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Cost Reduction Strategies

A People Focus



The COVID-19 pandemic has impacted many aspects of our daily lives and routines. Organisations have had a particularly challenging time keeping up with changes to their current markets while ensuring their businesses remain operating. We have seen local organisations face significant operational, financial and liquidity challenges during these turbulent times. Many look to try to prepare and plan for the future but are faced with significant uncertainty.

A common concern for our clients is managing cash pressures. As a result, many will face some temporary cost reduction pressure in order to maintain operations in the long-term. There are many business restructuring aspects to look into to manage such pressures*. For some, a cost saving answer is the reduction of people related costs. However, at the same time organisations will face the challenge of retaining their workforce to be able to get back on track once the economy moves up again. This will require more than a “regular” cost cutting approach.

In practice, workforce cost reduction may come at a higher cost than appears on paper. Decisions to cut people costs must be weighed with the long-term workforce implications. Such cost cutting efforts have an impact on the organisation’s talent management, brand and employee value proposition. Each business is unique with its own circumstances and so they need to be considered on a case-by-case basis. There are no longer one-size-fits-all approaches as measures need to fit the various contexts of specific organisations. Applying measures seen to be successful in other companies will not be effective.

* For more information follow this link:
<https://www.pwc.com/mt/en/publications/other/covid-19-managing-your-cash-pressure.html>



Alternative options, in reducing people related costs, that could be considered and customised to your organisation include:

Downsizing

- Reducing headcount may appear to be an obvious strategy in that companies can identify their critical workforce and retain only those who are key to maintaining the business operation. It is however, important to consider not only the financial and legal aspects but also talent management considerations when implementing such strategies.

One of the learnings from the last downturn in 2008-2010 is that it is really difficult to rehire the same staff once your enterprise is back on track. This approach can cause a deferred problem once you need the qualified workforce again. Companies also need to consider the significant additional costs which would be incurred to hire and train new staff.

If downsizing is considered as the solution, this may require a thorough workforce strategy and reskilling for employees. Legal implications of such downsizing should necessarily also be considered prior to adopting such a strategy.

Retaining workforce with “generic” cost reduction

- In order to avoid immediate downsizing organisations could look into cutting a percentage of benefits for staff. This could possibly be done with a different ratio to different groups as long as a clear justification is provided and the requisite legal implications are satisfied.

This strategy sends a trustful and strong message from the management that the organisation will sacrifice as a whole to retain the total workforce. Management will need to stand in front of staff with a clear and transparent message that a temporary cost reduction is needed and portray a sense of unity in that the workforce is in this together as each worker sacrifices a little to save the team as a whole. Again, one would need to ensure that such strategy is adopted in a lawful manner, particularly from an employment perspective.





Retaining workforce with “targeted” cost reduction

- Another strategy that could be considered in cost reduction efforts also involves cutting workforce benefits but this time in a targeted way. This could possibly be done by understanding the benefit preferences of each employee, and financially measuring what benefits employees value the most and the least.

This method helps cut financial costs while also sending a message that the organisation counts on their employees in the long run and values their priorities. Such a strategy will also require clear and transparent communication by management but the main aim is to create overall motivation and commitment amongst the workforce. Targeted cost reduction will successfully minimise costs while increasing chances of retaining workforces. Naturally, any such targeted cost reduction should be carried out in line with legal requirements, more so from an employment perspective.

Cost cutting measures can involve some difficult decisions for any management team. This is particularly the case when looking at people related costs. In fact, for some companies this will sadly be more about survival than improving financial health. No matter the force pushing for such changes, management needs to give significant consideration to the long-term effects of such measures on the workforce and the organisation as a whole. One should in any case keep in mind legal considerations in relation to any such measures, and be aware of any obligations which may arise to inform and/or consult any employee representatives or unions where relevant, as well as any contractual obligations and collective agreements which may be applicable. Discussions with authorities may also need to be undertaken in certain instances.

How we can help

Organisation restructuring

Support to design an organisation structure and workforce strategy to meet new business requirements

Compensation and benefits

Re-design of packages and evaluation of employee preferences

Talent management

Assess and redesign talent management strategy

Insight driven decisions

Support you to take insight-driven decisions and actions through the collection and use of real time data

Upskilling and reskilling

Development of skills strategy and training employees for new roles due to redeployment

Communication strategies

Develop and implement a clear communication strategy to guide an organisation through change

Stakeholder engagement

Support to identify, engage and manage all key stakeholders including management, employees, unions and regulatory departments

People cost assesment

Assessment of current people costs and potential areas to cut costs

Employment matters

Ensure all employment obligations are met when implementing people related cost cutting measures

Contact us

Contact us to discuss your specific needs and plan out how we can help you



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