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Cutting Costs Doesn't Mean Killing Innovation

By J. Michael Barrett[1]

It has become commonplace to observe that the world economy is in a period of unprecedented flux, that the predictability of bygone eras has been replaced with something bordering on chaos, and that yesterday's marketplace realities are no longer adequate predictors of tomorrow's economic drivers. Though much change is indeed afoot, however, it is important not to overstate the current climate of uncertainty and unpredictability, nor to overreact to it. While this crisis continues to claim many of yesterday's most venerable firms, those firms that judiciously steer away from being over-burdened by yesterday's cost centers and instead invest now in tomorrow's centers of economic growth will emerge as tomorrow's leaders.

The fundamental truth is that we are experiencing much more than a typical downturn which will result in a return to the old tenets of business as usual. There will be a new normal, one that is predicated on such lasting trends as the impact of a truly global workforce, mass diffusion of technology, and increased regulatory oversight throughout the capital markets of the developed world. Risk will be more warily watched and productivity will again regain importance as the underlying creator of economic gains. And yes, the economic dislocation will be painful as jobs are lost, careers are disrupted, and entire industries painfully transform into new and more effective means of production. But in the longer term the global economy will prove itself resilient. The world's private sector will bounce back, as it has done so many times before, because capitalism is ultimately an effective means of rewarding those firms that are well positioned to absorb the impacts of change, to adjust to new dynamics, and to come out stronger by adapting to new economic realities. But if there is light at the end of the tunnel, what should global executives be doing now to be optimally positioned for the inevitable return to economic growth, if not economic resurgence?

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The primary objective for today's global senior management is to identify ways not merely to cut costs across the board, cutting overhead and lowering capabilities evenly across all operating areas, but rather to strategically trim away overhead from non-productive areas and shape the organization in the direction of future growth. This is a time of change, and therefore peril, but it is also one of numerous golden opportunities for those who can identify and rapidly capitalize on emergent realities. Leaders who can foresee the direction of the new paths ahead will be well served in terms of taking market share from others who are less adept at using this period of change to cut certain costs while simultaneously shoring up capabilities in areas ripe for future growth.

One useful tool for managing the risks surrounding an uncertain future is derived from the proven process improvement approach called Work-Out. Pioneered under General Electric's Jack Welch, the Work-Out process is predicated on short 3-month business improvement project cycles that include a broad array of the workforce in developing targeted, measurable objectives then brainstorming how to meet those objectives in concrete, rapidly-implementable ways. The twin goals of buy-in and measurable success are thus combined with the ultimate objective of reshaping current operations.

While Work-Out was designed to eliminate unnecessary processes primarily within manufacturing, the same concept of taking 'work out' also applies to current products and services organizations. The key variation on the theme that can lead to success for today's uncertainty is to combine Work-Out with Work-Inn, or work innovation, which is focused on combining efficiency gains with investments in specific areas ripe for innovation. Work-Inn mirrors Work-Out and can be conducted simultaneously or in parallel, but while the latter focuses on a firm's internal drivers and processes that can be improved or shed, Work-Inn is more concerned with understanding and mapping exogenous trends and drivers for the future economy as a whole. By identifying these key drivers and then looking inward and applying a focused 3-month innovation cycle to developing new capabilities and strengthening current ones, firms can ensure they are making the most of this downturn by optimally orientating themselves to achieve success within the future marketplace. In the end, cutting overhead and streamlining operations will always be painful. But through creative and focused use of tools such as Work-Inn firms can at least create virtue out of vice by ensuring today's targeted overhead reductions leave the firm better positioned for pursuing tomorrow's profits.