

**LEADERSHIP AND POWER:  
INFORMAL VS. FORMAL POWER STRUCTURES AND  
THEIR EFFECT ON THE LEADERSHIP AND POWER IN THE  
ORGANIZATION**

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**ABSTRACT**

This paper discusses leadership characteristics and styles, and effective strategies performed by transformational leaders. “You don’t get anywhere by standing on the sidelines waiting for somebody else to take action” (Iacocca, 2007, p. 12). Also, the information gathered explains the differences between transactional and transformational leaders. Successful leaders have many attributes such as passion for the job, integrity, courage, competency, empathy, and respect for the employees. The discussion emphasizes in the characteristics and attributes of Lee Iacocca, a transformational leader that transformed the American car industry as CEO of Chrysler Corporation. In addition, the paper shows Iacocca’s step by step program to improve the quality of leadership in organizations.

**INTRODUCTION**

Leadership and power are probably two of the oldest and most important aspects discussed by generations. Both are implemented and used by people in government, the military, the private sector, secular sector and others, for the purpose of attracting, convincing, moving and leading followers towards the completion of a task, mission or any other goal established by the leader. It doesn’t matter if the leader leads a public agency, a company, a group of soldiers

or a church; leadership can just be performed through the creation of an organizational structure where the leader communicates with the rest of the team or group.

The leader/employee relationship in organizations has changed through time. “The concept of leadership relates to power structuring whereby the project leader may lead and motivate through power disposition. Power, in its diverse guises, combines interpersonal and structural elements and can be enhanced through political maneuvering” (Liu & Fang, 2006, p. 497). Power is now shared with managers and key employees. “The tacit assumption that subordinates and superiors share in a common organizational purpose leads the theorist to speak not only of managerial power, but also of managerial *authority* (that is, legitimated power)” (Dow, 1988, p. 55). Today’s leaders, especially those with an entrepreneurial mind-set, know that their success depends, not on what they know, but how they manage to maximize the potential of team members so that they can complement leader expertise. The modern company structure is called a power structure because of the formal and informal power distributed throughout the organization.

The analysis of the information gathered examines the informal and formal power structures and their effect on leadership and power in the organization. An example of a power map will demonstrate the difference between both power structures in an organization and their effect on the leadership and power of their members.

## **DEFINITION**

Informal and formal power structures are two types of structures that function simultaneously within a company. Informal structures emphasize relationships and communication networks in which participants process company resources and data (Dow,

1988). On the other hand, French and Raven (1959), as cited by Ibarra (1993), state that formal structures whether “hierarchical or legitimate, power is based on formal authority” (p. 475).

### **INFORMAL AND FORMAL POWER STRUCTURES**

According to Dow (1988), there are two ways of looking at organizational structure - configurationally and coactivationally. “The configurational view stresses the authoritative coordination of work, whereas the coactivational view emphasizes recurrent patterns of interaction among participants” (p. 53). Dow continues explaining that the configurational theory is like a visible hand of authority that modifies the company’s structure by sharing objectives; while the coactivational theory is structured by the integration of several rules and strategies adopted by each participant in the organization. Monge and Eisenberg (1987), as cited by Ibarra (1993), state that the main difference between formal and informal power structures is that “the latter comes from actors' positions in the actual patterns of interaction that define a social network rather than from their positions in the formally defined vertical and horizontal division of labor” (p. 476).

### **POWER**

Power is the key to get things done. Robbins and Judge (2009) state that “Power refers to a capacity that A has to influence the behavior of B so that B acts in accordance with A’s wishes” (p. 451). Other definitions include “... the ability to overcome resistance to achieving a desired result (Astley & Sachdeva, 1984; Dahl, 1957; House 1988; Pfeffer, 1981, as cited by Ibarra, 1993, p. 472), and “the capacity to achieve outcomes” (Giddens, 1984, p. 257, as cited by Liu & Fang, 2006, p. 498), “thus relating structure to action” (Bachrach & Baratz, 1962; Lukes, 1974, as cited by Liu & Fang, 2006, p. 498).

At first, power may look similar to the concept of leadership, but there are few differences between them. Robbins and Judge (2009) state that power is basically achieved depending on the level of dependency that one person has over another or a group, while leadership requires compatibility of goals between leader and employees. Leadership is also influenced, primarily by people positioned downward in the structure, while power can have the same result with peers and superiors (upward influence).

French and Raven (1959) and Mechanic (1962), as cited by Liu & Fang (2006), have written that “Most categorizations of sources of power distinguish between personal and structural sources” (p. 497). Personal power can be achieved without having a formal position in the company. Robbins and Judge (2009) suggest that personal power comes from the unique characteristics, experiences and knowledge a person has and the level of “expertise and the respect and admiration of others” (p. 453). Personality, charisma and the development of relationships with influential people can also increase the personal power of an individual. “Formal power is based on the individual’s position in an organization. Formal power can come from the ability to coerce or reward or it can come from formal authority” (Robbins & Judge, 2009, p. 452).

## **DEPENDENCY**

A person can have power over you only if he or she controls something you desire (Robbins & Judge, 2009, p. 451). The power a person exhibits over another is closely related to the level of dependency between their capabilities and responsibilities in the organization. “Dependency, then is inversely proportional to the alternative sources of supply” (Robbins & Judge, 2009, p. 454). This means that the leader’s power is directly affected by his or her dependency on others. Factors such as importance, scarcity and non-substitutability (Robbins &

Judge, 2009) will determine the level of dependency. The issue is how a leader maintains control and how the informal and formal power structures affect the leadership and power in the organization.

### **EFFECTS ON LEADERSHIP AND POWER**

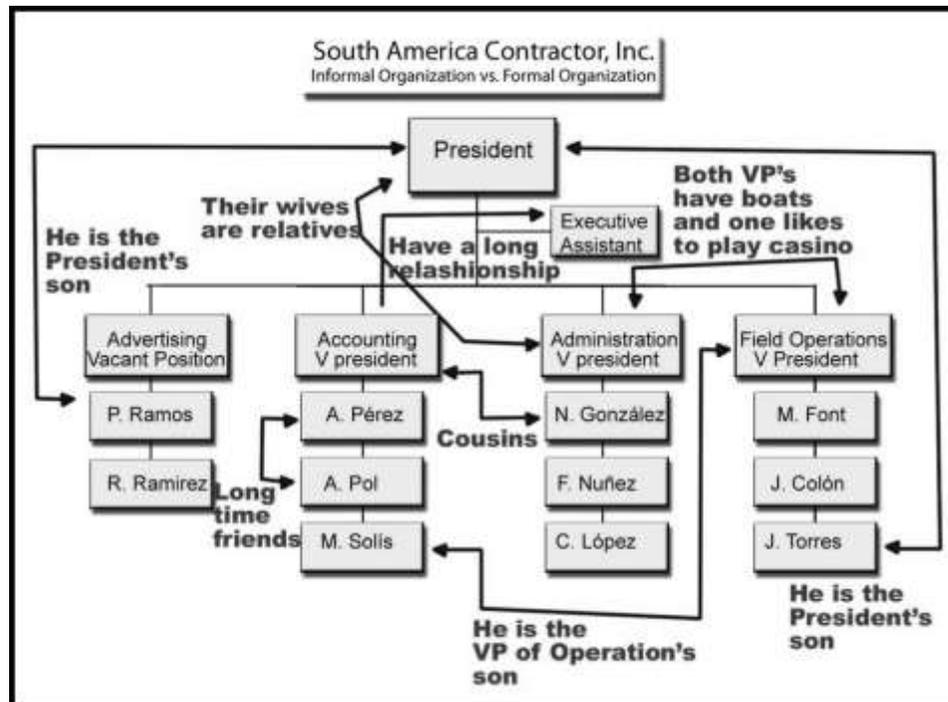
Leaders depend on their ability to work with people to maintain their leadership. Therefore, it is imperative to understand that formal and informal power structures work simultaneously. It is inevitable that power will be shared with individuals in different areas of the organization. According to Hollander and Offerman (1990), “To some degree, effective leadership depends on reciprocity and the potential for two-way influence and power sharing” (1990, p. 180). In addition, They recommend that leaders pay more “...attention to followers and their role in understanding and promoting leadership...” (p. 183). Burke (1986), as cited by Hollander and Offermann (1990), insists on creating a participative environment that motivates followers to be more involved in the decision-making process. “By sharing power and allowing themselves to be influenced by followers and by distributing power through delegation, leaders may foster the development of leadership in others” (Hollander & Offermann, 1990, p. 185).

“The development of self-managed work teams shows that there may be new roles for corporate leaders, with some functions associated with traditional leadership being performed by committed peer groups” (Goodman, Devadas, & Hughson, 1988, as cited by Hollander & Offerman, 1990, p. 183).

There will probably be leaders that will not be willing to share power because of its possible negative consequences. Nevertheless, successful entrepreneur, John F. Welch, Jr., former General Electric Chairman (Hollander & Offermann, 1990) proved that by stretching the managers thin, obligates them to delegate less complicated tasks to subordinates, increasing the

responsibility at lower levels in the organization. “True follower development needs to go beyond encouraging follower influence (sharing power) to allowing followers to have decision responsibility (distributing power). For this purpose, delegation may be a better model than participation for truly empowering others” (Hollander & Offermann, 1990, p. 184).

**POWER MAP**



**EVALUATION OF THE POWER MAP**

South America Contractor, Inc. is a construction company with forty years of experience in the construction industry. Although it is not a family business, many of the members are in some way related. The leader of the company is the President. He decides the projects to build, has the financial connections needed and is well recognized in the industry. The formal structure is vertical, with basically three levels of hierarchy: a) the president, b) the vice presidents, and c) administrative personnel and engineers. The informal structure presents: a) two of the

president's sons at the employee level that can benefit from their father's power position, b) one of the VP of Operations' son at the employee level, c) personal or family relationships between members at different levels of power, and d) two of the VP's with the same past time.

The company leadership style was a very traditional and unilateral one. The formal power was concentrated in the President, who was almost solely in charge of the whole operation. Two of the vice presidents liked to sail a lot, leaving the company's problems in the hands of the President and the other vice president. Due to this reality, many of the employees did not have a great deal of respect for them. They even used their position to force one of the President's sons out of the company because he probably had the capability to become a vice president in the future. He was an engineer and a potential competitor.

## **CONCLUSION**

Time, technology, globalization, diversity and economic changes have transformed the way leadership and power is implemented in the organization. The leader/subordinate equation is always changing due to the dramatic and fast pace of the world economy. The leader has changed into the keeper of the business ecosystem. "Further to Newcombe's (1997) assertion that the project leader's role is to achieve a balance between conflicting forces of politics by establishing and maintaining a system of dynamic equilibrium" (as cited by Liu & Fang, 2006, p. 498), the subordinate enriches the system with knowledge and expertise. Informal and formal structures serve as parallel roads communicating management and employees. "The resulting struggle between the invisible hands which have shaped our historically given structures and the visible hands working to transform them provides much of the drama to be found in the modern world" (Dow, 1988, p. 61). Power is no longer the leader's domain. Today, power can strengthen the leader/subordinate relationship, thus creating a culture of positive dependency. Fiedler

(1967), as cited by Liu & Fang (2006), “encapsulated the idea that the leader’s ability so to act depends on the group task situation and on the extent to which the leader’s personality and behavior fits the group, namely, the critical dimensions are position power, task structure and leader-follower relations” (p. 501).

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