



Formal and Informal need each other

Formal and informal organizations are complementary and interdependent. Harnessing the power of both isn't about choosing one over the other, but finding an effective balance between the two.



I. Ignoring the Informal Is a Frequent, and Frequently Fatal, Mistake

Like most interesting ideas in the world of leadership and management, the concept of the “informal organization” transcends the limits of business. Some of the most vibrant examples of the power of informal organizations are from the non-business world: the Underground Railroad, the back channels of lobbying and influence in the U.S. Congress, the Mafia, and the rumor mill at your child’s middle school. All of these are examples of organic, informal networks. They serve a need or achieve an outcome that no planned, formal structure could ever accomplish.



What can we learn from these examples? To paraphrase a famous truism: necessity is the mother of informal organizations. Formal structures only take us so far along the road to peak performance. At a certain point, they stand in the way of what we need to accomplish – by limiting originality, by imposing bureaucracy, by emphasizing order over personal connection. As humans,

we are instinctively adaptive creatures, leaving the map of formal structures and moving into informal practices whenever we need to make our own way – to break the

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rules, to bridge the gap, to work outside the system. This instinct, coupled with the need for human interaction, makes the informal organization an energized and essential element of high-performing organizations.

Yet, in most corporate settings, the informal organization is poorly understood, poorly managed, and often disregarded as inconsequential. By ignoring the power of the informal, companies overlook the most powerful and influential communications



channels that exist in their company. Even more, they miss meaningful opportunities to mobilize the inherent strengths of their people and how they work together. We believe that harnessing the informal organization is one of the most powerful approaches managers can take to unlocking the full potential of their organization. By leveraging both the structure of the formal and the power of the informal, companies can close the gap between vision and performance and address some of the elemental challenges that businesses face in the twenty-first century.

These challenges are not insignificant: resistance to change, stagnancy, stalls in the innovation engine, misalignment at all levels, lack of engagement, poor understanding of what customers really want, inability to respond to competition or customer needs...the list goes on and on.

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Every day, new approaches and solutions to these problems fill the pages of business magazines, newspapers, books, and blogs. We aren't claiming to have outsmarted this full body of management literature and figured out a surefire way to achieve your

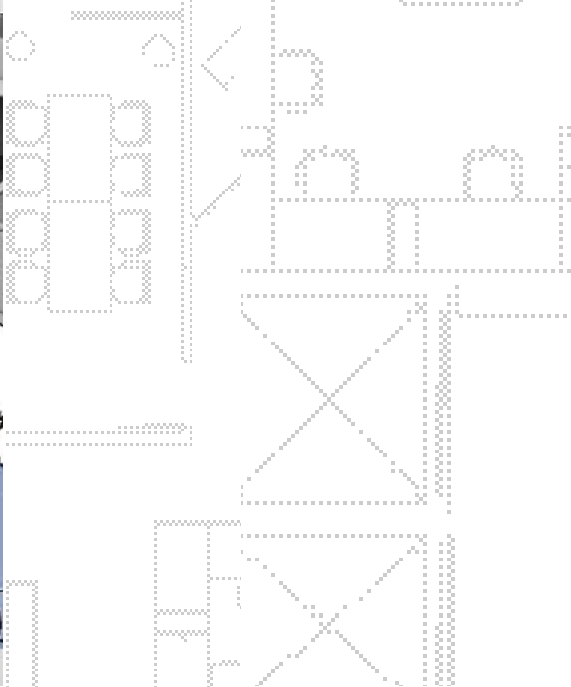
organization's full potential. As any good manager knows, there is no such thing as a quick fix or a definitive answer to closing the gap between vision and organizational performance. What we are doing is offering you a new way of seeing – sharing what we know to help you open your eyes to the full breadth of capabilities and strengths already inherent in the people you work with.

Most effective and sustainable solutions are found through understanding what the informal and formal organizations are best at and what their limitations are, and then calibrating a balance between the two. The real power is gained by balancing and integrating the informal and the formal. As described a century ago by Mary Parker Follett, the pioneer of community centers and author of influential works on management philosophy, "By integration we find a way by which both sides may get what they wish." As such, integration delivers a superior solution to consensus, compromise, or control.



Think about redesigning an organization – something companies often do at an inflection point in their growth, to allow for significant expansion or contraction, or to enable strategic change. The formal redesign process always includes a plan for implementation, communications to various stakeholders, and new policies and procedures for how the structure will work. But the number one determinant of success or failure of a redesign is the degree to which people accept and believe that the change will benefit the entire organization. A newly designed organization structure seldom works as well as it is supposed to – often, it doesn't even work as well as the one it replaced. This is usually because the implemented plan failed to incorporate opportunities for informal elements to fill in the gaps. Without addressing the informal aspects of the redesign's impact – the fears, concerns and motivators, the networks of trust and gossip and friendship that compensate for the formal structures of power – the new structure will struggle to survive.

In our experience, the most successful transformations have taken place at companies that were intuitively brilliant about addressing how change would impact their informal organization. They were skeptical about importing other companies' "best practices" wholesale; instead they located and leveraged the powerful "social network." They preceded the change with intensive interviews of the "wise sources" at various levels of the organization to gain a clear picture of how the organization really works, and what the hidden obstacles to change might be. They listened to these wise sources, counterbalancing business logic with commonly held wisdom and sagely-put advice. Finally, they empowered these wise sources to act as agents of the change, ensuring that the most highly regarded individuals at all levels acted as evangelists for a common understanding of how the change would benefit the entire organization.



||. Knowing Both Sides of the Coin

Here is what the formal is good at: creating efficiency, clarifying authority, communicating priorities, and aligning the rational behaviors of an organization's employees with its common objectives. The formal organization is the lines and boxes

is low and control is essential. Think about a railway company that needs to maintain on time schedules, or a manufacturer of high-tech hard drives where tiny deviations from process lead to costly errors. These organizations must emphasize the formal to reduce inconsistencies, maximize efficiency, and minimize the risk of human error.

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that illustrate the official structures of power and paths of decision-making. It is the master of alignment because it can be written down, electronically shared, and described. The formal organization is best leveraged in situations where tolerance for inconsistency

Formal structures are of essence – and should be relied on – when situations demand rigorous standards and ironclad control. We've seen organizations in dire turnaround situations rescued from the brink by the implementation of a "command and control" approach supported by highly structured, formal processes. We've also seen organizations that were shifting to radically different leaders cut through the chaos and disorder of change by using a similar approach. In situations like these, it is essential that processes or decisions are made the same way every time. Alignment to a central, shared goal must be achieved, and achieved fast. The command and control approach gets into trouble, however,

when your organization is functioning well and not in need of drastic change. In those situations, your organization needs to be able to react quickly to ever-present changes in the landscape and your employees need to use judgment. Over-reliance on the formal limits this flexibility. Days and weeks are lost to bureaucracy while companies fail to react. Even when decisions do get made, leaders who hold all of the cards are often too mired in their own organizational hierarchies to truly understand the point of view of the customer or the complexities of day-to-day operations.

Here is what the informal is good at: motivating people to go above and beyond their job duties, communicating information quickly, engaging employees in collaborative work, and making changes stick. The informal structure is the complex web of relationships, influences, interactions, and judgment calls that make a company what it is – the real, productive tensions that constitute the difference between getting things done and getting things done a lot better than anyone else. The informal organization is your best ally when you need to be able to take advantage of opportunities fast or make large-scale changes that involve engaging people.

Before you decide to dismantle your org chart and raise the flag of informality, remember that the informal also has its flaws. It isn't the angel on your left shoulder facing off the devil on your right. Informal organizations can be intractable and difficult to manage. You can never be 100 percent certain about what the informal organization is going to turn out. In a world that prefers to be described in financial models, organizational charts, and PowerPoint decks, it can feel uncomfortable and intimidating. We understand this

reaction. But the discomfort you feel shouldn't overshadow the importance of getting the whole picture. Having the courage to lead or manage the informal as well as the formal is worth the risks – it is the path to attaining a holistic point of view of what is powerful, unique, and infinitely valuable about your company and your people.



Examples of the Formal and Informal in Action: Companies of all sizes and shapes need to know when to take advantage of both.

Starbucks: Empowering Employees to Improve Within Structure

Companies that grow fast know well the struggles of balancing the informal and the formal. There is, perhaps, no better example of rapid growth than Starbucks. On average, Starbucks opens over four stores every day. In just over a decade, the company exploded from 100 employees to over 100,000. Howard Schultz, the company's former CEO and current Chairman, has done an excellent job of building and fostering the informal organization, but he also recognizes that the formal element plays a key role. He said in a July 1998 Fast Company article, "You can't grow if you're driven only by process, or only by the creative spirit. You've got to achieve a fragile balance between the two sides of the corporate brain."

Starbucks' commitment to balancing the formal and informal is demonstrated in their approach to training their frontline work force – the "baristas" or "partners." There are guiding principles that help Starbucks partners make the right decisions, but there are no scripts or ironclad rules that govern partners' behavior. Starbucks focuses on building partners' confidence so

that the majority of decisions can be made at the frontline and in real time, without escalating decisions upward.

This focus on empowering partners to make decisions rather than laying out a proscriptive course is certainly effective in building employee engagement – Starbucks' employees are famously loyal. It is also a sound business decision. Consider how expensive it would be for Starbucks to train every new employee on exactly how to make each possible variation of each beverage that a customer might request. Making one of each of those drinks would take several days – such training would be virtually impossible. Instead, Starbucks provides partners with the building blocks to know how to make each drink and principles to drive their decisions on how and when to vary from standard forms. This helps the company provide its customers with consistency and customization (e.g., the comforting knowledge that your special request, the half-caf vanilla grande latte, will taste precisely the same in Omaha as the one you order in Manhattan), while also ensuring that its employees aren't automatons.

eBay: Recognizing the Right Time to Reinforce What's Right

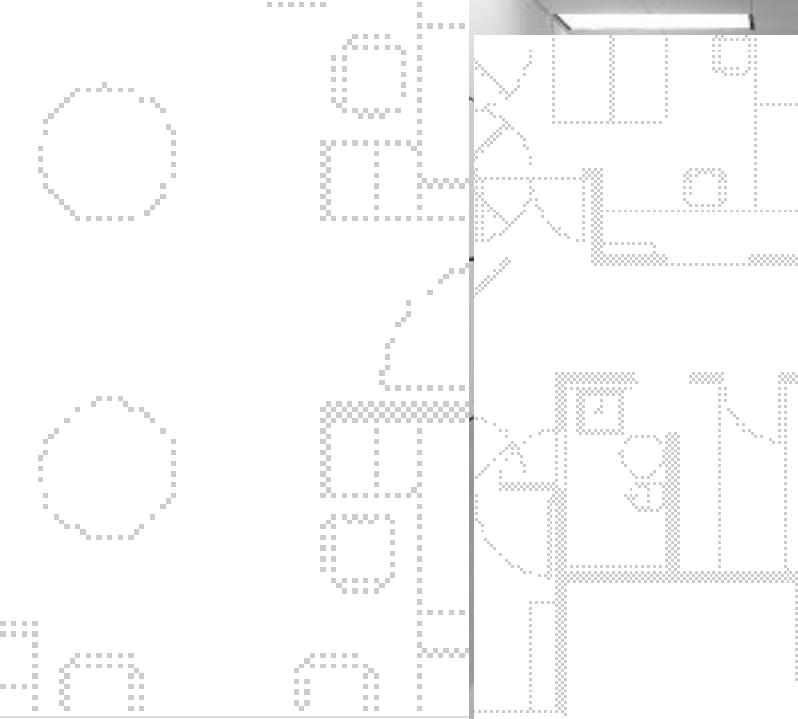
eBay is another example where the balance has been notoriously successful. eBay's business is built on its own enormous informal community of over 200 million buyers and sellers who exchange goods and money to the tune of close to \$50 billion a year. eBay maintains a light touch in monitoring and enforcing ethical behaviors

in its customers – the entire enterprise relies on transparency and collective trust in good intentions. In the early days, there was almost no retribution for breaking that trust, other than bad seller ratings, which warned fellow eBay-ers away from doing business with those who broke the rules. For both the founders and the early eBay community, this openness and free market philosophy

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were the foundation of what made eBay so great. The company culture was modeled on this sense of trust among their community of users – it was often described as a non-hierarchical, democratic organization.

But as the company got bigger, the exponential growth of its user base led to more and more cases where the rules were egregiously broken. At a certain point, eBay's CEO Meg Whitman recognized that some formal mechanisms were needed to protect both the vast majority of eBay-ers who were good-willed as well as the health of the company. In 1999, Rob Chesnut, a former

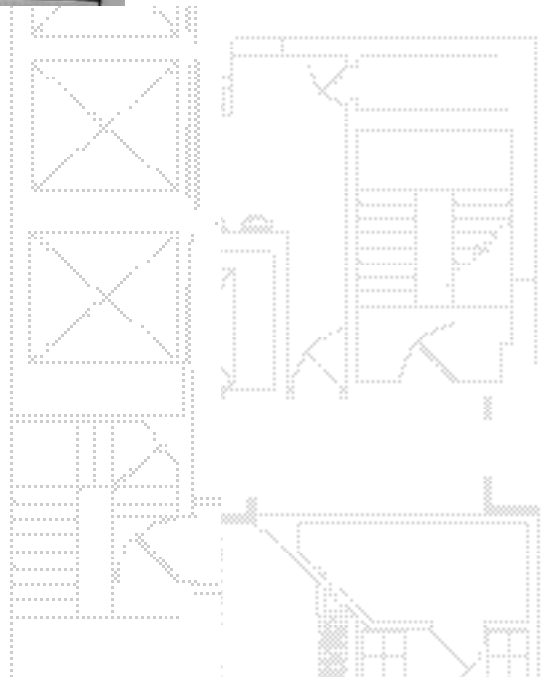


federal prosecutor, was hired to run a newly formed department called Rules, Trust and Safety that has implemented increasingly strict policies to help protect against fraud and formally address behaviors out-of-step with the eBay community's values but that are difficult to self-police. That same year, the company decided to ban selling of firearms on their site. "Having them up there just wasn't appropriate," Whitman said in a November 2001 Fast Company article. "It didn't fit in with the kind of company we wanted to be."

Your company doesn't need to be growing as fast as Starbucks or have as large a community of customers as eBay does to strike the right balance. Companies of all sizes and shapes need to know when to take advantage of the informal and the formal. And they need to be flexible enough to know when to prioritize one over the other.

Bell Canada: Accelerating Change by Building Pride

Michael Sabia, the CEO of Bell Canada, made the decision to harness the power of the informal organization when he needed to help his employees embrace vital changes in strategy and structure. In 2002, in response to a changing industry, Bell needed to make radical changes to many of its programs and processes. Their core competitive advantage – based on the phone line that linked directly into their customers' homes – was eroding as the industry moved away from traditional wire-line communications and toward alternate technologies, such as wireless and VOIP. Sabia intuitively understood that employee motivation and commitment were keys to making this change a success. As he observed, employees who were "on board" with the changes were those who somehow took pride in the new and different work they needed to do every day and shared that pride with their peers. Despite the presence of these key opinion leaders, Sabia also knew that time was of the essence in getting behavioral "traction" in many key areas. Sabia decided to pay close attention



to this cadre of pride-building employees who were infecting others with a “pride in doing things differently.”

This was the starting point for an informal network of employees who came together to share their stories about their passion for using pride as a motivational force. This effort started with a small group of employees who were identified as “pride-builders” – those recognized for their ability to achieve superior business results through building pride in their team’s day-to-day work. Understanding that pride is experiential, the group’s goal was to help others see the power of pride in action.

This group evolved into a Community of Practice (COP) – a term borrowed from the engineering and scientific organizations

who created cross-organizational groupings and networks to share knowledge and best practices. In less than three years, it expanded its membership to over 2,500 employees. The COP is not an informal mechanism alone. Supporting the Community to grow into its current formation required formal support: two employees were formally assigned to focus on building the Community, and the Community has created rules and regulations that govern its operations. But the combination of the two sides of the coin – the formal and the informal – has created a vibrant community of people who care about the organization and has made a fundamental change in the way people work. ♦