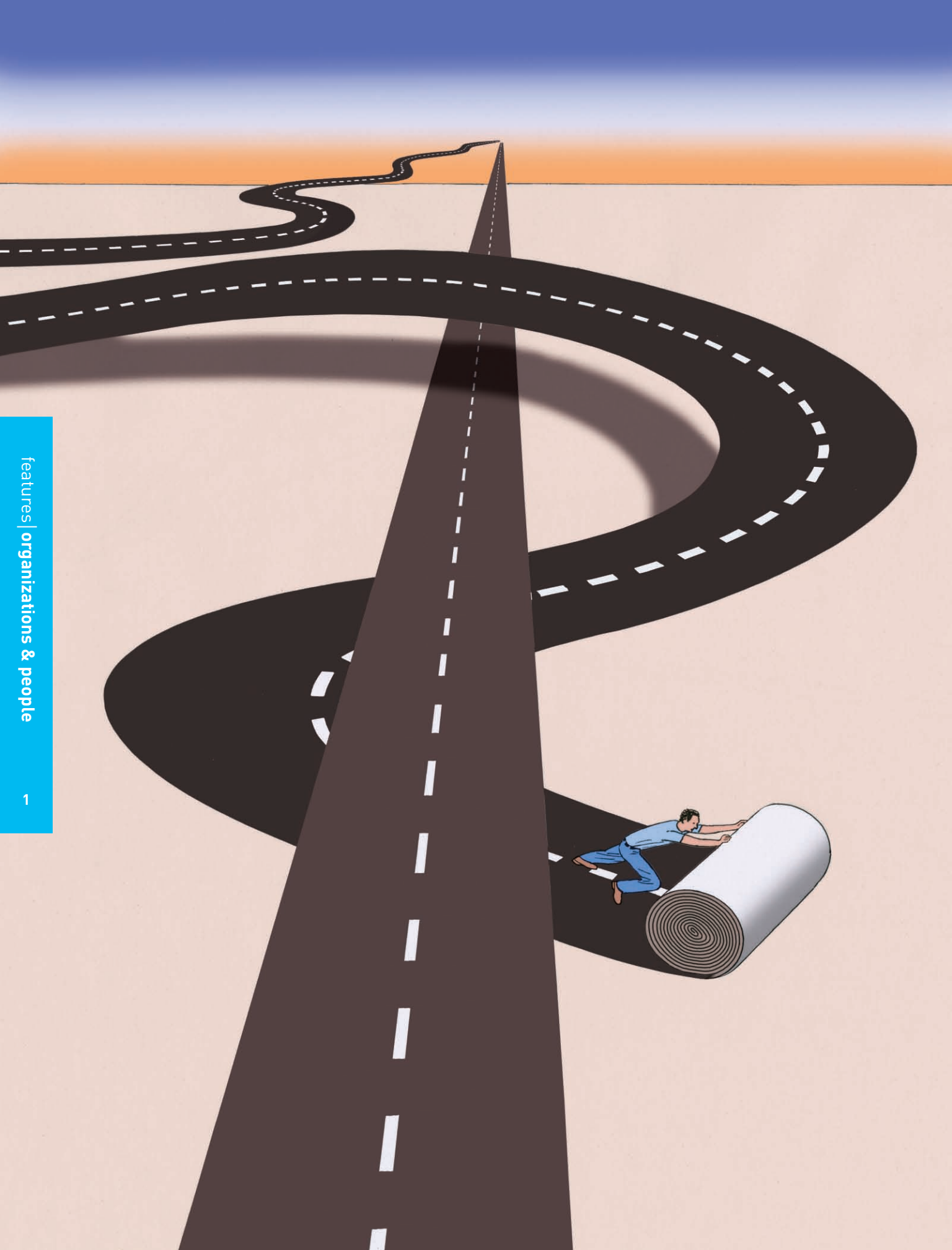


Leading Outside the Lines by Jon Katzenbach and Zia Khan

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LEADING OUTSIDE THE LINES

*Integrating formal metrics and
informal communication can lead to
new levels of performance.*

BY JON KATZENBACH AND ZIA KHAN

Ed Carolan knows a lot about making soup. He also is a master at using performance objectives to motivate frontline workers. From early 2007 through 2009, Carolan was the general manager for StockPot, a business group within the Campbell Soup Company that makes fresh refrigerated soup for the food-service industry. (He has since moved on to become senior vice president and general manager for the snacks division of Pepperidge Farm, another Campbell Soup brand.)

We met Carolan at a visit to the StockPot facility in Everett, Wash., in early 2009. We entered the sun-drenched lobby of the new 200,000-square-foot (18,600-square-meter) plant; we checked in at reception and were told that he would join us in a moment. We waited, expecting that he would conform to our admittedly stereotypical image of a general manager of a manufac-

turing facility: clean-cut, uniformed, sobersided, technically oriented. Then Carolan appeared, with a goatee and in black motorcycle boots. He bounded down the stairs, pumped our hands, and said, “Ready for a plant visit?” In a moment, we were off on a factory tour like none we had ever experienced before — so detailed, delightful, and colorful that we felt as if we were in a *Sesame Street* episode.

As we walked and talked, we learned that Carolan had become vice president and general manager of StockPot in January 2007. At the time, StockPot was in need of a turnaround. In the two years before Carolan had arrived, profitability had dropped significantly and sales had declined. The subsidiary had ranked near the bottom of the Campbell global supply chain in safety and other key operational metrics, and employe engage-

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ment scores had trailed those of the overall company.

But Carolan and his team had achieved a turnaround. In his first year, profitability had stabilized, and then, in the midst of the recession of 2008–09, it had shot up by 50 percent. One of the toughest metrics to improve in a down market is overall plant efficiency. Improvements are generally made in tenths of a percent, and even those require a lot of sweat and persistence. Here, under the new team, overall plant efficiency jumped 23 percent. Employee engagement scores increased by 14 percent. And the workers had surpassed their United Way campaign goals and raised 27 percent more than the previous year. In fact, they had won the United Way Community Partner Award for the top company making a difference in their county (Snohomish County), while driving phenomenal performance improvements the whole time.

During our tour of the plant, the strong morale was palpable — and it remained evident in our interviews with workers throughout the facility. People obviously felt a sense of pride in their work. The place surged with purposeful energy.

How did Ed Carolan's team create such a remarkable transformation in such a short time? They focused on a limited number of measurable performance objectives. They did so in a way that was personal, spontaneous, and full of positive feeling. Most important, they connected the two together. They found a way to lead with balance, drawing together formal mechanisms and the informal community.

Balancing Hard and Soft

In every company, there are really two organizations at work: the formal and the informal. The formal organi-

zation is the default governing structure of most large companies founded in the past century. Businesspeople recognize the formal organization as that rational construct that runs on rules, operates through hierarchies and programs, and evaluates performance by the numbers. If you have been trained in the “hard” disciplines like finance, technology, or operations — as so many senior managers have — you have probably learned to operate naturally in the formal domain, deploying tangible factors like job descriptions, organization charts, process flows, and scorecards.

The informal organization, by contrast, is an agglomeration of all the human aspects of the company: the values, emotions, behaviors, myths, cultural norms, and uncharted networks. The power of the informal is visible in every organization every day — it is an undeniable, emotionally resonant force. Even the most rational managers recognize that the informal organization within a company can create effects that seem like magic, especially in situations of change or transformation. Unexpected leaders emerge from the ranks. Passion swells up and pushes work forward. Units and operations swiftly transform themselves. And there are also less positive effects: Unexpected opposition lurks in the shadows, anxiety and fear hold work back, and critical operational improvements are derailed.

Organizations that sustain high performance over time have learned how to mobilize their informal organizations while maintaining and adding formal structures, each in sync with the other. And in general, people appreciate the value of “leading outside the lines”: of balancing formal and informal measures in the pursuit of higher performance. Sports fans know that great coaches pay just as much attention to the emotional aspects of

the game as they do to the skills involved. In business, the informal organization is most successfully mobilized when there is also a sharp focus on performance. People want to know how their informal collaboration will lead to an improvement in results.

But it's difficult for any manager, even one who has a predilection for the informal, to understand exactly how to lead outside the lines. There is, after all, no universal recipe book: The right balance of formal and informal measures will look very different depending on the company, the business, and the circumstances. In business, leaders who are well versed primarily in formal measures may feel less comfortable dealing with what they see as the “fuzzier” aspects of an organization. They may assume that a company's culture is largely the by-product of formal measures: Get the right reporting relationships and programmatic imperatives in place, and the hearts and minds will follow. They may also believe that informal measures require time-consuming “high-touch” conversations, which busy leaders never quite fit into their schedules. (If they did invest that time in building relationships, they would discover that it often ultimately saves time, because people who understand one another can move in sync at a much faster speed. When changing key behaviors in critical populations, working through the informal side of an organization can be much faster.) Finally, while the behavioral effect of these elements has been studied in the academic world, many informal aspects of organization are not understood well enough to be exploited with any regularity in business.

If you are interested in creating that balance for your organization, one good place to start is with performance goals and metrics. This means figuring out how to use metrics, which are inherently quantitative in nature, to evaluate and improve the performance of an organization, which is often qualitative. No matter how important the informal organization may be, the company has to perform, and perform up to or beyond expectations. If you can get a feasible approach to metrics under way that does not constrain the organization through the misuse of formal controls, then you can not only accelerate higher performance, but provide

employees with a much greater understanding of the results that matter and why they are important.

The Turnaround Challenge

Take, for example, the case of Ed Carolan and his team at StockPot. They began their turnaround work by revisiting the company's strategy. They recognized that to improve the company's performance, they needed to drive more focus and resources toward large retailers. This would enable them to take advantage of their capacity to produce in large volumes, and to cut down the number of stock keeping units they produced for inventory, both important considerations in a business with considerable fixed costs.

As part of this effort, the team also needed to adjust the perception of StockPot. It was already viewed as a quality soup. *Food Engineering* magazine singled it out in a 2008 article, citing its “local farms providing fresh, pre-cut vegetables; meat, seafood and poultry producers shipping in the protein; dairies delivering milk and cream every day; and a selection of spices and herbs from all over the world. StockPot makes soup using the same layered approach restaurant chefs do.” But StockPot also wanted to be thought of as a good eat-at-home meal.

It was a smart strategy — and it would be rewarded when tough economic times arrived. The pressure on people's wallets, starting in mid-2008, would drive them away from restaurants and into supermarkets looking for prepared foods to eat at home.

It was also a strategy that required some significant changes in the way StockPot did business. To serve world-class grocery retailers would mean meeting their demands in terms of competitive costs, high quality, and great service.

Values that Drive Performance

One of the keys to driving the change was Carolan's focus on metrics that matter and motivate. To that end, he needed to make the organization more values-driven than it had been, and that required an understanding of how employees currently viewed the values of the company. So Carolan and several members of his team conducted a series of small-group roundtable discussions

The Power of Simple Changes

by Ashley Harshak

One of the largest organizations in the United Kingdom, a provider of services to the general public, had a problem with stagnant performance. To begin turning the situation around, the management team of the organization's shared-services group (which provided IT and other internal support) chose to focus on a single shared service — a 100-person operation supporting other groups throughout the company. A new director overseeing this service was appointed; she was given the mandate to improve its performance and make it a model for the rest of the organization to emulate.

The director knew that because of a history of unsuccessful change programs, a formal, top-down initiative would not, in itself, get enough support from employees to achieve prac-

tical, on-the-ground, and long-lasting results. Through a series of interviews and focus groups, she and her team therefore identified 10 people who were seen as role models in the organization. She recruited them to join a special task force called the Site Advisory Committee.

The director then convened a workshop for the committee members and their direct bosses. The purpose was to identify a small number of specific, simple, replicable behaviors that these role models were already exhibiting almost instinctively, and that were working well. If adopted by others, these behaviors would likely boost performance.

One of them, for example, was to “break down tasks.” This approach had worked effectively once before,

when the full shared-services organization had been directed to clear a large backlog of work. Rather than approach it as a major project, one of the managers had broken the work into a series of small tasks that could be addressed in an hour or less each day. The group had gotten rid of the backlog this way, in half the time they had predicted it would take.

Other model behaviors included “give positive feedback” and “stop your own work to help others when they have a problem.” Nothing earth-shattering, to be sure, but these were informally driven, value-adding behaviors that, over the years, had been suppressed in many employees by some of the formal rules and requirements that had become embedded in the organization.

that involved almost all of the 350 people employed at the plant. In the groups, he learned that people worked in routines that they had followed for years. They had made little or no attempt to improve those routines. As far as they knew, the company did not have a clear strategy. No one discussed performance results openly or even knew much about them. As a result, morale was poor, collaboration was minimal, and teamwork was virtually nonexistent.

Carolan and his team synthesized the input from the roundtable discussions, made a list of proposed values, distributed them to the employees, and asked people to vote for the ones they thought were most important. The team then analyzed the results and boiled the values down to a short list. They then went through another round of discussions with all 350 employees to refine the wording and make sure that the values they had selected were the ones that really mattered.

This broad and inclusive process proved to the StockPot employees that their opinions and feelings mattered. They developed a greater sense of ownership of the values than they would have had with a list created by the leadership. As in most value-shaping

efforts, the process itself was just as important as the specifics of the result, if not more so.

On our tour, Carolan pointed out one of the posters that hung throughout the facility. “Do what you say you are going to do,” it read.

“Maybe that sounds a little wordy,” he said, “but it's what everybody wanted. We started with, ‘Do what we say,’ which felt fine to me, until someone asked, ‘Who is *we*?’ It was a great question. People felt the ‘we’ might just be the leadership team! The dialogue we had about accountability and commitment helped us all understand each other better, and we ended up with perhaps a less elegant, but more meaningful, statement. ‘Do what you say you are going to do’ applies to everybody. And it really helped drive performance.”

With these values in place, Carolan shaped a straightforward strategy with just a few essential elements. For each element, he identified one or two metrics to track performance. For example, in the supply chain — a function often managed with many hard-to-decipher metrics — he had only two: *service to our customers* and *pounds of soup per day* (which the company abbreviated to *lbs/day*).

The operations director also asked the Site Advisory Committee to suggest formal changes that this 100-person group could make. They responded, “Well, there’s that measurement thing.” Frontline employees were required to stop work at the end of each hour to report on what they had accomplished in the preceding 60 minutes. The task of recording the activity data, although it yielded useful information, was so disruptive that a job in progress often had to be started from the beginning again. Plus, the recording requirement consumed so much time that employees could not analyze the data they had gathered; it thus had little positive influence on their work.

The director challenged the committee to recommend ways to alter this

practice. At first, they were hesitant, unsure if they wanted to shoulder this responsibility. But within a week they came back, brimming with confidence, and offered a simple recommendation: Submit the activity report every *other* hour, rather than every hour.

With this single minor change, the shared-services unit’s performance improved and productivity increased. The change also had a significant impact on emotions and attitudes. People came to see the activity data measurement as a genuine reflection of their success, rather than as a cold mechanism of control. They took personal interest in how they were doing, even going so far as to call the office after their shift was over to check on the measurements.

It took a combination of informal

and formal change — identifying and modeling exemplary behaviors on one hand, and making a small but important shift in how work was measured on the other — to produce these remarkable results. With productivity and morale improved, this 100-person shared-services group did, in fact, become a model for other parts of the organization. As for the task force, it kept going, suggesting other improvements. And as a token of its impact, it changed its name to the Pride Advisory Committee.

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Service to our customers was strategically important given the company’s increased focus on large retailers with high expectations. StockPot’s ability to serve customers well was a source of pride, and the metric tapped into and reinforced that emotional energy to help drive more coordination between shifts, efficiency improvements, and better quality assurance.

The metric of *lbs/day* was also carefully chosen. “At first,” Carolan said, “we focused on *pounds per labor hour*, the standard way to measure how many pounds of soup the facility produced per hour worked. The problem was that the *pounds per labor hour* metric was meaningless to the team. It’s hard to figure out what’s a good number and what’s bad, and how people can individually make a difference in the number.” Even worse, the *lbs/labor hour* metric created some concern that management might try to improve that number by simply lowering the number of hours worked.

“Of course, that wouldn’t have made sense strategically,” Carolan said, “because we were trying to grow volumes in our new plant. But many employees are paid by the hour, and, as such, hours are critically important to them. That’s how they pay the bills and put food on

the table.” It was therefore important to avoid any perception that the number of hours might be lowered. For management, this was eye-opening. “Talk about a simple and absolutely essential learning!” Carolan said.

So Carolan and his team changed the metric to *lbs/day*. “Everyone handles the product — from preparation, to filling, to packaging and shipping,” Carolan said. “It’s tangible and meaningful. And people can get excited when they see that number moving up. It also helps people coordinate and work together as a team. *Pounds per day* implies all shifts need to perform and help each other perform to maximize a day’s production. Now the idea of cleaning and prepping for the next shift has taken on a whole new meaning. Everyone feels connected by *pounds per day*. They feel like part of the same effort to drive that metric.” In other words, the *lbs/day* metric was meaningful not just at an individual level; it also helped drive collaborative effort.

As successful as that measurement proved to be, Carolan was careful not to add too many more of them. “You want a small number of metrics to create focus. When there is a proliferation of metrics in a bunch of detailed scorecards, it can be hard to ensure everyone is

The energy and enthusiasm we witnessed on our plant tour are great, but are ultimately meaningless if they do not move the performance needle in a positive direction.

aligned on what really matters. The teams that win are the ones that figure out the short list that matters the most. Even so, you need enough metrics to make sure you're covering the range of what's important for the business and the people. Having a balanced set makes it more likely that everybody can find at least one that really motivates them."

Instant Awareness

Another principle that Ed Carolan followed with the metrics was that communication about them had to be visible and clear. The most important metrics were displayed on LCD screens throughout the facility in stop-light colors: green for metrics on target, yellow for those in danger of getting off track, and red for metrics below target. "If you have the right metrics, and suddenly one of them goes red, people instantly understand what it means and how they can help," Carolan said. "That's often a frustration people have when they deal with overly analytical and abstract metrics — they don't know what they can do about it."

Carolan also uses ad hoc metrics, picked up for particular short-term purposes, and he does so as thoughtfully as he employs the more formal ones. "When we negotiate with big retailers, for example, cost becomes very important. I tried a *pennies per pound* metric with the employees, but it was hard for them to care about a penny lost when they accidentally spilled some soup or dropped an ingredient. So instead, I talked about how our performance on that metric had made a difference in winning or losing a customer's business. When people understood that we could win or lose a big sale because of [the competitive pricing advantages that came from saving] a few pennies, they paid a lot more atten-

tion," he said. In this way, Carolan not only tapped into the team's pride in winning customers and growing volume; he tapped into their informal connections. No one wanted to let down the sales team that was out there working hard to land a big contract.

Carolan believes that creating personal connections to the work helps build and maintain a high level of performance, but he makes it clear that it is measurable performance results that matter most. The energy and enthusiasm we witnessed on our plant tour are great, but are ultimately meaningless if they do not move the performance needle in a positive direction.

"Ed's approach reminds me of [my] high school," one of his direct reports told us. "I had a chemistry teacher who treated all her students like kindergartners. She would put a smiley face on your paper if she thought it was good. I really hated her. I didn't do the work. I didn't engage with her. My calculus teacher, however, treated us like adults. He expected us to do 'A' work, and you didn't want to disappoint him. I got much better grades in his class than in chemistry. Ed is like that calculus teacher. He engages the team and gets us to engage with each other. But he expects us to work really hard and deliver our personal best! That has built trust, and we don't want to disappoint him."

At the end of our day at the StockPot facility, we walked with Carolan to the parking lot. As he climbed onto his motorcycle, a worker came out of the plant.

"Hey, Ed!" the worker called out.

"Hey!" Carolan called back.

"I hear we made more soup last Saturday than we ever have! Is that true?"

"That's right," Carolan shouted. "Highest daily production in StockPot history."

“Yes!” the worker called out, did a quick fist pump, and let out a whoop.

Carolan smiled, we said good night, and he roared away. Clearly, the efforts he had put into galvanizing his team around performance were paying off.

Creating a Tradition of Synthesis

Ed Carolan’s success at StockPot was the result of his unrelenting insistence on performance — both individual and group — and his ability to employ metrics in a way that was meaningful to his employees. His approach was neither “all hard” nor “all soft.” Instead, he took the best of both the formal and informal organizations and integrated them to energize people to fulfill a shared performance purpose. The StockPot turnaround could be seen as a story about metrics, but there were many things that Carolan’s team did informally to reinforce the numbers and help to make them meaningful:

- *They aligned their decisions and actions with strategic intent.* Employees understood how company values translated into their daily work.
- *They set up dynamic processes that were constantly improved upon* by suggestions from frontline employees as well as managers and leaders. The formal processes were supplemented and supported by informal networks.
- *They promoted the constant circulation of new ideas,* continually improving the methods of production.
- *They supported communities and networks that had grown organically,* cutting across more rigidly defined groups and structures.
- *They fostered a sense of “institutional empathy” with customers and partners* that reinforced coordination, collaboration, responsiveness, and discipline across the StockPot organization.
- *They deliberately encouraged pride among employees* — pride in the company, in one another, and in the facility’s day-to-day accomplishments.

In doing all this, the StockPot team was also reflecting a natural evolution in the history of business thinking. Over the past hundred years, business thinkers have been largely divided between rationalists (symbolized most visibly by Frederick Winslow Taylor, the 19th-century “father of scientific management”) and humanists (symbolized by Douglas McGregor, author of *The Human Side of Enterprise* [McGraw-Hill, 1960]). Researchers have rarely sought to integrate the two perspectives. Stanford University professor Harold J. Leavitt, author of *Managerial Psychology: An Introduc-*

tion to Individuals, Pairs, and Groups in Organizations (University of Chicago Press, 1978), described one battle between the two groups at MIT’s Sloan School of Management in the 1950s: “[Our group] were proud and perhaps arrogant acolytes of Doug McGregor, the pioneering humanizer... Our hot little group called itself ‘the people-people’ and inhabited the third floor of MIT’s Building 1. Our systemizing enemy — the hard-headed accounting, finance, and ‘principles of management’ people, along with Taylor’s progeny, the industrial engineers — held down the first floor of the same building... We called the first-floor folks ‘make-a-buck Neanderthals.’ They called us ‘the happiness boys.’”

It’s not an exaggeration to say similar battles still take place among leaders at all levels of organizations. But Ed Carolan’s experience at StockPot — and similar experiences at such companies as Southwest Airlines, the Orpheus Chamber Orchestra, Home Depot, Bell Canada, and Aetna — demonstrate why neither approach should stand alone.

Most businesspeople are concerned with achieving higher levels of performance — and all the rewards that go with it. Those who are comfortable with formal and informal approaches will make the most progress toward this goal. The mind-set that can synthesize both into a clear, simple, integrated direction is the mind-set that differentiates the peak performers from the also-rans — be they individuals, teams, or enterprises. +

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Resources

Andrea Gabor, *The Capitalist Philosophers: The Geniuses of Modern Business — Their Lives, Times and Ideas* (Three Rivers/Crown, 2000): Introduction to business thinkers on the hard (Taylor, McNamara), soft (Maslow, McGregor), and integrated (Deming, Drucker) sides.

Jon R. Katzenbach and Zia Khan, *Leading Outside the Lines: How to Mobilize the Informal Organization, Energize Your Team, and Get Better Results* (John Wiley & Sons, 2010): More ideas and tools for helping both sides of an organization work together well.

Zia Khan and Jon R. Katzenbach, “Are You Killing Enough Ideas?” *s+b*, Autumn 2009, www.strategy-business.com/article/09303: Making innovation more effective by rethinking your informal and formal practices.

Harold J. Leavitt, *Top Down: Why Hierarchies Are Here to Stay and How to Manage Them More Effectively* (Harvard Business School Press, 2005): Formal structures exist because they fulfill basic human needs — and thus we’d better learn to manage them humanistically.

Douglas McGregor, *The Human Side of Enterprise, Annotated Edition* (McGraw-Hill, 2006): The classic on escaping the tyranny of the formal — and reconciling the two sides of the corporate personality.

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