Merger Right Sizing

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Where have all the people gone - long time passing?

When organizations merge or are acquired, there follows an unsettled time where the integration needs to happen. Ultimately the combined workforce will be sized to reflect the joined operation, but how does a wise organization get to that ideal state with the least amount of pain?

Sizing an organization following a merger is really no different from determining the correct size of any organization at any time. It is a matching of the work to be done to the resources available, all things considered. How we wrestle with the concept of "all things considered" is the tricky part. Let us look at some potential ways to determine the size of a work force and the advantages and disadvantages of each one.

Historical Precedence

If we look at the historical staffing levels of two separate entities and do some extrapolation, we can make an estimate of how large a workforce to have in each department following a merger. The danger here is that the newly formed entity is not really just the sum of the two previous separate groups. It is a completely different organization. For a time, it may be necessary to run heavier than desired as the old processes must exist in tandem with new ones being invented.

Listen to the Squawking

Some leaders like to gauge the level of staffing such that there is a reasonable level of complaints about not enough staff, but not an extreme level where people are starting to burn out, have health problems, or just leave for greener pastures. If there is no noise coming from the existing workforce, it means that people are "happy," which some leaders interpret as also being "fat" and "dumb." Some level of tension to scramble after tough goals despite running thin seems like a reasonable place to be. The caveat here is that regardless of how an organization is staffed, some percentage of the population is going to complain there are not enough people to do the work. Often these individuals are the same people who wander around about half of the time complaining to their co-workers that there is not enough time to get the work done.

Analytical Approach

As an example, say your combined organization has 517 people on the payroll. One way to look at the right size challenge is whether the organization would be worse off in the long term if there was either 518 people or 516 people onboard. If the answer is "yes" to both questions, then you have found the right staffing number. That sounds too simple, and it really is because it forces a kind of precision about what people are capable of in various venues that is just not available. Exactly who these people are and what capabilities they have is of critical importance. The calculation of a specific number would be impossible, but the logic behind the thinking process is sound. If you were able to approximate the thought process in each smaller unit, then it might be more practical to think this way.

Consider the level of cross training

The use of training time and activity as a buffer for workforce size issues has many benefits. In an article titled, "Cross Training The Miracle Cure," I have documented some of the benefits of cross training as follows:

- Increased motivation among employees, that make them less likely to be absentees.
- Flexibility to operate efficiently in any other position. Handy for future restructuring or employee shifting, when needed.
- Personal bonds made between peers who cross train together and share ideas.
- Acquiring new skills leads to higher job security.
- Increased self-esteem and fun occur with learning different tasks.
- Trust between employee-manager increases.
- ROI (return of investment) compared to other training options is outstanding because timing of training can occur during slack times.
- A cross-training program teaches employees to maintain job processes well documented and easy to communicate.
- While cross-training occurs, new ideas for improved processes often surface.

By taking the opportunity to do more cross training, it may reduce the immediate cash benefits of running with the lowest possible number of people, but it may be a much better financial choice for the organization long term. As leaders seek to develop the workforce, people become capable of doing more and are able to pick up slack when there is an upswing in business.

Change the rules and the functions

It might be possible to improve the top line by putting more feet on the street. Employees who previously worked in Accounts Receivable, for example, might have the connections to be deployed as additional sales resources. When there appears to be an excess of resources, it is a great time for a leader to get creative with what is possible in terms of changing the game rather than just getting out the axe.

Percentage Reduction

Probably the least creative and interesting way to configure the size of an organization is the one most often used by corporations. Somebody takes a look at the Income statement and decides we need to cut 15% across the board. The level is arbitrary, but it takes on a kind of legitimacy as managers throughout the organization strive to meet the bogey. It can be counterproductive because it penalizes groups that have historically run lean since the percentage cuts are normally spread evenly.

Experiments with Contract Labor

Many organizations have gone to a different model where the control mechanism is not how many employees are on the payroll but what percentage of temporary or contract workers are onboard. Having the ability to throttle up or down on the number of contract workers allows much more flexibility than the hire and layoff model of earlier times. Because acquisition costs are lower for contract workers, and with the ability to let them go without penalty, organizations can experiment with several different staffing strategies in reaction to differing market or competitive conditions. Unfortunately, the downsides of running with a hybrid workforce are so numerous this topic deserves a separate article. Whenever contract workers work side by side with full time employees on similar tasks, the atmosphere is ripe for conflict and lower trust. It is best to separate functions so that contract people are doing different work from full time employees and to have policies in place that ensure contract workers can feel fairly treated.

Anticipate

Wayne Gretzky made the following observation about his success in ice hockey, "I always skate to where the puck is going to be." Doing good research about factors governing the size of needed workforce can allow time to right size the organization in a way that has little disruption. It is when we are caught off guard by a major recession like 2009, or experience a huge windfall of business due to the demise of a competitor that we become frantic about being way out of line relative to current conditions. Colin Powell said, "Great leaders have the ability to see around corners." Good organizations are constantly asking "what if" type questions.

Having the right size of workforce is very much an art. Doing it well involves a consistent approach, a strategy, some training, and lots of practice. Sometimes it involves high risk, and other times it is a routine activity. Getting and keeping control of this HR process is particularly important during a merger or acquisition when all economic and human factors are up for negotiation. Making good decisions during these times is essential for the survival of the organization.

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