For businesses in cost-cutting mode amid economic and geopolitical uncertainty, slow and steady wins the race.

By Shannon Gabriel, Vice President, Leadership Solutions Practice, TBM Consulting.

The ongoing economic and geopolitical uncertainty continues to make it challenging for companies to project and plan for growth. What has been markedly different this year, however, is the number of businesses that have gone into full cost-cutting mode, including mass layoffs, and the speed and scale at which these actions are happening.

Reducing staff to control costs marks a major shift in how companies have been managing their spending during this downturn, with most making cuts while continuing to invest in areas such as talent management and IT infrastructure. The larger conglomerates are most at fault for the change, as many tend to anticipate and assume and hit the panic button first. Amazon is a good example. Demand has not slowed down – there aren't fewer boxes being delivered than there were three years ago. But Amazon still decided to reduce its distribution footprint, which has affected thousands of workers and caused more supply chain disruptions at a time when we can least afford it.

While these decisions may seem rational while in the moment, history has repeatedly shown that downturns are not the time to have emotional responses to cutting labor costs. Mass layoffs can produce short-term gains, but they also tend to inflict long-term pain by holding back a company's growth potential. Rather than making layoffs a default cost-cutting option, companies should devote time to thoroughly analyzing how they manage and train their people, as well as the myriad processes that support them in carrying out their work, to see where greater efficiencies and cost savings can be achieved first.

Investing in Your Most Valuable Asset: People

When it comes to managing talent, it's always more expensive to replace an employee than to retain or upskill good ones, so keeping your team happy and engaged is an evergreen priority. Baseline requirements for driving satisfaction and retention in any business include providing a sense of stability, communicating, and always being open and transparent – even and especially when it is most difficult to do so. Large-scale layoffs have the opposite effect – they can fester mistrust, hurt credibility, and severely limit the pool of candidates willing to join your firm going forward.

Lean Into Training and Upskilling

Any business that wants to grow must continually provide its team with new opportunities to learn and develop new skills. Yet training and development budgets are often among the first items cut in down markets. This is like recruiting talented players for your baseball team and then cancelling all the practices. Failing to invest in the growth and development of your team, including looking into new ways to "upskill" older workers, is a strategic swing and miss in today's business climate.

Upskilling is becoming more important today in part due to the rapid pace of digital technology advancements. Companies need to have strong digital dexterity and can realize significant cost savings by training current employees to learn and use these emerging applications rather than hiring new talent each time to fill these skill gaps. Specialized upskilling training can include virtual and online courses as well as mentoring and job shadowing. While it can be expensive, the return on investment is considerable as upskilling can increase employee engagement, maximize productivity and retention, and increase customer satisfaction.

Think Outside the Box

Drastic times call for new approaches. In times like these, it is important to consider all options beyond massive workforce reductions to help tame labor costs. Offshoring certain jobs, for example, while not always an ideal solution, can be a good alternative for positions involving less personal interaction such as technology or engineering roles. Another strategy is to make more use of part-time labor, and thus not have to pay the full package of benefits full-time employees receive. Within the manufacturing sector, some companies use an “on call” system which allows workers to schedule their own shift times as demand for their unique skills warrants.

Sourcing New Talent: Get Creative

While the volatility we continue to see should alleviate the worker shortages we are seeing in certain industries, now is the time for companies to get more creative in terms of how they attract, train, and keep top talent. Smart firms, for example, know that downturns create opportunities to find high-quality talent, even in drum-tight labor markets. As a case in point, we recently worked with a manufacturing firm that made the strategic decision to keep innovating through the uncertainty by investing significantly in new product development. They realized they needed to tap into new talent to be successful, so they kept close tabs on conditions and layoffs at competitors. When the time was right, they swooped in and hired a group of highly skilled engineers to work on these projects, and as a result were several laps ahead of their competitors when markets improved.

Hire Senior Leaders Strategically

Hiring senior leaders in manufacturing has always been challenging but companies looking to both grow and be fiscally wise cannot afford to navigate through cycles like this with inexperienced leadership. We often remind clients that bringing on a new senior hire does not have to translate to a big line item. We see many instances where a strategic, incremental add-on effectively complements existing resources, and delivers considerable value. Regardless of external pressures, firms should think of senior-level hires not in terms of total cost outlay but in terms of how their role and skills will fit within the organization’s broader strategic objectives.

Industry today

Continuous Process Improvement Drives Cost Savings

Regularly assessing and improving standard processes and procedures can also drive considerable savings. There are always areas to tighten up, usually many more than management teams think. Within the manufacturing sector, for example, we often see clients lose talent to competitors due to the length of time it takes to conduct background checks and other testing. If your vetting process takes 45 to 60 days for final clearance versus two or three weeks, it is time to streamline. Make a list of your core processes, see where there might be weaknesses, and make them stronger.

Technology, as always, is a key differentiator and companies that strategically deploy new applications in this environment stand to realize significant gains. The emergence of artificial intelligence, or AI, is the most obvious current example, as businesses across industries have already begun to use AI tools to help perform repetitive or predictive tasks. Within the manufacturing sector, AI-driven technology is assisting with the process around the preventative maintenance of equipment. Instead of waiting until a piece of equipment fails, AI tools "predict" the required maintenance date, effectively helping to avoid downtime and reduce operating costs. In a sector that relies heavily on equipment working right, this greatly reduces the chance of any expensive oversight.

Staying Even Keeled

Whether borne from impatience or necessity, or a bit of both, instituting anything on a big scale during a prolonged downturn – including and especially broad layoffs – often ends up being a costly mistake down the road. There are always ways to get better from within during challenging periods, and investing into key foundational areas should never cease. Those companies that take the time to focus inward, prioritize areas for improvement, and continue to invest steadily into core areas such as talent and training will have a leg up on their competitors as conditions improve.

Shannon Gabriel

Shannon Gabriel, spearheads TBM Consulting's Leadership Solutions practice, working with clients on human capital issues that impact top-line growth and EBITDA and improving organizational change management, which affects morale and retention. Ms. Gabriel has more than 20 years of experience helping organizations solve their most complex human capital challenges, including HR strategy, talent/performance management, hiring strategy and execution, and supporting leadership development and succession planning.