A TALE OF TWO CORPORATIONS: MANAGING UNCERTAINTY DURING ORGANIZATIONAL CHANGE

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Ineffective strategies of communicating about organizational change (e.g., corporate restructuring, mergers, downsizing) are earmarked by the presence of pervasive rumors that flourish in a climate of uncertainty. Using 15 structured field interviews with management and public relations personnel from multinational corporations, this article posits that successful programs of change communication hinge upon the proper management of uncertainty associated with change. Two detailed case studies are highlighted as opposing illustrations of change communication tactics that succeeded and failed. Effective change communication campaigns tend to reveal rather than conceal, reduce uncertainty through collective planning, and proactively establish and maintain trust.

Introduction

It was the best of times (for stockholders), it was the worst of times (for employees): The corporation was restructuring.

Organizational change, although often presented as a tonic for ailing organizations, may be a bitter pill for employees to swallow. Change is a positive term applied to transitions (e.g., restructuring, reorganization, merger, consolidation, layoff, new technology, culture change) that, for employees at least, are often negative (Damanpour, 1987; Hunsaker & Coombs, 1988). Such transformations are obviously stressful and may reduce employee morale and productivity, thus hampering the success of the change effort itself. There is evidence, however, that communication regarding the change may either ameliorate or exacerbate the difficulties associated with change (Richardson & Denton, 1996). For example, a survey of over 1,000 managers, researchers, and consultants found that communication and widespread employee participation were crucial to successful change efforts (Covin & Kilmann, 1990). Conversely, change that failed has been communicated poorly in organizations undergoing large-scale terminations, facility relocations, or mergers (Burlew, Pederson, & Bradley, 1994).

A question arising from these considerations is: What are the critical characteristics of both successful and failed communication efforts? This article argues that the key element distinguishing effective communication strategies is the proper management of uncertainty. Conversely, ineffective communication strategies err primarily in that they fail to adequately handle the uncertainty associated with organizational change. We further argue that such failed approaches are evidenced by...
an abundance of rumors.

We have organized this article as follows. First, we examine the connection between poor communication, widespread uncertainty, and the prevalence of rumors. We then support this link by presenting the results of in-depth critical-incident interviews with communications professionals and management at large corporations. The core of this presentation is a detailed case study of an ineffective change communication episode that occurred in association with an extensive reorganization. Next, we pay special attention to key aspects of effective change communication, namely, revealing rather than concealing behavior, collective planning, and trust. Finally, these aspects are then exemplified with the presentation of a detailed case study of an effective change communication strategy that occurred in conjunction with a downsizing. From these considerations, implications for HR are then summarized.

Rumors, Poor Communication, and Uncertainty

Several studies have associated rampant rumors with unsuccessful change communication efforts. Smeltzer’s (1991) primary conclusion after interviewing personnel from 43 organizations undergoing change was that ineffective change efforts were accompanied by the presence of rumors. In a study examining the personal reactions of six managers during the pre-acquisition stage of a corporate merger, Burlew et al. (1994) found that the rumor mill was active and had negative consequences, including the erosion of trust, lower employee morale, negative emotions, and decreased dedication to the corporation. Smeltzer and Zener’s (1992) study of eight organizations facing major layoffs found that rumors preceded the formal announcement of layoffs and that most organizations did not have systematic approaches to communicating layoffs. These researchers concluded that “rumors have such a large impact on culture, climate, and timing that organizations need to recognize the importance of grapevine information and [to] monitor it. During layoff situations an informal rumor control system is essential” (p. 468).

In addition, a long line of research (Rosnow, 1991 [summary]) in non-organizational (e.g., Allport & Postman, 1947; Prasad, 1935; Rosnow, Esposito, & Gibney, 1988) and, more recently, in organizational (DiFonzo, Bordia, & Rosnow, 1994; Esposito & Rosnow, 1983) settings has shown that rumors are generated under conditions of uncertainty—uncertainty defined as the psychological state of doubt about what an event signifies or portends (DiFonzo et al., 1994). Grapevine researcher Keith Davis (1972, 1975) stated that “a major cause of rumor is lack of information about things important to employees” (1975, p. 3). Esposito (1987) found a direct association between how frequently patrons of a striking transit system passed strike-related rumors and their level of uncertainty.

The present research explored the links between change, uncertainty, and rumor through an in-depth critical-incident case-study methodology (Flanagan, 1954) in a limited number of organizational settings. Specifically, field interviews were conducted with public relations and top management personnel from 15 corporations represented in several large cities in the northeastern United States and in India. All interviews were part of a multi-stage field study investigating the harmful effects of organizational rumors and how managers dealt with them (see DiFonzo et al., 1994 for a description of the first stage results). Of the 27 corporations contacted, 15 consented to an in-depth interview. Most of the organizations represented in this sample were multinational in scope as well as being recognizable household names.

Each interviewee was asked to recall a specific incident of a harmful or potentially harmful rumor with which they had dealt. They then described the change situation out of which the rumor arose, detrimental effects, strategies used to communicate the change and the perceived effectiveness of these strategies, and group-level psychological and situational variables associated with the incident. For example, the change situation may have been an upcoming merger, detrimental effects could have included losses in productivity, and group anxiety and uncertainty may have accompanied the change. Open-ended probe questions provided ample opportunity for detailed exposition of multiple facets of the change event. Each interview lasted approximately one hour, was audio-taped, transcribed,
and broadly content-analyzed with respect to the questions.

The data provided strong evidence for our contention that excessive uncertainty and pervasive rumors are the result of poor communication strategies. Wild rumors that an organization’s facilities were being contracted by the CIA to produce espionage equipment followed ambiguous and conflicting reports about the president’s relation to that government agency. Rumors that a major telecommunications firm was the object of a takeover followed a false report by financial commentator, Dan Dorfman, and were sustained in part by the company’s no-comment policy. Rumors of an impending shutdown of a large pharmaceutical subsidiary went unabated because of the parent company’s refusal to explain certain activities (e.g., closed-door meetings, unexplained travel, production of irregular financial reports) in which top management was engaged. Put metaphorically, rumors grew in soil fertilized with uncertainty (cf. DiFonzo et al., 1994).

Uncertainty reduction theory (Berger, 1987) provides plausible insights as to how rumors, uncertainty, and poor communication are linked. Organizational transformation often portends unpredictable future events and/or is accompanied by unexplained present occurrences. Employees naturally experience insecurity, uncertainty, and a loss of a sense of control (Blake & Mouton, 1983; Hunsaker & Coombs, 1988; Mirvis, 1985). Communication activities such as interpersonal interactions often are aimed at reducing such uncertainty in an attempt to regain predictive and explanatory control (Berger & Bradac, 1982; Heider, 1958). Rumors are similarly instrumental in providing meaning to current and future ambiguous events, thus restoring a feeling of preparedness or understanding to the rumor participant(s) (DiFonzo & Bordia, 1997; Shibutani, 1966). That is, persons faced with cryptic events about which they are concerned—for example, events that may or may not portend company layoffs—will attempt to prepare for and understand these events by filling the information gap with speculative rumors. In sum, rumors are a symptom of the uncertainty that often accompanies organizational change and persist or even flourish when poor communication strategies fail to adequately assuage this uncertainty. The following case study dramatically illustrates these dynamics.

CorpA: Case Study of an Ineffective Change Communication Strategy

CorpA (fictionitious name) is a large subsidiary of a multinational banking conglomerate with several thousand employees. Originally, these employees worked at one of two large operating centers, one on each U.S. coast. Like many corporations striving to be globally competitive in the past decade, CorpA had engaged in a series of restructurings. These changes had primarily resulted in the consolidation of all activities to the east coast site and in the eventual closing of the west coast office.

CorpA began as a family-owned concern and has retained a sense of community despite its large size. It is employee conscious, proud of its progressive treatment of workers, and rated highly by independent agencies for its treatment of personnel. Reorganization, however, was a new experience for CorpA, and in hindsight, executives lamented that the way these changes had been communicated had unintentionally exacerbated employee anxiety. “We’ve never handled closing departments or changing things or reorganizing well” stated one executive. (To their credit, CorpA has since created an internal communications manager position to direct future communications efforts.)

Prior to the final closing, west coast office employees had witnessed a series of departmental consolidations, learning of each via rampant rumors long before official announcements. These scenarios were spawned in part by a covert strategy that mimicked the organization’s handling of potential acquisitions: The project was given a code name, and managers were sworn to secrecy. As one manager explained: CorpA “has a history when they’re going to do some big thing like buy another business; for example it’s named ‘Project something,’ and people have to sign these confidentiality statements.” During each departmental closing, managers sworn to silence were often assailed with requests for information and were honor bound to say nothing.

This policy was rooted in the best of in-
intentions: the desire to give out only accurate information. The new internal communications director stated: CorpA “tried to prevent any rumors from starting because they wanted to keep the wrong information from seeping out, so they did all these code names.” Even in the face of thriving rumors and persistent requests for information prior to the formal announcement of the final major reorganization, management stuck to this policy out of a well-intentioned and single-minded desire to help employees. “The reason we didn’t deal with the rumor,” recounted one manager, was that we were on track trying to get to the point where we could give people real information . . . specifically, the goal was to have enough information to make a legitimate announcement in terms of telling people what they were going to get in terms of compensation, and relocation if they wanted it, and job search assistance.

These managers obviously desired to soften the impact of change and save employees from undue anxiety.

Ironically, this policy actually worsened anxiety. One manager ruefully recalled that “one effect was that there was a great deal more anxiety than there had to be. . . . Had we been able to communicate it all at once, openly, they would have seen that the situation was difficult, but not awful.” The uncertainty created by this “don’t talk ‘til you’ve got all the facts” approach was apparently worse than disbursing partial knowledge and resulted in a loss of morale, feelings of anger, loss of team spirit, and reduced productivity. Executives were unanimous that morale had dropped, anxiety had been intense, and attitudes such as “you’re going to get rid of me, so why should I continue to work so hard?” had surfaced. One manager remembered a particularly noticeable reduction in the productivity of one team member reacting to her team’s nonrevealing behavior:

I could see her “off” from the team about two weeks prior to the announcement, off completely—no phone calls—when you did talk to her she was very short and bitter. She probably felt like we knew what was going on, and we weren’t talking to her about it, so that puts both parties in a very difficult situation because I know our supervisor did feel torn . . . and wanted to say “we know that you know” . . . but her participation decreased greatly.

To Reveal or Not to Reveal

Many researchers agree that the remedy for both rumors and a pervasive sense of uncertainty is the provision of accurate and timely information. Frequently, however, providing information is or may be perceived by management to be difficult, undesirable, or simply not possible. Richardson and Denton (1996) insightfully draw attention to a common paradox inherent in change communication: During periods of organizational stress, employees desire more information just when managers can’t give it. Fearing that they may mislead or that the information they have is erroneous, managers often fall silent. Again, well-meaning managers at CorpA, desiring to give a fully detailed restructuring plan that would specifically spell out how all employees would be affected, delayed the initial announcement. Other interviews also bore this out. Managers at two corporations did not divulge information because the company policy not to comment on any merger rumors allowed them the freedom to keep actual merger negotiations secret until the last possible moment. Similarly, a false rumor that a plant would be closed down was precipitated by parent company management activities that in actuality were efforts to bolster the failing subsidiary (by seeking a partner). Rumors notwithstanding, management felt that secrecy was essential in “shopping” for a partner in order to maintain a viable bargaining position.

We acknowledge the view that at times organizations should withhold information to further their strategic aims or maintain competitiveness (Eisenberg & Witten, 1987). In the context of organizational change, however, this policy may not be worth the risk. Consider that many organizations have a well-developed grapevine (Davis, 1972; Harcourt, Richerson, & Wattier, 1991), and that the like-
lihood of leaks is very high (Bastien, 1987; Covin, 1993; DiFonzo et al., 1994). When information gets communicated via the grapevine, management inevitably loses control over its content. Employees, facing anxiety and uncertainty regarding issues of high relevance to them, may then conjure scenarios that are often worse than reality and even attribute malevolent intentions to management. Management’s attempts at denying rumors and innuendo are, at this point, not likely to succeed as they have lost the trust of employees (“You have kept us in the dark before, how do we know you are not lying now?”; cf. DiFonzo et al., 1994).

Several change researchers have therefore argued for incomplete announcements of change when detailed announcements involve delay. Smeltzer (1991) admonishes that “management should not always wait until the ‘whole story is together’ or until the ‘ideal’ time” (p. 22) to make change announcements. Richardson and Denton (1996, p. 206) prescribe: “Tell employees what is known. Answer questions that can be answered and explain why others cannot be answered.” Larry Hirschhorn (1983) argues that the decision to reveal or conceal is situation dependant, but in general, it is better to reveal. Indeed, he advises erring on the side of revealing too much and too early to organizational insiders rather than to err in revealing too little and too late. Further, he posits that managers often conceal information because they assume that negative consequences will ensue—undue anxiety, turnover, loss of funding from outside sources—but that these assumptions are often rooted in a fear of the collective process.

Reducing Uncertainty through Collective Planning

Hirschhorn (1983) compellingly sets the question of how much to reveal in the context of collective planning for change. He argues that the real downside of uncertainty is that it paralyzes and interferes with collective and creative discussion of the future and that such discussion would enhance the success of change efforts. When employees and managers face the unknown as individuals, they tend to reinforce old assumptions and fears, focus on their own concerns over the concerns of the company, and must rely on rumors for information. For example, secrecy and withholding of information on the part of management during mergers has led to reduced organizational commitment and higher turnover (Bastien, 1987). Conversely, a collaborative effort in planning individual and organizational change produces better ideas and secures cooperation from all sectors of the organization. These benefits may accrue because access to information and knowledge about work-related issues contributes to reduced stress and burnout in the workplace (Albrecht & Adelman, 1987; Miller, Ellis, Zook, & Lyles, 1990). They may also accrue because open communication helps to foster a sense of fairness and procedural and interactional justice; such perceptions are likely to enhance acceptance of change (Cobb, Wooten, & Folger, 1995). To enable such collaborative efforts and open discussion, however, uncertainty must be reduced.

Hirschhorn (1983, p. 21) offers several policies to reduce uncertainty by “clarifying the structure and texture of the situation.” Management can clarify the values and commitments by which change decisions will be made, the agents who will make these decisions, and the timeline in which these decisions will be made. Management can also co-opt staff to find solutions for change dilemmas (e.g., enacting a committee to review a set of alternatives to streamline departmental functions). This policy diverts the anxiety normally feeding the rumor mill and channels it into the productive work of planning for change. In the same manner, managers can formally structure (e.g., through committees) and thereby legitimate the exploration of decision alternatives under different change scenarios, especially worst case scenarios. Open discussion of hidden fears can reduce anxiety by itself but also affords the opportunity for the collective resources of the group to solve potential individual and group dilemmas. These policies all dovetail with a change communication strategy to reveal more rather than less information. Even in cases where managers feel they must conceal information, however, Hirschhorn recommends strategies that help employees make sense of the situation, such as commenting on leadership’s own nonrevealing behavior.
Uncertainty and Trust

Implicit in all of these formulations of revealing behavior and collective planning is the notion that uncertainty and trust cannot coexist. Modern behavioral psychologists describe trust as the result of the reliable pairing of antecedent events with behavioral consequences (Daniels, 1989), that is, when people’s words match their actions. This rule cannot be violated without repercussions. During organizational change, trust is violated when management says nothing but enacts change; such change ends up being conveyed to employees through outside sources. Smeltzer’s (1991) study of organization-wide administrative changes concluded that a sure indication of an ineffective communication strategy is when employees learn of change through nonmanagement (cf. Richardson & Denton, 1996). Prior to a merger, employees in one study expressed “fear and concern” about not being informed of the change (Burlew et al., 1994).

Trust is also violated when management says one thing (all is well) and does another (we are restructuring). Managers need to realistically address how change will affect employees (Richardson & Denton, 1996). Smeltzer and Zener (1992) found that many layoff announcements contained financial data but no information about how the layoffs would affect employees. In such cases it is obvious that employee concerns are secondary to those of stockholders. Conversely, these researchers found that in cultures of high trust, layoff announcements were more readily accepted at face value. To maintain credibility (an important component of trust), management should emphasize both the risks and opportunities inherent in the change (Hirschhorn, 1983).

In all interviews, we found evidence for the foundational importance of trust (cf. DiFonzo et al., 1994). CorpA’s internal communications director stated that people need a source they can trust who will give them the information they need to know. In the following case study, a successful communications policy that attempted to structure uncertainty was made possible by a longstanding sense of trust in the corporation.

CorpB: Case Study of an Effective Change Communication Strategy

The change process at CorpB, a large manufacturer of consumer products, began with the hiring of a new Chief Executive Officer (CEO). In one of his first addresses, the chairman stated that top management would be “looking very closely at several of our businesses with the objective of potentially reducing costs.” Employees in two U.S. plants that manufactured similar products were especially concerned at this announcement because of growing fears that their product was becoming obsolete. “Phone lines were jammed at first” with employee requests for more information, recalled the Director of Organizational Communications (DOC). These requests occurred at a time when senior executives were still developing the downsizing plan.

CorpB’s response to these requests helped to structure the situation and thereby reduce uncertainty. First, it should be noted that the Chairman’s announcement was incomplete and was given early in the downsizing process; many of the downsizing plan details were as yet unformulated. In other words, he revealed rather than concealed what was known. Second, management told employees the general extent of the coming layoffs. “We acknowledged that there was probably going to be some consolidation of departments, but not going beyond that” stated the DOC. Third, they gave employees a timeline when layoff announcements would be made. The DOC recalled: “We gave them a time frame by which we were going to release information and then we honored that time frame.” Fourth, management commented on its own nonrevealing behavior regarding details. The DOC described the approach as follows:

Our response was that we simply could not give them that [detailed] information right now because we were in the process of formulating plans. . . . We were very forthright with employees and said “Look, we don’t have the answers right now . . . there are gonna be some changes . . . some redundant functions will have to be eliminated, but we can’t give you that information because we don’t know it ourselves yet and we have a responsibility
to not upset our customer base [with the premature exposure of these plans].

There is evidence that this approach was successful. Long before the detailed plans were made known, employee phone calls tapered off and business returned to normal. Rumors quickly dissipated despite the lack of further information from management. In the DOC’s words:

Once managers and directors told their subordinates that we were going to give that information in a timely and consistent manner, things started to cool down . . . after the initial run to the telephones and to the water cooler and the coffee machine and probably a lot of hand wringing with the spouses back at home, after the first week or so, this all started to die down.

It is noteworthy that employees seemed to trust management’s pronouncements, even in the face of an anxiety-producing consolidation. In our interview with the DOC, he repeatedly returned to the theme of “honest, frequent, and consistent” communication. Past actions bolstered a sense of trust. According to the DOC, CorpB “had established a past precedent of being forthcoming in everything that we had done with employees.” CorpB’s longstanding and extensive communications program gave evidence of this. The program emphasized face-to-face supervisor-to-employee interchange and included quarterly all-employee meetings, semi-monthly departmental meetings, as well as the usual bulletin board and electronic memos. Human relations personnel also tapped informal communications by “getting a diagonal slice across different functions and levels of the organization.” This was accomplished by calling a sample of supervisors and managers and asking open-ended questions such as “What are you hearing from the floor?” and “What are people asking you?”

**Summary of Implications for HR Practitioners**

If any of these exist:

- high levels of uncertainty
- rampant rumors

- reduced levels of trust and morale
- high levels of anxiety
- widespread sense of powerlessness or lack of control

You are probably employing at least one of these poor change communication strategies:

- delaying announcement of change
- concealing information related to change and not commenting on why it is concealed
- maintaining a closed change planning process
- issuing discrepant reports of change
- arranging unexpected media reports of change
- issuing an indefinite change announcement time-line
- saying “no-comment” when information is requested

And you should switch to these effective change communication strategies:

- announce change early, even if incomplete
- establish an information time-line
- comment on the inability to give further information
- establish an open and collective planning process surrounding the change (i.e., involve those affected by change in as much planning as possible)
- clarify values and protocol for change decisions
- engage in actions facilitative of trust (e.g., inform employees prior to media, tailor announcements to address concerns peculiar to each audience).

**Conclusion**

Our research showed that great uncertainty and active rumors arose in cases of organizational change that were communicated badly. CorpA exemplified elements of a failed communication campaign by delaying the announcement of change and by handling information in a secretive fashion. We also found
It is noteworthy that employees seemed to trust management’s pronouncements, even in the face of an anxiety-producing consolidation. Evidence that change communication that structured uncertainty also reduced rumors. CorpB illustrated elements of a successful communication plan by immediately announcing change even though the announcement was incomplete, setting forth an information time-line, and commenting on its inability to give further information. Managers attempting major organizational change would therefore do well to plan a communication effort that attempts to reduce and structure uncertainty (see box). This effort is most effective in the context of an open and collective planning process enacted in a culture of trust. The components of such efforts include revealing behavior, the clarification of aspects of change decisions, and a commitment to engage in actions facilitative of trust.

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ENDNOTES

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2. For further research on the importance of communication in change efforts, see Hunsaker & Coombs, 1988; Schweiger & Denisi, 1991; Smeltzer, 1991; Smeltzer & Zener, 1992; cf. Blake & Mouton, 1983; Mirvis, 1985.

4. Eighteen of the 27 contacted were listed as the largest publicly traded corporations in local trade publications; the remainder were selected by convenience. Reasons for refusal included a perceived dearth of rumors due to small employee base, a reluctance to discuss organizational rumors, managerial time constraints, or the corporation simply did not respond after repeated attempts at contact.