Building Trust while Cutting Costs

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“EVERYTHING WENT QUIET.”

That’s how one manager described the workplace immediately after his company announced a large-scale restructuring — and it’s an all-too-familiar story to employees whose companies have engaged in a cost reduction initiative. Decisions are being made at the highest level of management, but little is known outside that inner circle. Employees still need to do their jobs: serving their external and internal clients, meeting deadlines, and moving existing projects and plans forward. But that’s easier said than done in the face of uncertainty. Worse still, no one can be sure that a slash-and-burn cost-cutting exercise will accomplish its intended result. Often, these efforts weaken a company instead of positioning it to grow effectively.

Restructuring initiatives can have a debilitating effect on the hearts and minds of employees, affecting those who stay as well as those who are let go. In our work with dozens of organizations implementing sweeping cost-cutting programs, we have observed firsthand the turmoil that employees experience — and how frequently their needs are forgotten during the crucial work of planning for the transformation.
But what if the restructuring were more than a slash and burn? What if it appealed to hope instead of fear? What if it not only promised, but actually delivered, a stronger company and a better place to work? Cost management is effective only when it leads to a less sclerotic, more aspirational enterprise — one without suffocating bureaucracy or micromanagement, in which initiative and entrepreneurship are encouraged and rewarded, internal processes serve the customers and employees instead of “the process” itself, and the company outperforms the competition consistently. If the restructuring doesn’t help the company get stronger — if it doesn’t lead to a better way of working for everyone in it — then it probably wasn’t worth conducting the exercise in the first place, because the effects won’t last.

Company leaders embarking on a cost management effort therefore face two challenges. First, they have to make the right sort of promise to employees: that cost reductions will be not only fair, but also productive. This transformation is not intended simply to permit the company to survive a few more years — it is intended to set the company on a path to greater prosperity and thus better jobs for those who remain.

Second, leaders have to deliver. They can’t just embark on a project out of desperation. They have to have a credible way to move the company forward, and to make cuts that will serve that goal. The only way to accomplish this is to start with strategy — to have a clear idea of which activities are truly critical to the company’s success, and which are distractions or merely nice to have — and to follow through by cutting costs to grow stronger.

To be sure, many in your company — not just employees, but some senior executives as well — will remain skeptical throughout the early stages of the process. They know that cost cutting means layoffs, and that these are devastating to both individuals and teams. You can’t convince them in advance that you will handle the process differently this time than your company has handled it in the past, and few companies have a good track record in this domain.

The feelings stirred up by an announcement of a cost-cutting action are powerful, and to help people see beyond them, you’ll need to enlist the help of your middle and frontline managers. It’s easy to overlook the important role these individuals play as the restructuring unfolds. It falls to them to communicate the rationale for the restructuring, to keep morale as high as possible during the transition, and eventually to lead their part of the organization to working in a different way. They need your support. Empower them to communicate and lead, not to just passively watch their departments be trimmed without a rationale. They can help their people understand the reasons for the particular choices that were made, and realize that the company, and by extension most employees, will ultimately be better off as a result. In so doing, these managers can earn their people’s trust by helping them see that becoming more efficient and effective is both a path for survival and a better way to operate.

Yes, it will be hard. Yes, some people will move on. But the overarching message is a positive one, intertwined with the company’s strategic identity. What’s more, the decisions made will have a lasting impact: This won’t be the kind of restructuring that has to be endured every few years. If you genuinely come out of the exercise with a company that is more competitive
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and more agile than it was before, then you have a great incentive to offer the employees who remain: a chance to participate in a growing, vibrant enterprise.

Investment, Not Expenses
In our book, *Fit for Growth: A Guide to Strategic Cost Cutting, Restructuring, and Renewal* (Wiley, 2017), we start with the premise that all spending is investment; every cost is a choice. The secret to unlocking growth through cost reduction in a *Fit for Growth* transformation is to make more deliberate choices about where to invest, focusing on what to keep rather than what to cut.

As a company leader, your ability to make these choices wisely depends on accepting a strategic reality: Some expenses are better than others. Companies thrive when they focus their investments on a few differentiating capabilities — the combinations of processes, tools, knowledge, skills, and organization that consistently deliver value for them and that set their company apart from others — and reduce expenses everywhere else. The capabilities at the heart of a company’s strategy are complicated and expensive enough to require most of the time, money, and attention from top management. They also require the commitment, skill, and expertise of a host of other people, at every level of the hierarchy.

*Fit for Growth* transformations entail changes to a company’s cost structure, its organization, and the way the company is run. Many of the moves you might make are familiar: reorganizing business units or functions, slimming down reporting relationships, expanding spans of control, centralizing or decentralizing work, digitizing processes, outsourcing or offshoring, and relocating workforces. Almost certainly, there will be head-count reductions. But this time, you have a clear and communicable rationale for every change. You are refocusing the company around the things it does best, and redirecting spending to the areas that lay the groundwork for sustainable, long-term growth.

Restructurings of this sort require meticulous planning and execution to achieve their objectives. They may take a year or two to complete, led during that period by a transformation team explicitly focused on translating the strategy into decisions about capability building, cost, and the organization, and communicating these decisions across the enterprise. This level of detail might sound like it would create an unnecessarily traumatic experience; many companies prefer a “stealth” approach in which they ask departments to quietly cut costs across the board, assuming that will be easier for people to accept. But the opposite is true. By giving the effort the serious play that it deserves, you and your company’s top management demonstrate that you have a credible view of how to succeed, that you are fully committed to that view, and that you recognize the barriers and blocks that have led to decline in the past. Now you are putting your money where your strategy is.

The transformation proceeds over three distinct stages, each presenting a different challenge in communicating with the workforce. In the first phase, you set the direction for the restructuring, prioritize the opportunities you want to pursue, create the case for change, and express your intent that “this time will be different.” In the second, you translate your strategic direction into a detailed design for the future processes, organization, and systems, and develop a plan for mov-
ing from the current to the future state. In the third phase, you enlist the organization in executing the plan; the detailed design of the transformation becomes the new normal for the enterprise (see exhibit).

Each phase presents critically important opportunities for managers on the front lines to help their teams understand the issues at hand, and to make the turmoil more productive. Many companies that have followed the Fit for Growth approach have restructured without wreckage, enlisting their employees in the cost transformation process. They have even come out the other side with employees appreciating the company in a way they didn’t before. When designed and managed in this way, large-scale restructuring is a constructive exercise; it can make your company more competitive, more profitable, and better prepared to grow.

Phase 1: The Case for Change

“I was very worried about what was going to happen to me and whether I was going to have a job. No one was giving me any reassurance. And no one could.”

For people on the receiving end, cost management exercises can feel like a roller-coaster ride out of control. People naturally think first of their own job security and the protection of their domain. Phase 1 is a time of uncertainty for everyone outside the executive team. Questions surround the vaguely described “project.” There may be an announcement that a major analysis of the organization and costs is under way, but the specifics are not voiced. The idea that the company is cutting costs to grow stronger is not clear; if the company has cut haphazardly or in an across-the-board fashion in the past, it’s hard to imagine that anything different will happen this time. Nobody voices the idea that this effort could fix broken processes, eliminate bureaucracy, or raise the profile of the most successful parts of the business.

Only a few employees know with absolute certainty that they are indispensable. Most feel vulnerable about their own future. Top management may assume that the highest-ranked performers or those handling seemingly critical activities will see their own positions as secure. But they rarely do. Rumors run rampant. Some employees hope that the effort will just peter out a quarter of the way through, which might have happened in the past. Others assume that massive layoffs will cripple the company and that those remaining will end up doing three times as much work as before.

As speculation becomes the dominant topic of discussion in the office, middle and frontline managers bear the brunt of responsibility for answering employees’ questions and maintaining morale. But because they aren’t involved in designing the transformation, they have little idea of what is going to happen. In fact, they may be unsure about their own jobs. This puts
As a company leader, you have to give managers the support and tools they need to be truthful, transparent, and reasonably optimistic. They have to support their people and keep operations going. They want to address the rumors. But they don’t know what to say, or even what to think.

Your goal as a company leader in this phase is to avoid all that. You have to give managers the support and tools they need to be truthful, transparent, and reasonably optimistic. They need to be able to reinforce the case for change as communicated by the CEO in everyday language that will resonate with their team. In addition, they need to find a way to keep their team focused on day-to-day business.

At the start of the initiative, there should be a company-wide announcement making the case for change. Don’t focus yet on cost reduction per se, but on reorientation around your strategy. In a Fit for Growth transformation, you are doubling down on the things that have made the company successful in the past and building them out for greater success in the future. You may want to articulate the core value proposition, which might never have been expressed in concise form in the past, and to signal that it is based on what your company does best.

You can also, at this point, single out a few critical factors that are already in the company’s culture that you hope to reinforce. The idea here is not to provide a definitive statement, since there is still much to define about the specific actions you will take. But you are showing everyone in the enterprise that you are ready for them to think more strategically, and laying the groundwork for the phases that follow.

Next, provide some in-depth guidance for managers on communicating with staff, especially in light of your company’s existing culture and values. Explicitly encourage them to promote on-the-job behaviors that reinforce people’s pride in what they do. In an operation focused on customer service, for example, a manager might launch a customer satisfaction survey and share results with employees. Give managers ways to increase autonomy and on-the-job satisfaction by allowing employees more latitude in delivering customer service or improving shop-floor operations.

Some managers will be doing this kind of thing anyway, and you want to give them reason to believe their engagement will be rewarded. “I encouraged people to control what they could control, to try to stay positive, and to focus on their key objectives,” said an IT director at a company that went through a transformation in 2015. “My feeling was we could all take one of two roads. We could either sulk, not do the work, or not act in the right way — in which case we would be making the decision to let us all go much easier and our fears would become a self-fulfilling prophecy. Or we could continue to work on what we were supposed to work on, try to help the company, hope for the best, and go from there.”

Phase 2: Design and Dialogue

“There would be days when everybody was in tears, and nothing had even been announced yet.”

Phase 2 of the restructuring typically kicks off with the public articulation of a savings target. This is often quite aggressive; it could be 20 percent of operating expenses, or even more. With the target identified, shared with outside stakeholders, and broken down by function and business unit (at least internally), the initiative moves into a more intense period.

The employees who hoped in Phase 1 that things
Managers need to let executives know what’s happening in the trenches, to help remind them to address the communication vacuum.

would just blow over now see that’s not the case. A few more people get pulled out of their day-to-day jobs to help design the detailed cost reduction plans. Some early savings initiatives, such as hiring freezes and travel restrictions, are implemented. But they’re inadequate for reaching the targets, and there are no details on how the company plans to achieve the rest of the cuts.

At this point, people start to act on their anxieties. In some cases, good people — exactly the people companies want to keep — become frustrated with the uncertainty about their future, seek opportunities elsewhere, and leave. Among those who stay, anger and resentment mount.

Managers are concerned on many levels during this phase. They wonder if they and their long-term colleagues, some of whom are personal friends, will survive the restructuring. They are concerned about the fate of their executive sponsors and others who have mentored them; about what it will take to grow and advance in the restructured organization, should they be fortunate enough to be offered a position in it; and about whether the new company will be a good place to build a career. They get no help from the executive and transformation teams, who are occupied with the overall cost management priorities.

“There was no talking point we were given that made any real sense; there was only a talking point to the business piece,” said one manager we interviewed. “And most employees couldn’t care less about the business piece when something like this is going on. ‘Talk to me as a human, as part of your family.’ That’s what people wanted.”

But this time, as you did in Phase 1, you are going to do things differently. You must give managers the support they need to address people’s concerns, including their own. The Fit for Growth approach doesn’t mean playing down the impact, but it does mean painting a clearer picture of the organization you are creating — a can-do culture in which people spend more time doing things for customers and less time managing one another.

Much of each individual manager’s success during this phase comes down to people skills: the quality of relationships the manager has, and his or her ability to convey empathy and communicate a realistic optimism. This is the time for dialogue, for open, deeply felt conversations about choices and the ways they should be executed. There should always be an aspirational element to these conversations, with managers asking senior leaders, “Why did we have to undertake this restructuring? What are we trying to accomplish? How will it feel to work here when we are done?” As managers start to understand the strategic rationale supporting the transformation, they can better explain to their employees how the decisions being made align with the company’s strengths and priorities (which they ideally already discussed with employees in Phase 1), and how they will position the company well for success in the future.

Explicitly give middle managers the support and encouragement they need to communicate up the hierarchy — even when sharing difficult messages — without fear of negative consequences. Executives are often so consumed with shaping the future that they lose track of the feelings within the organization at large. Managers need to let them know what’s happening in the trenches, to help remind them to address the communication vacuum.
Phase 3: The New Normal

“Can we really pull this off? Can we work this way in the future?”

The conventional approach at the third stage of a restructuring is familiar: Cuts take place without a clear strategic rationale, people make do with the resources they have but without changing what work they perform or how, and the company continues to decline.

In a Fit for Growth exercise, however, you’ve already laid the groundwork for the company to revive. Nonetheless, this phase is very difficult. The challenge facing you is to get through the transition and pave the way for the “new normal,” the better system you hope to create.

The transformation is now in high gear. Employees are told how reporting lines and organizations will change. They may learn of plans to consolidate functions across business lines or geographies, to implement new processes or IT systems, to outsource work, to move some work to a new city, or to shut down entire offices. In some instances, early retirement and enhanced severance programs are announced, giving employees even more to think about.

Even in the best circumstances, not everybody likes what they hear. As in previous phases, there will be a lot of bias in how employees interpret information. Some employees think the changes take the company down the wrong path. Others are more concerned about their own department than about the business as a whole. A few are disappointed that the changes don’t go far enough. To ease these concerns, you should continue to hold conversations about the strategic direction of the company, but now offer more detail about the capabilities you have and those you expect to develop.

The question that looms largest for every employee still has not definitively been answered for many: “Do I have a job?” As this phase begins, those decisions have not yet been finalized; indeed, you’ll be calling on your midlevel managers to help make them. Legal and human resources constraints prevent names from being released until the selection is complete and the official communications and severance packages are ready. Employees know the moment is coming, but little else.

“You get the pressures of people calling you who are your friends, saying, ‘Come on now, what’s going on? You’ve got to tell me something. Am I safe?’” recalled a manager of the period when he was huddled in meetings related to employee selection. “To have to turn them down [not be able to answer them] is a tough thing.”

Everything connected with staff reductions — the selection of the people who will end up without jobs, the communication of the unwanted news to those people, and the process of “managing them out” — is difficult. Establishing a fair, consistent, and relatively transparent process is critical. With any luck, your company has taken a rigorous approach to performance reviews before the transformation, and the existing information can be used to select who is let go. If not, you may need to deploy a special assessment to objectively evaluate employees, using it to separate strong, average, and poor performers. However it is accomplished, the selection process as layoffs begin must be as objective as possible, and you must avoid any hint of favoritism or bias. The human resources and legal departments will help line managers get through this tricky time.

It’s impossible to completely avoid pain during head-count reductions, but there are ways to minimize the stress. Voluntary severance or early retirement programs might be undertaken. For those let go, outplacement services can likewise be useful, both in lifting morale and in encouraging cooperation.

On the flip side, managers should expect that some of their high performers will leave in Phase 3, generally for jobs at other companies. Some employees will put out feelers that turn into offers, and others, especially middle and senior managers, will be approached by recruiters. Unwanted attrition is part of the fallout of a transformation. Despite the risk of losing their top performers, managers have to resist the temptation to make promises to employees about their jobs during a restructuring. They should instead continue to discuss the benefits of the transformation to the company and to the staff as a whole.
Managers also face the emotional fallout experienced by the retained team once their friends and colleagues have been let go. For those who stay on staff, the relief of knowing they have a job is often quickly followed by survivor’s guilt. “I felt like I had been hit by a truck when [my closest colleague and peer] told me that his role had been eliminated and that there were no additional roles available for qualified talent like himself in the company going forward,” said a regional vice president of a retail bank. People decisions will be scrutinized, and conspiracy theories about favoritism may arise. This dampens team morale and adds to the concerns over what the new expectations will mean for the remaining employees, how they can perform the work with a smaller staff, and whether those new expectations are realistic.

Despite the tense, difficult atmosphere of this phase, there is also an opportunity to set up the company and its employees for success. The uncertainty that has pervaded the organization now starts to recede. Decisions about new operating models and the required head-count changes have been finalized and announced. Implementation teams are formed to act on the decisions that have been made. Employees at every level see what the new organization will look like and how individual roles will change. Communication that was once minimal moves into overdrive, in the form of memos, town hall meetings, staff meetings, training, and team-building sessions, all helping to keep employees informed and engaged.

Thus, for all the turmoil, the beginning of Phase 3 represents a time of relief and renewed optimism. The stage has been set for a recovery of morale, and people can see the stronger company begin to emerge.

Now managers can begin the more intrinsically rewarding task of managing and motivating the remaining organization. People need to know that their former colleagues were treated with dignity and respect, but more important — now that the focus is turning to the future — they need to understand their role in making the new organization a success. This is a big turning point in the transformation, both practically and emotionally.

The forward-looking communication that is necessary once a transformation has reached this stage is not something that can be accomplished in one or two executive-run town hall meetings, important as those are. There also need to be targeted team discussions led by the immediate managers whom the employees trust most. These conversations are already taking place informally, through the rumor mill. Every department is starting to hear about new systems or processes they will be implementing. There is talk about changes in the metrics that employees will be held to, and about the new measures that will be used to judge their job performance.

This is the time to more explicitly communicate details that have been discussed only vaguely before; to start implementing the new organizational structure; and to codify the decision-making process as well as how information will be shared and how incentives and motivators will be used to influence behavior. In other words, this is when everybody starts to execute the changes that were being talked about and worked on a few months earlier behind closed doors.

The manager is now a field leader who will take his or her employees from the old to the new, helping them learn new processes and systems, adapt to a new organization structure and hierarchy, and change behaviors to move to a new way of working. Most if not all managers will face some challenges with their teams; some employees will need help and coaching to learn the new ways, others will miss the old and resent having to learn the new.

Give managers the support and coaching they need to demonstrate leadership to the team — helping them internalize the “why” and the “what” of the transformation and accept that they will be part of the future. Employees will know immediately if the manager is not 100 percent committed, and will use it as an excuse (perhaps subconsciously) not to make the transition. The manager’s role, then, is to show the employees, in words and actions, that he or she understands the changes, is convinced that they make sense, and will adapt as quickly as possible. The manager must be immersed in all of the organization, process, and systems changes in order to explain them to the team without hesitating or wavering.

And while managers are patiently supporting the willing, they must also identify the unwilling. Despite managers’ best attempts, a few employees may not be able to break with the past. The manager must spot these naysayers early and help bring them along. Tactics could range from extended conversations explaining the changes to blunt warnings about the need to cooperate. And if the behavior does not change, these “derailers” may need to be let go so they don’t poison the well.
Ultimately, the company’s fortunes rise and fall on the decisions that individual employees make every day.

With most transformations, the changes that begin at this point, with new processes, new ways of doing business, and often a refined strategy, need to be jump-started in order to take hold. Corporate culture is an essential tool in making the changes of a transformation stick; such mechanisms as peer interactions and informal leaders should reinforce the most important new behaviors.

**Sustaining the Path**

No organization can operate indefinitely in transformation mode. Thus, in most traditional restructuring initiatives, the positive impact is short-lived as individuals revert to past behaviors and spending habits. As normalcy returns, and so do costs and head count. The program management office is disbanded; the “best and brightest” who staffed the various work streams return to their normal duties — and the urgency and strict oversight that characterized the company at the height of the transformation naturally subside. It can become a vicious circle.

To combat these tendencies, company leaders will need to design and implement the requisite systems and processes to manage change and adjust performance accordingly. In a *Fit for Growth* transformation, they can do so through several approaches. Some are strategic and involve tying the planning and budgeting process more closely to your strategy so that resources are reallocated to your differentiating capabilities. Others are operational levers that you can apply to align your cost structure to your strategy on a continual basis. There are also organizational levers that you can pull to motivate and empower employees to act in the company’s best financial interest. Last, you can reinforce a culture and value system that encourages cost-conscious behaviors over the long haul.

Ultimately, the company’s fortunes rise and fall on the decisions and trade-offs that individual employees — the managers on the front lines and the people they lead — make every day. Will those decisions benefit the firm as a whole or maximize the self-interest of the person making them? The three phases of change can be managed in such a way that people understand the strategic rationale for the decisions handed down, even when they are tough, and clearly understand their role in shaping the new organization. They can forge ahead, confident that choices were made to enable sustained success. When trust prevails, so does the company’s future.

**Resources**

Deniz Caglar, Vinay Couto, and Gary L. Neilson, “Be Your Own Activist Investor,” *s+b*, Oct. 19, 2015: With these 10 principles for rethinking cost management, you can maximize value and avoid threats from Wall Street.

Deniz Caglar, Marco Kesteloo, and Art Kleiner, “How Ikea Reassembled Its Growth Strategy,” *s+b*, May 7, 2012: During the Great Recession, this iconic Swedish furniture company developed a new way to expand — cutting costs while increasing customer loyalty.

Deniz Caglar, Jaya Pandrangi, and John Planisky, “Is Your Company Fit for Growth?” *s+b*, May 29, 2012: An introduction to the fundamentals of the *Fit for Growth* strategy.


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