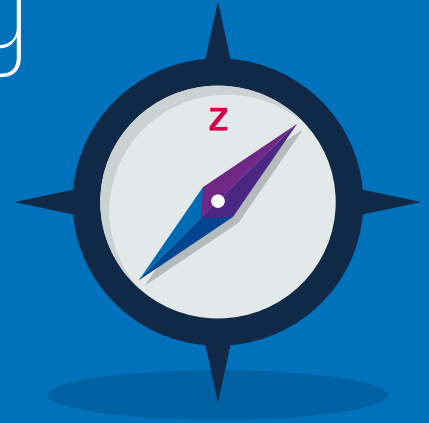




Zero basing – charting the human journey

Realizing value series

Global Strategy Group



Many challenging change journeys are non-linear. Zero basing is no different and having a full appreciation of the human journey across the life of a zero basing program is essential if organizations are to expect anywhere close to the full value of their efforts to be delivered.

In the recent KPMG International publication on the resurgence of zero basing as a bold approach for optimizing costs and spend allocation, we discussed five areas which in our view create some of the most effective conditions for success. In a series of follow-up articles, we shine a light on each of those areas in turn and expand our thinking on their importance as critical enablers.

In this article - the first in the series - we explore the human journey of zero basing, putting people at the heart of the agenda through a series of structured interventions that deliver sustainable change. KPMG professionals' direct experience of working with clients continually highlights the value of thinking about the journey in this way.

Charting the human journey of zero basing:



Align stakeholders

Make it clear. Align stakeholders around the strategic aims, ambition and scale of the change.



Create transparency

Make it known. Create full transparency on current spend by cost category.



Reset costs

Make it real. Build a 'bottom-up' activity plan based on clear choices driven through structured decision forums.



Design the end state

Make it happen. Embedding the impact of zero basing into the future operating model.



Build capability

Make it stick. Creating sustainable behaviors consistent with a zero basing mindset.



Align stakeholders – make it clear

Leadership behavior is one of the the single biggest determinants of zero basing success. KPMG professionals' experience strongly correlates success with the strength, passion, drive and crucially the alignment of the leadership team. Leadership should seek to go well beyond intellectual commitment to embrace a full 'hearts-and-minds' belief in the achievability of the target and the difficult actions required to deliver on it. Making lifestyle changes - of the kind implicit in zero basing the business - demands consistent leadership role models.

This starts with defining a clear and compelling case for change, one that the whole organization can align around. Building a compelling story is crucial, even if no existential threat exists. Management incentives should be explicitly aligned to programme objectives from the outside, in order to generate genuine motivation in support of the programme. Companies must acknowledge the critical importance of actively securing and confirming alignment as a minimum precondition prior to getting started.



Create transparency – make it known

Zero basing can be an emotional experience for those involved and impacted. Done well, it can provoke choices around difficult trade-offs on risk and value, which in turn create stress, tension and anxiety. Bold strides forward in a company's cost position don't come easily and managing these emotions is a cornerstone of success. The right narrative balances a push for cost savings with compelling messages around alignment of strategic priorities and a future vision for what the business will look and feel like.

Starting with full transparency of current performance and improvement potential creates the basis from which to challenge the status quo and open up 'the art of the possible'. Fact-based debate building up a quantifiable view of what activities cost by category and what value is delivered helps dissipate emotion in decision-making. Experienced practitioners even create ways of codifying more ambiguous measures such as risk to ensure robust analytics underpin all elements of the approach.



Reset costs – make it real

Zero basing should be inclusive to be successful. Fear of loss is a powerful resisting force that can only be addressed by building real ownership from the outset, particularly at the point of rebuilding or 'resetting' the cost base of the business. The most successful programs establish clear decision-making forums to achieve this. These structured forums must fully engage management at all levels to challenge 'affordability' ambitions and determine options for removing and reducing activity, and fundamentally resetting the cost structure of the business. The process is tough and emotionally challenging as leadership take difficult decisions based on business priorities, but the experience sets the tone for a new way of working. Old behaviors start to get broken down and new cross-function 'handshakes' form, along with a heightened sense of commerciality and a focus on what matters in driving value.

Lower-risk decisions can flow from these forums straight through to implementation without the need for senior sign-off. The more that can be achieved without the highest levels of intervention, the more empowered the business feels to take broader ownership and accountability for the path being taken.



Design the end state – *make it happen*

Bold results from zero basing demand rigor and discipline of the highest standards in creating the new end state design for the future business. Many well-meaning programs can fail at this point because they haven't thought through the implications of cost decisions for the way the company operates.

In some instances, impacts may be relatively simple – the redrafting of an expenses policy, new governance around changing delegations of authority. In many cases, however, detailed people transition plans need to be developed. New role descriptions, process and technology changes, and revised KPIs all form part of broad-ranging scenario planning to help ensure that a viable business, running with a reduced level of activity and less people, is quickly able to stabilize. Unfortunately, we find that this end state design may too often be ill-conceived and not integrated into a coherent view of the overall future operating model. Where displacement of people is an outcome, care must also be taken to pay due sensitivity not only to those who are at risk, but also those being retained to ensure continued engagement through the process and beyond.



Build capability – *make it stick*

A longer-term, strategic view of zero basing as a fundamentally different way of thinking about cost management is essential for sustainable value delivery. An initial 'shot in the arm' to shake down the cost structure of the business only gets you so far, but embedding behaviors and ways of working that consistently challenge options on spend allocation and focus alignment of investment against strategic priorities, requires more sustained effort.

Business striving for long-term benefit consider a portfolio of active interventions to establish and maintain a zero based mind-set from the boardroom to the shop floor. Investment in enduring capability development is supported by intensive training programs, aligned performance metrics and the highest standards of zero based thinking, role modeled from a truly aligned leadership group, taking us right back to where we started...

And finally...

The single characteristic that's most difficult to pin-point, yet essential to zero based success and ever-present across all of these five phases, is the emotional intelligence of those who lead the process. Subtle judgments on how far is enough to reduce service levels, on what levels of risk tolerance are acceptable, and on which battles to pick and which to concede on are innate traits, typically present in abundance with those leaders that are most capable of leading effective zero basing.

To bring this to life, we examine one business KPMG professionals had observed that had been advised - having made reasonable progress in unlocking value across its operations - that a final slither of cost could be further eked out by removing the plants and water coolers from their head office. More refined judgment could have spotted the potential impact, as the fragile defenses of an already weary workforce came crashing down with far-reaching unintended consequences for the overall initiative. This was a classic case of 'camel and straw'.

KPMG professionals have learned a lot from working with clients through this human journey. Effective practitioners not only **acknowledge** the need to put people at the heart of the zero basing agenda; they truly understand the specifics of **where and how they do this**. Appreciation is one thing, but effective application of the methodology outlined here is, in our experience, where true zero basing success lies.

Jeremy Kay

Partner

Global Strategy Group

KPMG in the UK

E: jeremy.kay@kpmg.co.uk

T: +44 7920 247 462

Fergus Woodward

Partner

Global Strategy Group

KPMG in the UK

E: fergus.woodward@kpmg.co.uk

T: +44 7711 701 220

Olli Valikangas

Managing Director

Global Strategy Group

KPMG in the US

E: ollivalikangas@kpmg.com

T: +1 773 255 1890

Ilaria Gregotti

Partner

People and Change

KPMG in the UK

E: ilaria.gregotti@kpmg.co.uk

T: +44 7917 836 264

Jon Richards

Director

Global Strategy Group

KPMG in the UK

E: jon.richards@kpmg.co.uk

T: +44 7710 835 855

Edward Boulton

Director

Global Strategy Group

KPMG in the UK

E: edward.boulton@kpmg.co.uk

T: +44 7795 283 676

Chris Young

Director

Global Strategy Group

KPMG in the UK

E: chris.young@kpmg.co.uk

T: +44 7834 146 191

Lesley Coutts

Manager

People and Change

KPMG in the UK

E: lesley.coutts@kpmg.co.uk

T: +44 7552 254 716



About KPMG's Global Strategy Group

KPMG's Global Strategy Group works with private, public and not-for-profit organizations to develop and implement strategy from 'Innovation to Results' helping clients achieve their goals and objectives. KPMG Global Strategy professionals develop insights and ideas to address organizational challenges such as growth, operating strategy, cost, deals, digital strategy and transformation.

kpmg.com/strategy



The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavor to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

© 2018 KPMG International Cooperative ("KPMG International"), a Swiss entity. Member firms of the KPMG network of independent firms are affiliated with KPMG International. KPMG International provides no client services. No member firm has any authority to obligate or bind KPMG International or any other member firm vis-à-vis third parties, nor does KPMG International have any such authority to obligate or bind any member firm. All rights reserved. The KPMG name and logo are registered trademarks or trademarks of KPMG International.

Designed by **CREATE**. | CRT0102190A | October 2018

