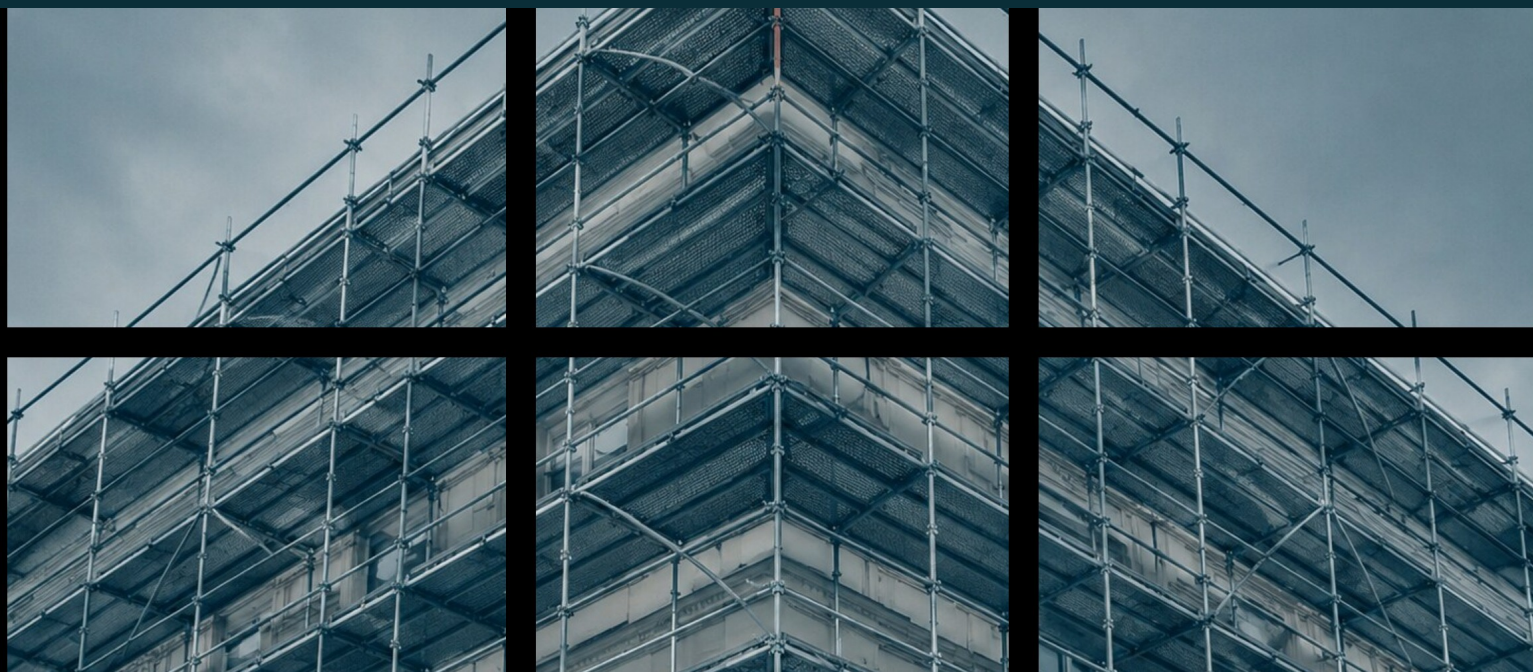


BEYOND SUBTRACTION

Cutting Is Not Transforming: The First Wave of Do More With Less

How a falling market taught boardrooms to call subtraction 'transformation' — and why the distinction decides who emerges stronger



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“The saving is real. So is the liability. Only one of them appears in this year's accounts.”

1. The memo and the rechristening

The memo tends to arrive on a Monday. The share price has halved since the spring, the analysts who spent last year applauding growth and eyeballs now want to see "discipline", and somewhere on the top floor a decision has been taken that everyone will give back a tenth — ten per cent of headcount, or ten per cent of controllable cost, or ten per cent of whatever can be counted before the half-year closes. By Wednesday the finance director has the number. By Friday it has a name.

And the name, more often than not, is transformation.

I have watched, over these past few months, programmes rechristened between one steering committee and the next. An "efficiency review" becomes a "business transformation programme" with no change to a single line of its actual scope — the same headcount targets, the same site closures, the same freeze on the graduate intake — because the new title travels better. "Transformation" moves more smoothly through the boardroom, past the recognised unions, and into the language of the annual report than the plain sentence underneath it, which is that the organisation intends to spend less and employ fewer. Two autumns ago these same boards were being assured that profit was an old-economy anxiety and that burn rate was a sign of ambition. The retreat from that faith is now under way, and it has borrowed a fashionable word to travel under.

2. Two verbs we have started to confuse

Cutting and transforming are not two intensities of the same activity. They are different activities, answering different questions.

Cost reduction asks: how do we spend less doing what we already do? It takes the operating model as given and works to make it cheaper. Transformation asks a prior and harder question: what should we be doing at all, and how should the organisation be shaped to do it? It treats the model itself as the variable. One subtracts from the business you have. The other gives you a different business. This is not a matter of degree. You can cut ferociously and transform nothing, and — though it is rarer in a downturn — you can transform profoundly while spending more.

A cut takes cost out of the model you already have. A transformation gives you a different model. The first can be done with a spreadsheet and a percentage; the second cannot be done with either.

The confusion matters because the two failures look nothing alike from the inside. A cost programme that fails is merely disappointing: the savings leak back, the number is missed, everyone tries again next year. A transformation that was only ever a cut fails differently and later. It hits its in-year target, is declared a success, and quietly removes the capability the organisation will need the moment the market turns back up — by which time the people who understood how it worked have gone, and the programme that was going to redesign the thing has been closed as "delivered".

3. Why the label is irresistible

If the distinction is this clear, why do we collapse it so reliably? Not through ignorance. The pull toward the word is structural, and each strand of it is, on its own, entirely reasonable.

- Transformation supplies a narrative. "We are removing three thousand roles" is a defeat that has to be explained. "We are transforming the business for a harder environment" is a strategy that can be led. The word converts a retreat into an intention, and leaders reach for it because they would rather stand in front of an intention.
- It buys air cover. A board that has approved a transformation has approved a vision, and visions are permitted to be expensive and to take time. A board that has approved cuts has approved a cull, and will be asked, pointedly, at the next annual meeting why the cull was necessary and whether it was enough. The softer word lowers the temperature of the governance around the decision.
- It postpones the genuinely hard work. Redesigning an operating model is slow, contested and uncertain; you may be wrong, and you will certainly be resisted. Applying a uniform percentage is fast, even-handed and almost impossible to argue with — every division suffers equally, so no division can claim to have been singled out. Calling the second exercise the first lets a leadership team claim the credit of design while doing only the arithmetic of subtraction.
- It mobilises. There is real energy in the language of change, and an organisation in fear will move faster under a banner than under a spreadsheet. But energy borrowed under a false name is a debt, and it is repaid with interest in cynicism the next time someone stands up to announce a transformation.

None of these motives is dishonourable. Together they produce a predictable result: the cost programme dressed in the vocabulary of change, sincerely meant and quietly hollow.

4. The cut that feels free

Watch where the axe falls first and you can usually tell which exercise you are in.

Every finance director knows which lines cut cleanly. They are the ones whose absence is invisible this year and expensive only later: the training budget, the graduate intake, the deferred maintenance, the second year of a change programme that had two years to run

and will now be declared complete after one. These cuts feel free because the cost of making them lands in a period beyond the one being defended. They are, in the most literal sense, borrowing.

Consider an organisation — I have seen versions of it more than once this year — that took its annual graduate intake from two hundred to nil and halved its training spend to find the last two points of an in-year target. On the page it is a clean, immediate saving with no visible casualty. What it has actually done is write a cheque against 2003 and 2004, when the cohort that should by then be qualified and supervising will simply not exist, and the capability will have to be bought back in a market that — if the "war for talent" everyone was worrying about eighteen months ago is anything other than a slogan — will not have become any kinder. The saving is real. So is the liability. Only one of them appears in this year's accounts.

That asymmetry is the whole danger. A disguised cut is attracted, as if by gravity, to precisely the expenditure that builds the future, because that is the expenditure whose loss cannot be felt yet. A real transformation, deciding what the organisation is for, might protect that same spending fiercely while removing something the business had simply stopped needing to do. The direction of travel is opposite. The percentage cannot tell the difference; only a decision about purpose can.

5. The strongest case for doing exactly this

There is a serious argument on the other side, and it deserves to be put at full strength rather than set up to be knocked over.

It runs like this. In a downturn you must cut, and you must cut earlier and deeper than feels comfortable, because the organisation that waits to cut elegantly runs out of room while it deliberates. Cash does not care about the purity of your distinctions. And there is a second, subtler point that the purists always miss: a crisis is very nearly the only thing that reliably moves a large organisation. The burning platform achieves in a quarter what a decade of strategy away-days could not, because fear does what persuasion cannot — it makes people let go of what they were defending. So call it transformation, light the platform, and use the heat. The word is not a deceit; it is a lever. Cost pressure is the most dependable catalyst of real change anyone has ever found, and a leader who declines to exploit it out of fastidiousness about the difference between "cutting" and "transforming" is wasting the one moment when transformation is actually achievable.

Every part of that is true. I have watched a burning platform achieve in three months a consolidation that consensus had failed to reach in three years, and I would not pretend the fear was dispensable. The argument is not wrong about the power of the moment. It is wrong about what the moment is for.

6. The test

The burning platform is real. The question the argument quietly steps around is what you do with the fire, because heat can be used to reforge a thing or merely to burn it down, and from a distance the two look alike — right up until you need the thing again.

So the honest distinction is not between cutting and not cutting. In this climate you will cut. It is between cutting by design and cutting by percentage, and there are three questions that separate them. They are worth asking out loud, in front of the board, before

the savings target is set rather than after.

1. After the exercise, does the organisation do fewer things — or the same things with fewer people? A transformation narrows the portfolio; it stops doing something on purpose. A disguised cut keeps every existing commitment and simply staffs each of them more thinly, which is not a new model but the old one, exhausted.
2. Could you have named, before the number arrived, the parts of the business you had decided to leave? If the target came first and a strategy was reverse-engineered to justify it, the sequence gives the game away. Design precedes the number. Subtraction follows it.
3. Will the organisation be more capable of its chosen work next year, or merely lighter? A transformation trades breadth it has chosen to give up for depth in what remains. A cut trades away capability to preserve a breadth it can no longer actually sustain, and calls the result efficiency.

“A crisis is a licence to redesign. It is not a licence to call the absence of redesign by a better name.”

An exercise that answers those three questions the wrong way may still be necessary — the cash may genuinely demand it — but it should be called what it is. There is no dishonour in a cost reduction honestly named. The dishonour, and the damage, come from the borrowed word, because the word buys permission to skip the very design work that would have made the cutting intelligent.

7. What the honest version looks like

None of this is an argument against cutting in a hard autumn. It is an argument for knowing which thing you are doing, and for refusing the comfort of the word that blurs it.

The honest programme in this environment still cuts, and cuts hard. But it cuts having first decided what the organisation is for. It chooses the two or three things it will stop doing altogether, and it protects the capability of what remains — including, especially, the unglamorous seed corn of training and new talent that the disguised version reaches for first. It is willing to say to the board, in plain words, “this part is a cost reduction and this part is a transformation; they are not the same thing; and here is the line where one ends and the other begins.”

We have been here before, and we chose to forget it. A few years ago the word being emptied of meaning was reengineering. It was coined to describe a fundamental redesign of how work is done, and within a few years it had become, in most companies that used it, a polite term for making people redundant — so thoroughly that its own author was left publicly regretting what had been carried out under its banner. We are, in this season of falling share prices and Monday memos, at the beginning of doing precisely the same thing to the word transformation. Much of the cutting to come will be necessary and some of it overdue. Whether any of it also transforms anything at all will depend entirely on whether we are willing to be honest, line by line, about which is which.