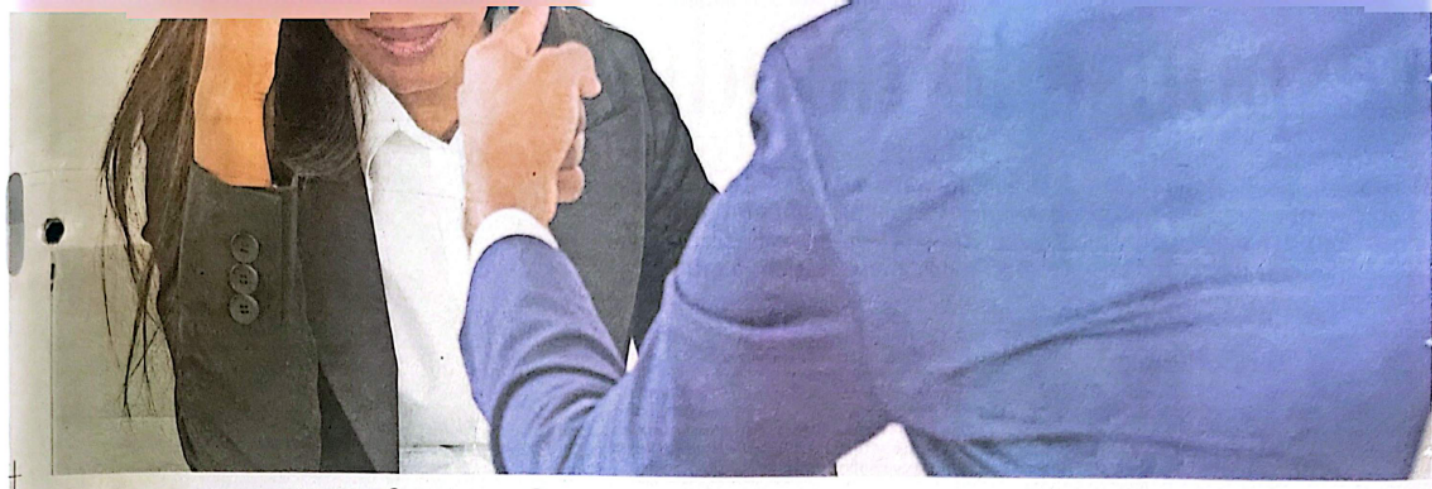


Cost-cutting is not a growth strategy



THE C-SUITE

with Ian Ortega

It is a fact that sometimes organisations are bleeding too bad, a tightening on the cashflows can always do the magic. And it is also true that there is always hidden waste in any organisation with more than 30 employees.

One of the things new CEOs tend to do when they arrive in an organisation is to embark on a cost-cutting drive.

And rightly so, because what better way to make your impact felt than to close up all the points where the boat is leaking.

Through this cost-cutting, everything gets taken through a stringent approval process, with everything having to be justified.

From staff team buildings to printing paper (of course without ever touching the C-suite benefits and allowances).

These cost-drive out measures always help the organisation to stay afloat, and buy some breathing time.

It is a fact that sometimes organisations are bleeding too bad, a tightening on the cashflows can always do the magic.

And it is also true that there is always hidden waste in any organisation with more than 30 employees. It is never apparent to the insiders, but to an outsider, it is easy to spot. And these become quick wins for a new CEO.

My argument is that rarely does an organisation find such a breakthrough in its cost-cutting measures that results in a proper turnaround or a growth strategy. Why? Simply because in the process of cost-cutting, the organisation accumulates new costs.

These costs include the staff being taken off their other duties to pursue these cost-cutting measures. It also means that an organisation goes from a value-driven mindset to a cost-driven mindset.

When every decision takes on a cost interpretation, it is easy to forget that the reason a business existed in the first place was to create value.

There is a tendency to conflate cost-cutting with value-creation. Although correlated, they are not the same thing.

Sometimes, in organisations, cost-cutting measures are also interpreted as witch-hunting measures, as one corporate alliance goes against another corporate alliance.

It is hard to get buy-in from the entire organisation. For a team that is looking forward to its annual team-building session, telling them it will not be possible anymore can injure morale.

Sadly, there is no measure of this impact. There will always be consequences, but the kind that cannot exactly be pointed to.

But this impact will show up every day as employees do not move the extra mile; they assign more weeks to work that could have taken days.

NEW COSTS

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In the end, new waste streams emerge, this time more hidden, hard to catch, waiting for the next CEO to catch them.

Cost-cutting buys breathing time

Cost-cutting can only buy one breathing time. It allows you to put things in perspective.

Stopping the leaks in a boat will only stop you from sinking, but it will not help you with the rowing. And if all resources get diverted from rowing into cost-cutting, then you have an organisation that is in stasis. No rowing, just pouring water out of the boat, and patching up leaks.

Who then will think of adding an engine to the boat? If that transformative decision will be shut down based on the cost-cutting imperative.

If an organisation stays afloat yet remains stunted, then it will not also be able to hold on its most valuable employees, it will not be able to retain and recruit great talent.

Over time, such an organisation will atrophy, coming to its death by the very mechanism that helped it stay afloat.

Culture is the growth strategy

Thus, while all the cost-cutting is happening, the CEO ought to always remember that the game has always been about culture.

It is about articulating the vision of what is possible and the culture it will take to bring that to life.

Humans will suffer any danger, any struggle, as long as they are able to see a beautiful end in mind. Vision and culture exist to do this.

That even as we are not able to print more than 10 papers in a week, where is the organisation headed? What is the shared vision of the future?

To remember the words of Antoine de Saint-Exupery, "if you want to build a ship, do not drum up the men to gather wood, divide the work, and give orders. Instead, teach them to yearn for the vast and endless sea."

In the same measure, if you want to turnaround an organisation, do not bland employee spirits with cost-cutting fears, instead tell them about the organisation when it has achieved a ten-fold growth, and tell them, all else is happening in serving of that ten-fold growth.

It is by building a culture of excellence, innovation, insane obsession about both the employee and the customer that organisations turnaround their futures.

Yes, cut costs on the big things, on the obvious leaks. If an organisation has an outsourcing contract that requires renegotiation, win big on that one.

If the executives need to take a cut on their gym benefits (that they rarely use), then go for it. It even helps to signal to the rest of the organisation that we are all in this together, and we shall come out together. And yes, the new CEO does not really need a new car!

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