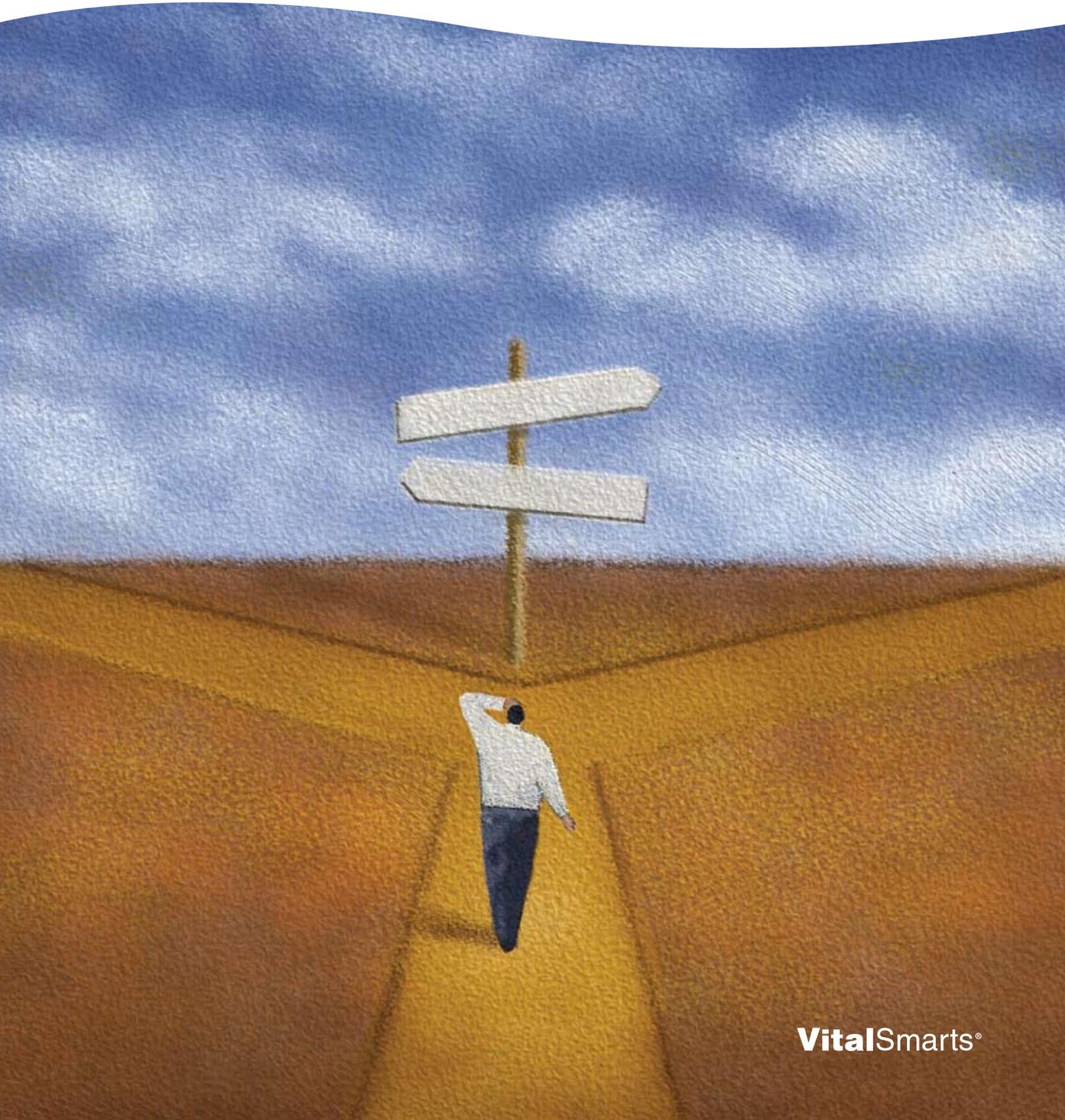


# Is Corporate Depression

Putting Your Recovery at Risk?



# Is **Corporate Depression** Putting Your Recovery at Risk?

## It's what you can't see . . .

It's a well-worn metaphor, but shockingly apt. Leaders steering their organizations through rough waters focus on the obvious dangers—the iceberg peaks that are visible above the waterline. And they fail to account for the enormous undersea bulk of the bergs until ice rips through the hull of their ship.



Our research suggests that the vast majority of leaders are putting their companies' futures at risk at this very moment with the same miscalculation. They are rightly focused on visible perils like shaky capital markets, uncertain cash flow and nervous customers. But as they take measures to respond to these external threats, they fail to apprehend the more profound danger lurking below the surface within their own organizations—a dramatic reduction in performance capacity we call "corporate depression."

For example, we watched a large telecom company struggle to respond to massive market shrinkage with a series of downsizing announcements. Senior executives could easily spot impending budget shortfalls and used well-worn strategies to address the threats. They eliminated or delayed ambitious IT investments, which enabled them to reduce staffing levels significantly. In following months, as the recession deepened, they repeated the process. Over a two-year period they announced four successive targeted layoffs. Simultaneous to this they evaluated the costs and benefits of outsourcing the bulk of the remaining work.

Now, let's be clear—at times like this, leaders have to make tough choices. We tee up this example not to suggest that traditional responses to economic turmoil are inappropriate. Our goal is now to turn attention to the invisible problem these leaders left unsolved. While leaders wrestled over complex policy decisions, they failed

to recognize a progressive and catastrophic reduction in their organizations' capacity to get work done.

The problem wasn't due to the overt messaging—the "written rules" of the strategy, the operating model and the integrated processes were quite clear. The top leaders knew things weren't moving in the right direction, but they couldn't specifically identify what was out of alignment. So they did what many leaders would do. They pushed harder. They over-communicated the new strategy, they made sure everyone understood the new organizational model, and they looked for measures and scorecards that demonstrated adherence to the new processes.

Ultimately, an organization's capacity to perform is a function of individual human behavior. And our research shows that when times get tough, leaders tend to take their eyes off this most fundamental of leadership responsibilities: the challenge of strategically and systematically influencing the behavior of their people. They make this mistake both because they lack vision into looming behavioral threats and because they lack the tools to respond quickly and effectively to them.<sup>1</sup>

Over the course of two years the 5,000-person IT organization at the telecom company spiraled uselessly. Every layoff was preceded by months of employee agony, apathy, and dysfunction. Our measurements showed that up to 40 percent of employee discretionary effort was squandered on non-value added activities, and that voluntary defections

<sup>1</sup>In one 2007 study, we found that 90 percent of leaders believe that influencing behavior is one of the most important challenges they face—yet fewer than 1 in 20 leaders have any systematic and effective way of doing so. See "How to Have Influence," *MIT Sloan Management Review*, Fall, 2008.

of key players increased three-fold. One employee described this period as akin to “having your leg amputated one inch at a time.”

Even worse, when the economy turned around, and leaders began to rebuild, the organization was in such a depressed and weakened condition that they were unable to seize new opportunities for at least two more years.

The invisible threat that leaders tend not to address when times get tough is this: Depressed organizations don't perform.

Today's leaders are navigating through seas filled with external threats. What they need now more than ever is the ability to scan below the surface, assess threats like these to the organization's internal capacity, and develop strategies to build confident, engaged performance.

The promise to leaders who address the murky challenges below the waterline is huge. Our recent study shows that leaders who effectively influence the right behaviors during economic downturns create organizations that are five times more agile. These companies are able to make intelligent cuts many millions of dollars deeper than those who fail to appropriately engage their employees in the problems. Furthermore, executives report that the quality of their response leaves them far more productive in the short term and more than ten times better prepared to grow as new opportunities emerge.

In brief, reacting quickly to visible threats may help you survive, but thriving depends on your response to the problems below the surface.

### Case in Point: Pharma Influence

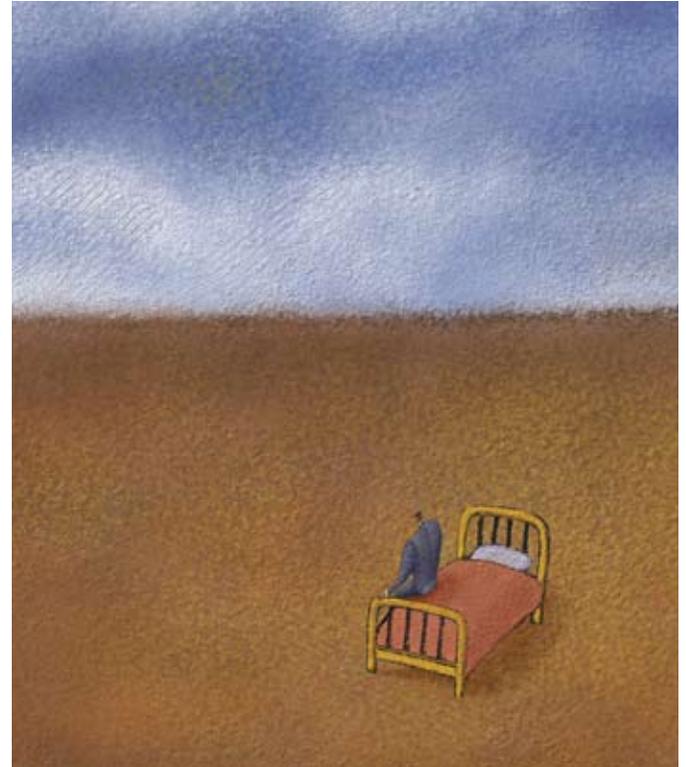
Consider the story of an imperiled pharmaceutical company. Two of their biggest drugs were going “off patent”—putting billions in revenue at risk. Their drug pipeline was at an all-time low. Their stock price was under tremendous pressure. The FDA had taken control of some of their key manufacturing sites because of poor quality compliance. In the midst of all this, executives determined that long-neglected cost gaps would have to be addressed or the company was at risk of worsening bond ratings.

So, executives designed an ambitious new strategy and a more integrated organizational model. They also spoke of new processes that cut across the organization and would “turn the enterprise on its side.”

They created persuasive PowerPoints to capture the messaging and called Town Hall meetings to get the message out, including a personal video appeal from the CEO describing the “burning platform” on which they all stood.

But in six months, nothing had improved.

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Leaders slowly came to the realization that, while there were a number of policy-level decisions they'd had to make to address this complex bundle of challenges, dysfunctional patterns of behavior across the organization were undermining any real improvement. And below the waterline, more PowerPoints just weren't making much of a difference.

### The Story Collector

Leaders were able to address these invisible challenges once they began using a Story Collector tool that revealed the dysfunctional behaviors below the surface. It gave them an immediate grasp of the shape and scale of the behavioral challenges they were up against, showing the turfism, conflict avoidance, and lack of risk taking that were holding back progress.

Two kinds of stories were collected from employees. The first asked for examples of “a really good day”—a day when they felt most optimistic about the company. The second stories were about the opposite kind of day—what it was like when things did not go well. Here people detailed the specific behaviors—from colleagues, staff, leaders, vendors, and others—that got in the way of accomplishing goals. These disparate experiences were then turned into actionable intelligence through a process of tagging.

Stories were systematically tagged based on:

- 1. Permanency**—Did the event that the story illustrates feel like a one-time incident or part of a recurring pattern? In essence, did the employee see the light at the end of the tunnel?
- 2. Pervasiveness**—How widespread is the problem? Are its effects small or large? Does it affect one result or many? In brief—is it a big deal or a little deal?
- 3. Control**—Did the employee have any influence over the problem? Does the employee perceive that he or she has an ability to affect what happened in the past or what will happen in the future to improve the situation?

When the tagging was complete, leaders had a clearer picture of the problems that lurked within their organization. They could see the patterns of behaviors that determined their organization's capacity to perform.

## Curing Corporate Depression

The company got this clarity by focusing on stories that were tagged as “triple negatives”—stories that were considered highly permanent, highly pervasive, and out of the employee's control. When people see problems as permanent, pervasive, and uncontrollable, they become depressed. And when a substantial number of employees in an organization see their circumstances in these three ways, you're facing a case of corporate depression.

When individuals get depressed they become apathetic, can't concentrate, overreact to setbacks, and neglect relationships. Organizations locked in depression suffer the same problems. Leaders who want to address these risks are highly attentive to these “triple negative” story patterns. The most serious risks an organization faces below the waterline are when isolated frustrations become accepted norms. When people begin to conclude that bad behavior is permanent, pervasive and beyond their control, they've essentially thrown their hands in the air and accepted dysfunction as normal. A systematic search for triple negatives is a powerful way to surface these hidden risks.

Leaders at the pharmaceutical company were shocked to find that that nearly 40 percent of the stories were triple negatives—examples where a day gone bad had become a permanent, pervasive, and uncontrollable pattern. The culture was struggling with corporate depression despite the best intentions of its leaders.

## A Path Forward

As we reviewed the triple negative stories, two clear patterns of problem behavior emerged:

### 1. People were not speaking up and voicing their concerns.

Despite the rhetoric employees heard from leaders about wanting their input, the unwritten rule they understood was that speaking up could label you a troublemaker. As a result, employees were hunkering down, staying quiet, and appearing to be supportive even when they saw plans that were doomed to failure.

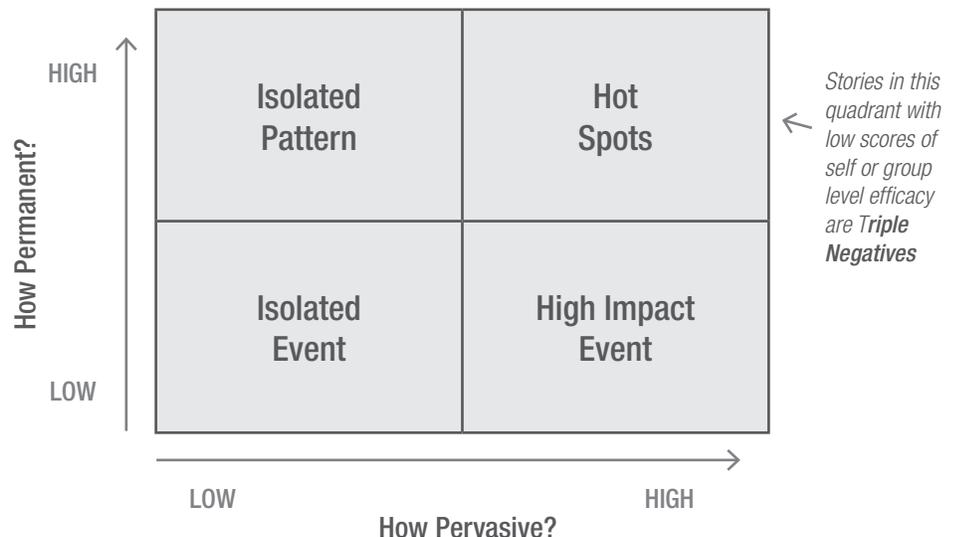
### 2. Embedded leaders were unknowingly contributing to the unease and unrest in the organization.

Their downstream communication, which previously had been effective, had become guarded and limited. Their own sense of concern about the future had sapped their engagement and energy. As they tried to keep up with the pace of the changes, they piled further tasks onto already overwhelmed teams. All of these actions combined to create a confused, lost, and frustrated workforce.

Based on the patterns from the triple negatives, the leadership team identified two vital behaviors that would significantly remove the below-the-surface threats—if they could influence people to actually embrace these new behaviors. These vital behaviors included:

- **Speak Up:** “During integration meetings and discussions, I will speak up effectively when I have a concern. I will make sure that my concerns are heard and be careful to use language that is widely understood. I will commit to stay in the conversation.”
- **Leaders Must Lead:** “All leaders will act as owners of the change: When they have concerns, they will voice those concerns with the appropriate parties. They will deliver on and hold others accountable for commitments—irrespective of title or position. They will influence their teams to motivate and enable them to embrace the changes.”

## Ratings of Unwritten Stories



## The Influence Strategy

Once leaders had identified these vital behaviors, they assembled a large group made up of top leaders, embedded leaders, and opinion leaders in the organization to diagnose why the vital behaviors were not occurring. They explored six sources of influence that might be blocking the desired behaviors, including:

- **Personal Motivation** (Were the behaviors connected to something people truly value?)
- **Personal Ability** (Were skills missing?)
- **Social Motivation** (Were social norms reinforcing positive or negative behavior?)
- **Social Ability** (Were their managers, teams and other groups making the behaviors easier or harder?)
- **Structural Motivation** (Were their rewards and sanctions aligned with the vital behaviors?)
- **Structural Ability** (Were their structures, processes, measures, and physical layout supporting the behaviors or getting in the way?)

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Something powerful began to happen even as this large group diagnostic technique was under way. The very process introduced a new feeling of self-efficacy. Employees' involvement in the diagnostic process created a new thread of hope that they could do something about the challenges. Stories about this engaging event began to filter out to the organization—and, because a broad cross-section of participants was involved, it filtered out everywhere.

Finally, using this same six-source model, the top team developed a “playbook” of influence strategies leveraging these six categories to overwhelm the negative influences keeping the vital behaviors from happening.

## Sound Familiar? What Can Leaders Do?

1. **Scan below the surface.** Use the Story Scan to capture the current employee experience. A Story Scan combines automated story collection technology with structured interviews conducted by senior leaders. This combined scanning approach yields rich data very efficiently, but also exposes leaders first hand to the



human dimension of challenges—which engages them more profoundly in the need to step up to the influence challenge.

2. **Search for Vital Behaviors.** Identify the few vital behaviors that can have the most the impact to these challenges. Identifying the right vital behaviors will stop self-defeating and escalating behaviors and instead start a chain reaction that leads to good results.
3. **Design a powerful influence strategy.** Leverage all six sources of influence by first diagnosing why the vital behaviors are not happening today, and then use the same six sources to design a powerful influence strategy that can demonstrate meaningful results in as soon as three to six months. Our prior research shows that combining all six the sources of influence increases the prospect for positive change 1,000%. And nothing cures depression like positive change.

» **Don't let corporate depression drain precious resources that are critical to any recovery effort.**

<sup>2</sup>See “How to Have Influence,” *MIT Sloan Management Review*, Fall, 2008.