As companies facing the current economic downturn launch cost reduction initiatives, many will ignore the need to secure employee commitment when making cost cuts, which is one of the reasons why only 10 percent of companies sustain cost reductions after three years[1]. Specifically, it is critical that companies planning cost reduction initiatives obtain both the positive emotional support of their employees and their commitment to behavior change that reduces costs. A workforce that is actively involved in the initiative and understands the need to make tough decisions can reduce costs more and sustain the reductions longer.

Some companies have implemented cuts in a way that links them to a motivating objective. For example, at Novartis cost reduction was approached in a way that harnessed employees’ commitment to building a stronger and more nimble company focused on growth. In 2007, Novartis cut $1.6 billion in costs, including a 10 percent reduction in headcount at headquarters. In parallel, the company put in place a new strategy to enhance its focus on high-growth brands, including a new business unit structure and improved capabilities in brand agility and field sales. While reducing headcount was not a highly motivating objective, strengthening the company for future growth clearly was.

The task of securing employee commitment to cost reductions is not easy, and it rarely depends on money alone. Rather, it requires paying close attention to a set of principles in a Motivating Cost Discipline (MCD) approach that has been applied at a number of firms. The six principles in the MCD framework are:

1. Institute a fair process based on shared values.
2. Establish leadership cohesion and commitment.
3. Create the emotional as well as the rational business case.
4. Enlist the help of frontline motivators.
5. Involve the organization in considering costs from four angles.
6. Implement organizational solutions that create lasting behavior change.

These principles were effectively applied by a leading energy company that significantly reduced its cost base by integrating critical leadership objectives with a positive motivating approach (see Exhibit 1).

At the same time, the company saw a twenty percent lift in measures of employee satisfaction and pride (see Exhibit 2).

What is it that successful cost-cutting “motivators” do that allows positive feelings to counter-balance negative fears?
1. Institute a fair process based on shared values

Nearly all cost-reduction initiatives have a simple four-step process at heart: Structure the effort, including where a set of teams will focus efforts to uncover cost reduction opportunities; analyze the opportunities and make recommendations; decide on what cost reduction actions will be taken; and implement those actions. Companies need to apply a set of Motivating Cost Discipline principles in concert with these four steps (see Exhibit 3).
When employees believe they are being treated fairly – when they feel heard, understand how and why decisions are being made, and believe they are respected – they are more likely to buy into a cost-alignment initiative. A lot of hard work is required – careful and frequent two-way communication, detailed process- and meeting-planning, and reaching milestones. Effective cost-cutters pay attention to these critical details and as a result, achieve a cost reduction process that is transparent, representative, fact-based, well-executed, and highly motivating. Some specific things they do include:

- **Communicate early and often** – Engage employees through a clear communication plan including town hall discussions and blogs.
- **Solicit input** – Targets to force thinking are important, but targets may appear arbitrary without organizational input – Cost reduction teams need to have a say in how targets will be achieved.
- **Adhere to a timetable** – Delays breed uncertainty, so it is important to establish a detailed timetable and to stick to it.
- **Provide support** – If layoffs are to be made, employees need adequate severance packages, counseling, and outplacement support. Managers need training to make alignment decisions, handle difficult discussions, and support remaining employees.
- **Think through the process** – Anticipate employee concerns. Develop a set of guiding principles and business rules before implementation to ensure that decisions are made fairly and consistently.

Starting at a senior management retreat that launched the initiative, the energy company's leaders were always clear that the cost-cutting effort had five major elements:

- Setting aggressive cost reduction targets – to ensure the company would be competitive under different industry scenarios.
- Building commitment from executives and frontline managers – to execute and sustain cost-reduction measures.

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“ It is critical that companies planning cost reduction initiatives obtain both the positive emotional support of their employees and their commitment to behavior change that reduces costs.”
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Streamlining the organization – to strengthen it for future growth.

Aligning compensation with market levels – to ensure people felt fairly rewarded.

Redesigning critical processes – to integrate and sustain the cost reductions.

To ensure a fair process, the company balanced this central mandate with significant local autonomy. Different groups were allowed to pursue savings on their own schedules, subject to an overall corporate time frame. Significantly, there was no “Black Friday” of job losses on a single day.

2. Establish leadership cohesion and commitment

Too often, when a cost-reduction effort is launched, employees hear different messages from different senior leaders. Moreover, the exact role and authority of various leadership bodies, is often unclear with regard to the initiative.

The energy company quickly established leadership cohesion and commitment and the leadership team drafted a set of values that would guide the company through a process of cutting its costs by over 30 percent. The team narrowed in on three values:

- Absolute integrity.
- Collaboration, support, and respect.
- Open, honest, and frequent communication.

The leadership team committed to living these values as they guided the cost reduction effort. They began by creating many informal as well as formal opportunities for open and honest communication. For example, they hosted events like “Weekly Talks,” a weekly forum where people from across the organization could hear a senior leader share his or her perspective on the issues at hand, and where employees could ask hard-hitting questions about the company’s future.

3. Articulate both an emotional and a rational business case

Executives can accept cost cuts based solely on a financial business case, but employees require an emotional case as well. Both cases need to be clear and well-reasoned. Companies need to develop an emotionally appealing theme, one that evokes pride, courage, respect, and/or care. They also need to decide on the primary carrier or carriers of that theme – the company, the community, key customers, internal teams and networks, individual leaders – through facts, not guesswork. Like Novartis, they need a more motivating objective than merely lower costs. Exhibit 4 illustrates the two sets of case that a company might consider using.

Exhibit 4 Adopt an emotional case for cost reduction

<table>
<thead>
<tr>
<th>Rational Arguments</th>
<th>Emotional Arguments</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Cost reduction will increase margins</td>
<td>• Sustained cost management will free up funds to, e.g.,</td>
</tr>
<tr>
<td>• Cost reduction will increase shareholder value</td>
<td>- Fuel the creative process</td>
</tr>
<tr>
<td>• Cost reduction will enable efficient growth</td>
<td>- Realize our mission</td>
</tr>
<tr>
<td>• Outside providers will have lower cost/higher quality</td>
<td>- Improve fairness and transparency</td>
</tr>
<tr>
<td>• Etc.</td>
<td>• Streamlined processes will eliminate the barriers to doing what we love to do</td>
</tr>
<tr>
<td></td>
<td>• Outside providers will allow us to focus on what we are really good at</td>
</tr>
<tr>
<td></td>
<td>• Etc.</td>
</tr>
</tbody>
</table>
The energy company conducted a survey of employees and learned that the two most important potential sources of pride were the company’s reputation and the quality of its people. For instance, the head of the Customer Service group used informal events to make the emotional case for change, talking through the issues and taking action where needed. Consequently, at a time when significant reductions needed to be made, employees and leaders rallied around the company and each other.

4. Enlist the help of frontline motivators

Leadership on the frontline is at least as important as executive leadership. Especially important are the supervisors who are able to positively motivate people to change their behaviors “pride-builders” because they are masters at making people feel proud of what they have to do every day. These frontline motivators are the supervisors who their people “would never want to disappoint.”

A precious few of these influential motivators are located within every organization, though not necessarily in positions of formal authority.

How does one find and mobilize these pride-builders? Companies can usually locate the very best of them easily through interviews and referrals. Some “exemplars” stand out from the crowd. The more interesting challenge, however, is to find the “potential pride-builders” who have been hiding in the wings. To identify these critical leaders, it is worth considering a more rigorous search such as Organizational Network Analysis (a systematic analysis of connections and exchange across an organization which, among other objectives, can identify which individuals have the most significant influence). Once a few of the pride-builders are identified, companies can leverage them in two ways. First, they can encourage the formation of communities of potential pride-builders focused on their emerging common interests and on objectives that may or may not involve cost. Pride-building behaviors can usually be spread “virally” among potential pride-builders more rapidly than through formal training programs. Second, they can ensure that potential frontline motivators are part of cost-cutting teams so that these teams are strengthened and gain respect and insight from these people’s involvement and presence.

The energy company recognized that key influencers at all levels were needed to push the cause forward on the frontlines. Therefore, the company identified and mobilized frontline motivators in a systematic way, defining and setting responsibilities, budgets, and performance objectives through the process of what they called “Motivation Governance (MG).” The more formal elements of MG included a Motivation Champion, a Motivation Squad, and most critically, Local Connectors, who were responsible for carrying through motivation activities locally (e.g., a series of celebration events for achieving company objectives) as well as providing frontline perspective and upward feedback to the Motivation Champion. By striking the right balance between discipline and consistency on one hand, and flexibility and creativity on the other, the company was able to maximize the impact of its motivational efforts.

Leaders need to take actions to support these emerging motivators and pride-builders, as well as reinforce the principles of leadership cohesion and developing an emotional business case (see sidebar).
5. Involve the organization in considering costs from four perspectives

Executives require objective data to make critical decisions about where and how to cut costs. Multiple approaches are required to get everyone onboard. Too often, companies adopt one method, such as benchmarking, and impose it on the organization, ignoring the complexity of what actually drives excessive costs. Companies need to systematically consider costs from four perspectives, asking four key questions:

- **Product support level.** What is our organization doing that results in over-supporting products or producing unnecessary deliverables?
- **Organization efficiency.** Where do our structures and processes duplicate and create unnecessary cost?
- **People productivity.** How can we make improvements in the productivity of our employees?
- **External opportunities.** Where does our organization perform activities that others could do more cost effectively?

6. Implement organizational solutions that promote lasting behavior changes

A cost-cutting initiative needs to have impact beyond its own life, long after the PMO has disbanded. It is critical to avoid making a cost reduction initiative seem like a one-time event. Companies need to consider solutions that take full advantage of both the formal and the informal elements of the organization. Exhibit 5 illustrates a number of different organizational solutions.

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**‘Top 10’ leadership actions to motivate low cost behavior**

1. **Adopt a credible motivating theme.** You need a rallying cry that is connected to people’s positive emotions. Therefore, it is important to obtain the support of frontline supervisors who are respected for their integrity, realism, and unique ability to motivate their people.

2. **Prioritize what needs to change.** To realize your cost reduction goals you need to be clear on the frontline behaviors that are most important to change.

3. **Identify a few key positive motivators.** Start with a dozen or so frontline supervisors who are well-known motivators (pride-builders); often the people who leaders turn to for “getting tough assignments done well.”

4. **Learn what they do that is unique.** True pride-builders invariably do a few things that most other good managers do not do. Determine what they do differently to motivate their people in difficult situations.

5. **Enlist their active help.** Once the key motivators believe leadership is serious about needing their help, they are the best source of ideas for how to spread their capability to others.

6. **Focus on a few key behaviors.** Concentrate on the three or four frontline behaviors that need to change in order to drive lower costs. Pride-builders can motivate virtually any behavior, provided they understand which ones matter most.

7. **Develop pride-builder bench strength.** Recruit and prepare a larger group of pride-builders.

8. **Develop informal ways to spread positive motivation.** Formal mechanisms are never enough to enable potential pride-builders to connect with one another in ways that spread and reinforce positive motivational elements.

9. **Nourish this emerging community.** Circulate regular and clear information and credible stories about what produces cost containment behaviors. Find ways to ensure that the community of employees involved in cost-cutting projects expands, shares success stories and builds a cadre of supporters across the enterprise.

10. **Keep it positive, personal, and simple.** Successful implementation boils down to enlisting a committed, growing cadre of frontline supervisors who can connect emotionally to help drive cost imperatives.
The energy company’s approach to locking in cost reduction was to focus on metrics that reflected extensive employee input, and consequently resulted in more buy-in than top-down imposed metrics. For instance, early in the cost-cutting effort, the Customer Service group identified four key metrics-related goals:

- Cut operating costs by $15 million.
- Achieve 80 percent customer satisfaction.
- Improve overall customer service rating to 90 percent.
- Improve employee engagement, as measured by the company-wide survey.

With these targets set, the Customer Service team pinpointed specific steps to reach their goals. For example, they began to focus on quality assurance rather than call time. The group also focused on the internal error rate. The Customer Service group achieved success on all four goals. Importantly, these targets were set and realized by members of the Customer Service Group, rather than being imposed from outside. Moreover, the metrics were not just about cutting costs but rather about improving the business. As a result, the group achieved sustainable savings.

“You may be able to mandate your way to an immediately lower cost structure, but if you motivate people in positive ways that produce emotional as well as rational commitment, you will get more costs out sooner, and the benefits will be more lasting.”
CEO advisory

Cost-cutting can be motivated in an emotionally compelling and positive way by tying the effort to a positive outcome for the company and its people. Doing so requires rigorous structuring and execution of efforts that obtain employee buy-in and commitment to necessary decisions and behavior changes. It also requires a credible motivating vision of what the company can become. You may be able to mandate your way to an immediately lower cost structure, but if you motivate people in positive ways that produce emotional as well as rational commitment, you will get more costs out sooner, and the benefits will be more lasting.

Note


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