leading outside the lines

IN THIS DYNAMIC WORK, thought leaders Jon R. Katzenbach, coauthor of the business classic The Wisdom of Teams, and Zia Khan offer an all-new examination of the modern workplace, and how leaders and managers must embrace it for success. Together they reveal how two distinct forces—those from the (in)formal connections of organizations—interact in unexpected ways to achieve outstanding results.

Leading Outside the Lines takes a groundbreaking look at how leaders and managers must embrace the informal elements of organizations to achieve outstanding results. By exploring the interactions between the visible “formal organization” of a company—the management structure, performance metrics, and formal strategy—and the “informal organization”—the culture, social networks, and ad hoc communities that spring up naturally and, in an equal spirit but different way, can accelerate or hinder an organization’s success—Katzenbach and Khan explore how top-level management can balance the formal and informal elements of organizations to achieve outstanding results. Leading Outside the Lines is a timeless organizational approach and creates a powerful paradigm-shifting tool set for applying it, showing when you can get the most done by using the informal elements that operate under the radar, and when it is in fact better to use formal processes.

In this compelling case study from an industry leader, the authors illustrate how leaders and managers must embrace the informal elements as well. Using the informal elements, leaders can tap into the power of the informal to achieve superior performance and results.

For more information, please visit www.booz.com/katzenbach_center.
Praise for Leading Outside the Lines

Leading Outside the Lines is a vibrant book with a compelling message vital to the success of 21st-century organizations—the message that informal human relationships, when effectively integrated with formal structures and systems, can powerfully propel people forward. It’s a profoundly important idea that all contemporary leaders must attend to. This book is rich with real-life examples of organizational turnaround and culture change—some of the most unique and engaging I’ve ever read—from actual leaders who tried, failed, learned, and succeeded. Jon Katzenbach and Zia Khan do a masterful job of weaving together these intriguing case examples with practical applications and useful assessment tools. This is a book about doing great work, making people proud, getting people connected, and living a values-driven life. It’s a book you need to savor.

—Jim Kouzes, coauthor, The Leadership Challenge, and Dean’s Executive Professor of Leadership, Leavey School of Business, Santa Clara University

Leading Outside the Lines is an incredible gift to leaders in all three sectors—public, private, and social—working to move beyond the old walls, build the new, flexible, fluid management systems, and develop leaders of the future determined to build the organization of the future. This management guidebook brings the best of formal and informal organizational theory and experience to leaders at every level, across the enterprise.

—Frances Hesselbein, chairman and founding president, Leader to Leader Institute, formerly the Peter F. Drucker Foundation for Nonprofit Management
Katzenbach and Khan demonstrate that you don’t have to choose between inspiring employees and getting amazing results—the best organizations do both. With novel perspectives, great stories, and practical advice they show leaders how to get the best of both in ways that can transform organizations. This book belongs in the hands of everyone who refuses to accept business as usual.

—Chip Conley, CEO, Joie de Vivre, and author, Peak

Strategy and hierarchy drive how organizations operate, but so too do personal networks and intuitive judgments that define an equally powerful informal world within. Drawing on richly developed illustrations ranging from the Bushmen of southern Africa to eBay, the Marine Corps, and Starbucks, Leading Outside the Lines provides a compelling account of how leaders can best capitalize on the hidden drivers of organizational life.

—Michael Useem, professor of management, Wharton School, University of Pennsylvania, and author, The Leadership Moment

The rate of change in our business, and the need to move information at high speed across organizations, necessitated an innovative look at organizational structures and management styles. The ideas in Leading Outside the Lines helped speed and successfully shape our major change implementations.

—Stan Glasgow, president and chief operation officer, Sony Electronics Inc.
How to Mobilize the (in)Formal Organization, Energize Your Team, and Get Better Results

Jon R. Katzenbach | Zia Khan
Jon: To Marvin Bower, whose memory never fades

Zia: To my parents for their steadfast love and support
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Something strange was going on at the call center. It was one of those large open rooms, filled with cubicles, each occupied by a service rep wearing a headset and answering customer calls. The scene seemed typical of such workplaces, except for one thing: A ten-foot-high wall, clad in purple fabric, cut straight through the center of the room, separating half of the service representatives from the other half.

We had been asked by our client, a senior executive at a health benefits provider, to look at this recently redesigned call center for best practices that could be applied in the company’s other call center locations.

Throughout the morning, the air had been filled with the steady murmur of voices as the reps calmly handled callers’ questions with dispatch and efficiency. Around eleven o’clock, however, the sound of the voice coming from the cubicle closest to us, where a rep named Gloria sat, took on a new tone. Gloria’s responses grew hesitant, even a bit defensive. She would start to say something and then stop as if interrupted by the caller. At last she said, “Let me put you on hold for a moment. I need to ask a colleague about this. I will be right back.”
Gloria punched the hold button, slipped off her headset, and walked to the purple wall. “Frank!” she yelled, her lips no more than six inches from the purple fabric. “Yo!” we heard a man’s voice replying from the far side.

“I’ve got a caller with a question about COBRA payment for a laid-off worker’s partner,” Gloria called. “She wants to know if . . .” And Gloria went on with a detailed question. As soon as she was finished, Frank immediately called back the answer. “Got it,” Gloria said, hurried back to her cubicle, clamped on her headset, and picked up the call. “So, here’s the story,” she said to the caller, and in a moment the matter was resolved.

At her next break, we asked Gloria about the wall. “It’s ridiculous,” she said. “When the customer service organization was reorganized about six months ago, the wall was put up. The idea was to separate us into distinct teams to improve focus and efficiency. But we often have to interact across teams and sometimes shouting through the wall is the quickest way to get an answer.”

Over the course of three days of observation, we witnessed several more of these “through-the-wall” conversations. Later, when we brought up the issue of the wall with our client, he said it was news to him, even though he had been involved in the reorganization. Within a few weeks, the wall had been removed, the teams had been reintegrated, and the yelling had stopped.1

THE WALL AS AN ANALOGUE

It’s rare to see a physical wall that is such a perfect analogue for an organizational wall. Most of the walls in companies of all kinds are intangible, invisible, and often unknown to senior management.

Although the call center wall seemed absurd, it had been erected for perfectly good and rational reasons that had to do with lines of business, reporting structures, and cost management. But the wall
ended up getting in the way of real work that people had to do, so they found their own ways of getting around it.

To us, the wall represented the formal, hierarchical organization—the lines, if you will, that can be drawn to show the official relationships and power structures and workflows and channels of communication. The shouting through the wall represented the informal organization—the space, relationships, and behaviors that exist outside those formal lines.

It’s tempting to see one or the other—the formal or informal approach—as the right or the wrong way. The call center representatives could certainly wonder what management had been thinking when they restructured the organization and put up the wall between the teams. Management could shake their heads when they heard about employees working across organizational lines and yelling through the wall.

In most companies, the formal organization is still seen as the right approach, the default structure. Especially if you have been trained in the hard disciplines (finance, technology, or operations management) as so many senior leaders have, you tend to work most naturally through tangibles like job descriptions, organization charts, process flows, scorecards, and physical structures. There is nothing wrong in that. However, you may be less comfortable dealing with the fuzzier aspects of an organization (informal networks, cultural norms, emotional realities, and peer pressure) even if you recognize their importance. Leading outside the lines is harder than managing within the formal lines, partly because that territory is less well defined, less studied, and less written about.

Even so, the formal and informal organizations invariably find some way to coexist. For years the informal typically prevailed mostly in small organizations or “skunk works,” while in larger organizations the formal tended to prevail. This will not be true much longer. In the current business environment—characterized by a rapid rate of change, increasing globalization, and the rise of Web-based social
networks—more and more companies are finding that the best way to create lasting value is by nurturing all kinds of informal and non-hierarchical initiatives rather than by relying so heavily on formal top-down rules of engagement.

To make a shift toward the informal is not easy. It is, however, an effort that is really worth making. Increasingly, those companies that can mobilize the informal organization as effectively as they manage the formal—that is, integrate the two and achieve a balance of complementary benefits—are the companies that can create a real and sustainable competitive advantage. “The best of both” is the name of the game now.

Specifically, these organizations are ahead of the curve because they successfully accomplish more than one balancing act:

- They foster, encourage, and support deep values that inform the decisions and actions taken at all levels of the formal structure. However, their values are also evident in the informal attitudes, interactions, and behaviors of people throughout the organization.
- They ensure that formal, long-range strategy is understood rationally by people working on the front lines of the operation. However, they also provide emotional and visceral support, so the strategy permeates all aspects of the work.
- They retain the efficiency and clarity of the well-defined structures that define the formal organization while also capitalizing on the flexibility and speed of the social networks and peer interactions that connect people informally.
- They ensure that in addition to the formal methods of compensation and reward, including pay, benefits, bonuses, and well-defined forms of recognition, employees have emotional sources of motivation that commit them in ways that the formal mechanisms cannot.
THE ORIGINS OF THIS BOOK

We have come to understand the formal and informal organizations through decades of research, client work, and personal experience spanning industries, sectors, and nations.

Jon Katzenbach (generally known as Katz) has advised organizations for more than forty years, first at McKinsey & Company and then at his own firm, Katzenbach Partners (now part of Booz & Company). Katz has long been fascinated by team dynamics, how organizations function, and what motivates people and has written extensively about these topics in many articles and books, including his classic work, with Douglas Smith, *The Wisdom of Teams*.

Zia Khan joined the world of consulting after many years in academia. At Katzenbach Partners, he led several of the client engagements that led to the development of the ideas and methodologies described in this book. Zia’s work focuses on the approaches and systems that drive strategy and improve organizational performance. He is currently vice president for strategy and evaluation at the Rockefeller Foundation.

So it has taken many years—and at least two epiphanies—for us to understand the ways of formal and informal organizations. Perhaps we were slow learners, but we sense we are not in a minority.

The first of the two epiphanies came over dinner one warm summer night in Montreal. That day we had engaged in a particularly interesting conversation with a senior vice president of strategy. His view was that the frontline workers in his company did not like the recent reorganization, and no matter how the formal structures were changed, kept right on acting and thinking as if the business were the same as it always had been.

Over dinner we talked about the issue of alignment at our client’s company. Was that the problem? We decided that it was, but not in quite the way we normally think about it. In reorganizations
like this one, our goal is usually to align the rational actions of management and employees of a new unit in support of the structural change. In this case, however, the alignment was among the managers of the old regionally focused organizational units that had been reorganized out of existence. These folks were communicating through an informal network to align their peers in very effective resistance to the change.

This alignment, we agreed, was deliberate. They had chosen not to communicate openly through the normal channels, such as staff or unit meetings, or documents or presentations, but rather through their informal networks. The communication was spontaneous and unrecorded and was devoted to denigrating the idea of the reorganization with the purpose of keeping the managers’ power bases intact. Things were out of balance; the new formal organization was defined by customer segments, yet the informal organization remained regionally strongly aligned.

Our conclusion was that these informal regional networks, although more amorphous and less structured than the formal network, could nevertheless be identified and defined and managed, just as these resisters were doing. So if these managers could mobilize an informal network to resist change, why couldn’t such mobilization become a standard managerial practice? Why couldn’t formal managers make purposeful use of informal networks to achieve a goal or bring about a change?

The answer: they could. That was epiphany number one.

The second epiphany emerged a couple of years later. By that time, our thinking about the relation of the formal and informal organizations had progressed a good deal. We had become convinced of the power of the informal organization to help create both short- and long-term advantage. We spoke about the topic regularly with clients and at conferences. As the various social networking phenomena, such as Facebook and LinkedIn and Twitter, gained attention, journalists and other observers got intrigued by the subject,
too. Often, they would seek our opinions on the relevance of social networking to business organizations. Social networking was the talk of the time.

Not everyone, however, was so enamored of the idea of the informal organization and the importance of social networking to business. At a CEO roundtable in Silicon Valley, we made some remarks about the formal-informal relationship and then asked for questions and comments. One CEO, who had become increasingly agitated during our presentation, jumped up. “The last thing I need is more informality,” he barked. “I’ve worked very hard to establish a few commonsense, replicable processes—which I am sure you would describe as overly formal—that our company desperately needed, because we were losing share, losing money, and losing customers. Without those formal elements, I’m convinced that we would have gone under. But just when we were starting to operate with a little more order and discipline and things were starting to turn around, guess what happens? An engineer, who’d been with the company a long time, barges into my office—complete with beard and sandals, I might add—and tells me that my formal processes and uptight procedures are killing the soul of the company! That’s what the informal organization is to me. Clueless about business realities.”

That CEO was not alone in this view. Nor was this view wrong. We heard enough pushback from others at that event and at others that we did some soul-searching. Perhaps we had been overemphasizing the importance of the informal, and, in essence, throwing out the baby with the bathwater?

Those two epiphanies—first, that the informal could successfully be mobilized and second that the informal is not a complete solution—helped bring us to the understanding that managers must find ways to get the formal and informal working together. Most important, the optimal balance between the two will look very different depending on the company, the business, and the circumstances. Those insights also helped us see that organizations that
learn how to mobilize their informal organizations while maintaining and reinforcing formal structures—be it Gentle Giant Moving Company, Southwest Airlines, Public School 130 in New York, or the Orpheus Chamber Orchestra—are uniquely powerful. They can improve their performance and sustain it over a long period of time.

As we’ve said, most of our learning has come from working closely with clients on real performance problems. Rather than theories, clients are interested in how our ideas and pragmatic approaches could help their people and their companies perform better. Time and time again in our client work we saw managers trying to realize a strategic intent only through formal means. The more frustrated they became, the harder they tugged at the formal levers. We helped them see that they also needed help from the informal organization to accomplish bigger goals.

Although we typically worked with our clients at the front end of an initiative to help define a vision and chart a course, we also worked with them in every area of the organization, both the formal and the informal. Watching the full cycle from vision to execution helped us understand the difference between ideas that lead to impact and ones that are management fads. By testing our ideas through real experiences, we were able to refine our ideas as we went along, and, most important, learn how to apply those ideas to drive organizational change and sustain performance improvements.

This client experience with gaining results through the right balance of the formal and informal is shared throughout this book. At the same time, we don’t claim to have all the answers. Getting the best from both is a continuing challenge.

**About the Content and Structure of the Book**

Writers of books on organization tend to fall into one of two camps. Either they are formalists, who seek to bring better order to what they
see as chaotic organizations, or they are informalists, who believe that organizations are too orderly and need more soul. In fact, the two groups are distinct enough in their views, and have been so for a long enough time, that they have had a variety of names attached to them. There is the “scientific management” school versus the “human relations” school; those who follow McGregor’s Theory X and those who espouse Theory Y.2 There have been many books written on both aspects of organization.

What has been missing, in our opinion, is a book that focuses on the informal organization but does so with a realistic context that incorporates the formal and rational dimension of organization performance. We are advocates and students of the informal, but we are also advocates and students of programmatic management, teachable methods, and quantifiable business impact.

So, in this book, we define as clearly as we can what the informal organization is. We also describe, with as much specificity as we can provide, how the informal can be mobilized and how it can be integrated with the formal elements of the company to achieve better performance.

In Part One, “Using the Informal to Enhance the Formal,” we describe the two organizational dimensions, how the balance between them can shift, and how to integrate the two.

In Part Two, “Motivating Individual Performance,” we explore the importance of the work itself and the role of values, and we discuss performance and how it must be the goal and the enabler for mobilization of the informal.

In Part Three, “Mobilizing Organizational Change,” we talk about how to achieve strategic goals by setting free the “fast zebras” in the organization and melting the “frozen tundra” of middle management, and we discuss ways managers can mobilize the informal in transformational efforts.

Finally, we look at the relevance of the informal organization to a number of typical business initiatives (such as strategic planning
and innovation) and how it affects different players, from individual contributors to senior leaders.

There are also two appendixes: a description of our research methodology and sources and a diagnostic tool.

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When taking their organization in a new direction, leaders often start by working within the formal lines of the organization. They establish metrics and set goals, write plans, define rules of engagement, refine or create processes and programs, and tinker with hierarchies and structures.

Too often, these formal efforts don’t get adequate traction as quickly as the leaders would like. As a result, the initiative takes far too long, goes awry, or stalls. Most major change efforts, in fact, peter out within two years of their inception. The few companies that make it past that barrier can achieve a sustainable performance advantage.

What’s more, the informal aspects of the change—the ones that require action and leadership outside the lines—are usually harder for competitors to see. They are also harder to replicate than the formal elements (which are more easily copied as “best practices”), and that further sharpens the advantage.

Our goal with this book is to help leaders, particularly those who are already effective at leading within the lines, take a step back, look at the whole page, and see where and how they might also lead outside the lines most effectively and, as a result, have more impact. To do so does not require that they possess mystical talents or become expert in social networking. All it takes is an open mind, a willingness to adopt some new behaviors as necessary, a focus on execution, a strong desire to achieve real and long-lasting results—and an ability to see the vast performance potential that lies outside the lines.
PART ONE

USING THE INFORMAL TO ENHANCE THE FORMAL

The informal organization can create effects that seem like magic. They're amazing to watch, but it’s difficult to know how to produce them. These intangible, often emotional aspects of the informal organization exist right alongside the more evident and rational aspects of the formal organization. The key is to understand that the informal delivers its greatest benefits when it is balanced with the formal. Maintaining a balance is harder to do than it may seem, as the balance point constantly shifts. However, by creating and sustaining a balance between the informal and formal elements, organizations can achieve the best of both in ways that provide significant advantages.

In Part One, we offer a quick history of the study of organizational behavior and discuss why an either/or mindset—rationalist or humanist—has usually prevailed. We explore several examples that stem from our personal experiences as well as illustrations from large and small business case studies. While business applications are our focus, we include two nonbusiness groups that illustrate the diversity and timeless origins of the issues—the Orpheus Chamber Orchestra in New York, and the !Kung tribes in Africa. By examining
these two organizations, both of which are nonhierarchical and take very
different approaches to leadership, we can get a richer understanding of the
group dynamics that operate in all companies, business sectors, and cultures.
Logic only gives man what he needs. . . . Magic gives him what he wants,” author Tom Robbins once wrote. The tension between the mind and the heart and the desire to integrate the two have been grist for the writer’s mill for centuries. Management theorists, by contrast, have focused their efforts on one aspect of this tension or the other and have spent the past hundred years debating each other about which is more important. Our intention in this chapter is to show that it is not a question of either/or but rather of understanding what benefits the formal and informal offer, and why they need to work together.

**The Head-Heart Debate: A Brief History**

The rational school of management dominated business organizations for the first half of the twentieth century. Its roots are in the research of Frederick Taylor, often dubbed the father of scientific management. Taylor stressed the need for using scientific rigor to select, train, and develop workers. He believed in cooperating with workers to ensure the success of his scientific methodology, dividing
work nearly equally between managers and employees as a rational approach to optimizing performance.

Taylor’s principles made sense. Prior to World War II, they were used in many factories, often with surprising improvements in productivity. Taylor advocated that all organizations could use what he called “time and motion studies” to improve efficiency and unlock hidden performance potential. Eventually, Taylor’s ideas about scientific management spread from Henry Ford’s automobile assembly lines all the way to the home.

Later, a different school of thought emerged that took a very different, much more emotional, approach to the practice of management. In 1960, Douglas McGregor published *The Human Side of Enterprise*, in which he identified two theories of individual work behavior. Theory X assumed that people dislike work, prefer to be directed, and are motivated primarily by monetary rewards and punishments. This theory aligned with the rational approach to management. His second theory, Theory Y, assumed that people enjoy work, seek responsibility, and are motivated by purpose, feelings, and fulfillment.

Theory Y echoes the writings of other notable thinkers of the era. In 1954, Abraham Maslow placed self-actualization at the top of his hierarchy of needs. In essence, this hierarchy refers to how people feel about who they are as individuals, what they do, and why they do it—and often, the people they do it with. Frederick Herzberg, in an almost desperately titled article, “One More Time: How Do You Motivate Employees?” answered his question by arguing that people are emotionally motivated by meeting challenges, taking responsibility, and doing work that they can feel good about performing well.

Advocates of both the rational and emotional approaches have rarely sought to integrate their perspectives—in other words, to see if there was a possibility for “and” instead of “either/or.” Stanford professor Harold Leavitt, author of many books, including *Managerial*
Psychology and Top Down, from which the following passage is taken, describes how the two camps studying organizational performance in the 1950s viewed each other:

One tiny skirmish of that great battle took place at MIT, where a handful of us were graduate students. We were proud and perhaps arrogant acolytes of McGregor, the pioneering humanizer of Theory Y fame. 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 people-people were sometimes required to take first-floor courses, all sorts of systemizing foolishness about such inhuman stuff as financial controls and cost-accounting. As you might guess, those forays into enemy territory served only to shore up our faith in our third floor’s humanizing creed. And as our commitment to that creed grew, so did our scorn for the first floor’s apostasy. Those first-floor guys were blind to Truth down there, intransigent, prejudiced, just plain wrong. They had adding machines where their hearts should have been. They didn’t even comprehend our sacred words: morale, motivation, participation. We called the first-floor folks “make-a-buck Neanderthals.” They called us “the happiness boys.”

While Leavitt’s story may be a little tongue-in-cheek, it’s not an exaggeration to say that similar battles still take place, and not just among academics but also among leaders at all levels of business organizations. There are serious disagreements about how best to get employees focused on what the leaders believe to be important to improve performance and achieve success in the enterprise.

We have watched and participated in many of these debates, in many companies, and with leaders who inhabit both camps—and a few who understood the importance of both. But our exposure to the head-heart debate goes back much further, to well before either of us got involved in management consulting.