



## Management Denial

“Why management denial is a natural reaction in a crisis .....

### Introduction

Why do able and pragmatic executives delay or even fail to take the appropriate action to arrest the decline of their businesses? The response is often because they are in denial.

Elliott Spritzer, the Governor of New York, was forced to resign because of his liaisons with prostitutes. In a subsequent interview he was asked why he thought he could ever get away with such behaviour being such a high profile individual within New York. He responded – *‘being caught crossed my mind, but like many things in life you ignore the obvious at a certain moment because you simply don't want to confront it.’* He was in denial.

As Sigmund Freud put it denial is ‘knowing with not knowing’ the combination of the rational and irrational.

There are numerous examples of companies that have declined where it is clear that the management team and in particular the CEO are in denial.

Like Elliott Spritzer they simply could not confront the reality of the situation and take appropriate corrective action. In this article we consider denial from the perspective of the individual executive and the impact on that perspective of the crisis environment and the management team. We will also suggest an approach to help guide individuals toward reality.

### The Individual

Dr Elizabeth Kubler-Ross undertook pioneering research into the personal trauma of grief and grieving associated with death. The ground-breaking model she developed, when individuals are faced with severe trauma, has become known as the five stages of grief;

- Denial
- Anger
- Bargaining
- Depression
- Acceptance

These stages also characterise less severe emotional shock for example the deterioration in the company's earnings. Even for a similar set of circumstances how the phases within the grief model interact will differ from individual to individual. Some will quickly progress to a state of acceptance whereas others will need help. The model is helpful to provide insight to those who are attempting to persuade the management team to face reality in providing an understanding of their often defensive and emotional response. For management, and indeed stakeholders, the restructuring process can become an emotional rollercoaster as each piece of bad news triggers a new grief cycle.

Denial is a defensive mechanism; a natural state for an individual in receipt of bad news. As Katherine Kubler-Ross put it 'denial acts as a buffer after unexpected shocking news' In a business context the key issue is the speed with which the individual moves through denial to acceptance. An individual may well pass through the denial phase and indeed through the other phases of the grief model and arrive at acceptance very quickly and be able to take informed business decisions based on reality. Others, however, have great difficulty exiting from the denial phase and accepting reality. Such individuals need help to accelerate the transition to acceptance and thereby reduce the cost of delay in taking appropriate corrective action.

## The Crisis Environment

A crisis causes stress; a degree of stress can be energising. However, the excessive stress of a crisis can have a debilitating impact on managements' behaviour thereby reducing cognitive ability and hence the quality of decision making.

Activity and progress can become confused as management activity rapidly increases to meet the demands of various stakeholders within the crisis environment; but the fundamental issues remain unresolved. Under this pressure management's propensity to accept and act on new ideas tends to decrease. They tend to try harder with the business recipe that has worked in the past when what is needed is a new recipe. The crisis has a tendency to reinforce denial up to a point but ultimately an intervention takes place by a third party breaking through denial and confronting the management team with reality. Unfortunately the intervention may only take place when decline is well advanced; the cost of delay being the failure of the enterprise.

## The Team

The individual members of a management team can reinforce their view of reality especially in situations where there is a dominant chief executive who has a particular view of reality. This type of behaviour has been termed Groupthink .

The concept of Groupthink was developed by a psychologist Irving Janis in his 1972 book 'Victims of Groupthink' he defines it as 'a way of deliberating that group members use when their desire for unanimity overrides their motivation to assess all available plans of action'.

The eight primary symptoms of Groupthink are:

- Illusions of invulnerability where the group think it is invincible and can do no wrong.
- Collective efforts to rationalize or discount warnings.

- Unquestioned belief in the moral correctness of the group.
- Stereotyped views of the out-group, often as too evil, weak or stupid to be worth bothering with.
- Self-censorship as people decide not to rock the boat.
- Pressure to conform.
- A shared illusion of unanimity (everyone always agrees with everyone else).
- Protecting the group from contrary viewpoints, by self-appointed 'mind-guards'.

As a result, groups 'suffering' from Groupthink are more likely to give rise to:

- ❖ Incomplete survey of alternatives
- ❖ Incomplete survey of objectives
- ❖ Failure to examine risks of preferred choice
- ❖ Failure to reappraise initially rejected alternatives
- ❖ Poor information search
- ❖ Selective bias in processing information at hand
- ❖ Failure to work out contingency plans
- ❖ Low probability of successful outcome

The management team suffering from Groupthink will reinforce denial. Being in denial can be very comforting consequently very attractive to the team under stress.

## Breaking through Denial

The work undertaken by psychologists leads to the conclusion that denial is a normal state in the face of bad news and not being in denial in such a situation would be very unusual. The challenge is minimising the time a business leader and a management team remain in denial as in such a state it is likely that poor, or no, business decisions will be made.

Groupthink contained within a crisis serves to reinforce denial. The key to unlocking denial is to provide a different perspective. Such a perspective can be provided by stakeholders, particularly lenders either directly or through the introduction of an independent third party. Major Banks have created structures to provide a different perspective as problem customers are moved from their relationship managers to business support /restructuring managers. To develop change programmes by encouraging management to confront the brutal facts and thereby accept a new perspective, or help from a third party to achieve such, will require a clear analysis of the current situation and persuasive pressure.

Change programmes, in order to be effective, require a sense of urgency in terms of the need to change, the brutal facts of reality and importantly a vision of how the change will provide better outcomes for the business and the individual decision makers.

To assist both stakeholders and management to address denial we have developed an Intervention & Sustainability Workshop which will facilitate a management team's acceptance of the business' reality.

As part of this process we can introduce our voice of the customer survey to bring up to date customer feedback to the workshop. The Intervention & Sustainability Workshop is the first phase in our restructuring programme and enables the management team to develop action plans to address the critical business issues. See the benefits of the workshop process in creating the environment to address issues of denial [[read online](#)]. A facilitated workshop enables management to come to terms with the brutal facts of reality in a non-threatening environment.

Denial is the interaction of the rational and irrational and is hard wired into mankind; it provides comfort in difficult situations.

The last words of Richard Tedlow's book on denial are "*You will never defeat denial but you had better battle it*" and as James Baldwin once wrote, "*Not everything that is faced can be changed, but nothing can be changed until it is faced*".

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