Formal and Informal Organizations

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Formal and informal organizations are complementary and interdependent. Harnessing the power of both isn't about choosing one over the other, but finding an effective balance between the two.

This article highlights three important aspects of formal and informal organizations:

1. **Ignoring the Informal Is a Frequent, and Frequently Fatal, Mistake**- The importance of informal organizations is poorly understood, poorly managed and often disregarded as inconsequential in many corporate settings. Sometimes they prove to be so powerful that any formal structure could accomplish. The presence of informal organizations is seen in all high performing organizations. The challenges faced by 21st century organizations could well be handled by leveraging both the structure of the formal and the power of the informal and bridge the gap between the vision and performance of the company. For instance, in redesigning an organization, the plans, communication processes and new policies framed by formal structures are as important as the informal aspects like the fears, concerns, motivators and networks. Successful transformation in companies takes place if both are addressed equally.

2. **Knowing Both Sides of the Coin-** One has to know the strengths and weaknesses of both the systems for bridging the gap.

Weaknesses of formal Structures	Weaknesses of Informal Structures
Fails if informal elements are not incorporated	Can be intractable
Risk of human error	Difficult to manage
Inconsistencies often occur	No certainty that it will work
Small deviations lead to costly errors	Sometimes feel uncomfortable and intimidating

Strengths of Formal structures	Strengths of Informal structures
Illustrate the official structures of power and paths of decision-making	Complex web of relationships, influences , interactions and judgments
Creating Efficiency	Motivating employees
Clarifying authority	Making changes stick
Communicating priorities	Communicating information quickly
Aligning employee behaviour with company's common objectives	Engaging employees in collaborative work
They can get things done	They help in getting things done in a better way

Examples of the Formal and Informal in Action: Companies of all sizes and shapes need to know when to take advantage of both. The examples cited in the article show that formal and informal organizations are complementary and also work independently and balancing both will lead to success of the organizations.

1. **Starbucks: Empowering Employees to Improvise Within Structure**-Starbucks Corporation is an American global coffee company and <u>coffeehouse chain</u> based in <u>Seattle</u>, <u>Washington</u>. Starbucks is the largest <u>coffeehouse</u> company in the world, with 20,891 stores in 62 countries, including 13,279 in the United States.

   Howard Schultz, the company's former CEO and current Chairman, has done an excellent job of building and fostering the informal organization, but he also recognizes that the formal element plays a key role. He said "You can't grow if you're driven only by process, or only by the creative spirit. You've got to achieve a fragile balance between the two sides of the corporate brain."

2. **eBay: Recognizing the Right Time to Reinforce What's Right-** eBay Inc. is an American multinational Internet consumer-to-consumer corporation, headquartered in San Jose, California.

   eBay's business is built on its own enormous informal community of over 200 million buyers and sellers who exchange goods and money to the tune of close to $50 billion a year. eBay maintains a light touch in monitoring and enforcing ethical behaviours in its customers. But CEO Meg Whitman recognized that some formal mechanisms were needed to protect both the vast majority of eBay-ers who were good-willed as well as the health of the company.

3. **Bell Canada: Accelerating Change by Building Pride-** Bell Canada (commonly referred to as Bell) is a <u>Canadian telecommunications</u> and media company headquartered in Montreal, Quebec.

   Michael Sabia, the CEO of Bell Canada, made the decision to harness the power of the informal organization when he needed to help his employees embrace vital changes in strategy and structure. The combination of the two sides of the coin - the formal and the informal - has created a vibrant community of people who care about the organization and has made a fundamental change in the way people work.

Most effective and sustainable solutions arise by understanding what the formal and informal structures are good at and what their limitations are. One cannot choose one over the other, but balancing both will harness progress.

Formal and informal organizations co-exist in every organization. They define the path of communication and method of sharing information and are part of the whole organization. While a formal organization is a fixed set of rules of intra-organization procedures and structures, an informal organization is formed by the ad-hoc and random collection of employees who come together in an informal environment and share common interests.

*Source: Jon Katzenbach. 2010, "Informal organization", **The Katzenbach Center,** 2010.*
Available online at: http://www.booz.com/informalorg/informal_formal_need_each_other