

Reducing the pains of  
cost cutting  
Four strategies to tackle  
the people challenges of  
cost reduction



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# Introduction

With the recent economic downturn, many companies are increasing their focus on cost improvement. Typical cost reduction activities, such as redesigning organizational structures to meet future requirements, often have a significant impact on employees. When not properly managed, these impacts on employees can prevent a company from realizing the full benefits of a cost reduction effort. For example, ingrained behavior may be a major barrier to implementing new process or structural changes, while business uncertainty could fuel the flight of top talent.

Given the degree of impact that people challenges could have on the effectiveness of any cost reduction, it is surprising that many companies underestimate the effort required to address these areas. In a recently released Deloitte cost improvement survey called [\*In Fighting Shape: A survey of cost improvement trends from Fortune 500 Companies\*](#), companies interviewed acknowledged the importance of corporate culture and employee behavior in driving successful cost reduction. However, the survey also revealed that companies often underestimate the effort required to make these changes happen.

This report focuses on the four areas revealed by the survey as critical to addressing the people challenges that occur during cost reduction: culture, executive alignment, communications, and workforce transition. It offers practical insights on ways these areas could impact the success of cost cutting initiatives and provides strategic actions needed to achieve results. Companies that are prepared to address these challenges are likely to realize significant cost savings and sustainable improvements to their cost structures. Ignoring these issues, however, can result in slower adoption of changes, increased resistance to improvements, and a marked reduction in the effectiveness of a cost reduction effort.

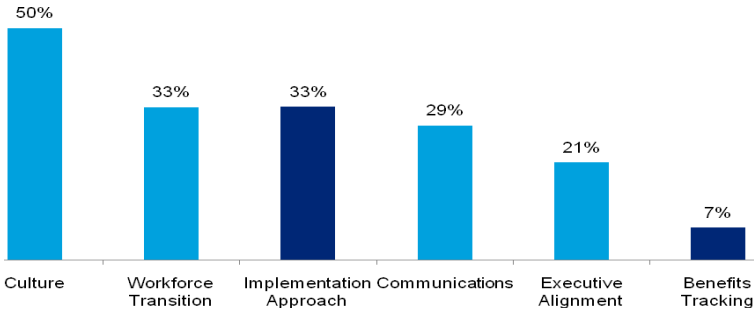


Figure 1: Survey findings – Areas where effort was underestimated (% of respondents)

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# Culture

## Getting started

Starting a cost reduction program? Or perhaps already in the process? Answer the following questions to assess your readiness to tackle the common people challenges:

- I know how we will overcome the cultural barriers that may threaten the execution (or sustenance) of the cost reduction initiatives.
- I know how much we will communicate, how soon and how often.
- I am clear about channels that will allow us to communicate broadly, yet in a sensitive manner.
- My top leaders are aligned on the business case for the cost reduction, and will execute the tough changes.
- I can identify my critical talent, and we have strong retention strategies in place.
- We know who we need and who to let go.
- We are clear on how we will maintain employee morale and productivity during implementation and post-transition.
- We are clear on how we will support career advancement within a lean organization structure.
- We know the best way to treat our displaced employees.
- We know best to make the cost reduction benefits stick.

## Reinforce a cost conscious culture.

Culture is the most dominant barrier to effective cost reduction. To many it seems difficult to quantify, but its ability to prevent companies from reaping the full benefits of cost reduction is very real.

Business executives are effective at the financial analysis of actions that can transform a company's cost structure. However, they often underestimate how tenacious the company's culture can be in resisting the successful implementation of these actions. The general belief is that a cost reduction program is like any other business transformation; but a cost reduction program presents challenges not often seen in a corporate setting.

The reason is that cost reduction typically presents multiple challenges to the status quo, and does so in a way that introduces very emotional responses. Employee reaction to a reduction in force, organizational restructuring, or physical relocation is emotionally strong, and without significant efforts at mitigating these reactions, most employees will retreat to their ingrained cultural behavior. Another dimension of complexity is added when history indicates that the company's leaders have not successfully driven difficult changes in the past. A history of failed change efforts will result in employees who "wait it out" without embracing current initiatives. For example, if the existing culture between business units supports single-function thinking and work execution, it would be a challenge to implement processes that require cross-

functional collaboration or centralization of key functions. Leaders of these business units could feel a perceived loss of control, and would be uncomfortable with potential impacts on their people and business. From the employees' point of view, they identify strongly with their business unit, and having accountability in cross-functional processes is usually an unwelcome concept that would be readily resisted.

Aligning the corporate culture to support the future state is not a day's task. It is a deliberate transformation process that occurs over the long-term. It requires business executives to appreciate the value and importance of culture in making the cost reduction successful. Companies that are most successful in aligning corporate culture are those that enlist the support of business leaders in driving behavioral changes within the business functions.

## Key steps to consider

- **Link desired behaviors to business/ employee value:** Define the behaviors that are required to successfully implement the changes now and in the long term. Prioritize the behaviors and start with areas that have the most significant impact on the cost reduction results. Build a business case for change that clearly links desired behaviors to value creation and employee success.
- **Drive cultural change from the top:** Identify leaders that will be most impacted, and start engaging them during the planning phase. Enlist their support by educating them on the need for change, benefits of the transformation and their role in driving change within their functions. It is important that they buy into the need for change; otherwise employees may be influenced by their lack of commitment to the transformation. Reinforce to these leaders that business as usual is no longer an option by tying compensation to a successful outcome.

- **Align metrics with cost-conscious behaviors:** In the Deloitte survey, two out of three companies indicated that they were attempting to reduce costs at least once a year. The business disruptions caused by cost reduction programs can be minimized by embedding a cost-conscious mindset that guides employees in making the right decisions every day. One way to do this is to link metrics and rewards to desired behaviors.



# Communications

## Communicate with transparency and sensitivity.

Communications can often be a source of uncertainty. Too little effort can result in a lack of trust, high attrition of top talent, damaged company reputation, and a sharp decline in employee morale and productivity. Additionally, poorly structured communications can lead to misinterpretation of information and false promises to employees. Companies that strike the right balance are those that follow some key strategies: start early, maintain transparency, target the right audience, and consistently drive the message of change.

Executives should start communicating as early as possible; all the details of a cost reduction do not need to be firmly in place before communication occurs. It is important to give employees the information they need to focus on their work and excel at what they do, and starting early will help you stay ahead of rumors and uncertainty. Remember that employees know when their leaders are not being sincere. Be transparent about the need for change, be clear about the impacts that will be coming, and be sensitive to how changes may impact employees.

When structuring your communications, keep in mind your audience. Your strategy should apply to all employees, but various parts of your workforce may need a customized message. If reductions in force are anticipated, remember that the retained employees are your primary audience, and communications should be tailored to their needs.

Communications should be frequent, consistent, and concise. Beyond implementation of the cost reduction initiatives, an effective communications strategy can be used as a mechanism to continue to measure morale and productivity.



## Key steps to consider

- **Create a Communications Network:** Human Resources representatives and middle management are typically bombarded with questions from employees regarding job security and potential impacts of a cost reduction. Thus, it is important to create an active communications network, and provide these representatives with key messages, a Frequently Asked Questions guide, and education on how to manage employee anxiety.
- **Maintain external company reputation and relationships:** An often overlooked area is communication to the press, customers and vendors. Internal perceptions can permeate through the walls of the organization and so it is important to proactively provide the right messaging to maintain the company's reputation and customer relationships.
- **Create a safe environment for two-way conversation:** Establish various feedback channels for employees to ask questions and provide input (e.g., Intranet Q&A site, anonymous corporate mail box). The more people feel they are being heard, the more they are likely to accept the outcomes of the cost reduction.
- **Track and measure communication effectiveness:** Ensure that the communications are delivered and feedback channels are being monitored. Within the first 90 days of the 'new era', a survey can be released to assess how effective the communications were and remedial actions should be implemented.

## Case study

### Reducing implementation barriers through transparent communications

A leading product marketer had not met its financial targets in the last ten years and most of its margin growth was from portfolio rebalancing. Core operating margins had also been declining steadily. The new CEO (a company veteran) was faced with the challenge of significantly reducing structural costs within a short timeframe.

The CEO's priority was to broadly communicate the urgency of the cost reduction imperative so that leaders and employees understood the need for actions that would be taken. The CEO's first step was a shake-up of the management team, appointing influential leaders who would support the future vision for the company. A series of employee town halls were held by the CEO and new management team to communicate the real picture of the organization's financials and remedial measures that needed to be taken. The town halls were open to all employees and question-answer forums were provided. The town halls were instrumental in establishing transparency in the business case for the cost reduction initiative which helped gain employee support during implementation.

A Change Team of senior executive team members was established to oversee all stakeholder alignment and communications. The team met biweekly and was headed by the Vice President of Human Resources. Other members of the team included the CEO, CIO and Vice President of Strategy. Change management and communication activities were cascaded through functional/business leaders who worked with implementation teams within their respective teams. The functional implementation teams included both managers and individual contributors who not only engaged in cost reduction decision making and execution, but also acted as change agents. They provided leadership with frequent feedback on themes of employee concerns and questions.

### The result

Visible leadership support and transparent communications helped the team overcome various cultural barriers during execution. The company achieved a three-fold improvement in their operating earnings due to the successful implementation of the cost reduction initiatives.

# Executive alignment

## Ensure your leadership team is fully aligned with cost reduction goals.

Cost reduction requires bold leadership, discipline, commitment, clear understanding of the long term vision, and a willingness to confront issues that were previously thought untouchable. These attributes can only be achieved with strong leadership at the top and clear alignment of all leaders across an organization. From the CEO, to business unit leaders, to line supervisors, every layer of management must take the same actions, speak the same language, and deliver the same messages. The urgency of the cost reduction effort may create an alignment gap below the executive level. When middle management leaders understand, believe in, and can talk credibly about the change, the success of the cost reduction programs can be greatly improved.

Alignment is not limited to a top-down approach; it also involves lateral alignment between business leaders. For example, if consolidation is part of a cost reduction strategy, the various business leaders should be aligned on how cross-functional processes will be supported, how hand-offs will be defined, and how knowledge will be shared. Often times, culture plays a key role in successful alignment. It is critical for the CEO to communicate leadership messages that emphasize the importance of behavioral changes in driving business value.

Key to these activities is a strong executive sponsor with day-to-day responsibility for the cost reduction. This individual will work full-time with all project teams to monitor the progress of activities, address any issues, and keep the Executive Team apprised of the progress made and potential risks. Even after

the initiatives have been implemented, a system of metrics should be used to help maintain ongoing leadership alignment and help prevent rapid deterioration of cost savings.

### Key steps to consider:

- **Isolate and resolve key concerns:** Identify and isolate the issues that are preventing full alignment among executives. The root causes of these issues should be directly addressed through appropriate channels such as leadership briefings, one-on-one meetings or effective communications. It is important to continue to focus on resolving the issues until executives understand the big picture and are ready to be advocates for the changes to be made. Companies that have done this successfully, targeted specific leadership members and developed individual customized plans to gain their alignment.
- **Get them involved:** Often times, leaders are simply asked to “support the changes” without a real explanation of how they would do this. Articulate specific activities and messages. An effective practice is to assign a Leadership Action Plan to each leader and monitor the execution of these plans using a central implementation team. Pay attention to top talent managers and assign them visible roles in defining the future organization.
- **Align skill building and personal goals with the cost reduction goals:** Refine scorecards so that leaders are measured on how successful they are in driving changes in their organizations. The retained business leaders should be able to lead the future state organization. Where there are skill gaps, a management development program should be implemented to equip them with the skills and behaviors that they need to succeed.

# Workforce transition

## Retain your critical talent and treat people with respect

Workforce transition is an emotional activity, and involves myriad moving parts that should be seamlessly coordinated to help minimize business disruption. While there are multiple issues to be dealt with regarding selection criteria, process management, and dealing with regulatory issues, there are really two major focus points of any transition: treatment of separated employees, and management of retained employees.

An important principle in staff reductions is to treat those who leave the organization with respect and clarity; the treatment of those impacted by a reduction will be used to judge the responsible executive team. Treating your separated employees well will create a more positive environment for retained employees and customers as well. Separation activities should be discreet, and impacted employees should be provided with the greatest amount of support that the company can make available. Though separation is an emotionally bruising process, the way people are treated can lessen the impact of the decisions made.

Of greater importance, of course, is the treatment of retained employees. Retention of top talent is a high priority for most companies, but it is these top talent employees, with the most marketable skills, who are the most susceptible to being recruited during a transition. During the planning phase, business leaders should work with Human Resources to develop a retention strategy for top talent. This may include various elements from rewards to career opportunities to learning and development options.

Most important in the transition phase is communication and engagement of retained employees, with a goal of helping them to fully understand the role they will play in the future state. Business leaders should be

visible in building excitement about the future and creating a positive environment that boosts employee morale.

## Case study

### Retaining critical talent amidst uncertainty

In response to increasing competition and resulting margin pressures, a leading retailer of consumer goods performed a Selling, General and Administrative (SG&A) benchmarking exercise to identify gaps between its cost structure and that of leading competitors. The results of the exercise initiated the need for a cost reduction program. One of the cost reduction levers was the rapid reorganization of its support functions which would include a workforce reduction.

Due to the competitive nature of the business, the CEO and management team were concerned about the potential flight of critical talent who would be instrumental in leading the future state organization. As a retention strategy, leadership decided to fully involve identified critical talent in designing the future state organization structures. The VP HR collaborated with functional leaders to define the critical workforce segments and identify critical talent across the organization using criteria such as individual excellence, skilled expertise and leadership potential. The selected individuals were invited to a briefing where the CEO communicated the business case for the cost reduction and the importance of their role in shaping the future organization.

The leadership team also committed to their career growth by offering potential leadership roles and other retention initiatives. Over a four-week period, the selected individuals actively participated in organization design sessions, developed future state operating models and designed organization structures. Throughout the process, the critical talent visibly expressed appreciation for the opportunity to play a key role in such an important process and this increased their sense of commitment to the organization.

The result: The critical talent employees played visible leadership roles during and post organization transition and their successful retention helped minimize the high cost of rapidly filling key leadership positions.

## Key steps to consider

- **Know who you need and keep your critical talent:** Understand your critical workforce segments and identify your critical talent. Waste no time letting your critical talent know the important role they play in the future state organization and immediately address their concerns. Continue to invest in their training and career development. Use clear and consistent criteria in assessing employees and select the best people to fill the roles
- **Minimize disruption:** Carefully plan for all transition activities, for both retained and displaced employees. Communicate stories of how separated employees are being supported. Provide retained employees with the tools and training that they need to be successful.
- **Create new career growth opportunities within the lean structure:** In a lean organization, career growth needs to be expanded beyond progression through management layers. Implement innovative development opportunities such as an apprenticeship model.

## A Strategic Approach to Addressing People Challenges in Cost Reduction

To achieve the full benefits of cost reduction efforts, companies need to deliberately plan and implement activities that will mitigate the four challenges we have described. These activities should be integrated into an overall implementation plan that is managed by a bold and influential senior executive. The way these efforts are made in the short-term will greatly influence how people respond to the long-term impacts of cost reduction initiatives. Companies that can successfully address these four key people challenges will build cost-efficient organizations that support their current goals and future strategies.

## For more information, please contact:

### Tom Morrison

Principal  
Deloitte Consulting LLP  
+1 215 246 2449  
[thomorrison@deloitte.com](mailto:thomorrison@deloitte.com)

### Bradd Craver

Director  
Deloitte Consulting LLP  
+1 704 887 1533  
[bcraver@deloitte.com](mailto:bcraver@deloitte.com)

### Rob Grossman

Senior Manager  
Deloitte Consulting LLP  
+1 404 631 2193  
[robgrossman@deloitte.com](mailto:robgrossman@deloitte.com)

### Kemi Yusuf

Manager  
Deloitte Consulting LLP  
+1 215 430 6273  
[kyusuf@deloitte.com](mailto:kyusuf@deloitte.com)

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