

## Chapter One

# A New World Order

## Rising to the Challenge of New Success Factors

A new world order is replacing generations-old patterns of power and privilege. Leaders have been replaced, centers of governance have been renamed, new patterns for distributing wealth and influence have been created. And we're not talking about the demise of the Soviet Union, the construction of the International Space Station, and the end of apartheid in South Africa.

We're talking about business. Twenty-first-century business is in the midst of a social and economic revolution, shifting from rigid to permeable structures and processes and creating something new: the *boundaryless organization*.

Consider these developments, once thought unimaginable and now almost taken for granted:

- GlaxoSmithKline Pharmaceuticals has cut months out of the drug development process by replacing sequential clinical data collection, analysis, and regulatory reporting with cross-functional teams composed of statisticians, biometricians, clinical trials experts, data management experts, and others.
- General Electric managers routinely have fifteen to twenty direct reports. Often, there are no more than three or four layers of management between the CEO and frontline workers in a company of more than 300,000 people.

## 2 THE BOUNDARYLESS ORGANIZATION

- Fidelity Investments, Charles Schwab, CSFB Direct, and Spear, Leads & Kellogg—brokerage competitors—have formed a joint venture to develop an electronic communications network for trading NASDAQ stocks online.

Business authors have described hundreds of similar innovations, declaring the rise of a “new organization” to which they have given many names: virtual organization, front/back organization, cluster organization, network organization, chaotic organization, ad hoc organization, horizontal organization, empowered organization, high-performing work team organization, process reengineered organization, and the list goes on.

However, underlying all these descriptions, theories, and experiments, we believe, is a single deeper paradigm shift. In our view, that shift—the emergence of the boundaryless organization—is the driving force that makes all these new organizations possible, the underpinning that lets them move from theory to reality. Emerging organizations may take a variety of forms, but the constant is that they evoke different kinds of behavior. Specifically, behavior patterns conditioned by boundaries between levels, functions, and other constructs are replaced by patterns of free movement across those same boundaries. Rather than using boundaries to separate people, tasks, processes, and places, organizations are beginning to focus on how to get through those boundaries—to move ideas, information, decisions, talent, rewards, and actions where they are most needed.

In that context, our purpose here is not to herald yet another new organization. Rather, it is to describe the boundaryless structures behind all the new labels and to lay out their underlying assumptions, the changes in behavior they generate, and the results they can yield. To do this, we delineate four types of boundaries that characterize most organizations.

- *Vertical* boundaries between levels and ranks of people
- *Horizontal* boundaries between functions and disciplines
- *External* boundaries between the organization and its suppliers, customers, and regulators
- *Geographic* boundaries between locations, cultures, and markets

We also describe the leadership challenges that the new structures pose. Most important, we provide leaders with a practical set of tools for moving their own organizations toward useful and practical boundaryless behavior.

## **Boundaryless Behavior: The Art of the Fluid**

Organizations have always had and will continue to have boundaries. People specialize in different tasks, and thus boundaries exist between functions. People have differing levels of authority and influence, so boundaries exist between bosses and subordinates. People inside a firm do different work than suppliers, customers, and other outsiders do, so boundaries exist there as well. And people work in different places, under different conditions, and sometimes in different time zones and cultures, thus creating additional boundaries.

The underlying purpose of all these boundaries is to separate people, processes, and production in healthy and necessary ways. Boundaries keep things focused and distinct. Without them, organizations would be *disorganized*. People would not know what to do. There would be no differentiation of tasks, no coordination of resources and skills, no sense of direction. In essence, the organization would cease to exist.

Given the necessity of boundaries, making a boundaryless organization does not require a free-for-all removal of all boundaries. That would be silly. Instead, we are talking about making boundaries more permeable, allowing greater fluidity of movement throughout the organization. The traditional notion of boundaries as fixed barriers or unyielding separators needs to be replaced by an organic, biological view of boundaries as permeable, flexible, moveable membranes in a living and adapting organism.

In living organisms, membranes exist to provide shape and definition. They have sufficient structural strength to prevent its collapse into an amorphous mass. Yet they are permeable. Food, oxygen, and chemical transmitters flow through them relatively unimpeded so that each part of the organism can contribute to the rest.

So it is with the boundaryless organization. Information, resources, ideas, and energy pass through its membranes quickly and easily so that the organization as a whole functions effectively. Yet

#### 4 THE BOUNDARYLESS ORGANIZATION

definition and distinction still exist—there are still leaders with authority and accountability, there are still people with special functional skills, there are still distinctions between customers and suppliers, and work is still done in different places.

Like a living organism, the boundaryless organization also develops and grows, and the placement of boundaries may shift. Over time, the levels between its top and bottom may decrease, functions may merge to combine skills, or partnerships may form between the firm and its customers or suppliers, changing the boundaries of who does what.

Because the boundaryless organization is a living continuum, not a fixed state, the ongoing management challenge is to find the right balance, to determine how permeable to make boundaries and where to place them. But why should anyone make this effort? What is so important about becoming boundaryless?

### **A Changing Paradigm for Organizational Success**

In recent years, almost all organizations have experimented with some type of change process aimed at creating more permeable boundaries. Whether it was called total quality, reengineering, reinvention, or business process innovation, organizations have invested untold resources in trying to make change happen.

The impetus behind many of these efforts has been the astounding fall from grace, or actual demise, of some of the most highly regarded and revered organizations in the world: IBM, Lloyd's of London, Eastern Airlines, General Motors, Eastman Kodak, and many others. Each experienced severe financial difficulties, crises in leadership, and major changes in direction. Nor is membership in this fallen-angels club limited to a handful of fields. The phenomenon crosses all lines from retail sales to automotive manufacturing, publishing to air travel, financial services to computers. It crosses geographic boundaries, with troubled giants found not only in North America but also in Europe, Asia, and Latin America.

The difficulties in these companies cannot be explained by lack of long-range strategy or intelligent planning. IBM, Kodak, and many of the others had and continue to have world-class planning functions and capabilities. They have not stumbled due to lack of technology or investment. In the past twenty years, GM probably

invested more in automation than any other company in the world. IBM's research investment was, for many years, far beyond the business norm.

Naturally, individual explanations can be provided. IBM was too wedded to mainframe computers; TWA was unable to cope with deregulation; Xerox mismanaged the reorganization of its sales force. But such explanations miss the larger pattern. The stark reality is that each company slipped from invincible to vincible when it faced *a rate of change that exceeded its capability to respond*. When their worlds became highly unstable and turbulent, all these organizations lacked the flexibility and agility to act quickly. Their structures and boundaries had become too rigid and calcified.

It is against this backdrop of highly visible failures and falls that most organizations have launched their change efforts. And though each effort has unique characteristics, conditions, and drivers, they tend to share a common theme: the attempt to retool the organization to meet an entirely new set of criteria for success.

### Out with the Old—In with the New

For much of the twentieth century, four critical factors influenced organizational success.

- *Size*. The larger a company grew, the more it was able to attain production or service efficiencies, leverage its capital, and put pressure on customers and suppliers.
- *Role clarity*. To get work done efficiently in larger organizations, tasks were divided and subdivided, clear distinctions were made between manager and worker, and levels of authority were spelled out. In well-functioning organizations, everyone had a place, accepted it, and performed according to specifications.
- *Specialization*. As tasks were subdivided, specialties were created or encouraged to provide fine-grained levels of expertise. Thus finance, planning, human resources, information technology, inventory control, and many other tasks all became disciplines in their own right.
- *Control*. With all these specialized tasks and roles, most organizations needed to create controls to make sure the pieces

## 6 THE BOUNDARYLESS ORGANIZATION

performed as needed, coming together properly to provide whole products or services. Therefore, a major role of management throughout the twentieth century was to control the work of others to ensure that they were doing the right things, in the right order, at the right time.

With these success factors in mind, managers and organizational theorists focused on organizational structure as their primary vehicle for achieving effectiveness. They debated such questions as these:

- How many layers of management do we need?
- What signing authority will different levels have?
- What is the proper span of control?
- What is the best balance between centralization and decentralization?
- How do we describe and classify each job and set pay levels?
- How do we organize field locations and international operations?

Their goal was to create the organizational structure and attendant processes that would let a company maximize the four critical success factors. What has happened, however, is that microprocessors, high-speed information processing and communications, and the global economy have conspired to radically shift the basis of competitive success. To a large extent, an exclusive focus on the old success factors has become a liability. Instead—as shown in the box—the old success factors need to be combined with a new and sometimes paradoxical set of factors that look very different from the old.

### *The Shifting Paradigm for Organizational Success*

#### *Old Success Factors*

Size  
Role clarity  
Specialization  
Control

#### *New Success Factors*

Speed  
Flexibility  
Integration  
Innovation

- *Speed.* Successful organizations today are increasingly characterized by speed in everything they do. They respond to customers more quickly, bring new products to market faster, and change strategies more rapidly than ever before. While size does not preclude speed, large organizations are like tankers. Compared to smaller firms, they take longer to change direction because they have a greater mass to be informed, convinced, and channeled. Their challenge is to act like a fast-moving small company while retaining access to the large company's broader resources.
- *Flexibility.* Organizations that move quickly are flexible. People do multiple jobs, constantly learn new skills, and willingly shift to different locations and assignments. Similarly, the organization pursues multiple paths and experiments. Role clarity can constrain flexibility—people locked into specific roles and responsibilities become unwilling to jump in at a moment's notice and do whatever is needed. Conversely, flexible organizations revel in ambiguity, throw out job descriptions, and thrive on ad hoc teams that form and reform as tasks shift.
- *Integration.* Organizations adept at shifting direction have processes that carry change into the institutional bloodstream, disseminating new initiatives quickly and mobilizing the right resources to make things happen. Instead of breaking tasks into pieces and assigning specialists to perform those pieces with precision, the organization creates mechanisms to pull together diverse activities as needed. It focuses more on accomplishing business or work processes and less on producing specialized pieces of work that management will eventually pull together. It still needs specialists, but the key to success is often the ability of those same specialists to collaborate with others to create an integrated whole.
- *Innovation.* A world of rapid change makes innovation essential. Doing today's work in today's way becomes outdated quickly, so boundaryless organizations constantly search for the new, the different, the unthinkable. They create innovative processes and environments that encourage and reward creativity, rather than stifling the creative spirit with the systems of approvals and double-checks needed to preserve standard operating procedures in organizations that focus on control.

## 8 THE BOUNDARYLESS ORGANIZATION

In short, organizations designed to meet the old set of critical success factors alone are increasingly incapable of thriving or even surviving in the new world. Consider the contrast between retailers Sears and Wal-Mart.

### The Giant and the Upstart

Sears, for many years the world's largest retailer, succeeded with a management process based on structure and control. As the company grew, Sears leveraged its buying power through strong centralized functions. Almost all key decisions were made in its Chicago headquarters. The stores mirrored the control philosophy, allotting different levels of approval to various managerial levels, with all really important decisions traveling far up the chain of command. This approach succeeded for many years, as long as size, role clarity, specialization, and control were what drove competitiveness.<sup>1</sup>

Then, in the 1980s, the rules of the retail game changed. Consumers wanted lower prices, better service, and a constantly changing array of merchandise. In this environment, speed mattered more than size. Customers wanted goods on the spot; they weren't willing to place orders and wait. At the same time, flexibility and integration proved able to drive out costs. Successful retailers gave people multiple jobs and designed integrated service functions. Innovation became critical to maintaining the edge in merchandise, service, and store layout.

In this new world, Sears began to slip. At first, management asked the traditional questions, looking to structure for answers and repeatedly restructuring, closing stores, and changing leaders. Nothing worked. It was not until Sears started trying to become a more "customer-focused company" and asked each store to find ways of identifying and serving customer needs that things began to turn around. Once it shifted focus, Sears was able to reduce corporate staff dramatically, moving decision-making responsibility to stores and store managers. The new success factors compelled Sears to redesign itself.

In contrast, upstart Wal-Mart, from the beginning of its existence, focused on the new success factors. Founder Sam Walton's philosophy was to find out what customers wanted and provide it

quickly, at lower cost than any competitor. This meant designing fast, flexible processes for gathering and using consumer and competitive intelligence. One such process is the weekly “quick market intelligence” (QMI) exercise that is at the heart of Wal-Mart’s success.

QMI works like this: every Monday morning, two hundred or more of Wal-Mart’s senior executives and managers leave Bentonville, Arkansas, to visit Wal-Mart stores and competitors in different regions of North America. For three and a half days, they talk to store managers, employees, and customers, learning about what is and is not selling. On Thursday evening, the fleet of Wal-Mart planes returns these executives to Wal-Mart headquarters. On Friday, in what they call the “huddle,” they examine the quantitative data (computer-based reports of what is selling) and match the data with their field observations to make decisions about products and promotions. Each Saturday morning, a teleconference shares these ideas with over three thousand stores and gives everyone the game plan for the next week. The cycle time for ideas at Wal-Mart is measured in days, not weeks or months. Boundaries that would have led to committee meetings, task forces, and reporting up the chain of command in the old Sears have been replaced by executives who collect information from the source and act.

Even Wal-Mart store managers can move with speed, flexibility, and creativity. They can set up their own “corners” with merchandise they think will sell to their local customers. If an idea works, it gets a larger test and sometimes expands nationwide. Similarly, managers can make pricing changes on the spot if they think a change is warranted or if a competitor has a lower price. They do not need to call Bentonville for permission.

This kind of speed, flexibility, integration, and innovation has helped Wal-Mart continue to grow and thrive, even during downturns in the retail industry.

Similar contrasts can be made between Microsoft and Digital Equipment (now part of Compaq), between Southwest Airlines and TWA, and between Enron and most public utilities. Organizations preoccupied with the old success factors and the attendant questions about organizational structure are struggling, while those that focus on the new factors for success and the corresponding boundaryless behaviors are poised to win.

## Four Boundaries

In their quest to achieve the success factors of the twenty-first century, organizations must confront and reshape the four types of boundaries we mentioned earlier: vertical, horizontal, external, and geographic.

*Vertical.* Vertical boundaries represent layers within a company. They are the floors and ceilings that differentiate status, authority, and power: span of control, limits of authority, and the other manifestations of hierarchy. In a hierarchy, roles are clearly defined and more authority resides higher up in the organization than lower down. You can track the intensity of vertical bounding by the number of levels between the first-line supervisor and the senior executive and by the differences between levels. Hierarchical boundaries are defined by title, rank, and privilege. The classic example is the military, where clear symbolic and substantive differences exist by rank: officer clubs differ from enlisted clubs, officers have privileges not available to enlisted personnel, generals have more status and staff than colonels, and so on. When rank has its privilege, it is a clear symbol of vertical boundaries.

In contrast, boundaryless organizations focus more on who has useful ideas than on who has authority and rank. Good ideas can come from anyone. These organizations make no attempt to dissolve all vertical boundaries—that would be chaos—but their permeable hierarchies give them faster and better decisions made by more committed individuals.

*Horizontal.* Horizontal boundaries exist between functions, product lines, or units. If vertical boundaries are floors and ceilings, horizontal boundaries are walls between rooms. Rigid boundaries between functions promote the development of local agendas that may well conflict with each other. In the traditional firm, engineering usually wants to create more innovative products and looks for technologically hot ideas, marketing wants more varied and customized products, and manufacturing wants long, stable production runs with little innovation and few variations. Each of these functional areas then maximizes its own goals to the exclusion of overall organizational goals.

Processes that permeate horizontal boundaries carry ideas, resources, information, and competence with them across functions,

so that customer needs are well met. Quality, reengineering, and high-performing work team initiatives often foster such processes. Once managers begin to move work quickly and effectively across functions or product lines, horizontal boundaries become subservient to the integrated, faster-moving business processes.

*External.* External boundaries are barriers between firms and the outside world—principally suppliers and customers but also government agencies, special interest groups, and communities. Traditional organizations draw clear lines between insiders and outsiders. Some of these barriers are legal, but many are psychological, stemming from varied senses of identity, strategic priorities, and cultures. These differences lead most organizations to some form of we-they relationship with external constituents. Business involves negotiation, haggling, pressure tactics, withholding of information, and the like. When there are multiple customers or suppliers, one may be played off against another.

While external boundaries do provide positive identity for insiders (“I work for X!”), they also diffuse effectiveness. Often, customers could help a firm resolve internal problems—and have a keen interest in solutions. They know the output of the firm and need high-quality products and services. Similarly, suppliers want to see their customers succeed because successful customers buy more. With thinner boundaries between firms and customers and suppliers, the resulting confluence of interests can produce much more efficient operations.

*Geographic.* Geographic, or global, boundaries exist when firms operate in different markets and countries. Often stemming from national pride, cultural differences, market peculiarities, or worldwide logistics, these boundaries may isolate innovative practices and good ideas, keeping a company from using the learning from specific countries and markets to increase overall success.

With information technology, workforce mobility, and product standardization, global boundaries are quickly disappearing. Traditional work differences in Europe, Asia, and North America are being driven out by the need for more globally integrated products and services. Yet at the same time, firms that succeed across global boundaries respect and value local differences as a source of innovation. Colgate Palmolive, for example, has worked to establish brand equities throughout the world. Its brand of toothpaste and

## 12 THE BOUNDARYLESS ORGANIZATION

tooth powder, for example, while adapted to local preferences for taste, color, and so on, has become global. Consumers in Europe, Australia, North America, and Asia can recognize the brand and find value in it. Creating global brand equities requires companies to think across global boundaries.

When vertical, horizontal, external, and geographic boundaries are traversable, the organization of the future begins to take shape. When these four boundaries remain rigid and impenetrable—as they so often do today—they create the sluggish response, inflexibility, and slow innovation that cause premier companies to fall.

### **Permeability in Action**

To get an overview of boundaryless behavior, consider the case of GE Capital's private label credit card business, a business whose permeable boundaries have allowed it to continually reinvent itself.

### **The Turnaround Kids**

GE Capital's private label credit card business is composed of two organizations, Card Services (CS) in the U.S. market, and Global Consumer Finance (GCF) outside the United States. Headquartered in Stamford, Connecticut, they provide private label credit card services to retail chains. GCF also provides a variety of consumer lending and banking products. CS and GCF customers include such retail chains as Macy's, Wal-Mart, Harrods, IKEA, and hundreds more.

In both revenue and human capital, CS and GCF are two of GE Capital's largest businesses, employing over twenty thousand people worldwide in a diverse range of functions and disciplines, including systems, telecommunications, customer service, marketing, finance, risk management, and product development. The businesses have state-of-the-art processing centers around the world, providing almost instantaneous customer service to retailers and millions of their cardholders.

Based on year 2000 data, GE Capital is the world's largest provider of private label credit cards. Assets total over \$50 billion, and both CS and GCF are among the highest net income genera-

tors in GE Company, growing at a double-digit rate each year. In addition, the company continues to expand aggressively, looking for major acquisitions in Europe, Latin America, and the Far East, while continuing to bring on major new customers in the United States.

In short, CS and GCF are enviable, successful businesses—financially sound, providing attractive rates of return, and satisfying their customers while also growing aggressively. And they're both boundaryless organizations. For example, when an associate in any of GCF's thirty-one countries turns on a computer, a "GCF Workplace" screen appears—in one of twenty-five languages. Using this intranet, GCF associates can provide the same kinds of services, using the same measures and tools, with access to the same resources and knowledge banks, from almost anywhere in the world. And if managers or associates in different parts of GCF need to work together, they can take advantage of "Same Time," which allows them to hold meetings while sharing visuals and data in real time across the globe.

Customer service teams in the centers are responsible for credit card approvals, problem resolution, and accounts receivable for a portfolio of stores. In most cases, frontline associates in these teams have the authority and the tools to make decisions on the spot for customers, without having to check with supervisors or managers for approval.

From the standpoint of the credit card holder, these services seem to be provided by the retailer. CS and GCF thus function as invisible partners, responsible for managing the retailer's financial relationship with all credit card holders. In addition, a marketing group also works closely with each retailer to agree on standards to apply to potential cardholders, rates to charge, and marketing programs and promotions to offer.

Seeing this level of success, few remember that in the early 1980s, GE was trying desperately to sell its credit card organization, then named Private Label. It had been in business for fifty years, yet its market share was a mere 3 percent. It was an old, tired business—a mediocre performer in a declining market—and its own strategic planners did not believe it had much of a future. They were convinced that private label credit cards would go the way of the dinosaurs, displaced by universal cards such as Visa, MasterCard, and

American Express. “Why,” they reasoned, “would consumers want to carry multiple credit cards when they could carry just one or two? And if that’s the case, we don’t have a business here!”

So Private Label’s outlook was bleak. Holding fast to his pledge to sell off businesses that could not become the number one or two performers in their industries, in 1982 GE’s new chairman and CEO Jack Welch put it on the block. Fortunately for GE, potential buyers agreed that Private Label was a dying business. They stayed away. With little choice other than to make the best of it, GE Capital promoted Private Label insider David A. Ekedahl to run the business. His mission: keep it going as long as you can without losing money. Ekedahl did better than that. He created a successful boundaryless corporation that has continued to grow for almost two decades.

### Reformulating External Boundaries

Private Label’s transformation did not begin with a grand plan. In fact, as Ekedahl describes it, the objective was to keep the wolves at bay by adding new customers. However, Ekedahl and his managers first had to decide who the customers were and how to win their business. That analysis led to an important insight—the company needed to concentrate not just on the consumer (the end user of private label cards) but on the retailer as well. The doom-and-gloom planning assumptions were based on the belief that Private Label’s customers were consumers, who would not want to carry multiple cards. But if the first customer was the retailer, maybe there were different needs to be met.

By changing the long-standing external boundary that defined the customer, Ekedahl began a transformation that was to take Private Label light years forward. He realized that fast and flexible processing, at a lower cost than could be provided by universal cards, would be the critical success factor for retailers. If Private Label could get the retailers on board quickly, manage the volume of business efficiently, provide error-free processing, and manage customer databases, it would have tremendous leverage with retailers. And the information about customer buying patterns would then pay off even more in purchasing, promotions, and marketing decisions. But at this time, Private Label’s procedures for setting up a new retailer and working with an existing one were all incredibly cum-

bersome. To achieve fast and flexible processing, another boundary needed to be opened up.

## Loosening Horizontal Boundaries

Dave Ekedahl's description of what happened next illustrates how key insights open up the path to the boundaryless organization.

We had just signed up a new company to do their private label credit cards, and I wanted to go through the process of getting that client on board. I found that in order to do that, I had a lot of people in the room, but none of us had any idea what to do by ourselves. We needed dozens of other people. So I figured if this was what it took to get something done, I might as well organize around these kinds of processes. So we began to recreate our own organization around the major processes that needed to get done rather than just do it ad hoc all the time.

Making organizational structure mirror the way work actually got done, Ekedahl gradually transformed Private Label, leveling horizontal boundaries between systems and other business functions. The change was complex because the systems resources were all part of GE Capital, centralized and well defended by solid functional walls. No systems people were dedicated to Private Label; different resources were brought to bear whenever there was a particular need. Ekedahl was determined to change this functional dynamic.

But by no means was the transition smooth. Early in 1989, Ekedahl tried to bridge the functions by sponsoring a joint conference with the central systems organization. At a rancorous concluding meeting, the systems people complained that they were not consulted soon enough in new customer conversions and were given unrealistic requirements and deadlines. Meanwhile, Ekedahl's marketing people accused the systems professionals of not delivering on their promises. Ekedahl found himself caught in the middle, wanting to create a cross-functional team yet forced to arbitrate between functions with walls too high for collaboration.

Ekedahl did not give up. First, he influenced the head of GE Capital's systems to dedicate a group of professionals to his business. Then he insisted that the systems and marketing people find new ways of working together, and he encouraged them to rethink

their basic work processes. Although reluctant, the two groups eventually responded to Ekedahl's continuing pressure.

In 1990, Rich Nastasi, head of the systems group, began to work with the other business functions to cut the time required to bring a new retailer on board. A small cross-functional team mapped the typical process, which was averaging eight weeks. Nastasi then brought together a group of systems, marketing, finance, and customer service people and challenged them to do the job in a matter of days, not weeks. To everyone's amazement, solutions began to emerge: earlier systems involvement in customer negotiations, standardized data collection procedures, ways of training customer personnel to help in the conversion, structured conversion procedures, and technical means of transferring electronic files more quickly.

Over the next few months, as the solutions were implemented, elapsed times began to drop dramatically, to less than a week for all but the largest new customers. Equally significant, the different functions put the solutions in place together. The walls were coming down. Less than a year later, Nastasi and his people were reporting directly to Ekedahl, as full-fledged members of the business team for what was now called Retailer Financial Services (RFS).

### Flattening Vertical Boundaries

As RFS organized around key processes, a different organization took shape. Gradually, the company shifted from a centralized model where systems, credit, marketing, and customer service were all run out of Stamford to a hybrid model with both centralized and decentralized processes. The guiding idea was that processes to support specific customers should be managed in the field, close to those customers. Processes requiring consistency and control—financial reporting, credit scoring, systems processing, and telecommunications—should be handled by the head office. Additional head office roles were to facilitate sharing of best practices, movement of key personnel, acquisition of new customers, and allocation of investment resources.

To shift processes to the field, RFS created “regional business centers.” Retailer customers in each region looked to the centers for training in systems and procedures, development of mailing and promotional programs, management information, and the whole

range of cardholder customer services, both through the mail and on the phone. The centers also managed credit risk—allowing better balance between how much to market and how much risk to allow. The key and single focus of these centers was to help retailer customers become more successful.

Setting up regional centers, however, was expensive. Ekedahl was under pressure to reduce costs by increasing productivity. Although the business was willing to invest in automated dialers and on-line information systems, new technology did not improve productivity enough to pay for the added cost of the centers. This cost-cutting pressure led to a radically new organization. As Ekedahl explains: “We originally came at it from a productivity point of view. We figured maybe we could save costs by not having so many management levels. So we asked a group of our associates how to do this. The exempt and the nonexempt people got together for a week and went way beyond what we had been expecting. They recommended that we organize around teams, with no managers whatsoever. I said, ‘what the heck, let’s try it,’ So we did, starting with one business center in Danbury.”

Setting up business centers without hierarchical boundaries was a fundamental revolution. And as in any revolution, there were casualties—managers who couldn’t adjust, supervisors who couldn’t find a place, and in particular, frontline associates who couldn’t handle the increased accountability. For the first few years, several centers suffered high levels of associate turnover. It turned out to be hard to find employees able to function effectively as team players with no supervision and high responsibility. Despite careful screening and orientation, many still opted out after less than a year.

Eventually, through a dialogue helped along by a few outside experts in team processes, a pattern for success emerged. Teams were set up to serve all the needs of one large or several small retailers and the retailers’ customers. All team members were cross-trained in all the skills needed for effective service, including handling billing problems and collections, changing credit lines, and changing customer data. The more senior or experienced people (in most cases, former supervisors) became roving trainers, documenters of procedures, and problem solvers.

The payoff from the first boundaryless business center was so great that Ekedahl and his team never seriously considered restoring

the traditional vertical organization. Even with the turnover, productivity was still many times greater and overall costs far lower. And the customers loved the service they were now getting from a dedicated team that knew their business, their consumers, and their systems. They began to see the business teams as extensions of their own companies and not just as service providers.

Given this success in existing business centers, Ekedahl decided that all new business centers should be set up in teams from the beginning. Thus when RFS bought the Macy's credit card and servicing portfolio in the early 1990s, the entirely new business center established to handle it was organized without managers from the start.

### The Flexibility to Reinvent

By 1995, when Dave Ekedahl retired, RFS was considered a model of a successful, high-performance, boundaryless organization. But RFS was also facing a test of its capacity not just to thrive but to survive—the retail industry was slowing down overall, and RFS's largest customer, Montgomery Ward, was about to go under.

For many years, Wards (as it was called) had an entire RFS division—based in Merriam, Kansas—dedicated to serving its cardholders. By 1998, Wards represented almost 40 percent of RFS's net income. So when Wards began to spiral into decline during a nationwide credit squeeze, RFS's own profitability plummeted. To fix that situation, GE Capital asked Edward Stewart, one of its executive vice presidents, to focus his efforts on restoring RFS to profitability. Stewart found that he had to reinvent the private label business, now called Card Services, all over again.

Obviously, Stewart's first step was to look for a solution to the problems with Wards. By exchanging debt for equity, Stewart helped GE Capital take a controlling interest in Wards and forced a series of moves—first taking the company into bankruptcy, and then bringing it out in a much-reduced form. Unfortunately, even the scaled-down Wards could not survive, and by the year 2000, the painful decision was made to close the doors and liquidate. Fortunately, a series of business plays mitigated the financial consequences of this decision. Stewart was able to strike a deal with Wal-Mart to take on its private label card business and, as part of the deal, flipped all the

Wards cardholders to Wal-Mart. This dramatically reduced the level of credit write-offs, and maintained (and even added to) CS's volume. Stewart also engineered a trade of Bank One's private label business for GE Capital's bankcard business, which also led to some much-needed financial gains. During this period, Stewart also "triaged the entire portfolio" with a more rigorous risk screen, which led to a reduction in nonperforming assets and a scaling down of the entire business.

These financial moves, though, were not enough to restore CS to the needed levels of growth and profitability. In particular, the smaller (though better-performing) portfolio required costs to be reduced dramatically—but in ways that did not diminish customer service or destroy the vitality of the business.

Because CS was already a flexible, boundaryless organization, Stewart was able to take a page out of Ekedahl's book and refocus the organization once again around core processes—but this time to use new technologies as an enabler of productivity.

Throughout most of the 1990s, the old RFS had been a hybrid organization with some centralized functions along with regional units that each managed a separate P&L. At the end of the 1990s, Stewart consolidated all the units into one P&L. He built strong, centralized process organizations for customer service, marketing, and collections, and then closed 40 percent of the existing sites. Within this framework, Stewart asked each of his managers to use Six Sigma quality tools to achieve high levels of performance and service at much reduced costs. He then created a "digital dashboard" on the company intranet to track performance against agreed-upon standards. Down the side of this dashboard is a list of clients; across the top are the performance standards in areas such as computer up time, card authorization speed, call answering times, and so forth. The dashboard pulls data directly from the computer systems and telephone networks and displays it in real time—highlighting any metric that falls outside the variance standard. Functional managers can use it to track their processes; "client leads" can use the very same data to look at the performance for their customer. And associates themselves can look at their own performance and see where they stand and where they need to improve.

To take this streamlining one step further, Stewart began to move whole processes to India, where they could be performed effectively

at half the cost. Using telecommunications technology and Internet-based tools, by the beginning of 2001, over a thousand people in India were performing collections and customer service functions for clients in the United States. For the digitally enabled, boundaryless organization, location had become less relevant than customer-focused process efficiency. But the real payoff was a return to profitability and growth.

### Crossing Geographic Boundaries

Until 1991, RFS was largely a U.S. business. With the acquisition of the credit card portfolio of Burton—a major U.K. retailer—in 1991, Ekedahl and his team were thrust into global management. At first, the Burton organization was kept intact, reporting to Stamford as one more business center with only a minor exchange of ideas and systems technology. To people in Stamford, Burton was interesting but not critical. That soon changed.

Two factors propelled RFS into a global role. First, the traditional domestic market for growth was clearly full of uncertainties: retailers (such as Wards) were struggling and even going out of business, there was pressure to reduce credit card interest charges, and competitors were introducing new strategies such as co-branded cards. Second, Burton's processing capacity was underused. If RFS took on new portfolios in Europe, the Burton operations center could handle them with little incremental cost. By applying its world-class technology expertise, RFS could have a significant competitive advantage in Europe.

So RFS began an acquisition binge in Europe. In less than two years, it had signed up dozens of new retail customers and purchased whole portfolios from banks and other financial institutions. Suddenly, RFS had a major presence in Europe.

The question was how to manage that new presence. Given its strategic importance, should it be closely managed from Stamford? Or should it be managed locally, from within Europe? Should its procedures and processes mirror the U.S. organization? Or should RFS Europe be allowed to develop its own way of doing things based on what worked in Europe and in each individual country? And how should European and U.S. personnel interact—as representatives of

different divisions or as members of a synergistic team? And what would happen if RFS went on beyond Europe?

Early in 1993, Ekedahl appointed Dave Nissen, a seasoned RFS manager who had run both Private Label and the MasterCard program, to oversee the European expansion. Ekedahl hoped that putting someone who was completely familiar with U.S. operations in charge of the European acquisitions would combine the best thinking from the U.S. side with a deeper understanding of what worked in Europe. By the end of 1993, Ekedahl had appointed Nissen to head RFS International. Essentially, Nissen's charge was to create a European version of the RFS domestic operation—a series of regional business centers serving specific clients in their own languages, joined with a central processing facility (Burton) that achieved scale in operations. A small central staff, headquartered in Europe, would provide coordination, technical support, and best practices from both Europe and the United States. Nissen was also to search for acquisitions in other parts of the world.

Growing a business outside the United States, however, is not the same as building a domestic business, and RFS International was split off from RFS in 1994 to form an independent business called Global Consumer Finance. Freed from the U.S. parent, Nissen decided to shift the business model. He could not build enough scale in private label credit cards in any one country, so he diversified the business to include a range of consumer lending products such as personal loans, auto loans, and second mortgages. The myriad regulations meant that in many countries he needed to buy or open local banks to support these products.

With this model, Nissen was able to grow GCF rapidly, not only in Europe but in Asia as well. By encouraging cross-selling across a half-dozen key products, he built volume and scale in each country—and then applied the best process management and technology to make it efficient. But how do you manage across dozens of countries and languages—and thousands of branches—each of which has different regulations, cultures, and business quirks? Without a common framework, Nissen found that his own time was fragmented, and the business was becoming a “tower of Babel.”

To overcome this aspect of the geographic boundary, Nissen convened his senior management team at a hotel in Tarrytown,

## 22 THE BOUNDARYLESS ORGANIZATION

New York, in early 1999. Together the team developed what came to be known as the “Tarrytown 21”—a set of twenty-one measures that each country in GCF would use to manage the business. As Nissen says, “We had lots of local CEOs running their businesses by gut. We needed to have all of them focusing on the same things. And if they are focusing on those measures, they will be successful. Then I can focus on acquisitions, sharing best practices, and hiring the best talent.”

Since 1999, each GCF country manager has implemented the Tarrytown 21, which is now accessible through their intranet, “GCF Workplace.” There is also a management rhythm for reviewing this data—all of which is displayed as variations on control charts—each month and quarter. And soon all of the data will be provided in real time through AIM, an automated information management system that will allow managers and associates to see how they did against the key measures every day.

From its beginnings as an offshoot of RFS, GCF has grown into a business almost double the size of its parent—and poised to continue growing around the world.

So, that, in broad outline, is how GE Capital’s private label credit card business became a true boundaryless organization, continually inventing new ways to function across all four boundaries with speed, flexibility, integration, and innovation.

### **Get Ready for Resistance**

GE Capital’s private label business journeyed successfully from the traditional structure to the boundaryless organization of the twenty-first century. But that journey took more than a decade. At times, it was marked by pain, struggle, and doubt. And any organization that intends to become boundaryless must prepare itself for resistance, both from within and without. The trip is not easy, for many reasons.

To start with, many people find the mere thought of a boundaryless organization terrifying. After all, boundaries *are* organizations; they define what’s in and what’s out, who controls and who has status. Changing the nature of boundaries is akin to removing your own skin. So people feel threatened at an almost unconscious level.

Some related threats are more consciously felt. For example, much has been written over the years about middle managers' resistance to employee empowerment efforts. In our view, such resistance is entirely rational. After all, in most organizations, the core of the middle-management job has been to maintain the barriers between senior management strategy and workers' implementation of that strategy. In this construction, middle managers have a series of vital roles: translating strategy into specific tasks, sequencing work, establishing measures of progress, controlling resources, and assessing performance. Workers generally do not interact directly with senior management and vice versa, except in ceremonial or other circumspect ways.

When senior managers talk about empowerment, middle managers see their roles as boundary controllers vanishing. If employees can translate senior management strategy into decisions and interact directly with senior managers, what is left for middle managers to do? Some new roles open up for middle managers, but the ratio is not one-to-one—there aren't enough to go around. So the threat middle managers face is not only loss of power but actual loss of jobs.

Such threatened losses exist throughout organizations when barriers become more permeable or are moved. For example:

- Functional specialists may fear losing their technical edge if forced to spend much time as generalists in cross-functional team activities.
- Individuals from different cultures may not want to team with one another or work for one another due to biases and stereotypes and the fears they generate.
- Individuals from different cultures may simply have trouble communicating, due not only to different languages but to different ways of viewing the world.
- People at all levels may fear having to learn new rules of the game if traditional methods of advancement and career tracking change.
- Managers may fear embarrassment if information once typically hidden becomes shared with other levels.
- Former competitors within an organization or between organizations may find it difficult to learn how to collaborate.

## 24 THE BOUNDARYLESS ORGANIZATION

In addition, two overriding psychological barriers block acceptance of the boundaryless organization. One function of boundaries is to supply protection, a sense of security. Boundaries resemble the solid walls around your house. If people could not only see through your walls but actually pass through them, your sense of security would vanish.

Boundaries also give people a place to hide. In an organization with permeable boundaries, ineffective performance is highly visible, not just to a few people but to many. This can trigger enormous anxiety, especially in those who feel (as everyone does at times) somewhat unsure about their ability to do a job or learn new skills.

Given these threats to job, status, and security, it is no wonder that attempts to make boundaries more permeable trigger an organization's immune system. All kinds of resistance, open and covert, begin to emerge.

Several years ago, for example, an executive at what was then the American Can Company decided that the workers in a newly acquired plant should be reshaped into a "high-performance/high-involvement" workforce. Essentially, he wanted to create an organization with much more permeable vertical and horizontal boundaries. To do so, he brought in a new plant manager who believed in empowerment, and as a gesture of goodwill to the workforce, he removed the time cards and put all workers on salary. He then instructed his staff to double the size of the plant, in the belief that this newly motivated workforce would become the core of his most productive machine-building site.

Within days, the forces of resistance went into play. Workers objected strenuously to the removal of time cards, pointing out that they could no longer use overtime to earn extra money. When the new plant manager tried to convince them that the time clocks were removed because he "trusted them," they concluded that the argument was merely camouflage for cutting their pay. While this debate was going on, headquarters staff arrived and began a thorough inventory of machinery and personal tools in preparation for the expansion. The presence of staff people counting their equipment further fueled the workers' mistrust of management. When the new plant manager tried to stop the inventory until he got things sorted out with the workforce, he found himself in a power

struggle with the corporate head of facilities and engineering. Eventually, the battle escalated to the executive who had initiated the “model plant,” who was shocked to see his experiment founder so quickly. However, before he could resolve the issues between his staff colleagues and his new plant manager, the International Machinists Union instigated an organizing campaign that the corporate human resource function determined to fight.

Within months, what had started out as a promising, well-intentioned experiment meant to serve as a model for the corporation had gone down in flames. The new plant manager was gone, the workforce was alienated from management, and relations between corporate manufacturing and engineering were strained. The vertical and horizontal boundaries, far from becoming more permeable, had been reinforced. The immune system had done its work, surrounding and engulfing the foreign body of change before it could infect the rest of the organization.

The shift to permeability is fraught with such threats, barriers, and resistance. Nonetheless, it is possible to identify and then overcome resistance and make the boundaryless organization a reality.

### **Making It Happen: Getting the Most from This Book**

Organizations can transform themselves. They can develop more permeable boundaries despite the immune response. And thanks to such pioneer organizations as GE Capital, the transformation no longer has to take a decade or be based on trial and error. Nor does it have to wait until external or environmental crises force the issue. Our accumulated experience in helping dozens of organizations of all types to journey toward boundarylessness has identified effective tools and techniques for change. There are frameworks that can be applied, questions that can be asked, and lessons that can be learned to help managers accelerate their progress toward the boundaryless organization.

The four main parts of this book each focus on one of the four types of organizational boundaries: vertical, horizontal, external, and geographic. Without doubt, much has been written about each of these boundaries individually, and many companies have

## 26 THE BOUNDARYLESS ORGANIZATION

experienced great success in permeating or loosening one or two of them. But few have been able to put together an entire package, to create permeability across all four boundaries. One of our purposes, then, is to show boundaryless transformation from an integrated perspective, one that deals with all four boundaries, so that leaders can complete their paradigm shift.

At the same time, we have made the practical assumption that different organizations and units within organizations are on different places on the continuum and that different strategies and tactics will be useful to them at different times. Thus we do not advocate a frontal assault on all four boundaries at once, nor do we advocate a particular sequence of assaults. Each organization must determine how far it has gone toward permeating boundaries and assess where greater permeability will make the most impact most quickly. Organizations just setting out on the journey may need to employ strategies very different from those of organizations that have been traveling awhile. Similarly, organizations in different industries or facing different competitive threats may need to move relatively faster or further along the continuum than others.

To help you manage these differences, we provide diagnostic instruments that assess where you are and where you want to be. To start with, your responses to the questionnaire at the end of this chapter will give you an overall picture of where you stand in relation to each boundary and each of the new success factors. More specific questionnaires in each section assess your progress on permeating a particular boundary. In essence, this will allow you to view this book not as a cookbook with a fixed menu but as a self-paced learning guide. Through the self-assessments, you can set the pace, select the boundaries most in need of change in your organization, and determine which actions might be most useful in fostering that change.

Useful as they are, these brief instruments cannot provide a statistically valid measure of boundaryless behavior. In addition, your ratings themselves will be highly subjective, conditioned by your unique perspectives on your organization. A major purpose of each questionnaire is to stimulate discussion with your colleagues, both within your organization and outside it, and to help you select the actions that might do most for you.

A second assumption we make is that creating the boundaryless organization is, at its heart, a leadership challenge. It is more than applying a series of tools and techniques. The transformation of the traditional organization also requires the transformation of the traditional leader. Leaders of a boundaryless organization differ from traditional managers. They spend their time differently; possess a different set of skills, beliefs, and attitudes; judge themselves differently; and view their careers in different ways. Chapter Ten talks about these transformational challenges explicitly, but our assumption throughout is that this shift requires leaders from the CEO to the first-line supervisors to have the fire to make it happen.

A final assumption is that we need to share with you real cases and illustrations of organizations struggling with changes in boundaries. As much as possible, these cases are based on our personal experiences. Whenever we can, we identify companies by name, with the understanding that we are reporting only parts of the overall company experience and that we are doing so through the filter of our own eyes.

As we noted in the Preface, General Electric was the breeding ground for many of our ideas. It is a diverse mixture of separate businesses, each of which is a Fortune 100 company on its own. GE started explicitly on the boundaryless journey in 1988 and is further along than many other organizations, so it is a rich source of learning for others. As Jack Welch stated in his 1993 letter to shareholders: "Boundaryless behavior is the soul of today's GE. . . . People seem compelled to build layers and walls between themselves and others. . . . These walls cramp people, inhibit creativity, waste time, restrict vision, smother dreams, and above all, slow things down. . . . The challenge is to chip away at and eventually break down these walls and barriers, both among ourselves and between ourselves and the outside world."<sup>2</sup>

Our intent is to support organizational leaders as they chip away at their own boundaries—so that more organizations can experience the speed, excitement, and energy of the boundaryless world.

Questionnaire #1 will gauge approximately how far your organization has evolved toward the boundaryless paradigm. More specifically, it will help you determine where you might most profitably concentrate your change efforts.

## Questionnaire #1

### Stepping Up to the Line: How Boundaryless Is Your Organization?

Instructions: The following sixteen statements describe the behavior of boundaryless organizations. Assess the extent to which each statement characterizes your current organization, circling a number from 1 (not true at all) to 5 (very true).

	<i>Speed</i>	<i>Flexibility</i>	<i>Integration</i>	<i>Innovation</i>	<i>Total Score</i>
Vertical boundary	Most decisions are made on the spot by those closest to the work, and they are acted on in hours rather than weeks. 1 2 3 4 5	Managers at all levels routinely take on frontline responsibilities as well as broad strategic assignments. 1 2 3 4 5	Key problems are tackled by multilevel teams whose members operate with little regard to formal rank in the organization. 1 2 3 4 5	New ideas are screened and decided on without fancy overheads and multiple rounds of approvals. 1 2 3 4 5	
Horizontal boundary	New products or services are getting to market at an increasingly fast pace. 1 2 3 4 5	Resources quickly, frequently, and effortlessly shift between centers of expertise and operating units. 1 2 3 4 5	Routine work gets done through end-to-end process teams; other work is handled by project teams drawn from shared centers of experience. 1 2 3 4 5	Ad hoc teams representing various stakeholders spontaneously form to explore new ideas. 1 2 3 4 5	

<p>External boundary</p>	<p>Customer requests, complaints, and needs are anticipated and responded to in real time.</p> <p>1 2 3 4 5</p>	<p>Strategic resources and key managers are often “on loan” to customers and suppliers.</p> <p>1 2 3 4 5</p>	<p>Supplier and customer reps are key players in teams tackling strategic initiatives.</p> <p>1 2 3 4 5</p>	<p>Suppliers and customers are regular and prolific contributors of new product and process ideas.</p> <p>1 2 3 4 5</p>	
<p>Geographic boundary</p>	<p>Best practices are disseminated and leveraged quickly across country operations.</p> <p>1 2 3 4 5</p>	<p>Business leaders rotate regularly between country operations.</p> <p>1 2 3 4 5</p>	<p>There are standard product platforms, common practices, and shared centers of experience across countries.</p> <p>1 2 3 4 5</p>	<p>New product ideas are evaluated for viability beyond the country where they emerged.</p> <p>1 2 3 4 5</p>	
<p>Total Score</p>					

## Questionnaire Scoring

After you have rated each statement, total your scores across the rows and down the columns. Each row and column score should be a number between 4 and 20.

Column scores represent your organization's relative achievement of the new success factors. A score of 12 or less on any one factor suggests significant work may be needed, especially if the factor will be critical in your industry or type of organization. A score of 16 or higher suggests your organization already has achieved significant strength in the factor. It will be important to build on that strength. Overall, your scores can help you and your colleagues begin to think about the overall urgency for change facing your organization.

Row scores represent your organization's relative success at achieving permeability of the four boundaries. Again, a score of 12 or less on any one boundary suggests an opportunity for significant improvement, and a score of 16 or higher probably indicates an area of strength.

## Questionnaire Follow-Up

With these scores in hand, you may want to begin your reading with the section on the boundary where you find most urgency or opportunity for change. Or you may want to begin with a section that covers your area of strength to find ways of building on that success.

Though you can certainly complete the questionnaire by yourself, you might find it valuable to ask others in your organization to complete it as well. It can then be the basis of a group discussion that will help you and your team develop a shared view of your organization and a more common understanding of changes that might be needed. Developing this common understanding is, in itself, one step toward becoming a boundaryless organization.