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The Logic of the Formal; the Magic of the Informal

Logic only gives man what he needs. . . . Magic gives him what he wants,” author Tom Robbins once wrote.¹ 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.² 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.³ 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.⁴ 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.⁵

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."⁶ 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.”⁷

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.

HOW KATZ DISCOVERED THE INFORMAL

Katz graduated from Stanford University in 1954 with a degree in economics, making him, by training at least, a charter member of the formalist club. He spent his college days immersed in economic analysis, structured problem solving, and rational decision making.

The United States was still in the Korean War when Katz graduated. Had he waited to be drafted, Katz would have had no choice about which service he entered, so he decided to apply for the Navy's Officer Candidate School. He was accepted, graduated, then went on to the Navy's school for Supply Corps officers.

For a formalist like Katz, the military was fascinating. To this day, he follows developments in the procedures, programs, and rules of engagement that contribute to effective supply operations.

Katz got his first real assignment, as Disbursing and Assistant Supply Officer, aboard the amphibious ship USS *Whetstone*. His immediate superior, Lt. John Sandrock, had several years of experience in the Supply Corps and fit the stereotypical image of a good naval officer. He was tall, well-groomed, and commanding in every way. He maintained a well-defined arm's-length relationship with the members of his crew. He enforced rules and regulations to the letter and demanded that his men do the same.

After a year aboard the *Whetstone*, Katz was transferred to the USS *Nicholas*, then stationed in Pearl Harbor, where he served alongside Supply Officer Lt. Charlie Stewart. The *Nicholas* was a bit creaky and rusty, since it was then the oldest active escort destroyer in the Pacific fleet.

Charlie was Mr. Informal, or appeared to be, anyway, and this baffled Katz at first. Unlike Lt. Sandrock, Charlie's uniforms were, like the ship itself, worn and rumped. Nor did his conversation suggest much interest in rules and regulations. But he had very close relationships with the sailors under his command. And he

ran a remarkable supply operation. In fact, in Charlie's final year of duty on the *Nicholas*, the ship was awarded the Navy E Ribbon (E for efficiency) for having the best supply operation in the Pacific Fleet for its type of vessel.

The win was not accidental. Charlie and his crew had been working toward the coveted E for three years. The ship had the tidiest store, its disbursing records were flawless, and the storerooms and inventory were maintained as brilliantly as any Wal-Mart is today. Even the galley was known for the quality of its food and its speedy service. Not an easy trick aboard a creaky, rusty old ship at sea.

Although Katz didn't apply the term at the time, Charlie's operation clearly had an informal advantage. Yes, every sailor had the formal aspects of his job down pat. But that was not what distinguished the group—rather, it was the pride they took in their work and the emotional commitment they had to their jobs. "I wouldn't want to disappoint Charlie," they often said.

So effective was the supply group that Charlie's role in it seemed almost unnecessary. After all, the guys were almost entirely self-regulated. Charlie rarely made a suggestion, let alone gave an order. So Katz began to think he was the luckiest guy in the Supply Corps. When Charlie eventually moved on to his next ship and Katz took over the post, as was likely to happen, Katz figured that his job would be easy. He would just follow the rules and procedures already in place and keep things rolling as they had been. How hard could that be?

Of course, Katz had so completely focused on the formal elements of Charlie's organization that he had not really noticed the informal aspects that Charlie was so good at, thinking them incidental, even irrelevant.

Then came a revelatory moment. It happened during an admiral's inspection of the *Nicholas*, which was anchored in Pearl Harbor at the time. The day before the admiral was due to arrive, the captain

of the *Nicholas* assembled his officers to review the procedure for receiving the admiral as he boarded ship. Two of the officers, however, could not attend the meeting. Charlie Stewart was on shore liberty and William Inskeep was on duty.

A key element of the formal reception of an admiral is a “sword salute” that requires that the receiving officers smartly, and in unison, withdraw their swords from their scabbards and snap the handles to the proper position against their chests. The captain particularly wanted to discuss the sword salute with his officers, because they had never actually worn or used their swords, nor had they ever been called upon to execute the salute. So the potential for serious harm existed.

Unfortunately, the two missing officers, Stewart and Inskeep, would be the “officers of the deck” on the day of the admiral’s visit. That meant they would be the officers closest to the admiral as he came on board and the ones to initiate the sword salute.

The day arrived. Stewart and Inskeep took their places. The admiral stepped aboard. Inskeep grabbed the handle of his sword, clumsily yanked the blade out of the scabbard, and started to raise it into position. Charlie Stewart, at the same instant, sharply angled his arm upward and snapped his hand to his forehead in a crisp salute. Inskeep, his sword in motion, glanced at Charlie, wondering what was going on, and in that split second of wandering focus, the tip of his blade poked the brim of the admiral’s cap. Everyone gasped as the cap flew off the admiral’s head and went soaring into the ocean far below.

Charlie’s informal organization had saved the day for him. It turned out that, during the meeting with his officers, the captain had concluded that the sword salute was too complicated and dangerous and had instructed his men to execute the standard hand salute instead. As soon as Charlie returned from his shore leave, his men informed him of the change so he was prepared when the admiral arrived. Inskeep, however, did not have the same kind of

close relationship with his men and they had failed to give him a heads-up on the change in procedure. The “it’s not my job, man” attitude prevailed.

The image of the admiral’s hat slowly sinking to the bottom of the sea has become a compelling reminder for Katz that the informal takes care of its own when the formal does not.

It’s interesting that Katz learned the importance of the informal while serving in the military—an organization that surpasses all others for its focus on hierarchy, formality, rules, and regulations. And yet what he came to realize is that the Navy (and other armed forces he has since studied) is so driven by emotion—trust, courage, fear, loyalty—that it could not function at all without an informal complement to its rigorous formal structure.

THE OVERLOOKED INFLUENCE OF EMOTIONS

If Katz had asked Lt. Sandrock—he of the well-pressed uniform and well-thumbed rulebook—if emotional commitment was important to his operation and if the feelings of his crewmen mattered, it is likely that Sandrock would have said, “Yes, but not nearly as much as process and execution.”

Today, when we ask that question of managers and executives, especially in large companies, their answer tends to be about the same as Sandrock’s would surely have been.

Formalists view the world through the lens of rationality—they value logic, analysis, data, and frameworks. They manage through formal processes and programs (usually devised and enforced by a select group of senior executives). These formal elements are promulgated through the organization in protocols and memos and enforced with comprehensive control-and-reward systems. If formalist managers accept that an emotional commitment is important, they tend to believe that it is a by-product of the right rational

approach—employees will eventually see the logic of a good plan and will feel good about it.

These mechanisms rarely take emotional issues into account, but that does not mean that people don't react emotionally to them. They do—it's just that their reactions are often more negative than positive. As a result, they adopt attitudes and engage in behaviors counter to the plan and to what seems rational to the makers of the plan. Over and over again, we hear executives say that they just don't understand why their employees are not "on board." Didn't they get the memo?

However, rational clarity does not always create the emotional commitment that motivates a desired behavior. And when emotional factors are not taken into account, organizations fall short of their intended goals.

The fundamental issue is that formalist managers do not fully understand or believe in the importance and power of emotions in effecting change. They discount the degree to which human behavior is emotionally determined. They also see it as difficult, if not impossible, to manage or control emotional forces.

We do not want to diminish the value of rational structures and logical plans. At the same time, however, the bulk of our experience and research over the past several years has caused us to believe that emotional influences shape attitudes and drive behaviors as much as logical arguments and rational influences—and often have more impact.

THE LOGIC OF THE FORMAL

Why do managers favor the rational approach and rely on top-down execution efforts?

Largely because the mechanisms of the formal organization can be clearly defined, named, captured in written form, and measured. They include

- *Strategy.* A set of priorities, plans, and performance objectives that guide choices throughout the organization in how to best use resources and deploy capabilities.
- *Structures.* The lines and boxes that determine who reports to whom for what and that help align the decision making needed to achieve the organization's strategy.
- *Processes and procedures.* The written ground rules that determine the information and work flows needed to efficiently carry out the organization's day-to-day tasks.
- *Programs and initiatives.* Sets of goals, work plans, rules of engagement, and resources dedicated to achieving specific objectives within defined time lines.
- *Performance goals and metrics.* The explicit targets and measures that can be used to monitor and evaluate the performance of different groups and individuals.

Virtually all of these formal mechanisms can be found in official documents. In fact, the capture of these formal mechanisms in written form is crucial. It enables them to become fixed, made available for approval and subsequent reference, and easy to distribute to large numbers of people in precisely the same way every time. This is how the formal lines of organization become well known.

Unlike face-to-face meetings, conversations, social networks, and actions—which are more ephemeral—these formal documents bring precision and permanence. They officially document the outcomes of rational and analytical problem-solving processes. They carry a sense of authority. The organization chart, the role description, the scorecard—all can be referenced in ways that are especially useful in times of disagreement or disruption.

All of this is sensible and good. The formal comprises the nuts-and-bolts hardware that runs the machinery of business. Formal mechanisms provide time-tested templates that users of leadership systems can understand and follow and that can be passed along

from one generation of leaders to the next. The formal organization helps create efficiency, clarify authority, communicate priorities, and align rationally driven behaviors around common objectives. Every company needs these logical things, so it's no wonder that most leaders rely so heavily on the formal—and therefore lead primarily within the lines.

RATIONALITY HAS ITS LIMITS

When formalist leaders want to make a change of some kind, however, their reliance on the formal organization may not serve them so well. They invariably overemphasize the rational case, especially when they want to make an unanticipated change of some kind, explaining in excruciating detail why the new plan is important. They will explore what competitors are doing, describe customer segmentations, go through elaborate financial forecasts, discuss corporate objectives at length, and explain scorecards in endless detail. Their assumption is that once the rest of the organization understands the logic of why certain behaviors are important, they will get it and do what's expected. If it's rational and explained properly, there shouldn't be a problem.

But there often is. For a workforce to be motivated to make a change in behavior, people need to believe that their individual and team efforts have a meaningful personal purpose that connects them emotionally to important priorities of their work situation. To that end, leaders need to be able to translate vision, targets, and strategies into personal purpose, accomplishments, and choices that each one of their people can understand and feel good about pursuing.

It's impossible to do this without drawing on strong emotional support. That's why formal methods frequently fail to elicit the level of performance that many leaders want. They are “rationally con-

strained.” They simply don’t allow room for the emotional determinants of behavior. These exist outside the lines of rational argument and the formal organization.

Any effort to create rational understanding has rapidly diminishing returns if it does not take into account that people’s choices and behaviors are determined as much by emotional responses as by logical argument—and the former seldom follow the latter.

That’s where the informal comes in.

THE MAGIC OF THE INFORMAL

The informal isn’t as easily defined as the formal, because it does not have the clear structural boundaries that the formal has. Its elements often overlap and don’t follow the clean principles of “mutually exclusive, comprehensively exhaustive” that analytical thinkers prefer. In essence, the informal is the aggregate of organizational elements that primarily influence behavior through emotional means.

And, unlike the formal elements, the informal elements of an organization rarely appear as written instructions. Even so, they can still be identified and named. They include

- *Shared values.* These are the shared beliefs and norms for taking action and making decisions as demonstrated individually and collectively. These often differ from the values that are formally stated and displayed. For example, some organizations have an unspoken (and unwritten) norm for avoiding open conflicts, instead resolving them behind closed doors.
- *Informal networks.* These are positive patterns of relationships between people that may be based on knowledge-sharing, trust, energy, or other characteristics. Savvy people—the

ones others seek out for their insight—are often called *hubs*, and these go-to people play critical roles in forming and maintaining informal networks. To envision one of your networks, consider the people you go to outside the normal hierarchy for career advice, political wisdom, or special expertise. Or the ones you share speculations with about “what is really going on here” when uncertainties prevail.

- *Communities*. These are more focused, cross-functional groups that share a common identity and practice. In some ways, a community is a more bounded network with a higher density of intergroup relationships, in addition to a common focus or reason for existence. One example might be a community focused on environmentally sustainable ways to do business. Another might be cigarette smokers who convene and interact daily in the designated outdoor smoking areas. A third might be minority groups who provide each other with informal support and mentorship.
- *Pride*. People feel proud when they use their skills to realize goals that are meaningful to them. The goals vary by individual. For example, a CEO may be proud of closing the latest acquisition deal, while a service representative may be equally proud of solving a loyal customer’s complaint. Pride, and the anticipation of feeling pride, is a strong behavioral motivator. The pride is deepened when accomplishments are valued by people the worker respects outside the workplace, such as family members or mentors. Their approbation multiplies the motivational impact.

It can be an advantage that the informal elements are not written down and fixed. For example, it’s easier to try new things when the rules are not rigidly codified. Networks and communities spring up faster when fueled by peer interactions within the informal orga-

nization than when ordered with an edict from the top. A sales rep who gets a spontaneous accolade from a customer feels far more pride—and more immediately—than any formal metric or monthly tracking system could inspire.

Sometimes we're asked if there is a difference between the informal organization and culture. It's a good question because the two have common elements and therefore can seem to be the same, but there is an important distinction. Our desk dictionary (*Merriam-Webster's Collegiate*, 10th edition) provides a good definition of culture as "the set of shared attitudes, values, goals and practices that characterizes (human behaviors in) a company or corporation." This definition, which we and many leaders would agree with, puts human behaviors at the center of culture, and human behaviors always involve both rational and emotional dimensions, as well as formal and informal components. Culture can also be more simply and colloquially described as "the way things are done around here."

The informal organization is better described by its mechanisms, most of which can be clearly identified and consciously influenced, and that link very closely with other cultural elements. Charlie Stewart's men, for example, had an informal mechanism for keeping him informed about fluid situations that enabled him to perform effectively when the time came. The mechanism no doubt developed over time as a result of the intense loyalty that Stewart and his men felt for each other.

It is difficult, if not impossible, to change a culture directly by trying to mandate a change in values like loyalty. It would not work, for example, to command Inskip's men to be more loyal to each other. What does that mean? How does one go about doing that? However, had Inskip been as sensitive as Stewart was in developing specific mechanisms that built emotional commitment among his men, they would have never let him down by not letting him know about the change in "salute plans."

Culture change can be effected, therefore, by adjusting the mechanisms of the informal organization in ways that tap into the underlying elements of human behaviors and result in the desired performance improvements. While programmatic change efforts driven through the formal organization can also change culture, they do so much more slowly and often with undesirable side effects from negative reactions and resistance to being programmed.

Unlike the formal, the informal construct is *not* strategic, analytical, logical, efficient, or enforceable. Nor is it manageable in the usual sense of that term. It is intuitive, personal, emotional, immediate—and it can be influenced. It is uniquely good for motivating people to go above and beyond their job duties, communicating information quickly and meaningfully, catalyzing collaboration, and accelerating behavior change. What exists outside the lines isn't as clearly defined as what exists within the lines.

THE ORGANIZATIONAL QUOTIENT

The Spanish bank Caja Navarra—known as CAN—has pioneered a new business model called “civic banking” that weds profit with social responsibility. The informal played an important role in enabling the company's CEO to transform what had been a typical, hierarchical Spanish community bank. For example, CAN hires people who do not have typical banking experience and places as much emphasis on their ability to work with customers as on their technical banking skills. The bank encourages employees to define their roles more broadly than as the collection of the tasks required in their formal positions. The focus on customers and civic service leads to the creation of informal networks both within the company and with people in the outside community. As a result, CAN has achieved real and positive social impact along with healthy profits.

Although Caja Navarra helped create its transformation through the informal organization, that does not mean that it abandoned its formal processes and practices. No bank could survive without them, after all.

In fact, the employees who are most effective in any organization invariably recognize the importance of both the formal and informal. People who take on a new position, in particular, find that the best way to succeed is to get smart quickly about how the informal side of an organization *actually* works rather than learning the formal processes governing how things are *supposed* to work. Some companies, like CAN and Google and Southwest Airlines, make this intuitive capability to sense the informal a criterion for new hires.

The characteristics of the formal and informal organizations can be compared to the differences between the traditional measure of intellectual ability, the intelligence quotient or IQ, and the emotional intelligence quotient or EQ. IQ purports to measure a person's rational skills and intellect through a battery of verbal and numerical performance tests. In school, students with high IQs tend to perform well and then attend prestigious institutions of higher learning, from which they move to careers requiring "book smarts." Most of the activities in the formal organization involve IQ skills: forming strategies, analyzing processes, designing structures, and creating integrated performance metrics.

However, it has long been argued that IQ does not measure all aspects of intelligence. In the past ten years in particular, the idea of emotional intelligence, or EQ, has gained currency in management thinking, largely thanks to the book of the same name by Daniel Goleman.⁸ The origins of the concept, however, go back to Charles Darwin's work on the importance of emotional expression for survival. Darwin realized that empathy became an evolutionary advantage for primates because it greases the wheels of sociability. In the 1920s, Edward Thorndike, a professor at Columbia University,

coined the phrase “social intelligence,” which he described as the ability to understand and manage people.⁹

Goleman’s book made such an impact, in the United States and around the world, that he expanded the concept to the workplace in his second book, *Working with Emotional Intelligence*. He writes, “The rules for work are changing. We’re being judged by a new yardstick: not just by how smart we are, or by our training and expertise, but also by how well we handle ourselves and each other.”¹⁰

IQ comes into play in the world of strategies, structures, and metrics. EQ is necessary to instill values, build relationships, and emotionally engage people with their work. A manager—indeed, any employee—can achieve extraordinary performance by knowing when to draw on IQ and when to employ EQ. Those who can do this have what we call a high “organizational quotient,” or OQ. The ability to achieve this balance distinguishes the best managers from the formalists (who are highly reliant on IQ) and informalists or “relationship cultivators,” who are much stronger in EQ.

KNOWING WHEN TO EMPHASIZE LOGIC OR MAGIC

The formal is best used for predictable and repeatable work that needs to be done efficiently and with little variance. The predictability and repeatability of the work warrants the effort to develop the infrastructure of the formal organization, which can be documented and constantly improved upon to improve efficiency and remove variation. Payroll distributions are a good example.

Conversely, the informal is best applied against unpredictable events. Issues that arise outside the scope of the formal organization are often surprises that need to be sensed and solved. Increasingly, people who need to do the solving need to be motivated outside the reward system, collaborate across organizational boundaries, and

make decisions with little guidance from formal strategies. In many cases, activity in the informal organization starts to repeat itself, which is a signal for broader changes that need to be made to the formal organization.

Another distinction is that the formal organization is typically constrained by the doctrine of “best practice.” A common desire across all organizations is the relentless pursuit of best practice as a means of improving performance in various functions, departments, and levels of management. The theory is simple: “If we can determine and apply proven best practices, we should be able to perform at the top level in our industry.” However, great leaders are seldom satisfied with the formal spreading of best practices. And to go beyond best practice requires a level of insight, risk taking, and trial-and-error responsiveness that demands understanding and harnessing of the informal. This is often the magic that separates “best performance” from “best practice.”

Characteristics of the Formal and the Informal

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

