

Michael G. Winston

Fortune 50 Executive, Speaker, Advisor

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Penny Wise, Pound Foolish

In a world where diets and diet metaphors abound, companies have been obsessed for the past several years with trimming away the fat, getting lean and mean, and shedding weight in order to survive the recession and compete in the new global economy. This has been exacerbated significantly by the global recession prompted by the sub-prime meltdown, credit crunch and consumer uncertainty. However, many companies and entire industries are evidencing an overreaction that ultimately diminishes the very competitiveness they are seeking to preserve.

In their obsession to cut costs - and people - some companies have cut too close to the bone, leaving themselves with insufficient human resources to serve existing customers - or to generate new customers and new revenue. They suffer from "corporate anorexia".

Doubtless, some companies needed to reduce staff, cut costs and rationalize activities. However, much of the downsizing has been driven by a short-sighted, bean-counting mentality rather than the strategic vision required to reshape a company into smaller units which are fleet afoot, focused and anticipatory. Many companies follow the downsizing path with no plan beyond cutting headcount and eliminating functions. When workforce reductions fail to deliver the desired boost to the bottom line, the next recourse has been to ... cut some more.

A whole generation of managers has devoted their attention to continuous improvement, quality control, making companies smaller and more efficient at what they do. The problem is they have riveted their efforts on gaining efficiencies in existing businesses while obscuring their vision of new possibilities for future growth.

Contrary to popular belief, a lean staff is not necessarily more entrepreneurial; cutting workers does not reduce bureaucracy or open up the lines of communication. Often the opposite occurs. Downsizing often erects more barriers than it eliminates, and companies cut the very initiatives in research and development of technologies, brand management and human capital that are essential for growth. Heads down, focused more on holding on to their jobs than doing their jobs, suffering resentment if let go and guilt and overwork if kept on, there is little of the kind of innovative thinking needed to break through the downturn.

Expansion-contraction cycles have happened before, and they will happen again. Every bull market has been followed by a bear market. However, every bear market was subsequently followed by a bull market.

With seemingly never-ending downsizing and focus on cost reduction rather than growth, disillusionment permeates the organization. People grow weary signing up to goal packages predicated upon adequate resources, only to have the resources pulled away, but be held accountable for accomplishing the same objectives. Staff members have become expert at

accomplishing restructuring, and as a result there appears to be a certain “bunker mentality” that dominates their thinking. This mentality has enabled needed changes in the function’s cost structure, but also created a climate where new initiatives and opportunities are not pursued. The old axiom is still true... “You can’t save your way out of a recession; you can only invest your way out.” Smart bets, new focus, lean structures and systems and flawless execution are the answer, not just cost reduction and a “bunker” mentality.

The business climate will likely experience continued turbulence, new regulatory challenges and lingering economic uncertainty. Consequently, success will depend on speed and competitiveness to capitalize on fast-moving changes in markets, technologies, and the general business landscape. The companies that win will anticipate, drive and capitalize on change in the quest for ever-higher levels of performance. They will be ruthless at pruning...underperforming people, customers, processes, product lines, but will always leverage their strengths.

Competitive advantage will go to the company that builds on its strengths...championing change, generating innovative solutions, reinventing the business model, and competing successfully in a demanding global environment. It will not go to the company that hides, reacts, bounces from crisis to crisis or does not hold true to its vision. High performing companies invest in critical areas in bad times as well as good. These are the companies that will be ready to shoot to the head of the pack when the recovery comes.

Instead of mandating across-the-board cuts, smart companies focus on work that really matters. Rather than reduce R&D, cut marketing, and shrink human capital initiatives, they work aggressively to overthrow existing systems and structures which do not support their business vision. They reduce excessive paperwork, redundant or inhibiting support functions, excessive reports, presentations and meetings

With overlap and duplication minimized and non-value-added work reduced, they can ramp up their investment in research and development, brand building, marketing and development of human capital. These are the sources of sustainable competitive advantage. Remember, trimming fat accomplishes more when you are simultaneously building muscle.

Management expert Ram Charan notes that every business downturn can also be an opportunity to increase the urgency to improve strategy, management and execution. Winning companies will out-hustle and out-maneuver the competition. They will create and hold to a clear vision for the future direction of the business and ensure that activities and efforts are focused and consistent, and driven by the vision. They will follow a plan rather than jumping from crisis to crisis.

So the next time your company is tempted to react to a significant downturn in business or the economy with across-the-board cuts, or cuts into the lifeblood of the growth of the business, rather than allow the “powers that be” to mortgage the future to pay for the present, raise your voice in opposition and say “Cut it Out.”

The Author- Michael G. Winston has served as Global Head and Chief Organization and Leadership Officer in five Fortune 100 corporations. For three decades he has worked closely with and reported directly to C-Suite Officers developing the business model, crafting strategy, architecting structure, creating culture, and selecting and developing leaders. Visit Michael at www.businessthoughtleader.com