



Integrating an acquisition – the 3 priorities

Acquisition is followed by integration, but how do you avoid the numerous pitfalls that lie in wait for company mergers which explain their high failure rate? There are four different types of integration:

- Full merger of two similar businesses;
- Integration of the smaller business into the larger;
- Creation of two separate entities under the same management;
- Creation of two separate corporations, linked only by a common owner.

The first two types of integration are mostly used by small businesses, while the second two are common to large companies interested in meeting the maximum number of needs in a specific market.

To determine which is the best formula for you, you will probably have to hire consultants who will evaluate the acceptable risks for each of the two entities, how easily they can be integrated and the tax implications of the solution you choose.

You must also set up a transition team headed by a member of the management team for the entire duration of the transition. It would also be a good idea to hire a manager who specializes in mergers and acquisitions to help you develop an action plan detailing the objectives, costs, and timelines. Avoid making the mistake of wanting to do everything at the same time.

Financial and fiscal integration

When it comes to financial integration, you have to look at the accounting cycles of the two businesses. If you decide to merge the budgetary, financial, and tax schedules of the two companies you want to integrate, you must take into account the objectives of the new entity.

In terms of accounting, you need to look at how stock and the annual inventory are managed, at tangible capital assets (buildings, equipment, fleets of vehicles, etc.), how losses are carried over, and the off-balance sheet items of both companies. After the transaction, you will have to report the assets of the company you purchased at their fair market value in the corresponding items on the financial statements (inventories, fixed assets, etc.) and charge the difference in the purchase cost to the intangible value related, i.e. to the valuation of goodwill.

If the price of each element is specified in the sales contract, it will be easy for you to deduct the value attributable to amortization. If not, these elements will have to be valued at their fair market value.

You must comply with the deadlines for transmitting the information concerning the transaction to the various government authorities, and comply with the law, especially the Competition Act.

Integration of human resources

In most cases, human resources are the most valuable asset of the company acquired. For service and high-tech businesses, it is the main asset the purchaser wants and is often the only reason for the decision to buy.

Therefore, the quality of the relationship with the employees of the acquired entity must be one of the transition team's top priorities. It is essential to minimize the period of uncertainty that always follows the announcement of an acquisition, and to put in place a communication plan to keep employees informed. Follow up frequently and explain any delays. In this type of situation, silence can do more harm than a brief explanation about any setbacks that arise.

If your integration plan calls for layoffs, you must inform the people concerned as soon as possible. To boost the morale of the employees - those who are leaving as well as those who are staying - it is common practice to offer laid-off workers severance pay and help with their future careers.

Remember that you are trying to integrate two business cultures, and that employees often have a tendency to see themselves as "winners" or "losers". Proceed cautiously and avoid upsetting the integrated employees by imposing your way of doing things. On the other hand, if applicable, you should not hesitate to adopt effective management practices or certain policies of the company you have acquired.

Technological integration

Fortunately, the integration of technology into small businesses is often simpler than you think: their technological environments are more homogeneous than those of large corporations, which have more customized systems.

However, small businesses at the cutting edge of computer technology constitute special cases when it comes to merging dissimilar systems. In particular, difficulties arise in the case of manufacturing companies that have integrated management systems (such as *Enterprise Resource Planning* or ERP). Another example is of companies that have integrated their local network and Internet technologies to facilitate internal cooperation and transactions with the outside.

Sometimes the most logical solution is to choose one system and eliminate the other after transferring the data. In complex cases, it is recommended to develop a technology integration/ elimination plan for equipment, networks, software, security, methods, and procedures, which can include training costs and calculations for lost productivity. [CA Magazine](#) has an interesting article on this subject.

If you do not have the internal know-how to do this type of work, ask your initial technology supplier to assist you in this matter. If necessary, issue a call for proposals in order to compare your supplier with that of the company you acquired.