

Organizational Behavior in Distressed Situations

General Management

Organizational behavior issues arise in distressed situations for a number of reasons and present themselves in a variety of ways, some being costly, destructive, and difficult to handle.

Solutions will depend on specific circumstances which can have infinite variety and complexity and may be imperfect and short term in nature.

By Seth Bakes

Executives and consultants who work in the turnaround area are accustomed to unusual and stressful environments, but most people are not, at least not to the same degree. It is always a challenge to manage under adverse circumstances and managing people is one of those challenges. Organizational behavior issues can be costly, arise for a number of reasons, present themselves in a variety of ways, and have a variety of solutions.

Stress and the specific stress of uncertainty can arise from real and perceived concerns regarding:

- personal financial exposure
- increased workload
- continued employment, layoffs, reduced compensation
- organizational changes, new reporting relationships, new tasks
- maintaining vendor relationships when vendors are not being paid
- ethical dilemmas, fear / guilt regarding past actions and implications

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- lack of / losing confidence, feelings of incompetency
- lack of clear long-term direction
- survivor guilt
- the strain of constant cost cutting and constant payment negotiations
- forgoing normal operating best practices, delaying scheduled maintenance of PP&E, for example

The list goes on and on.

These stresses surface in non-constructive and costly behaviors such as:

- lack of cooperation or obstruction
- intentional malfeasance
- release or removal of sensitive information
- property damage
- inability to accept reality
- decision delays
- unproductive political maneuvering
- false or exaggerated dichotomies regarding “us vs. them”
- emotional outbursts
- substance abuse
- unethical and criminal behavior

Again, the list goes on and on.

These destructive behaviors exacerbate the underlying financial, operating, and market pressures and vice versa. So, what can the person in charge do? First, the counsel of human resource professionals is very valuable in these situations. Second, consider that many solutions will depend on specific circumstances which can have infinite variety and complexity and may be imperfect and short term in nature. Here are a few examples of ways to work through a few problems.

One problem in distressed entities is that holes appear in the ranks as employees are terminated or leave to find more secure or more lucrative employment. Replacement is hard because it is hard to attract new talent to distressed entities. That is why experienced turnaround consultants or interim managers are typically brought in and they may pursue a variety of strategies. They may:

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- negotiate special compensation / service contracts with key employees,
- take over specific functional areas themselves,
- discontinue business units or components of business units,
- outsource certain functions or activities,
- selectively promote junior managers to fill gaps, letting them take a step up in authority and responsibility, or
- bring in other consultants.

One way to ease the pain of layoffs is to acknowledge financial problems openly with existing employees and let them know that the company is overstaffed; overstaffed for the company's current ability to pay or for current market conditions or diminished output requirements, for example. There was a case where, in a small company environment, upon hearing this frank assessment by a new authority figure, many employees left a company voluntarily over a several month period, thus allowing many to make an orderly and voluntary transition and reducing formal layoffs.

Regarding day to day interaction with employees, be sensitive. Listen. Let people share their concerns. The simple act of empathetic listening is calming and, in confrontational situations, can diffuse tensions.

At the end of the day, however, consistent difficult behavior needs to be addressed in a firm manner appropriate to the specific situation. In a general downsizing or management reorganization, an executive has a lot of latitude to effect change and align economic activity with staffing in a timely manner.



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