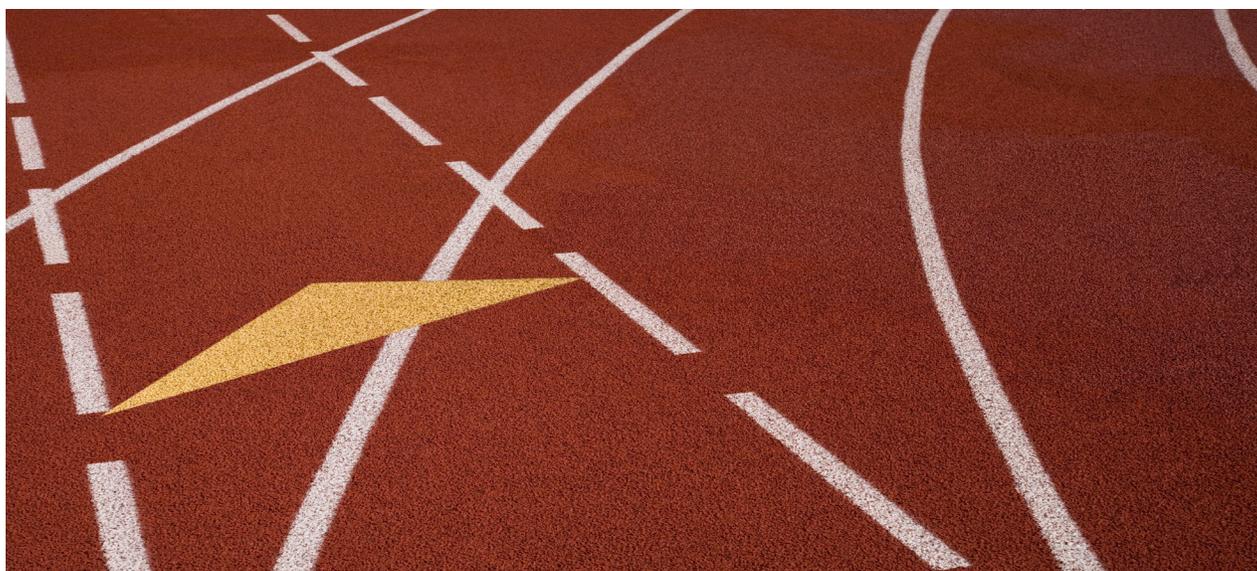


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Fast Track to Recovery
*Leading outside
the Lines Can Turn
Survivors into Winners*

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EXECUTIVE SUMMARY

The so-called worst recession of modern times has left the human side of many organizations poorly equipped for recovery. After surviving the crisis, they are traumatized, in some cases like “a deer in the headlights.” And enterprise cultures—particularly the informal elements that influence behaviors—are now more negative than positive. In many cases they are severely damaged.

Yet decades of experience tells us that harnessing the power of the human side of the enterprise—the “informal organization”—can be a real game changer. Often it can make the difference between success and failure, between eking out incremental improvement and roaring back to life.

Leading the informal organization out of the woods needs to start right now; it cannot wait for strategic planning, or corporate restructuring, or some other formal initiative. It can't simply be item number eight on your top 10 to-do list. The informal elements of your culture are at work right now—today—and they are working either for you or against you. You can harness them, or you can risk that they will slow you down or even impede your recovery.

We, the authors of the forthcoming book *Leading outside the Lines: How to Mobilize the (in)Formal Organization, Energize Your Team, and Get Better Results* (Jossey-Bass, April 2010), believe that now, more than ever, leaders must bring the “informal” out of the closets and out from under the chairs, and use it proactively to energize the enterprise. Not only can this kind of leadership help employees recover their pride and motivation, but it can also accelerate any formal recovery initiatives that may be under way. Ultimately, the goal of leveraging the informal organization is financial and operational excellence: ensuring distinctive human performance that turns today's economic survivors into tomorrow's winners.

FIGHTING BACK FROM THE BRINK

A great many workforces today are stretched to the limit simply performing business as usual, much less taking advantage of new opportunities. Relentless cost reduction and downsizing have taken a toll not just on organizational performance, but also on morale, pride, motivation, and many determinants of *personal* performance.

This leaves many organizations with insufficient human capital capacity or capability to address the critical challenges ahead. Yet these very organizations will have to change quickly as the recovery unfolds, even though the required changes may not be clear until the recovery is well under way.

Thus, two of their greatest challenges are speed and adaptability. Unfortunately, these are not strengths of the “formal” organization; in fact, formal constraints often get in the way of achieving these goals. The formal organization is mostly rational, consisting of analysis, strategies, structures, processes, and programs—codified in charts, graphs, flow-

charts, spreadsheets, and PowerPoint presentations.

The skills most vital to recovery (speed and adaptability) are actually embedded in the *informal* organization, which is emotional, highly interactive, and cross-organizational. The informal takes place between, around, beneath, and beyond the organization’s formal constructs. It consists of working norms, values, peer relationships, consensus, emerging ideas, social networks, and communities of common interest. And it often hides between the lines and down under the chairs of the formal, while secretly influencing critical attitudes and behaviors.

Although this informal organization is often a hotbed of creativity and change, and can be an enormous positive force, in most companies it has become frozen and self-preserving. So now, when the need for change is great, leaders must consciously use every lever at their disposal—especially the power and skills embedded in the informal—to seize new opportunities.

The skills most vital to recovery (speed and adaptability) are actually embedded in the informal organization.

“SOFT” INITIATIVES CAN DELIVER “HARD” RESULTS

The distinction between “soft” and “hard” is probably self-evident. Soft refers to things that cannot be easily quantified, measured, or controlled; hard is the opposite. Soft is emotional, instinctive, and intuitive; hard is rational, analytic, and programmatic. The right brain/left brain analogy is often useful.

In most successful turnaround situations, the soft (informal) accelerates behavior change and performance results beyond what would have been possible through formal efforts alone. And it’s no accident that in most peak-performing enterprises (e.g., Southwest Airlines and Google) and values-driven organizations (e.g., the U.S. Marine Corps and Johnson & Johnson), the “soft” side exerts a very positive and

relentless influence on the behaviors that matter for their performance.

It’s also no accident that many lasting organizations founded in times of recession deliberately shaped informal organizations to help them succeed (they had no choice) and that their investment paid off in the long term. In fact, as of 2008, 35 percent of Fortune 500 companies and 46 percent of Fortune 100 companies had incorporated during recessions. Furthermore, 52 percent of the Fortune top 50, 64 percent of the Fortune top 25, and seven of the Fortune top 10 were founded in recessions.¹ *Fortune* magazine itself was founded by *Time* cofounder Henry R. Luce in February 1930, just four months after Wall Street’s Crash of 1929, which marked the onset of the Great Depression.

STORIES OF RECOVERY: INFORMAL INITIATIVES ARE ESSENTIAL TO SUCCESSFUL TURNAROUNDS

Leaders often subconsciously draw on the informal when driving change programs, and in some cases that might work fine. But when the stakes are this high, and the challenge this great, no leader can afford to ignore the power of the informal organization to accelerate change or even to take the organization places it could not otherwise go (see Exhibit 1).

These companies were all faced with daunting setbacks that in some cases put them on the brink of collapse. Their stories exemplify the power of the informal to reinvigorate employees—their pride, commitment, and motivation—around hard performance goals to deliver astonishing results.

- *Aetna*: In 2002, Aetna was in a nosedive. The company had been battered by bad publicity and unstable leadership and was losing US\$1 million a day. Three earlier turnaround efforts (focused largely on the formal organization) had failed, effectively derailed by informal elements of a deeply engrained culture.

To unite the company and turn it around, Dr. John Rowe, then chairman and CEO; Ronald A. Williams, then COO; and others engaged all levels of the organization and created evangelists for formal change. Their unorthodox approach of “employee councils” created emotional commitment and

Exhibit 1
“Soft” Initiatives That Led to “Hard” Results

AETNA	Pride movement, combined with interim employee councils advising management - Went from losing US\$1 million a day to making \$5 million a day - Increased return to shareholders by more than 700%
BELL CANADA	Informal peer-to-peer sharing of best practices and motivational techniques - Increased call center customer satisfaction by 23% - Improved first-call problem resolution by 11%
CAMPBELL'S STOCKPOT	Bottom-up development of core values, combined with simple, well-targeted, values-based performance metrics - Improved profitability by 50% - Increased plant efficiency by 23% - Increased employee engagement scores by 14%

Source: Booz & Company

strong informal support. But the core of the program rested on shared values—what became known throughout the company as “restoring the pride.” Where earlier efforts had failed, Rowe’s pride initiatives succeeded. Within five short years, Aetna rose like a phoenix from near bankruptcy.

- *Bell Canada:* In his attempt to turn around the company, then CEO Michael Sabia tugged at all the “formal” levers: sharpening strategy, redesigning structures, and realigning priorities. And yet he still couldn’t get enough behavioral traction on the front lines to change the customer experience.

His solution was to take a small group of high-performing supervisors and try to “clone” them. These managers knew what kind of front-line behaviors were

critical to improving the customer experience, and they were adept at motivating employees to deliver. Sabia started with an informal group of 40 and focused on peer-to-peer sharing of best practices and motivational techniques. Within two years, by word of mouth alone, the group grew into the largest “community of practice” at the company, with more than 2,000 members. And when the program delivered quantifiable results, it proved to formalistic skeptics that informal motivational mechanisms could yield significant, tangible gains.

- *Campbell’s StockPot:* Campbell’s StockPot division was increasingly unprofitable, and its sales were slowing. There was no clear strategy and little commitment or adherence to company values; morale was low, and teamwork nonexistent.

Ed Carolan, then vice president and general manager of StockPot, and his management team believed that creating a personal connection to the work itself could turn things around. First, they led a bottom-up program to develop a new set of core values. Then they made a critical advance: They tied performance targets to the values in simple, precise ways that every employee could relate to. For example, the metric of “pounds per day” motivated all shifts to work together to maximize a day’s production—the metric was meaningful at an individual level while also driving collaborative effort. Carolan believes that personal connection to the work not only creates a high level of commitment and motivation but also delivers measurable performance improvement.

Personal connection to the work not only creates a high level of commitment and motivation but also delivers measurable performance improvement.

LEADERS MUST MOBILIZE THE INFORMAL

We have seen too many executives make the mistake of assuming that the informal organization, if left alone, will sooner or later fall in line with the formal. Or that by formalizing a new set of compelling rules, programs, and structures, they will somehow be able to drag the informal along.

It seldom works that way. Time and again, to executives' disappointment and frustration, they find that the informal elements of a deeply embedded culture simply resist new initiatives or actively undermine them. And in many cases, even if positive change does happen, it doesn't happen fast enough.

The top leaders at Aetna saw a need for change more than a decade before CEO Rowe and COO Williams finally made it happen by getting the informal in step with the formal. Previous leaders had been

stymied for years by the “Mother Aetna nice” culture.

This is a common failure among most leaders, who don't really know how to influence the negative elements of their culture through informal means. Their only weapon is the formal. So they push harder and harder on the rational tools of the formal when most of the resistance is coming from the informal.

In short, it doesn't help to keep yelling at the informal from the top. Painting a glowing picture of what the successful organization will look like and what it will do—even if it's a vision devoutly to be desired—will not in itself motivate people to work hard and do good things. That seldom happens without a personal, emotional connection to the work itself, which only the informal organization can provide.

**NO TIME TO
WAIT: YOUR
CULTURE IS
WORKING
FOR YOU OR
AGAINST YOU ...
RIGHT NOW**

Perhaps the most important reason for starting informal initiatives right now is the perceived need for speed. Not surprisingly, it is often the need for speed that drives leaders to overemphasize formal elements of management. Because executives are more comfortable with the formal, they rush to reshape strategies, redesign structures, put new “rules of engagement” in place—and then simply demand compliance.

But informal resistance to change is both insidious and persistent. It lurks in the shadows while leaders strive to reconstitute the enterprise, both strategically and operationally. While executives are pushing behavior change from the top and expecting it to cascade through the formal structure, an informal culture left

to instinct and chance will likely dig in its heels. The naysayers will be promoting old assumptions and generating negative rumors. Nostalgia for the “good old days” will exert a powerful pull of inertia.

Instead, garnering support from these kinds of peer-to-peer interactions can be a solid driver of success. People need to be encouraged and motivated to change their behavior by those around them as much as they need to be incentivized from the top. But if you don’t start now to counteract this natural informal resistance to change, you risk that well-intended programmatic changes will fall on unplowed ground and unfriendly ears. What could be your best ally could easily become your worst enemy.

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PEAK PERFORMERS: EFFECTIVE LEADERS GET FORMAL AND INFORMAL WORKING TOGETHER

As critical as the soft stuff is, it cannot become an end unto itself; it must be viewed as an approach or a tool for achieving hard results. It is most powerful when used to enhance and accelerate hard results, and when

balanced by, and integrated with, formal imperatives—i.e., getting the two “jumping together” to accelerate behavior changes that matter for performance.

When the informal and formal are in balance and aligned, the performance results and strategic advantages that accrue are tough to beat. Both alignment and integration matter for an obvious but very compelling reason: The informal organization can do some things much better than the formal—and vice versa (*see Exhibit 2*).

It would be a mistake to think that soft and hard are incompatible. They are complementary and indispensable to each other. People feel emotionally satisfied when they achieve concrete goals. And concrete goals serve as

a motivating focal point for soft enablers like sustaining commitment, unleashing creativity, and enabling collaboration.

In fact, a survey of employees at U.S. companies with 1,000 or more employees, undertaken in 2006 as part of our informal organization research, confirmed that workers believe that the informal organization is a big factor in their companies’ ability to improve the way things are done, and that they perceive change to be easier in companies that recognize and use informal relationships. Further, employees believe that the formal organization is at fault when improvement efforts fail—and also that the informal organization can be a barrier to improvement if it isn’t managed correctly.

Exhibit 2
Key Differences between the Formal and the Informal

Characteristics of the Formal	Characteristics of the Informal
- Efficient	- Adaptive
- Scalable	- Local
- Predictable	- Innovative
- Controlling	- Motivating
- Clear	- Ambiguous
- Disciplined	- Spontaneous
- Hierarchical	- Collaborative
- Rational	- Emotional

Source: Booz & Company

ACHIEVING BALANCE CAN POWER SUCCESS; UPSETTING THE BALANCE CAN BE DISASTROUS

We believe it is critical to probe the history of informal organizations to learn, compare, and contrast what has worked in the past with what is working now—along with what has not worked so well. The following cases, described here in brief, illustrate the importance of balance and integration of the formal and informal sides of the organization:

- *Home Depot:* The company went from winner to also-ran when the new CEO, Robert Nardelli, tried to apply formal structures that had worked for him at General Electric. The problem was that his new programs displaced existing informal elements of Home Depot’s remarkable “Agent Orange” culture; the two were disastrously out of step. In truth, Nardelli was only doing what the board asked for—the company had reached a size and complexity requiring just the kind of formal disciplines that he was equipped to install. Unfortunately, Agent Orange was even better equipped to resist.
- *Orpheus Chamber Orchestra:* This private musical organization has defied conventional wisdom to achieve remarkable recognition: It is an orchestra without a conductor. While the musicians’ collaborative approach produced remarkably high-quality performances, the process was laborious and draining. And as their success grew, they could not pursue new opportunities effectively. Their solution, however, was not to abandon the informal conductorless model. Rather, they built on their collaborative model, using formal teams to manage everything from administration to planning to fundraising. It is this creative integration of the formal with the informal that has been the secret to their continuing success.
- *U.S. Marine Corps:* The highly formal, regimented, and process-driven organization had to recover from the devastating damage the Vietnam War did to its culture. The Marines did it by capitalizing on very strong informal peer-to-peer links, using battlefield stories that brought to life their fabled and values-driven “warrior spirit” culture. For example, the culmination of their 12-week boot camp (most other military services rely on eight weeks) is a 54-hour no-sleep exercise they call “the crucible.” It consists of 16 events designed to emulate battlefield conditions. The beginning of each event is marked by a plaque commemorating a Medal of Honor winner whose efforts exemplify the event in some way. The purpose of those plaques is to provide an emotional boost that instills pride in the participants.

FIVE KEY CHALLENGES: HOW LEVERAGING THE INFORMAL CAN ACCELERATE PERFORMANCE

As enterprises emerge from the recession, they will face many different kinds of challenges. Some of those will warrant heavy emphasis on the formal organization, but many more will require a dynamic balancing and integrating of the informal with the formal. For an illustration of where the informal has much to offer, consider the following examples in five areas that virtually every organization will face in some combination.

1. Sustainable Cost Cutting

Recessionary cost cutting is typically done aggressively and arbitrarily

without consideration of future needs. Simply put, the cuts are mandated rather than motivated. The metaphor of “crash diet” versus “lean cuisine” fits here. As a result of one-time crash cutting, the company later finds that it is short of the very skills it needs to sustain “lean” performance over time. Hence recessionary cost cuts are mostly temporary and creep back quickly. Two aspects of the informal organization can help avoid this insidious “cost creep”:

- The informal organization is adept at integrating skills across organizational boundaries,

The informal organization is adept at integrating skills across organizational boundaries.

which can sustain a more lasting collaborative capability. And efforts that combine individual skills from different segments of the company are more likely to build cross-organizational capabilities that are hard for competitors to match.

- A second informal advantage comes from the emotional power of motivation: i.e., people feeling good about, and taking pride in, sustaining lower costs. For example, rather than implementing formal cost-cutting goals to trim \$50 million, Texas Commerce Bank reframed its objective to a more energizing theme: eliminating whatever annoys bankers and drives customers crazy. Through hundreds of focus groups with almost half of the company's 9,000 employees, leaders identified these cost-cutting opportunities and

built peer-to-peer enthusiasm for "eliminating the annoyances." They eventually exceeded their \$50 million goal by 100 percent.

2. *Competitive Advantage*

Competitive advantages are most powerful when they are based on the few distinctive capabilities that a company can sustain over time. These capabilities include things like Southwest's aircraft/airport system and Orpheus's collaborative skills. Building a distinctive competitive advantage is a cross-organizational objective, so it requires both formal and informal mechanisms to ensure a cultural as well as an operational focus.

3. *Breakthrough Innovation*

Some companies, like Apple and Sony, depend on frequent game-

changing innovations to stay ahead of the competition. A lot of companies will come up with a game changer once or twice, but the few that manage to do it regularly have mastered two critical capabilities: identifying and energizing creatively gifted individuals, and cultivating focused, informal networks.

Gifted individuals are "planted" in places where they can easily access people across the organization who can enrich their creative ideas, as well as people who can ensure the appropriate support and buy-in. In the well-documented story of 3M's Post-Its, the "inventor," Art Fry, was not only a uniquely creative individual but also a master of informal networks. Through his network contacts, he found multiple uses for his idea as well as valuable internal and external support for commercialization.² The soft skills

of creativity are often useless if not balanced and coupled with the formal discipline of aligning resources to the best ideas and driving them to market. Integration of informal creativity and formal production is the secret to innovation.

4. Superior Customer Service

Enterprises that excel at “delighting their customers” (like Nordstrom and Four Seasons Hotels & Resorts) are masters of a “customer empathy” capability that goes well beyond the immediate sales/customer interface. They are maniacally determined to make the customer experience truly unique. Not surprisingly, they are able to command a premium

price as well as maintain a virtually unassailable market position.

If you ask the senior executives at Four Seasons to describe their competitive advantage, many will tell you, “It is our culture.” They mobilize their people at all levels and functions, both formally and informally. They do it through dozens if not hundreds of truly unique informal mechanisms that work from the time you enter the hotel until and after you check out—and it is the same at every Four Seasons hotel across the globe. Distinctive personal attention to every detail is their mantra, and it is more informally supported than formally mandated.

5. Collaboration in a Flattening World

Most enterprises today are facing some kind of new global reality: in their marketplace, in their operating model, or in their financial or human resource options. Therefore, business today cries out for integration of the formal and informal. The greater need for focused networks of insight and information means that informal mechanisms must be further developed, refined, and exploited. We can no longer rely on formal mandates plus instinct and chance to make the critical connections—many of which are emotionally rather than rationally determined.

Endnotes

¹ Gary Beach, "Now Is the Best Time to Start a Business," May 7, 2009. www.cio.com/article/492011/Now_is_the_Best_Time_to_Start_a_Business

² Post-It Note history. www.3m.com/us/office/postit/pastpresent/history.html

CONCLUSION: TURNING SURVIVORS INTO WINNERS

No organization wants to merely survive. Unfortunately, as we are climbing out of the recession, many organizations appear to be stuck in a survival mode. The "hunker-down" mind-set has become a habitual norm, one that is very hard to break out of.

More than ever, therefore, survivors need to cultivate the spirit of winning organizations. They cannot be content to "drag the workforce"

along in a quest for behavior change in critical parts of the enterprise.

Just as the informal organization can enforce a deeply embedded culture that no longer fits today's competitive realities, so can it energize and refocus cultural elements in positive ways: accelerating behavior change, promoting peer-to-peer interaction, and ensuring a positive emotional commitment to grow and win again.

Just as it is important to have a vision that inspires ambitions beyond next year, it is critical to have an informal organization that supports, energizes, and challenges the formal. Both dimensions are important influencers of behaviors that matter for future performance and competitive position. Surely we will need the best of both now more than ever.

About the Authors

Jon Katzenbach is a Booz & Company senior partner based in New York. He leads the firm's Katzenbach Center, where promising new approaches in leadership, culture, and organization performance are developed for client application. His consulting career has been largely focused in these areas and spans several decades. He has written four professional books: *The Wisdom of Teams*, *Peak Performance*, *Why Pride Matters More Than Money*, and the new *Leading outside the Lines*.

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