



## Leading Outside the Lines

### How to Mobilize the (in)Formal Organization, Energize Your Team and Get Better Results

#### THE SUMMARY IN BRIEF

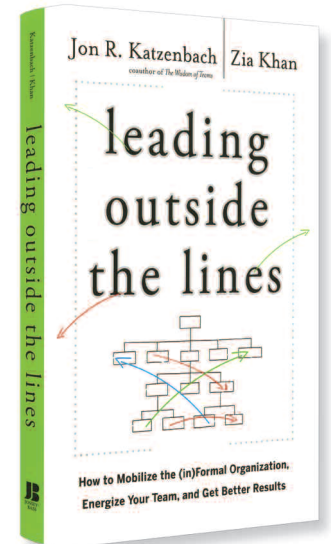
In *Leading Outside the Lines*, two top thought leaders, Jon R. Katzenbach and Zia Khan, offer an all-new examination of the modern workplace and how leaders and managers must embrace it for success. Together they reveal how two distinct factions form the bigger picture for how organizations actually work. The first faction is the more defined and visible “formal organization”: the management structure, process configuration, performance metrics and formal strategy. The second faction is the “informal organization”: the culture, social networks, peer interactions and ad hoc communities that spring up naturally and, in an equally vital but different way, can accelerate or hinder an organization’s success. Many leaders quickly master the formal organization. Some leaders instinctively know or eventually learn how to mobilize the informal. However, the most effective leaders achieve breakthroughs by integrating both the formal and informal as both can contribute to performance in different but complementary ways.

Through compelling case studies from enterprises around the world, *Leading Outside the Lines* explores how top-level organizations balance the informal and formal elements of organizations to achieve outstanding results.

*Leading Outside the Lines* takes 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 better to use formal processes. It also illustrates how the two can work together to get the best of both. In addition, the authors help senior leaders, front-line managers and individual contributors get better performance results.

#### IN THIS SUMMARY, YOU WILL LEARN:

- How to understand the requirements for 21st-century leadership.
- How the work of today’s best organizations really gets done.
- How to help your teams shine in terms of performance, innovation and retention.
- How to tap into the power of the informal to reach your goals.



by Jon R. Katzenbach  
and Zia Khan

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# THE COMPLETE SUMMARY: LEADING OUTSIDE THE LINES

by Jon R. Katzenbach and Zia Khan

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## Introduction

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.

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 nonhierarchical initiatives rather than by relying so heavily on formal top-down rules of engagement.

### An Effort Worth Making

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.

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. ●

## PART ONE: USING THE INFORMAL TO ENHANCE 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 organiza-



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tion 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.

The formal comprises the nuts-and-bolts hardware that runs the machinery of business.

### 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. 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.
- *Informal networks.* These are positive patterns of relationships between people that may be based on knowledge-sharing, trust, energy or other characteristics.
- *Communities.* These are more focused, cross-functional groups that share a common identity and practice.
- *Pride.* People feel proud when they use their skills to realize goals that are meaningful to them.

The informal 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. ●

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## When the Balance Shifts

The required balance of the formal and informal changes over the course of a company's life cycle and imbalances tend to appear during periods of significant growth — or significant declines in growth.

Young companies, those with between 10 and 50

people, are informal by nature for four very good reasons. First, their worlds are largely unpredictable and unstable. Second, the participants know each other personally. Third, they are constantly forming and reforming in different ways to address sudden unexpected challenges. Finally, the personal values of the company are usually strongly shared — even if unstated — because of the hands-on involvement of leaders and the visible, interactive way they make decisions and solve problems on the run.

### An Ever-Changing Balance Point

In these companies, productive relationships develop organically through long hours, shared space and collective frustrations. Such relationships usually reflect mutual respect, common interests, a strong sense of purpose and feelings of pride in working together to accomplish that purpose; these are natural motivators for the emerging enterprise.

As the organization grows, however, it increasingly needs to create distinct work groups, clear structures and repeatable workflow processes. As the organization grows, so does the need for clarity around who is responsible and accountable for execution, who has decision-making authority and who controls resources. The growing complexity of workflows amplifies the need for lucid processes that add direction and efficiency for work that is repeated often. As complexity increases, tough leaders demand more clarity about who deserves credit or blame.

The increases in need for formal elements (compensation plans, operational controls, clarity of accountability and responsibility and efficient work flows) can happen gradually or in waves. Generally, by the time a company has surpassed 1,000 people, it needs a robust and coordinated formal organization.

Just as organizations that have grown organically and informally will need to add more formal processes, leaders also need to become increasingly conscious of the changing role of the informal organization, giving it the attention and resources it needs to stay healthy and supportive.

The informal needs to be balanced with the recognition that appropriate elements of the formal are equally important, particularly as size and complexity increase. ●

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## Jumping Together

The difficulty of getting the formal and informal organizations jumping together has been the subject of management theorists' working for at least a century. Mary

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Parker Follett, a pioneer in the study of organizations, defined the notion of integration as early as the 1920s, by saying, “When two [conflicting] desires are integrated, that means that a solution has been found in which both desires have found a place, that neither side has had to sacrifice anything.”

Thus leading outside the lines need not diminish the impact of leading inside the lines. Indeed, when the actions are integrated, the lines largely vanish and “leading” becomes a holistic style that moves organizations to places they couldn’t otherwise go.

Getting informal and formal mechanisms to integrate is tricky, and the shifting balance point between the informal and formal organization is but one part of this challenge. The inherent leadership bias to over-rely on the formal, plus the inherent limitations of the informal, make for a very dynamic situation. However, when all parties keep an eye on the balance, as well as on jumping together, needs become clear and practical solutions present themselves. Wise leaders learn how to monitor the line between the formal and informal organization.

### The Elements of Integration

It is very important that leaders learn to spot important signposts that indicate integration is actually happening between formal and informal mechanisms. For example:

- *Emotionally motivated decisions and actions that align with strategic intent.*
- *Dynamic routines that are constantly improved upon.*
- *Work groups that grow organically to supplement and work across defined structures, yet maintain sufficient structure to execute efficiently.*
- *A range of value propositions to satisfy employees with different goals and ambitions.*
- *Employees who are proud of the company, their colleagues and their day-to-day accomplishments.*
- *An ecosystem of outside partners, suppliers and customers who are motivated to help the organization succeed.*

These are a few indicators of integration that can’t be easily deconstructed into either their formal or informal components. At a high level, it’s hard to find the line that separates what’s being mobilized informally and what’s being managed formally. The two become fundamentally intertwined. ●

## PART TWO: MOTIVATING INDIVIDUAL PERFORMANCE

One of the strongest positive emotional drivers is pride. Pride in the journey can be as motivating as pride in the destination. Refinery workers will take extra care

in their work for the pride of a clean safety record, or more simply the good feeling of helping a colleague avoid an injury.

Yet most motivational programs focus entirely on the formal rewards: money, perks and promotions. Research and experience show that how people feel about their work, and the pride they take in their daily or weekly accomplishments, can be a powerful motivator of their daily behavior. Here are some insights about pride as a motivational force:

- **What matters most is how people feel about what they do.** Pride is at the heart of what motivates peak performers in most human endeavors.
  - **Pride has a dark side to its motivational pull.** Companies that rely too much on pride in monetary and material rewards for motivation invariably lose their best people to the highest bidders.
  - **Pride in the journey is as important as pride in the destination.** The best motivators have learned how to get their people to anticipate how good they will feel during the journey as well as the end.
  - **Money, perks and promotions also motivate people.** The tangible elements of job rewards are important in meeting survival and life-sustaining needs in Abraham Maslow’s hierarchy. Once these fundamental needs are met, however, money becomes more important in attracting and retaining talent than it is in motivating behavior change and discretionary performance efforts.
- Four other concepts have also come to light:
- **Feelings about the company motivate loyalty rather than behavioral change.** Pride in the company, and in its leaders, brands and aspirations, is important in attracting and retaining talent. Motivating behavior change, however, is much more dependent on how a person feels about the work itself.
  - **Any organization contains multiple sources of pride.** Successful motivators have learned through trial and error how to draw on different sources of pride for different people and purposes.

• **People rarely feel pride in isolation.** There is almost always a real or imagined “pride audience” with whom individuals want to share their good feelings. People derive strong feelings of pride by reflecting on how their pride audience recognizes (or would recognize) an accomplishment.

• **Formal rewards can sometimes diminish pride.** Considerable study has been devoted to the combined effects of extrinsic motivators such as monetary rewards,

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and *intrinsic* motivators such as pride in the work. It turns out that *extrinsic* rewards can actually reduce intrinsic motivation. ●

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### Values Driven, Not Values Displayed

Consider two well-known organizations whose stated values were similar. Organization A had *communication*, *respect*, *integrity* and *excellence*. These values were posted on the company Web site, included in the employee manual and printed on wallet cards distributed at company events. However, looking at the company's employee engagement survey results, researchers found a large and disturbing gap in the degree to which people actually subscribed to these values. They didn't necessarily disagree with them — who could disagree with any of those four words? — they just didn't *apply* them to determine their decisions and behavior.

The values of Organization B were *honor*, *courage* and *commitment*. These words are a little more unusual than those of Organization A, perhaps, but still nothing particularly exceptional. The real difference in these words is how the values actually determine critical behavior. Every person in this organization talks openly about the values, and makes critical, even life-saving decisions, based on them.

Can you guess the two organizations? Organization A was Enron. It went bankrupt after massive accounting irregularities came to light in 2001. Enron's CEO, Jeff Skilling, is in jail and his lawyers are still in court arguing his appeal. Organization B is the U.S. Marine Corps. It has endured for more than 200 years as an elite, high-performing institution — winning our nation's most difficult battles time and again.

A critical difference between these organizations lies in the use of the informal organization to bring the values to life. Enron was a *values-displayed* organization, where the values were nothing more than words on paper, cited in speeches and presentations when convenient. The Marine Corps is a *values-driven* organization, in which the values are lived, breathed and drawn upon to guide day-to-day actions and decisions.

### Values as Organizational Guides

Values are both formal and informal. They are formal in that they can be written down, displayed throughout an organization's physical space and fleshed out in elaborate memoranda. They emanate on high and are disseminated through the hierarchy. However, it's the informal organization that is responsible for elevating values from

admirable statements to a way of life.

In a values-driven organization, the values are shared and promoted not just through formal means but also by people who act consistently and communicate constantly. They are espoused and enforced among peers as well as by superiors at all levels. Values help organizations outperform their competitors, and success further reinforces the values. ●

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### It's Still About Performance

In the autumn of 2004, Gregg Sheehy, a contract relationship executive and senior vice president at Bank of America (BofA), took over responsibility for the bank's relationship with TeleTech, an independent customer support call center to which BofA outsourced much of its helpline business.

Sheehy needed to improve TeleTech's performance, but he had no formal authority over the company. TeleTech's people didn't work for Sheehy; he was not their manager. So, Sheehy had very few, if any, formal sticks available to him. He decided to work with informal carrots instead.

### Making the Right Connections

For starters, he gave the TeleTech employees his word that he wasn't going anywhere soon, as had been the pattern among his predecessors. He wanted the people to know that he was interested both in results and in the people who worked at the company.

He built strong personal relationships with members of the leadership team and other key influencers. He took them out for meals, shared stories, paid attention to what mattered to them and, as a result, got to know them personally. As mutual respect increased, Sheehy was able to get employees to see more clearly the need to close the performance gap. He convinced them that rather than accept the minimal level of service laid out in their contract, they should aspire to exceed the contractual agreements and take personal pride in the achievement and what each of them as individuals do to make it happen.

### Personal, Credible Interactions Are Mandatory

Sheehy believed the key to demonstrating both his and BofA's commitment to TeleTech's ability to improve was continued personal support and close, informal contact. No matter where he was, or what time zone he was in, Sheehy often called to offer his congratulations when a new benchmark had been achieved.

Sheehy's approach was to balance the formal impera-

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tives with informal mechanisms in ways that would create the emotional commitment and energy needed to change behaviors to push TeleTech up the ladder of performance results.

### **The Informal Builds Performance; Performance Enhances the Informal**

Both the formal and informal organizations in a company are needed to reach challenging performance goals, and both are strengthened by doing so. Managers can encourage this kind of mutual reinforcement in a number of ways:

1. *Set group performance goals* that require people to collaborate and often experience life in a real team. By working together, they get to know each other's values, skills, aspirations and feelings.
2. *Make goals meaningful* to create a sense of purpose and striving. When a goal is made individually meaningful, it becomes a source of pride that motivates behavior.
3. *Apply values to the hardest problems* that stand in the way of achieving performance goals. When applying values enables progress and the resolution of important problems, it reinforces the usefulness of those values as a group experience. ●

## **PART THREE: MOBILIZING ORGANIZATIONAL CHANGE**

### **Setting the Fast Zebras Free**

Mark D. Wallace was U.S. Ambassador to the United Nations during the George W. Bush administration. With charismatic good humor, Wallace talked about his role as a political appointee and the challenges that accompany it. There is always a lot of work to be done at the UN, and so, as Wallace says, "It becomes very clear, very quickly, who the fast zebras are."

*Fast zebras* is one of Wallace's favorite metaphors for those people who have the ability to absorb information and adapt to sudden challenges capably and quickly. On the African savannah, it is the fast zebra that survives a visit to the watering hole, drinking quickly and moving on, while the slower herd members fall prey to predators lurking in the shadows. The fast zebra is, in essence, a person who knows how to draw on both the formal and informal organizations with equal facility.

### **Different Organizations, Different Roles**

Fast zebras can be found in all kinds of organizations, and in many different roles. They are, however, still relatively rare animals. Obviously, a wise leader learns to recognize and use them effectively. They have the abili-

ty to navigate treacherous waters of complex organizations, as well as the wisdom to cultivate the informal relationships that will guide them to perform well. What is more important, however, is that even though the instinctive fast zebras are rare, most people in most organizations have the potential to improve those skills.

It boils down to paying closer attention to the informal elements of your organization. We all network informally to some extent. We don't all, however, think rigorously about who we might add to our networks to enrich our work experience, or how we might more effectively influence our work experience or those within our networks to help us perform better.

A few fast zebras are born that way or master their skills early on. Others master them the hard way, through years of trial and error under difficult circumstances. However, most people can improve their organizational effectiveness and performance significantly by learning how to connect emotionally as well as rationally with a few more of their respected colleagues. ●

### **Melting the Frozen Tundra**

In 2003, when Michael Sabia, CEO of Bell Canada, was asked to discuss the challenge he had with his top team, he said, "My problem isn't at the top. It's across the bottom."

He explained, "The organization's stuck. We introduced all sorts of well-planned strategic, organization and operating programs, but very few have had the impact we need. The front line is not changing their actions and behavior nearly as fast as we need, so we know we're doing something wrong." Then he added, "To make matters worse, many of my leaders are not convinced that we need to change our approach. They want to keep pushing the programs. Sometimes it seems like trying to pound through frozen tundra."

### **Know What You Want**

Sabia's problem was typical of those of many large, complex organizations facing the challenge of rapidly changing market conditions. They put in place a new formal organization to address a strategic and operating challenge, yet they are not getting the behavior that the challenge demands.

Sabia decided to focus first on the supervisors in customer-facing operations. He was not only clear about who he wanted to target but also what he wanted them to do. He had evidence that customer satisfaction correlated with employee engagement. He needed these managers to motivate the customer-facing front-line staff

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to take more pride in the results of their day-to-day work on customer satisfaction.

### Build It and They Will Come

It seemed obvious to Sabia that if he could get a critical mass of managers across the company to unite, share positive experiences and focus on similar motivational elements, that could make the critical difference — and he turned out to be dead right.

In the early stages, this small network grew by word of mouth and became a symbol of the change Bell Canada needed. Eventually the informal network became a virtual community that got too big to manage itself, so it put in place some formal rules supported by the corporate center and a limited budget. It developed a few simple processes to bring on new members, plan conferences and develop local chapters. In just under two years, more than 2,000 members (all of them potential motivators) joined the group, making it the largest community of practice at Bell Canada.

And while the movement to build pride in the work was not the only aspect of the Bell culture change effort, it was the primary source of change energy across the front line. ●

### Mobilizing: A Different Kind of Managing

Leaders at all levels of the organization can proactively influence the informal organization to get more traction where they need it. Instead of managing, the term *mobilizing* is more descriptive of what is needed — and it highlights the important distinctions.

Of course, *mobilize* has military connotations, typically defined as “marshaling resources for action.” When business experts use the phrase, however, they mean putting human resources in motion that allow the organization to realize the full potential of the ideas and actions of more people. Leaders need to prod the informal organization, to guide or herd it in the right direction without trying to control or constrain it.

Of course, the balance between how much effort a leader puts into mobilizing the informal as opposed to managing the formal is difficult to strike. Most leaders tend to pay attention to one of the two, only to realize they need to compensate by paying closer attention to the other. As at Bell Canada, Sabia turned to the informal only when he realized that formal mechanisms weren't working fast enough. He did not, however, abandon the formal elements in favor of the informal;

### Five Behaviors of Master Motivators

Here are five common behaviors that set the best apart from most “good managers”:

- **Know your people.** Create meaningful connections to get to know your team personally and understand individual definitions of success.
- **Recognize success.** Use spontaneous pats on the back for the “how” in addition to the “what”; the journey is as important as the destination.
- **Maintain the course.** Translate the organization's strategies into local context; prioritize a few goals and follow them; help people stay on track.
- **Use facts to make decisions.** Employ a transparent and data-driven process to make hard choices and always explain the “why” in clear terms.
- **Broaden the work.** Create stretch opportunities for everyone based on their skills and goals that go beyond the job description.

rather he found ways to get the best out of both.

The most effective approach, especially at times when leaders need massive change, is to take advantage of both *at the same time*.

### Principles for Mobilizing

Unfortunately, there is no proven best way to mobilize the informal. It depends on who you are and where you are. A high degree of improvisation and customization is needed in every situation. However, there are a few principles that are generally helpful as people try to mobilize the informal while managing the formal:

- **Concentrate on the critical few.** Be crystal clear about a few objectives and behaviors.
- **Draw on what is already working.** Most people will take more pride in adopting what was developed from within rather than borrowing best practices from other organizations.
- **Promote emotional energy that feeds on itself.** Finding opportunities to create tipping points, reinforcing cycles or chain reactions is critical so that the energy latent in the informal organization can rise up and direct itself without requiring an overwhelming use of resources from the formal organization. ●

### What to Do

Mobilizing the informal is a means to the end of solving performance challenges — and it's the latter that worries people. It's important to go beyond specific examples and explore a few general performance challenges where particularly helpful insights into the informal organization have been found:

- **Strategic planning.** This is the ultimate formal process where analytics, decision making, accountability setting and plan development rule.

*An approach to try:* Balance formal strategic planning processes with unstructured input from different parts of the organization, and allow people the time to wallow around in all the information to synthesize new insights.

- **Innovation.** There is another dimension to innovation beyond the creation of neat prototypes: the ability to take a high-potential idea, develop it and put it out into the market.

*An approach to try:* Create a very visible and central innovation process in which underdeveloped ideas can easily find their way to the front end. Integrate informal and formal mechanisms throughout the process.

- **Cost-cutting.** Companies often take an approach to cost cutting that resembles a crash diet. Experts advocate lean cuisine because it is a healthier and more enjoyable approach, and it helps keep the weight off longer.

*An approach to try:* Include people in the challenge of cutting costs. Engage employees in surfacing solutions and instill peer-to-peer “pride in being thrifty.”

- **Culture change.** Culture is a blend of many elements of the informal organization. One of the most important — and overlooked — factors is to bring the culture to life with real and visible examples.

*An approach to try:* Find a double handful of key influencers at multiple levels — special individuals who are already exhibiting the behaviors you want. Get their help in initiating peer-to-peer interactions focused on the specific behaviors that need to change.

- **Customer service.** Nordstrom has no employee handbook at all. Instead, it has a 75-word statement that says, among a very few other things, “Our number one goal is to provide outstanding customer service.” There is only one rule in the statement. “Use your good judgment in all situations. There will be no additional rules.”

*An approach to try:* Ask employees which rules and processes are getting in the way of serving customers, and get rid of them. Create multiple and diverse sources

of pride for employees in customer service processes, and be sure to find ways to provide public recognition for accomplishments that are otherwise overlooked by formal scorecards and metrics. ●

### In Conclusion

While the fashion of management theory encourages throwing out the old to make room for the new, that is not what is being proposed here. Rather, you are being urged to:

- Keep and strengthen your formal management approaches — just realize their limitations.
- Avoid viewing the informal organization as unruly chaos — it can be influenced and energized to accelerate performance results and strategic imperatives.
- Refuse to manage the informal with the techniques that work for the formal — you will only make things worse.

When the informal organization is mobilized to balance the formal organization, the overall construct is whole and complete. New levels of performance result. It is like pushing a swing. New heights can only be achieved when the pusher and the swinger are in sync.

Many examples and case studies demonstrate some of the complexities involved in getting the best from both the formal and informal organizations, but they also illustrate the many different ways that leaders can achieve integration of the two. It is the mindset, the bias toward balance and integration, that differentiates the peak performers from the also-rans — be they individuals, teams or enterprises.

As you travel along this road, however, recognize that achieving integration is dynamic — a moving target. All this summary can offer is a range of ideas, options, approaches and examples to draw from — only some of which will fit your needs and your organizational DNA.

In addition to the ones offered here, find your own and they will help you be successful in leading outside the lines. ●

#### RECOMMENDED READING LIST

If you liked *Leading Outside the Lines*, you'll also like:

1. ***How the Best Leaders Lead* by Brian Tracy.** Brian Tracy reveals the strategies he teaches top executives to achieve astounding results in difficult markets against determined competition.
2. ***Leadershift* by Emmanuel Gobillot.** Author Emanuel Gobillot describes how to adapt traditional leadership roles and presents the tools necessary to embrace and succeed in the age of mass collaboration.
3. ***Leaders Make the Future* by Bob Johansen.** Drawing on the latest ten-year research from the Institute for the Future, this powerful book explore the external forces that are shaking the foundations of leadership.