- prepare the training plan with checklist
- clearly define the roles and responsibilities of the installation team
- establish the reporting lines
- decide on the integration options to be used for implementation.

### Phase 3: implementation and choice

At this stage, the integration strategy has to be decided and how the MAS is going to be integrated with structure and control systems. We found that three integration strategies/options are used by management accountants and they are:

1. immediate absorption
2. gradual integration
3. two management accounting systems operate independently.

The key activities normally performed at this phase are co-ordination, standardisation, absorption of the acquired management accounting system and closing down the acquired MAS system.

**Option 1: immediate absorption**

The primary aim of this approach is to consolidate completely the MAS of both firms through assimilating the target firm MAS into that of the acquiring firm. Here the acquired MAS is replaced with the acquirer system. As this method of integration involves a significant degree of change in the target firm, it is important to prepare a preliminary plan for key integration issues, transitional structures, techniques for continuous communication, co-ordination and preparation of a time table for the closure of the acquired management accounting department and its eventual movement to the acquirer's system. The change is carried out in a relatively quick manner to reduce the level of disruption resulting from the delay in the integration of MAS. It is pertinent to point out that the communication tool employed is predominantly face-to-face and more intense in nature.

**Option 2: gradual integration**

This option involves the following activities: training of staff/development, co-ordination, standardisation of documents and consolidation and regular review. In addition, many of the activities involved in the immediate absorption will also be undertaken. This option is relatively slow and may take about 6-18 months to complete depending upon the size of the firm and the complexity of the management accounting system. This is the most popular option for the organisations surveyed in this research.

**Option 3: two systems operating independently**

This option involves operating each system independently after acquisition. This approach is necessitated by a high need for operational autonomy with the acquirer and target systems being kept at arm's length. The most important activity here is staff development, in particular, the use of job rotation to help accounting staff of the two companies to understand both systems and improve quality of information needed for decision making.

**Phase 4: review and evaluation**

Following the implementation of one of the options is the review and evaluation of outcomes. Here lessons are learned and fed back into the process for future management accounting integration.

From this process, the success of post-acquisition integration process is measured. These include

improvement of MAS, staff and customer retention, speed of integration and realisation of operational synergies.

**Factors influencing the choice of MAS integration option**

Regarding the factors influencing the choice of implementation option (namely, immediate absorption; gradual integration of the acquired companies; or the two systems operating independently) to be adopted, we find that two sets of factors influence the choice of integration approach: firm-specific factors and performance-evaluation factors.

**Firm-specific factors**

Firm-specific factors relate to the unique characteristics of the acquired firm and the extent to which they differ from the acquirer system. These include:

- size of the acquired
- complexity of the management accounting system
- familiarity of the acquiring firm with the target firm
- reporting requirements
- the adequacy of the acquired system
- compatibility of IT systems.

The firm-specific factors impact both on the effectiveness of performance evaluation and the management accounting system integration. For example, the complexity of the production system influences the extent to which the MAS can be simplified and consequently the choice of management accounting implementation option to be adopted.

**Performance-evaluation factors**

This is driven by factors which facilitate good evaluation and performance. These include:

- to facilitate comparability
- to simplify MAS to ensure adequate and timely production of information
- perceived level of resistance by the acquired staff
- future information needs and
- level of co-ordination and communication required.

It is pertinent to note that the list of factors identified in our theoretical framework cannot be considered exhaustive since we were unable to identify and include all factors.

### Factors influencing the post-acquisition integration process

We found that size is the single most important factor. One of our respondents pointed out that *'whether to replace the acquired system immediately or integrate on a gradual basis is 'very dependent on the size of acquisition.'* Supporting this view, another interviewee said *'it is very much dependent on the size and the similarity of the systems to be integrated.'* This point was further reinforced by the other respondents.

### Summary

The study has examined the role played by management accountants in MAS integration process of mergers and acquisitions. This study represents one of the first attempts to provide a framework for MAS integration and therefore makes a significant contribution to an under-researched area of management accounting.

The study finds that the role of management accountants in the MAS integration is focused on task aspects of the MAS integration process with relatively little attention on human aspects of integration. The emphasis of task integration process by the management accountants is not surprising in that the activity segmentation during acquisitions creates a process in which managers focus on the job they have been given rather than on the whole (Birkinshaw et al., 2000) hence management accountants may focus on task to get the job done.

The study also finds that all the acquirers (regardless of the industry size and implementation strategy to be used) follow the similar activities outlined in the first two stages of MAS integration framework i.e. pre-integration and integration planning. However, at the implementation phase, the activities to be performed are contingent upon the implementation option adopted. Companies adopting immediate absorption tend to undertake minimal changes while companies adopting gradual integration tend to perform a number of activities ranging from co-ordination, standardisation of documents and consolidation. In addition, this study finds that large acquirers are more likely to immediately absorb the management accounting system of relatively smaller acquired system. This is not surprising given that integrating a relatively small firm tends to be easier. However, where the acquired system is unrelated, the acquirer is more likely to retain the MAS and allow it to operate independently.

Notwithstanding the common activities we documented and normally performed by all management accountants, it is pertinent also to point out that we also find that each acquisition tends to be unique and different with many contextually divergent issues influencing the integration approach to be adopted or used.

Another important conclusion to be drawn from this study is the importance of communication. We identified communication as a major tool for reducing the uncertainty among the people involved. Gathering important information about the target MAS is a key to stabilising volatile situations and reduce the dysfunctional effects likely to undermine the integration process.

### Lessons learned and suggestions for management accountants

An examination of the framework for integration process we have put forward in this study indicates that the integration of MAS in mergers and acquisition involve both task and human resources integration activities with a number of common activities being performed by management accountants during the integration process. The implication of this for management accountants is that, certain common activities are important for the successful integration of MAS in M&As. We suggest that managers should pay attention to these activities, particularly, those relating to the first and second phases of the integration process.

Another important implication of the finding is that management accountants of the companies examined place more emphasis on the task aspects of MAS integration process in mergers and acquisitions with relatively little attention on the human aspects of integration. Although, it is acknowledged that the concentration on task integration can lead to the achievement of synergies but may also result in poor employee motivation. Given that the integration of MAS involve people, who in some cases, are about to lose their jobs, lack of full and proper attention in this vital aspects of integration may result in uncooperative attitudes towards the integration process with potential negative consequences. The important lesson to be learned here is that, although task integration and human integration require separate and different management actions, efforts must be made by management accountants to give equal attention to both task integration and human integration as they both constitute important elements



for successful integration. For the process to generate maximum benefits both task and human integration issues should be at the core of MAS integration process. Specifically, we suggest that there should be personnel among the management accounting integration team

charged with the responsibility of dealing with human aspects of the integration far beyond just taking actions to get co-operation and information of the target employees.

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