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What business integrity in M&A means to shared services?

When businesses come together through mergers and acquisitions (M&A), they bring their unique master data definitions, accounting treatments, data sources, and more. Ensuring the consistency of these components as one organization combines with another is essential for successful M&A transformation. Ideally, the business decision-makers should be able to compare data between the companies, but in an M&A environment, often they cannot. This is where the concept of "business integrity" comes into play, and in many instances, the shared services organization is well positioned to add value regarding it.

What is business integrity in an M&A environment?

"Business integrity" refers to having reliable data upon which to base decisions before, during, and after an M&A transaction. To create business integrity, one must know the sources of data, understand how it is defined, and reconcile any differences between how the acquired entity records transactions versus how the buyer records them.

At its core, business integrity is about having confidence in the data a company must rely on when making decisions for the combined company. Differences in how companies measure profitability offer a good example.

As companies come together in M&A, they may need to rationalize their product offerings, and the profitability of each product is often a key component in determining what to keep, what to divest, and what to prioritize. But companies often define profitability differently in terms of cost inputs and revenue sources. If you want to make informed, fact-based decisions, you should first have integrity between the definitions and data sources.

What are some common areas where business integrity is often lacking?

Profitability is one area, as was just mentioned. Another is expense classifications. For example, one company may classify advertising cost as a selling, general, and administrative (SG&A) expense, while another might embed it into the cost of goods sold. Inventory valuation is another common area where companies differ in how they value obsolete or slow-moving inventory.

Credit is also a frequent area of misalignment. When one company purchases another, it inherits new customers, and decision-makers will want to assess the credit risk they represent. However, the two companies may have different policies around granting credit, assigning interest rates, and collecting balances due. Additionally, if credit-related data is coming into a shared services center from disparate sources, and there aren't many checks and balances in place, you should question if it's been manipulated in some way. For instance, in the retail environment, we've seen cases where stores have overridden the credit limits established by corporate. This was discovered during the integration process.

It's not just about risks, though; it's also about rewards. Sometimes, business integrity is lacking in areas where there's considerable upside potential in getting things right, such as accounts payable. For instance, the acquired company may be entitled to a one to two percent discount if it pays a vendor within 10 days. But, if the payment terms haven't been captured or recorded correctly in the acquired company's system, the combined entity may forgo the early payment discount or miss other opportunities to take advantage of its enhanced purchasing power. In the end, it's about verifying the definitions and sources of data so a company can understand the true risks and rewards associated with what it just bought.

What's new in the realm of business integrity and how can shared services add value?

Shared services centers work with cross-functional processes and data so they are well-positioned to add value by being the guardians of business integrity. In terms of what's new, the Financial Accounting Standards Board recently released guidance on lease accounting designed to improve financial reporting about leasing transactions. Many companies do not store their leases, or other types of contracts for that matter, all in one place.

Shared services offer companies an opportunity to create a centralized contract management database through which business integrity can be verified, compliance processes can be expedited, and value-generating analyses can be performed. For instance, shared services staff could look at when leases expire or examine how long it's been since they were first signed and whether or not they're recurring or "evergreen." In an M&A context, they might find opportunities to renegotiate, consolidate, or restructure in light of the collective needs and purchasing power of the newly combined company—all of which could potentially reduce costs.

Robotics, in-memory computing, and other advanced technologies are also presenting new opportunities to add value by reducing the number of steps required to execute processes. For instance, these types of technologies can access, consolidate, and verify the data needed to process a customer order and present it in a unified way. This enables the person sitting at a desk in a shared services center to see it all in a single view and to complete the task in one or two clicks instead of several.

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