Organizational Distress, Leadership and Communications

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This article focuses on organizations in distress and the various approaches to leadership and communication that are commonly deployed. Topics such as the impacts of distress on productivity, employee engagement, organization effectiveness and overall performance are covered. The author explores key concepts such as the normative emotional cycle that can be expected during times of distress and how leaders are challenged in the area of communication. He discusses three man categories of activity during times of organization distress: transforming mind-sets, building skill sets and aligning tool sets. While not linear, these three can form the foundation of a cyclical plan that coaches can use to organize and reinforce adaptive leadership techniques.

WHAT ARE THE KEY OBVIOUS AND SUBTLE SIGNS OF AN ORGANIZATION IN DISTRESS?

In general, an organization in distress is one in which the anxiety level of the management team and/or Board of Directors is too high to leverage the core capabilities and tools to adapt to a change. By capabilities I am referring to the key business processes that will differentiate the company’s ability to execute its strategy. For instance a company’s ability to develop product may require more speed than accuracy. “Tools” refer to the technologies that enable an organization’s core capability. An example is a company’s performance management process. This is a management tool that ensures the company leverages the full potential of its employees. An organization will typically rely on leadership, culture and strategy as the key components of change.

The more obvious sign of distress can be seen in the behavior of management and the Board of Directors. In my experience, management will shift into a “frozen state” and resort to what it knows best. There are some differences in how management teams will behave, depending on the industry and relative strengths of the company prior to the crisis.

In a financial services firm, I’ve seen instances where the “frozen state” is manifest in a severe reduction in internal communications – management will go silent. Decision making becomes unclear or even avoided. Accountability becomes more ambiguous and you can expect very little action. Another real sign of distress is represented by a lack of deep understanding of the cause of the distress. I have seen an organization misdiagnose the cause in an effort to “quickly” remedy the issue, thus creating what is often a false sense of security in the organization. There is a tendency to limit the discussion and
problem-solving effort to a very small number of people. Another noticeable change is the shift from a more consensus or democratic culture to one that is a top-down, centralized, and hierarchical with regard to its decision-making process.

The net effect is that an organization in distress is one that feels (at most levels) tense, constrained, and without a lot of insight as to what’s going on. Senior managers feel lost, without a clear sense of direction; they think “just keep doing what I’m doing.” At the middle of the organization the signs are less obvious and more subtle, unless the media is involved. The spotlight of the media can be a complicating factor for any company, especially those that are public and exposed to analysts and regulators. The media can cause further stress because they often will report a portion of the story that requires management to respond both externally and internally.

**WHAT ARE THE IMPACTS OF ORGANIZATIONS IN DISTRESS, INTERNALLY AND EXTERNALLY?**

The specific impacts on organizations vary by organization. In general, most important processes slow down because the organization will revert to rules and abandon the principles that guided decisions in the past. Teams will likely be underutilized and less productive. In one organization, I recall how management developed their risk management strategy without including the risk organization. Their decision was based on the need to “contain” the firestorm. Management failed to leverage the capability of the team that had been developed to provide precisely that sort of expert advice when it was needed most. You could say that this particular organization, a multinational financial services firm, decided that in order to stabilize the business it had to centralize decisions and key processes related to risk. However, given the large footprint and multicultural dimensions of the company, there could not be a “one size fits all” solution. The impact was a very uneven and slow rehabilitation process. More importantly, the company was very slow to focus on the real core issues – those issues that were at the root of the crisis.

Another critical impact on organizations is level of employee engagement. Engagement refers to employees’ motivation and commitment to an organization. The impact of distress on employee engagement can be severe. As engagement drops (that is, the discretionary effort employees demonstrate when doing their jobs) the greater the threat to competitive advantage. Engagement, often assessed through formal tools such as employee surveys, is a key metric to keep in mind when monitoring the impact of chronic distress.

Another common impact of distress is the degree to which people stop asking questions. Those employees who typically challenge the way things are done and push the organization toward continuous improvement will often become silent. What often emerges is a shared “what’s the point?” of questioning or problem solving attitude. From a coaching perspective this particular impact can be devastating.
to those leaders and managers who are trying to find their voice and searching for opportunities to take risks. Other impacts on organizations may include reduced retention of top talent, customer defections, and loss of brand equity, both internally and externally.

**WHAT TYPES OF LEADERSHIP REACTIONS TO DISTRESS HAVE YOU SEEN?**

The type of leadership we saw on Wall Street during the 2008 financial crisis is what one could call “unconscious” leadership in many instances. Leaders had a difficult time assimilating new information into their various business models and leadership paradigms. The leaders I encountered struggled to restore equilibrium and engage their people and operations to draw on core strengths. They missed opportunities to take advantage of their brand and customer base when they retreated to the board rooms to deliberate how to manage through the crisis.

One of the most interesting observations I noted about leadership reactions to distress is the degree to which the organization is compelled to “blame” someone or something for the distress. In one organization that was particularly impacted by the collapse of the global financial market in 2008, the organization was rumored to be on a “witch hunt” to take out those responsible for the crisis. In fact, they canned so many leaders at the top that the organization had little continuity and confidence in senior management. While this is an extreme case of the blame game, I’ve seen this happen on much smaller scales. Leaders will want to hold others accountable for an issue at the expense of learning from the mistake. This sort of fear-based environment is one of the hallmarks of how leaders can “freeze” an entire business system and therefore add to the distress of the organization.

Another aspect of this type of leadership reaction is a failure to shift the mind-set from despair to hope. Leaders need to articulate a future state that is achievable and set direction for the organization to take. These can very difficult tasks, especially if the distress is a protracted situation. In a more chronic circumstance of distress, I’ve observed senior management trying to protect the organization (and sometime its customers) from the facts. In these situations leaders can inadvertently encourage denial and resistance that change is required.

**IN WHAT WAYS ARE COMMUNICATIONS IMPORTANT IN AN ORGANIZATION WHEN CRISIS OCCURS?**

Communication is crucial in crisis. One of the challenges that leaders face in a crisis is not always seeing the full picture and therefore not planning a strategy of communication. In a nutshell, many leaders react or give the appearance of reacting. In a large US insurance company I observed a unique communication strategy during a crisis. The leaders decided to conduct all their communications in a face-to-face forum. The crisis would not be written about in emails
or discussed on the company intranet. The notion that a high touch dialogue approach to the crisis would enhance gaining stakeholder buy-in really paid off. The opportunity to hear the issues firsthand and discuss them in real time allowed the company to realign and implement the recovery plan at a much faster pace.

In this example, senior management invested their time travelling to visit management teams across various geographies rather than spending the time writing and editing memos. One of the common issues organizations face in crisis is the tendency for the system to become inwardly focused. The successful communications approach mentioned above modeled how to stay in touch with customers and maintain a high level of customer intimacy. I believe the act of face-to-face communications is the single most powerful strategy this company deployed to recover faster and with less risk than their competition.

The key to cascading information to different levels of the organization is to leverage the voices and skills of those trusted at those levels. One effective technique is to establish “communication circles” around a company. These are small groups of employees who take responsibility to communicate, sometimes informally, to create a network of grass roots messaging. Leaders I’ve worked with have successfully established these groups and developed circles of trust and information flow that can positively impact morale and retention.

**IS THERE A SEQUENCE OF ORGANIZATIONAL ACTIVITY THAT CHARACTERIZES THE EMOTIONAL CYCLE OF A CRISIS? HOW WOULD YOU DESCRIBE THAT?**

Yes, I think the there are four types of activities that reflect the emotional cycle of a crisis. The first type of activity is “quick action” which reflects the organization’s need for the hero, a leader who will rescue the company. Hope is the primary emotion during this phase. The hero syndrome is often seen in the more charismatic leader who has a vision and can mobilize a flurry of activity. This stage is mostly focused on quick wins that aren’t sustainable over time nor do they resolve the root cause.

The second type of activity is a reaction to the first “planning and more planning” activity. The phase of this cycle is characterized by calmer and more measured feelings across the company. During this phase, things move at a considerably slower pace. Committees are formed to focus on the real issue. Rules are put in place and usually the company will focus on costs and people. The firm moves into what I call hyper-management mode. Here we see leaders act more conservatively while they plan the future. There is a period where people feel more supported and leaders are more diplomatic.

The third type of activity is more contextual and depends on the nature of the crisis. The organization may slip into a state of malaise.
if the issues are not continually made clear and communicated throughout the organization. To help resolve matters, the focus of the organization has to be around raising awareness of what the issues are and changing the attitudes and behaviors of a critical mass of influencers. In the “US Insurance Company,” the CEO decided to communicate a new set of leadership requirements that created a flurry of initiatives designed to foster new behavior. In this organization, where the distress was more of a senior management issue around future growth and sustainability of the organization, leaders were challenged to focus on knowledge transfer and distributed leadership. This leadership challenge led to a host of organizational interventions designed to engage leaders in understanding the new set of cultural and leadership requirements and why those were so important to the business growth strategy.

Typically, a fourth category of activity reflects the emotional phase of hope and sense of the future. These activities are more like engagement programs that train, educate and build alignment across the organization. It’s not uncommon for leaders to cycle through an extended period of time (even up to two years) before they are confident they can demonstrate what the future will be like and excite employees to participate in the mission.

**WHAT DO COACHES NEED TO KNOW ABOUT WORKING WITH SENIOR MANAGEMENT DURING TIMES OF DISTRESS?**

My experience working with senior management during times of distress is mostly correlated with the degree of trust they have in me prior to the crisis. In one example, where the trigger was the unexpected death of the company’s long tenured and beloved CEO, I found myself facilitating a grieving process across an entire system. What made this time of distress most challenging was the lack of a clear succession plan. My role was to help organize a calm and reasonable dialogue among the senior team members to plan a leadership transition. (This was a private company of about 4,000 employees whose Board of Directors was made up of the partners of the company.) I was in a place where I was trusted to outline some of the key components of the plan: people, process, communications and focus on clients. I found that knowing something about the grieving process was helpful in moving the team to develop and implement the early stages of the transition plan. This example illustrates why organizational distress can be viewed as a human state experienced by the system as a whole.

**WHAT DERAILES SENIOR LEADER EFFECTIVENESS DURING THESE CHALLENGING TIMES?**

The first thing that derails leader effectiveness during challenging times is their inability to assimilate new data/information that may not fit with their mind-set or paradigm. I always ask leaders, “What new information do you have?” “What is the most perplexing thing to you about the crisis?” If the response isn’t substantial or
clear or, worse, they don’t see anything new, my role is to work to help them expand their thinking and to take it in. The second thing that derails the leader is the tendency to miss the fact that they are under the microscope during a crisis. They fail to see how their behavior, every movement, impacts the organization. Self-awareness can often be the lynch-pin to leading through a crisis.

WHAT ARE SOME MYTHS OR UNSUCCESSFUL BELIEFS OR APPROACHES LEADERS MAY HAVE ABOUT MODERATING OR REDUCING ORGANIZATIONAL DISTRESS?

Occasionally one hears that employees learn about events first in the media, or press releases. One common approach is to communicate the “whole” story once the problem and the solution have been fully articulated. Of course, we know from the past two years in the financial industry how information and understanding of problems evolves and requires time. Leaders need to communicate what they know (and more importantly what they don’t know), when they know it and what they plan to do. Coaches need to help leaders remain visible during times of distress. Frequent communications, regardless of how incomplete the information is, builds trust and reduces anxiety.

There are some kinds of communications that will INCREASE uncertainty among employees – a communication that seems to be saying nothing or is perceived to be “corporate speak” can create too much anxiety and paralyze employees capacity to function.

WHAT CAN COACHES AND LEADERS DO ABOUT ORGANIZATIONAL DISTRESS?

Here are the top three things to do at the enterprise level for organizational distress... and why:

1. Leaders must keep an open mind about what is happening, seek information about the crisis from a broad range of sources, and listen to everyone. Remember, in crisis, employees need leaders to “be there.”

2. Develop a network of employees who can both control and disseminate information and messages that are crafted by senior management. This is more important than a communications plan.

3. Rely on core values and cultural attributes to lead the organization. This is key because employees and customers will be more inclined to engage in the recovery plan if they “recognize” what leaders are trying to do.

In times of distress, our task as coaches is help leaders change mindsets. Employees are feeling vulnerable and fearful. They have a bleak outlook on the world. As we know, anxiety, depression
and a sense of being powerless are a toxic mix. Martin Seligman (1998) says, “Habits of thinking need not be forever…individuals can choose the way they think.” I’ve seen leaders in times of crisis treat their employees like they are machines, standing over them, applying pressure and scrutiny trying to increase productivity. In essence, they create an environment where the consequence of stepping out of line are dire and to be avoided. The psychology is understandable but flawed.

These leaders are trying to restore order and predictability when the crisis is anything but. The coach can help leaders restore an organizational environment characterized by learning, adapting and innovating. Transforming the mindset from fear to opportunity is the critical shift required.

**HOW DO YOU KNOW WHEN THE ORGANIZATION HAS ACHIEVED SUCCESS? WHAT ARE THE METRICS, BOTH SOFT AND HARD?**

There are several indications and metrics:

- Media coverage improves and is more positive. The financials look better and receive positive reviews from analysts. Spending unfreezes, supporting more hires and emphasizing a return to building leadership rather than stopping development programs.

- One of the keys to success is retention of top talent. Organizations in crisis will frequently set out to develop retention packages and programs. This is a must. When in distress, don’t underestimate the inclination of the competition to poach your best and brightest.

- Another sign that the organization has achieved success is an increase in productivity. Employees will relax, take normative risks and increase production.

**WHAT ARE YOUR CONCLUDING THOUGHTS?**

When I think about the work an organization in distress has to do, I often compare it to mountain climbing. Climbers and their teams have long developed strategies to manage constantly changing conditions, uncertainty, fear and anxiety. Their teamwork and climbing techniques are designed to accomplish five objectives: execute their plans, manage risk, move with speed, do more with less, and control fear. These five principles sound familiar. Organizations have the same challenges when they face significant change and crisis.

Organizations in crisis are like climbers; an organization requires leadership that will create conditions so that the organization will execute the plan and strategy, manage risks to protect and preserve their assets, stay focused, reduce fear, and do more with less.
Like climbers who need to pack as little as they can, organizations have to reduce complexity and eliminate anything and everything that doesn’t create value (for both employees and customers). Doing more with less depends on the clarity for what “doing more” really means. Like climbers facing constant changes in weather and other conditions, the organization’s leaders need to help employees stay focused. Employees who are now doing the job of two and even three people (after significant job cuts) cannot be as focused and will end up doing both jobs poorly.

For climbers, trust is everything. In organizations, according to Professor John Whitney of Columbia University Business School, mistrust doubles the cost of doing business (Covey, 2005). Three consistent techniques to maintain or restore trust are critical: (1) create transparency; (2) keep your commitments; and (3) extend trust to the teams doing the work. When distressed we see too many examples where the organization fails in one or more of these basic approaches.

Finally, climbers are always working to contain and reduce fear. Fear is contagious. We know how organizations in distress can create fear and fail to see the impact that fear has on productivity and results. The key to reducing fear is clarity and decisiveness. What employees in distress need is direction; just because you can’t see or hear the fear, doesn’t mean it’s not there. Employees are generally waiting for direction. Leaders need to be visible and provide clear direction. The longer leaders delay communication, the more they are adding to the crisis.

REFERENCES


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