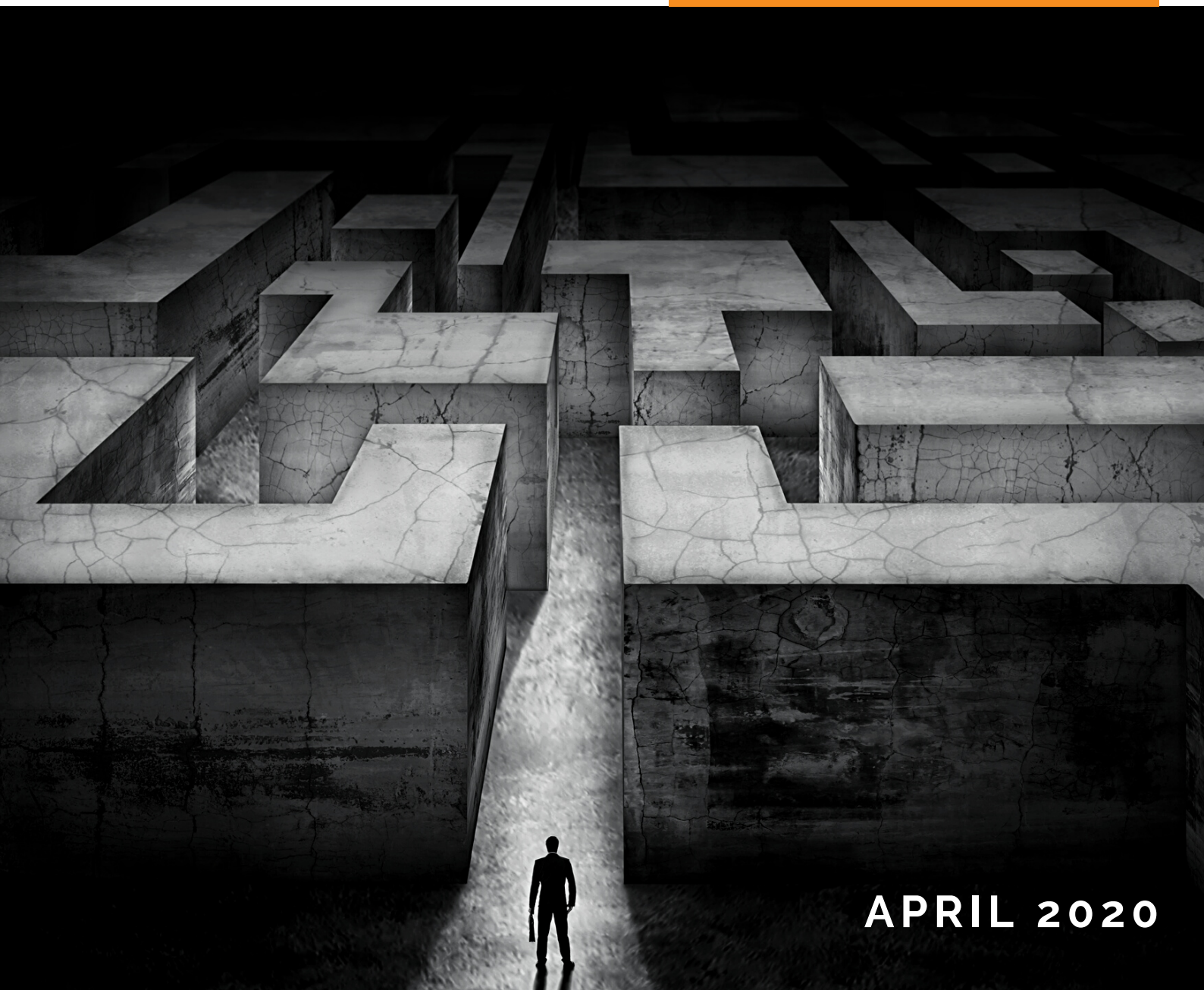


WHITE PAPER  
**A BETTER COST  
REDUCTION  
PROGRAM**

HOW TO CUT  
COSTS WITHOUT  
KILLING  
CULTURE

**empathic**  
CONSULTING



**APRIL 2020**

# WE ARE IN TOUGH TIMES...

While the world has faced pandemics before, our communities and economies are vastly different today than they were during the Spanish Flu.

The interconnected networks of our modern ecosystems are vast and complex. It is as if we live in a room of fine antiques all connected through almost invisible fishing line. As one lone vase tumbles from a shelf, plates, bowls and fine china from all corners of the room are dragged to the floor in turn.

A job is lost, rent can't be paid, landlords can't meet repayments, Banks lay off their employees and the next downward spiral begins. We've never faced into this level of challenge and we all need to respond in ways that protect ourselves and those around us. If you are a business leader, you will almost certainly need to face into the mathematical reality: **costs must be cut.**

The doors have had to close, revenue has disappeared and employees are terrified. You need to reduce expenses to save the business, but where to start?

Some approach the problem in a state of fear, scarcity and urgency. They review their expenses, identify the big buckets of costs and quickly identify ways to reduce or remove them. They immediately stop investments in training, recruitment and people related benefits. They stop new projects in their tracks and let go of all



contractors and temporary staff.

They see their wages are a big bucket, so they look for the easiest people to fire, the new starters, the lower paid who will have a lower redundancy, and they issue the orders.

## THIS APPROACH IS LIKE BUTCHERY.

A cleaver that cuts through fat, muscle and bone. It is swift, brutal and leaves everyone feeling more anxious and uncertain than before.

Those who are let go feel resentful, those who remain fear they may be next. Productivity falls, morale plummets and survival, if achieved, seems a slow and painful death.

But the alternative is not inaction. Too many leaders fearing being a butcher are paralysed by the fear of making a bad decision,

Leaders shut down. They seek answers inwardly, lamenting over the stress and anxiety of making the wrong move. They take the worst option of all: avoidance.

In times of crisis, leaders must step up and act. They can't afford to wait nor hope someone else will do it for them.

## COURAGE IS NOT THE ABSENCE OF FEAR...

Now is not the time for either panicked butchery nor fear-ridden paralysis. Leaders must take action. Courage is not the absence of fear, it is action in the face of fear.

Leadership is taking the best courageous action for your people. Being a leader is stepping courageously into this space and making the best decisions with the information you have available.

So, what action should be taken? How can we cut costs without killing our culture?

Here is the 5 step process we prescribe to our clients to clarify their intentions, engage their most passionate people and drive bottom line impact as quickly as possible.

This method has been effective from small scale businesses up to helping a Bank find \$130,000,000 in cost savings. There is some



relative simplicity in the process, but each step helps guide leaders to make better decisions and unlock opportunities previously unknown.

The challenges we face in the coming years of slow economic recovery will be shaped by your ability as a leader to prepare your business and your people. Now is the time to build the lean business and powerful culture that will drive your future success.



## STEP 1: SET TARGETS AND INTENTIONS

"Give me six hours to chop down a tree and I will spend the first four sharpening the axe."

Abraham Lincoln

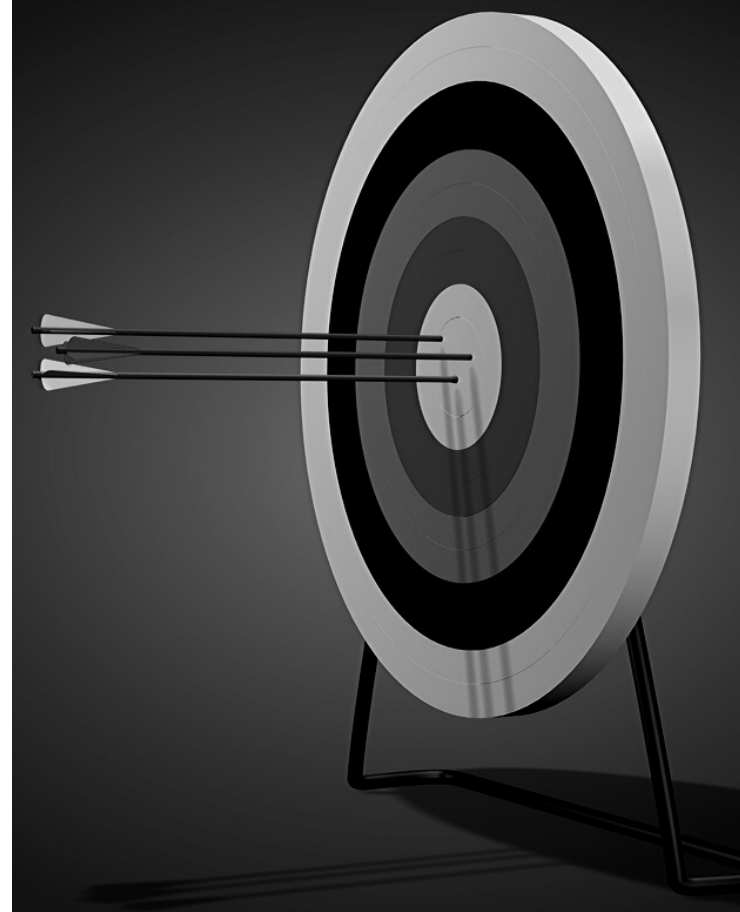
In the face fear and uncertainty, people can do terrible things. During the Nuremberg trials, Nazi Officers faced trial for war crimes. Some pleaded their innocence on grounds that they didn't choose to do the things they did, they were simply following orders.

These claims inspired Psychology Professor Stanley Milgrim of Yale University to build a famous experiment involving 2 participants. Milgrim asked Participant 1 to simply man a terminal. The experimenter, adorned in white

lab coat and clip board in hand, told the participant that this was a test of people's ability to work under pressure.

The experimenter explained that in the next room was a 2nd participant who would need to answer the questions that the experimenter would read out. If they got the wrong answer, the 1st participant manning the control panel would press a button to give Participant 2 an electric shock. Each subsequent wrong answer would lead to an increasingly powerful shock to be administered.

Participant 2, the person in the other room answering the questions was actually just an actor and not in any danger. However, as the experiment progressed, they would scream, cry and beg Participant 1 to stop giving them electric shocks. In fact, the control panel had warning signs and the participant receiving the treatment pleaded that another



shock might kill them. Despite this, 65% of participants manning the control panel gave the electric shock as ordered to the maximum level.

Even when Participant 2 in the other room seemed to be non-responsive, the experimenter insisted that no answer was the same as a wrong answer. They instructed Participant 1 to give them an almost certainly fatal shock and they complied.

As a leader in a position of authority, you wield greater control over the decision making of your people than you might give yourself credit for, especially in stressful and emotionally



charged times. During critical situations, many of your people are searching for guidance and you are the unconscious focus of their attention. So, ground your intentions first, define both the target number and the guiding principles.

Work out your numbers and define a clear target. Be specific on where you need to land in terms of the businesses expenses with a clear time-frame in mind. You don't need to know how you will get there, but you need to know where you are going.

Then set your guiding principles. These are probably the most critical element to land on before you begin any cost cutting campaign. Guiding principles are not rules. They are the values and ideals to help us make challenging decisions. Very challenging situations and decisions will certainly arise.

In too many businesses, we try to set rules, processes and procedures that will determine outcomes in every situation. Policies such as delegations of authority and dual sign offs are used to control the making of black and white decisions.

## THE WORLD IS NOT BLACK & WHITE ESPECIALLY NOT TIMES OF CRISIS.

Many of the decisions and challenges you are about to face will be complex, difficult to understand fully and have a heavy impact on the lives of others. This is not the time for rigid rules, some of which might cause obedient and fearful employees to follow the rules and cause horrible outcomes.

Instead, we need to prepare our guiding principles. Set a small number of critical ideas that help people to make better decisions. These will provide your people with an insight into your leadership beliefs and signal the spirit with which you are wanting the cost cutting to be managed. These are not simple words or inspirational posters.



# SETTING GUIDING PRINCIPLES

Good guiding principles provide people with clear directions on what actions to take and what decisions might be most aligned with our shared vision. There are no handbooks for the perfect guiding principles and each organisation will need to critically analyse their strategies and cultures to determine the right set for them.

Good examples I have seen include:

- Don't destroy things our customers love
- Don't get rid of people until we get rid of the work they do
- Our suppliers are as valued as our customers

They provide a specific framework to make decisions and give everyone a statement they can reflect on. It is essential that before any decision is made, you need to build these with your leadership team and really test them in scenarios to ensure they are robust.

These will be your compass to navigate the unavoidably troubled waters ahead. Make sure you and your leaders are prepared to hold firm to these as the commandments for the program.

Their success will be your success.

---

## STEP 2: ENGAGE ALL YOUR PEOPLE

Just over 100 years ago, Frederick Winslow Taylor published his essay *Principles of Scientific Management*. It would become a guide to building successful factories for the next century. It was the inspiration for the production lines of Henry Ford and the Kaizen culture in Japan. Taylor's work essentially was focused on breaking down complex tasks into simple steps, then refining the techniques for performing these tasks to eliminate as much waste as possible.





Once the most efficient process was designed, usually by Engineers, it was to be overseen by Managers who made sure the process was followed and completed by obedient Workers who were told exactly what to do.

Within this three-part structure, improvement was the role of Engineers, production the role of Workers and enforcement the role of Managers. Importantly, these roles were not to be overlapped or confused.

Workers were not encouraged or incentivised to question their work, they were simply there to wield the tools and press the buttons in the order prescribed. Absolute reliance was bestowed upon the Engineers to provide the ideal processes and rules to be followed.

Over time, Managers gained more control over decisions and even saw themselves as the Engineers. The leaders of the business were there to define the systems and processes, build this into an operating model and get the Workers to follow the rules.

The leaders thought that they knew best... and they were wrong. The complexity of our modern world means that one person can seldom understand the interconnected nature of their own business, let alone the impacts of other events in their ecosystem. We are seeing now more than ever the flow on effects of a Global economy in crisis. We are all in this together, like it or not.

So when it comes to looking for cost savings in your business, don't think you know all the answers. You are not Taylor's perfect Engineer. You are a leader of intelligent and



## YOU DON'T HAVE ALL THE ANSWERS

skilled people and your job is to work with them. Engaging them to be a key part of the solution is critical for success. While you might think it best to hide away and work it all out behind closed doors, you are not protecting anyone with this gallant heroism. Open the door and welcome everyone to the party.

The most successful leaders use this three pronged approach to engaging their people:

### **ONE - Communicate the Intent**

The first role is to communicate the intent. Share with everyone the problem you are facing. Don't sugar coat it, people need to know the problem so they can appreciate challenge. But project a sense of hope



and determination that you believe, as a group, you can overcome these challenges. Share the target for your cost savings. You don't need to hide it, be open and let them share your ambition. Then share the guiding principles. This is a critical step in ensuring everyone is clear about not just your target, but the culture you expect and the way in which you want people to make decisions. Give stories and examples to bring this to life. This should be one clear and consistent communication you give to all your people, many times through this process.

## **TWO - Build a powerful working group**

The best programs are not run by a team of external consultants stalking the floors and looking for people to remove. In these times, your people distrust strangers and, frankly, consultants don't know enough about your business to do this job well. Instead, build a small group of people you deeply trust and make them your Working Group. This team will have a leader, a spokesperson who will act as the face of the program. They will be people who are going to be dedicated to driving this process forward. They will need the respect of the business and your complete confidence, so choose wisely. If you engage external help, get the consultants to serve this team with advice and horsepower, but ensure this Working Group of your people are running the show.

## **THREE - Capture the wisdom of your crowd**

The first thing you should ask the Working Group to do is build a workshop or a series of workshops and invite everyone in your business. Yes, everyone. In this workshop, the Working Group will reiterate the challenge, target and guiding principles. Then they will ask everyone to share ideas on where they think savings can be found. Everyone will contribute. You want to get lots of ideas, hundreds if possible. We often advise these to be spread in different categories for ease of comparison, but think a room with large posters on the walls and hundreds of post it notes with ideas spread across them. This huge initial dump of ideas is vital for both the opportunities it uncovers, but also the engagement it provides your people. They won't all be gems, but some of these ideas may be game changers that you'd never have thought of on your own. Don't judge them yet, just ask the Working Group to capture them all and thank your people for their generosity and commitment.



## STEP 3: ROUGHLY SIZE & PRIORITISE

At this stage of your journey, anxiety begins to build. We now have a pile of ideas for cost saving, many of which you are probably thinking won't work. Some of them seem too complicated and others too expensive.

This presents a perfect storm for Analysis Paralysis. Psychologist Barry Schwartz explains this in his brilliant Ted Talk from 2005. "Paralysis is a consequence of having too many choices" Schwartz explains.

**"Even when we make a complex choice, we end up less satisfied with the result of the choice."**

So, while you have a lot of options now, don't try to pick the best ones. Instead we need to implement a simple triage process.

During the Napoleonic Wars, the sheer number of injured soldiers meant the sparse medical staff were constantly overwhelmed. To make decisions on who to treat first would have been incredibly stressful. Do we treat by age, rank or nationality?

French surgeon, Dominique Jean Larrey, pioneered the use of the modern triage system, using visible assessment of the "gravity of the injuries" to prioritise care. Modern triage relies on trained doctors and nurses to make decisions on who to treat based on a number of key vital signs. This process saves millions of lives each year ensuring those most in need are given immediate care.



What we need to avoid Analysis Paralysis and ensure the best ideas get actioned first, is a simple triage system.

Begin working through the ideas you have captured from the workshops. An initial triage assessment should be completed to determine the viability of these ideas. This is not, I repeat not, a business case. We need for members of the Working Group to assess each idea for two simple dimensions:

1 HOW BIG  
MIGHT THE  
SAVINGS BE?

2 HOW EASY  
MIGHT THIS BE  
TO IMPLEMENT?

This assessment is to be done quickly. The Working Group should work with specific experts in the business to get a sense of the size of the benefit and the ease of implementation.

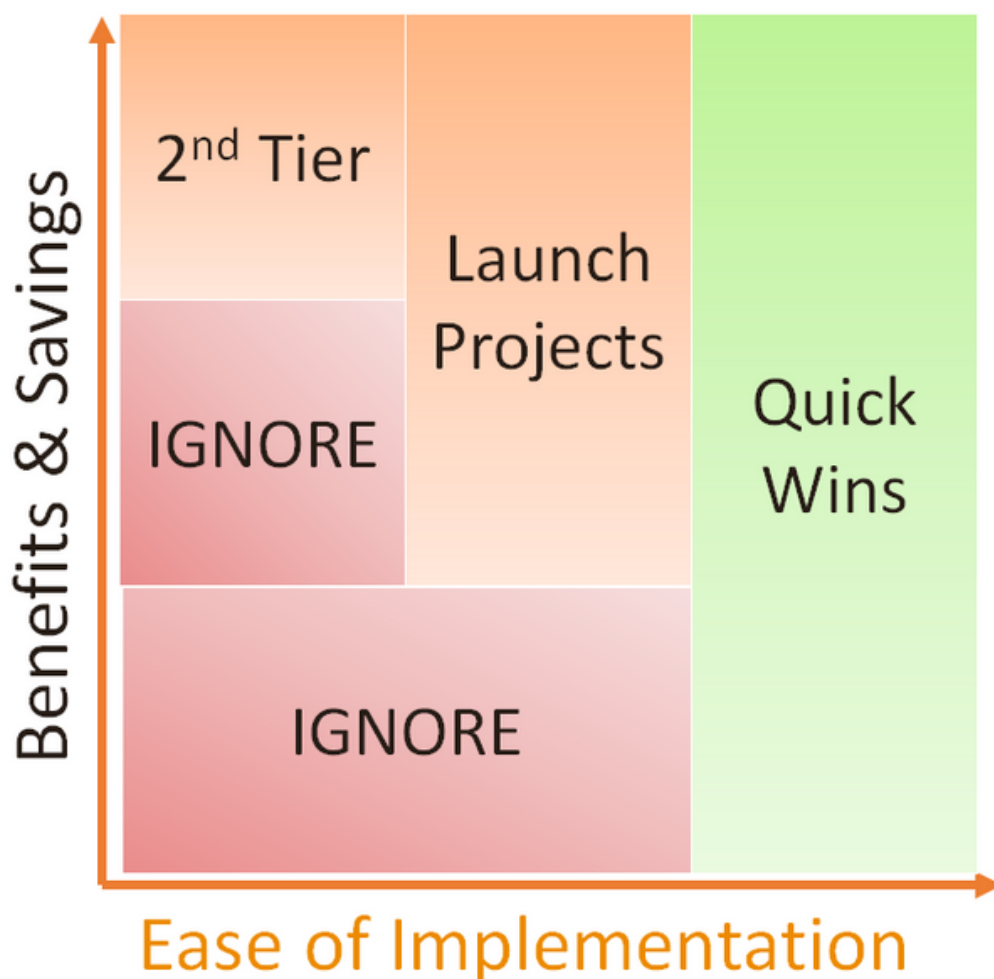
Communication should reinforce that no one in the business will be held to their estimates. While each business will need a slightly different system: benefits can be simply a high, medium, low or order of magnitude scale should be used.

Ease of implementation might include time for, and resources required to, implement the benefit. After this triage, map your ideas on a chart similar to the one below to prioritise the ideas you need to begin to implement, investigate further or to park for now.

This should help you to build a pipeline of opportunities and define a set of Quick Wins.

## MAPPING IDEAS FOR COST SAVING

Use this map to quickly estimate which ideas should be in each category. Focus more on relative position than highly accurate analysis in the first instance.





## STEP 4: IMPLEMENT QUICK WINS

"Big thoughts are fun to romanticize, but it's many small insights coming together that bring big ideas into the world." —Scott Berkun

A sure way of derailing your ability to reach your target is to be tempted by the one big idea. Leaders who want to see this as an opportunity for transformational innovation or large scale change are missing the real gold.

It may well be true, but we need to be clear here: you can't rely on that one big idea. Many of these large transformations or innovations require a significant capital injection to set up, then a long time to implement and the benefits are not realised for some time to come. This might be a good idea in happy times, but in times of crisis, they may in fact be the straw that breaks the camels back.

Instead, embrace the quick wins. Look to the list of ideas you have captured and identify a cluster that are easy to implement and generate savings, no matter how small.

These quick wins might only represent a tiny fraction of the overall cost savings needed, but by implementing them quickly you gain two key benefits

Firstly, you start making savings. Runs on the board early are important as they slow the outward cash flow and benefits accumulate quickly over time. Implementing 10 quick wins might add up to 10-20% of your overall target and play a significant role in creating investment needed for larger projects.





Secondly, you signal to the business that everything is up for change. Too often large projects that take a long time and require investment cause resentment within the rest of the business. Many people can feel it is not their job to find cost savings, there is a large project for that.

By implementing quick wins, everyone gets the signal that change is happening at all levels and you empower your people to search for savings at all levels.

Quick Wins help you bank savings fast and build a culture of efficiency. You will find that by implementing quick wins, more ideas will begin to surface from the business. People will find piles of waste and inefficiencies in hidden corners of your business. This culture has a long term impact on your cost base.

You now are building a culture that, instead of resisting or resenting cost reduction, your people are excited to find opportunities and are recognised for their ability to contribute towards the target they all now own.

## **STEP 5: BUILD A CURIOUS CULTURE**

In 1968, Dr Spencer Silver was on a mission to make it stick. As a chemist, he worked with adhesive chemicals in search for a super strong glue, something that would be easy to apply and firmly bind surfaces fast. Initially, he thought he'd failed. His new glue was easy to apply, reusable and cheap but sadly it had a very low adhesive strength. Attempting to create a super strong glue resulted in quite the opposite.

In many companies, this story would end here. Toss this failure in the bin and get back to the drawing board. Luckily, Dr Silver worked for 3M. He spent years speaking, showcasing and discussing his findings and the properties of his glue. 3M's culture meant the binary worlds of success and failure are too rigid. Between a yes and a no sits a maybe. The culture of 3M empowered Silver and his new glue to stay curious for seven years, until a man called Art Fry came along.





Art heard about Dr Silvers adhesive at a conference and it got him thinking about a problem he had. Art sang in a choir and found it tough to keep his bookmarks in place. Maybe Silvers' weak adhesive could do the trick? He and Silver started playing around with the glue and paper.

Post-it notes are now a standard fixture in the stationery cupboards and boardroom walls across the world. This multi-million dollar industry was not the result of a brilliant strategy. Not at all. Post It notes were a mistake. It was a failed invention allowed to live long enough to become a successful invention. It was possible not because of the genius of either Silver or Fry, but because they both worked within a culture of curiosity.

They were able to ask open questions. Pitch seemingly useless ideas. Collaborate on these ideas and play with potential. We don't need smarter people, we need the natural curiosity of wonderful humans enabled by a culture that accepts questions.

## THIS IS THE KEY TO LONG TERM COST EFFICIENCY AND INNOVATION.

Companies need a culture that enables its people to ask interesting, relevant questions. It might feel counter-intuitive. We've spent months picking apart the business and searching for every opportunity to save money. Now we are suggesting we allow our people to spend time being curious?

Yes. It is this curiosity that inspires your people to search for better, smarter and more efficient ways to do things. It is this curiosity that inspired Post It notes. It is this curiosity that means people ask three critical questions:

1. WHY DO WE DO THAT?
2. DO WE NEED TO DO IT THAT WAY?
3. DO WE NEED TO DO IT AT ALL?



I'm sure we have all worked within organisations who have a culture of compliance.

## "THAT IS THE WAY WE'VE ALWAYS DONE IT."

These are the comments that a Curious Culture gets excited to hear. It peaks their interest and people start to dig for change.

Toyota have mastered this paradox well. They are constantly grappling with challenges and looking to question their already efficient processes to innovate.

"Never be satisfied" is a guiding principle that helped make the motor vehicle giant a constantly improving success. Even today, Toyota is challenging their own business model of cars in favour of exploring the Future of Mobility.

Building a curious culture enables your people to be constantly searching for better. Constantly challenging what has been and asking what might be, particularly on the back of your cost reduction program, ensures people see this as a new world order.

They don't wait until the program has finished and look for ways to fatten back up. Instead, you create a hungry business, eager to do more with less.

Building a culture of curiosity is the critical step to ensure your business can manage the challenge of today and be ready for the challenges ahead.



The road ahead will be incredibly tough. We have never faced a time like this before and the personal, social and economic challenges ahead are terrifying even for the most optimistic among us.

Now is the time for strategic, empathetic and pragmatic leaders to step forward. Set their intent and form a team to help them navigate these troubled waters.

Now is not the time for hope, nor fear. Now is the time for courageous leaders to make decisions that will prepare their businesses and their people for the best future possible.

## WHAT TO DO NEXT?

Based on these strategies, it is now time to make an action plan to help you lead your people through crisis. Take some time to consider what actions you need to take to cut costs without killing your culture.

Successfully navigating through turbulent times can be incredibly stressful for even the most seasoned leader.

For a pragmatic, personalised and responsive approach that makes the difference, seek out strategic guidance. Empathic Consulting blends experience in business strategy with leading research on empathy and behavioural economics.

We support leaders through the implementation of powerful frameworks and strategies. This ensures your people are engaged, empowered and can immediately execute to drive results.

Please reach out now for more information or strategic support leading through crisis.

At Empathic Consulting we provide:

- **Leadership Coaching** - One to one support to help guide you through your leadership journey
- **Leadership Team Development** - Training & support to develop your people & performance
- **Management Consulting** - Consulting services to partner with your people to develop and deliver strategic programs

For details, availability and a free initial exploration consult, contact us today.



## HEAR FROM OUR PAST CLIENTS

"Thought inspiring, provoking and interesting. Took you through the emotional journey of using empathy in your business"  
Robbie Cooke, CEO, Tyro Payments

"Fantastic both in content and delivery. I was looking for someone to open up other ways of approaching leadership and looking at our business environment and they delivered!- Michaela Flanagan, Head of Branch Operations, Swiss Re

"I can honestly say it was one of the best sessions I have been a part of. The content was unique & very interactive. I highly recommend Empathic Consulting to build empathy & understanding to drive performance." - Daniel Markovski, Group Sales Manager, Nova

"They engaged people who I didn't think would ever respond, let alone take away actions. Post this session, I observed genuine behaviour changes. This was one of the best things I have done for the team." - Rochelle Eldridge, Executive Manager, CBA



For more information on how Empathic Consulting can support with other tailored programs and the key steps to implementation, contact today:

**Daniel Murray**  
[daniel@empathicconsulting.com](mailto:daniel@empathicconsulting.com)  
**+61 418 920 412**

