"Packed with useful action implications for companies of all sizes."
—Rosabeth Moss Kanter

# The Boundaryless Organization

## BREAKING THE CHAINS OF ORGANIZATIONAL STRUCTURE

Ron Ashkenas
Dave Ulrich
Todd Jick
Steve Kerr

Revised and Updated

# Foreword

### *C. K. Prahalad*

The new business environment imposes new demands on managers. They have to engage in a fundamental reexamination of strategies, both at the corporate and at the business levels, as well as reassess the capabilities of their organizations to execute the new and often complex strategies. Most managers have little appetite for either fundamentally rethinking strategy or creating radically new organizational capabilities. Both tasks require a capacity to forget as well as a capacity to learn; they require tools for honest assessment of where one is and a capacity to conceive where one ought to be.

The process of reexamining and reinventing the company demands a new organizational theory and, at the same time, a critical evaluation of the limits of existing theory. It requires the capacity to think long term and, at the same time, create the financial and the organizational space for change through efficiencies. It is the appetite for this process of reexamining and reinventing that will separate the builders (leaders) from caretakers and the undertakers (managers and cautious administrators).

# The Search for High Performance

Under pressure for performance in a changing competitive environment, managers seem to gravitate toward improving the efficiency of existing organizational arrangements and implementing existing strategies. This is “doing what I know” better. Hence, the current managerial preoccupation with “implementation.” However, in different companies, a focus on implementation means different things, from downsizing to reengineering to various forms of “cultural change” programs. In the absence of clear guideposts, we see a wide proliferation of tools and fads that promise a simple cure-all. Yet the evidence is that even very popular implementation tools have not been unqualified successes. Moreover, all these initiatives consume an enormous amount of organizational energy.

The need for a comprehensive framework, a theory, to sort out fads from useful initiatives is obvious. Managers building a high-performance firm need a framework that enables them to evaluate initiatives, sequence them, and recognize the risks and time frames they involve.

*The Boundaryless Organization* provides an excellent start to the process of discovering the essential building blocks of organizations that can cope with the complex strategies needed in the future. Implicit in the message of this book is the strategic imperative of competitive success: traditional notions of efficiency, such as quality of asset management, are not enough. We need to go beyond them and develop a new managerial scorecard.

## From Asset Management to Resource Leverage

Beset by the new competitive reality, firms typically start to focus on better asset management (reduction of working capital) as well as on reduction of investment requirements by selective outsourcing. However, vitality in the medium to longer term comes not from asset reduction but from resource leverage. Managers must be able to get a bigger bang for the buck, better commercial results from the infrastructure in which they have invested. The brands, patents and technology, global supply base, physical infrastructure, and competencies that the collective and shared learning of the organization represents—that is, the physical and the invisible, intellectual resources of the firm—need to be leveraged. The reusing of intellectual assets to create new businesses and new sources of competitive advantage is a process of discovering hidden wealth and requires a new management process. *The Boundaryless Organization* implicitly accepts the need for resource leverage. The authors suggest four dominant themes that are critical to such leverage: speed (not size), flexibility (not rigidity, often disguised as role clarity), integration (not specialization), and innovation (not control).

Most often, the reason managers do not move beyond asset management to resource leverage is that the latter requires new ways of managing. The essence of such leverage is learning, sharing knowledge, redeploying knowledge, and bundling physical and intellectual assets in new and creative ways. Therefore, the capacity to transcend current administrative boundaries is a critical precondition for resource leverage. That boundary spanning, or creating of "boundaryless" behavior, is the substance of this book. *The Boundaryless Organization* is about the "how" of strategy.

## Creating the Organization of the Future

Basing their findings on their extensive experience in working with senior managers of some of the best-known firms, the authors identify four essential boundaries to be spanned. These include hierarchical levels (breaking the tyranny of the vertical, status-driven boundaries), interunit divisions (breaking functional, business unit, and other horizontal boundaries driven by specialization, expertise, and socialization), barriers between internal and external organizations (breaking the boundary between the customer and the organization), and finally, global differences (breaking the boundaries between geographic markets and cultures). In large, well-established organizations such as GE, General Motors, Sears, and IBM, each one of these boundaries was an integral part of the management process. Call them bureaucracy, internal governance, or administrative heritage, these boundaries were real, and implicitly defined the range of competitive options available to each firm. It is no surprise, therefore, that these organizations were unable to adapt speedily to the changing competitive realities. A lack of organizational capacity to reconfigure physical and intellectual resources in new and creative ways—not as resources per se—had become their primary source of competitive weakness. GE was one of the first to realize the suffocating effects of the traditional boundary-based approaches to managing, effects that inhibited the organization's ability to leverage resources. GE initiated a process for systematically creating a "boundaryless" organization. The authors' experience is derived significantly from their work on this process, initially at GE and subsequently at other firms as well.

Boundaryless behavior is not about eliminating all administrative procedures and rules. It is about reducing the threshold of pain when creating new patterns of collaboration, learning, and productive work. It is about removing the restrictions, real and imaginary, imposed on individuals and teams by formal structures. Boundarylessness is about boundary spanning; it is about substituting permeable structures for concrete walls.

*The Boundaryless Organization* is organized in a user-friendly manner. The authors follow a simple structure to articulate their complex message about each of the four boundaries:

1. A logical reason for the need to reexamine the effects of a specific kind of organizational boundary (for example, vertical boundaries, or the hierarchy).
2. A method (an instrument) with which you can assess the state of your company along this dimension (for example, how hierarchy-bound your organization is).
3. A brief history of how this kind of boundary evolved. What were the theoretical underpinnings behind the organizing idea?
4. The consequences of the condition. When does an organizational practice become a pathology? (For example, hierarchy-based management was fine in slow-moving businesses, but in businesses that need quick response time and flexibility, hierarchies can become pathologies.)
5. The steps that can be taken to break old patterns and create the new patterns of boundaryless behavior (for example, creating a shared mindset).
6. The benefits to the organization from this approach.

Two themes dominate the book. First, creating a boundaryless organization takes time and perseverance. It takes repetition. It takes small acts, symbols, course corrections, coaching, and celebrations. It is not without pain. It takes training. It should involve all people in the organization. Most often, these simple and, at the same time, profound lessons are not well understood by leaders. Reinventing the company is not about a single initiative; neither is it an off-line activity. It is on-line, involves multiple initiatives, and is cumulative.

The second theme is that success in current business is critical to provide necessary space and confidence to the organization. Focusing on business results is critical as a management group attempts to reinvent itself. Change not anchored in business results is likely to drift. Strategy provides the anchor and the rationale for reinventing the company.

These two underlying themes, so often missing in books on change and transformation, make this a book for line managers as much as a guide for HR professionals. The focus is on general management in a changing marketplace.

*The Boundaryless Organization* is a very important contribution to the emerging thinking on preparing for competing in the future.

Ann Arbor, Michigan July 1995

C. K. Prahalad
*Coauthor of* Competing for the Future; *Harvey C. Fruehauf Professor of Business Administration and Professor of Corporate Strategy and International Business, Graduate School of Business Administration, University of Michigan*

# Foreword

***Lawrence A. Bossidy***

Nobody argues anymore with the notion that what it takes to succeed today is radically different from what it took yesterday and that tomorrow's success factors will be different as well. The speed of changes in the global market in an age of accelerating technological innovation means that there are no longer any certainties. New products and competitors emerge almost overnight, and the half-life of market strategies shrinks almost daily. It is the kind of environment in which great companies can be humbled very quickly—but where nimble, creative, and courageous organizations can thrive as never before.

To succeed in this environment, leaders need to rethink the traditional ways that work gets done. Whoever can contribute value—whether he or she is a production worker, middle manager, specialist, vendor, customer, or senior executive—needs to be encouraged to collaborate with others and make things happen, without waiting for some central authority to give permission. The old questions of status, role, organizational level, functional affiliation, and geographic location, all the traditional boundaries that we have used for years to define and control the way we work, are much less relevant than getting the best people possible to work together effectively.

For many organizations, this concept of boundaryless behavior sounds threatening and risky. After all, it means transferring decision-making authority away from executives and out to frontline workers; it means listening to customers and changing our products and delivery systems to meet their needs; it means forming partnerships with suppliers rather than just telling them what to do; and it means establishing coalitions with other parts of the company rather than defending turf. And when all this is taken together, it means that the role of manager, executive, and leader changes drastically—from controller and authority figure to stimulator, catalyst, cheerleader, and coach. So it is not an easy shift. However, in the environment of the twenty-first century, making such a shift is no longer a choice.

During my years as CEO of AlliedSignal, and now Honeywell, we have been working to make this kind of boundaryless transformation, not only in our management team but throughout the company. It has not painless or easy. Nor is the transformation complete. We still get hung up on titles, status, roles, rules, functions, and geographic differences that divide us rather than bring us together with each other and with our customers. But by becoming more boundaryless, we have been able to establish and achieve new standards of excellence. And most important, we are becoming far more capable of succeeding in an unpredictable future.

If your organization is ready for this kind of transformation, *The Boundaryless Organization* will provide a simple but provocative framework either for getting started or for accelerating the pace. At AlliedSignal, I asked all of our managers to read it, to learn from the rich cases that it contains, and to use the tools that might be helpful to them, and I am doing the same at the new Honeywell. But make no mistake, this is not a cookbook or a how-to guide. Too many managers today are looking for the quick-fix elixir that will make them winners overnight. It does not exist, either in this book or elsewhere. The authors of *The Boundaryless Organization* rightly argue that we do not need new buzzwords about organization but new ways of thinking about our organizations. As such a new way of thinking, this book is not a solution but a set of ideas that should cause all managers to rethink how they get work done.

In the final analysis, there is no substitute for your own creativity and leadership, for your creation of your own boundaryless agenda. And that is the uniqueness of *The Boundaryless Organization.* It is not a prescription but a challenge. It is up to you to take advantage of it.

Morristown, New Jersey October 2001

Lawrence A. Bossidy<br>*Chairman and Chief Executive Officer, Honeywell Corporation*

# Preface

In the five years since *The Boundaryless Organization* first appeared, we have seen the themes it describes play out time after time on the organizational stage. Firms that managed to loosen their boundaries and operate with greater speed, flexibility, and innovation have tended to be more successful at navigating the white water of the global economy. Conversely, organizations that have maintained more rigid internal and external boundaries have struggled.

At the same time, the world continues to change with lightning speed. When we wrote *The Boundaryless Organization* in 1993 and 1994, the Internet was just beginning to enter our consciousness. E-mail had not yet become a way of life, and globe-spanning wireless communication was only a dream for most people. Since then, thousands of dot-com companies full of entrepreneurial energy have burst on the scene. And though many have fallen by the wayside, together they have heralded the dawn of a new economic and organizational era. People struggling to define the new reality constantly refer to virtual, networked, wired, horizontal, knowledge-based organizations.

Also in the past five years, the tiger economies of Asia emerged with a roar that influenced firms everywhere, then collapsed in the midst of currency crises, and then recovered faster than anyone thought possible. And while regional conflicts continue to flame across the world, a truly global economy has become a reality. In today's world, a consumer in Boise might easily talk to a customer service representative in India about a product manufactured in

Mexico—without realizing that the transaction has spanned the globe.

Pushed by the burgeoning global economy and the technological innovation rate, the pace of mergers, acquisitions, and alliances has climbed to unheard-of levels, with trillions of dollars worth of deals reshaping the corporate landscape and dislocating millions of people. Yet at the same time, even as companies connect more with each other, they are simultaneously engaged in an unprecedented war for talent as human capital becomes one of the scarcest resources on the planet.

So clearly, in the past five years, the pace of change has accelerated. Yet in the midst of this new environment, the fundamental capabilities of human beings have not changed. Human brains have not grown larger to be able to absorb the Web-based sea of information, and the ability to engage in dialogue has not grown along with all the technologies that could support it twenty-four hours a day. Thus organizations still need to function at the human scale—to take advantage of technology and globalization while basing themselves on human capabilities. And in that context, we firmly believe that the concepts and principles laid out in *The Boundaryless Organization* are still on target.

## The Essence of a Boundaryless World

For those who are picking up the book for the first time, here are the key ideas:

1. Success factors in the twenty-first century include speed, flexibility, integration, and innovation—*in addition to* the traditional success factors of size, role definition, specialization, and control—even when these factors seem to contradict each other. Managers must

create organizations with sufficient critical mass that can also move quickly and nimbly through the changing business terrain.

2. To achieve these success factors, every firm needs to reshape four types of boundaries:
   - *Vertical boundaries* (the floors and ceilings of organizations), which separate people by hierarchical levels, titles, status, and rank.
   - *Horizontal boundaries* (the internal walls), which separate people in organizations by function, business unit, product group, or division.
   - *External boundaries* (the external walls), which divide companies from their suppliers, customers, communities, and other external constituencies.
   - *Geographic boundaries* (the cultural walls), which include aspects of the other three but are applied over time and space, often across different cultures.
3. Each of these boundaries needs appropriate permeability and flexibility—so that ideas, information, and resources can flow freely up and down, in and out, and across the organization. The idea is not to have totally permeable boundaries or no boundaries—that would be "*dis*organization." Rather, you want sufficient permeability to allow the organization to quickly and creatively adjust to changes in the environment.
4. Leaders can use a number of levers to foster appropriate permeability—almost like fine-tuning the dial on a radio. These are the four most powerful levers:
   - *Information:* Foster access to information across all boundaries.
   - *Authority:* Give people the power to make independent decisions about action and resources.

- *Competence:* Help people develop the skills and capabilities to use information and authority wisely.
- *Rewards:* Provide proper shared incentives that promote organizational goals.

5. Leaders themselves need to adopt new ways of working to lead boundaryless organizations. They need to shift from command and control to methods that rely more on creating shared mindsets, stretch goals, and empowered colleagues. They need to shift from having the right answers to asking the right questions. But at the same time, they need to keep the focus on results, maintain clear accountability for performance, and make tough decisions.

## Origins of the Concept

The first edition of this book grew out of our experiences with one of the largest and most ambitious organizational change efforts ever attempted, the General Electric Work-Out process. Late in 1988, GE CEO Jack Welch asked Dave Ulrich to pull together a team of academics and consultants who could help GE transform the way it did business. Among others, Ulrich enlisted Ron Ashkenas, Todd Jick (then at Harvard University), and Steve Kerr (then at the University of Southern California). For the next several years, we worked intensively with a variety of GE businesses to reduce bureaucracy, shorten cycle times, and increase capabilities for change. Periodically, we met with others involved in Work-Out to share experiences and learn from each other.

It was at GE that we first heard the term *boundaryless organization,* which Jack Welch had been using since 1990. It sounded like just another buzzword at first, but we kept encountering aspects of the boundaryless theme. For example, in the early days of Work-Out, we conducted hundreds of “town meetings”—attempts at direct dialogue between managers and their employees—and we saw how hard it was to overcome these vertical boundaries. At the same time, we began to see the disconnections, the horizontal boundaries, between functions and departments.

As Work-Out progressed and GE’s internal boundaries became increasingly permeable, we began to focus on relationships with customers and suppliers, the external boundaries. Dave Ulrich had written extensively on how human resource practices could create greater customer commitment. Building on these ideas, we began helping GE businesses hold town meetings with customers and suppliers. Todd Jick conducted the first one, between GE Appliances and Sears, and it was followed by many more.

By 1991, we were looking at global linkages, as GE businesses shifted from domestic to worldwide concerns. For example, Ron Ashkenas took part in an extended effort to integrate GE Lighting’s domestic business with its European acquisitions—including its new Hungarian partner, Tungsram Ltd., the first major acquisition of an Eastern bloc company by a Western concern.

By 1992, we realized that GE was engaged in a paradigm shift, altering multiple organizational boundaries at the same time. With that shift in mind, Kerr, Jick, and Ulrich began creating a conceptual framework that would shape managers’ understanding of the boundaryless organization and what they could do to achieve it. This framework became the GE program known as the Change Acceleration Process (CAP). Since 1992, hundreds of GE managers and many of their customers and suppliers have used CAP to break down boundaries of all sorts.

By 1993, we realized that more and more organizations were struggling with the same issues, and that the insights we had gained could form an action framework for them. To make the framework useful, we set out to create not only a conceptual model of the boundaryless organization but also a set of simple tools that managers could tailor to their individual requirements. The first edition of this book was the result.

Nonetheless, the framework we have created is not based on GE, nor is *The Boundaryless Organization* a book about GE. Since GE was a leader in creating a boundaryless organization and a formative learning site for all of us, we have drawn on its experience and a number of GE examples. However, we have also drawn on the experience of numerous other organizations, and GE examples form only a small part of the total.

In the five years since writing the original book, we've observed that boundaryless organizations—or those that strive to be so—improve their chances of success in the global Internet era. Indeed, organizations *must* have some degree of boundarylessness to function effectively today. And that applies equally to a large firm trying to shake free from long-standing bureaucracy and to a start-up firm struggling to find an organizational model that can support its growth.

## One Boundaryless Organization

Consider the case of Charles Schwab & Co., the San Francisco–based brokerage founded in 1974 with the then-radical mission of giving ordinary people greater access to investment opportunities. Inspired by this mission, the firm grew rapidly while it maintained a boundaryless start-up culture where everyone did everything and everyone knew everyone else.

In 1983, to fund further expansion, Charles Schwab sold the firm to Bank of America, hoping that being part of a global financial services organization would allow it to achieve the mission more quickly. Unfortunately, BofA’s culture at the time, combined with strict banking regulations, constrained Schwab’s ability to expand into a full range of products and services.

But Schwab did not give up on his dream. Instead, in 1987 he bought back the firm and then took it public to raise funds for expansion and growth. By 1996, riding the wave of a thriving U.S. and global economy, the firm was again experiencing double-digit growth rates and had added thousands of staff to keep up with the demand. The price of this rapid growth, however, was incredible stress on the underlying boundaryless culture. It is one thing to have rapid and informal networked decision making when everyone is close together; it is quite another to maintain these patterns when people are scattered far and wide, do not share the same history, and are too busy to get together.

Nowhere was this level of stress more apparent than in Schwab’s information technology organization, which was the backbone of the firm’s success. Chief Information Officer Dawn Lepore, a thirteen-year Schwab veteran, had made sure that the IT organization’s capacity had grown along with Schwab’s customer base. However, the demands of managing hundreds of people, multiple data centers, and dozens of applications and databases—and keeping it all running perfectly—had driven out much of the ability to think, innovate, and plan ahead. Every day was a new crisis. And because of the incredible growth, most members of her management team were relatively inexperienced, many of them never having run large organizations before.

Lepore wanted to avoid the traditional solutions of greater structure, hierarchy, and management control. Thus she began a two-year effort to build a boundaryless IT organization that could keep up with—even get ahead of—Schwab's growth. Using a number of concepts from *The Boundaryless Organization,* she drove home the idea of creating a "shared mindset" about the mission of the IT organization and its place in the firm. She created communication mechanisms and interactive forums to educate all the IT people about what was needed. She focused on strengthening processes that cut across units, with clear owners, checkpoints, measures of performance, and reviews. She standardized and centralized services wherever it made sense, and tailored and decentralized support where that was appropriate. She created decision processes that included her clients and other key stakeholders. And she did all of this while building a team of managers that could work collaboratively as well as independently—and could even function without her for two months during her maternity leave.

In the midst of this transformation, Schwab spawned an entire revolution in the investment industry. Late in 1995, a technology team in Lepore's organization built a Web-based trading application. When the technology proved to be sound and reliable, co-CEOs Charles Schwab and David Pottruck established a new electronic brokerage unit, e.Schwab, headed by Beth Sawi with support from Lepore's organization through Gideon Sasson. Kept separate from the Schwab mainstream so that it could develop quickly and flexibly, the new unit was an immediate success with customers, growing from nothing to 1.2 million accounts by the end of 1997. Eventually, Schwab was faced with the question of whether e.Schwab should be kept separate, competing with other Schwab channels such as telephone reps and branches, or be integrated into and perhaps even transform those channels. Early in 1998, Pottruck made the call to bring e.Schwab into the fold, and to integrate Web trading into all of Schwab's business. Although this decision had significant short-term revenue implications (Web-based trading had lower commissions), it proved to be a major success. Within a year, trading volume and customer accounts had increased dramatically, while costs had actually been reduced—so that revenue shortfalls were more than made up by profitability increases. And Schwab was now the industry leader in Web-based trading across all of its channels.

## Flexibility Across Boundaries

Companies today need to keep reinventing themselves—and the flexibility of a boundaryless organization is almost a prerequisite for that process. Thus traditional companies need to become more boundaryless to succeed in the new economy, and companies already in the new economy need to stay boundaryless to keep up with it.

The continued success of GE, one of the largest old economy companies, illustrates the importance of this constant reinvention. In the first half of the 1990s, GE used Work-Out and other processes to build a highly flexible, boundaryless culture. In the second half of the 1990s, GE transformed itself over and over again to keep up with—and ahead of—the global Internet economy. Thus GE was able to acquire and integrate dozens of organizations and become a world leader in the process of acquisition integration.[1] Using Six Sigma quality processes, GE was then able to streamline its work and reduce costs by millions of dollars. At the same time, GE was shifting many of its businesses more toward services and toward the development of global markets. And finally, using the mentality of "destroy your business.com," all GE businesses focused on how to best exploit the Internet for competitive advantage—leading to many more millions of gains and even greater boundaryless capability.

But what are the new realities today that require boundaryless capability? Why is it even more critical today to make sure that boundaries are permeable than it was five years ago? We have seen four shifts, all accelerated by the explosion of Internet and communications technologies, that make boundarylessness not just a nice-to-have but a requirement for successful firms in the twenty-first century.

## A New Relationship with Customers

No matter how much companies have hitherto focused on customer service—on being “close to the customer” or “customer-centered”—they never really bridged the gap between themselves and those who bought or used their products or services. In some cases, the supply chain between producer and consumer was too long; in others, it took too long to get customer input to the decision makers; in still others, the customers never had any effective contact with many parts of the producing company.

One of the most striking shifts in the past five years is the way the new technologies make it possible for companies—in fact, require companies—to interact with customers in a much more personal, ubiquitous, real-time, and constant manner. Customer feedback, ideas, complaints, and comments are available (whether you want them or not) at all times. Customers can send e-mail directly to producers and service providers, at all levels throughout the value chain, at all times—and they expect an almost instantaneous response. And since customer input has no lag time, customers expect response to that input—real product and service changes—to be rapid or even immediate. In fact, customers now expect to be involved in the design of the product and service itself—so that it is tailored to their specific needs. This can range from specifying the mix of songs on a downloaded CD to selecting customized features and colors on an automobile.

These new possibilities have led to whole new business paradigms based on different needs and expectations of customers. For example, many Web-based companies do not actually produce anything—they bring together offerings from competing companies and help customers sort out what they need and put together the right suite of products and services. This has led many traditional producers to offer customers a choice of competitors' products along with their own. And it has shown these producers that customers are usually willing to pay as much or more for the service of putting things together—for tailoring, delivering, maintaining, and refreshing the mix—as they are for products themselves. With this insight, for example, GE has transformed itself in the past five years from a diversified manufacturing company to much more of a services firm.

This focus on tailored service also means that companies have the potential to know much more about their customers than ever before. Within the limits of privacy, they can know their preferences, ordering patterns, lifestyle requirements, and so forth. Thus promotions can be more targeted, products and services can be aimed at narrower customer groups (or even tailored to individual customers), and relationships can be developed over a lifetime. The new metric is increasingly *customer share* instead of *market share*—meaning that the goal is not just to have a chunk of the market but to have an increasing share of the individual customer's potential purchasing space. As such, for example, Coke goes after a customer's "share of stomach," Fidelity competes for "share of wallet," Amazon looks for "lifetime sales."

## A New Relationship with Employees

Just as the boundaries between companies and customers have become more permeable, so have the boundaries between managers and employees. Employees coming into the workforce today have largely grown up in the Internet age. They barely remember when information was not accessible at all hours from around the globe. Many of them have had cell phones and pagers since before they were in high school, and they expect important information to come to them whenever it is needed. They have been raised on CNN and e-mail and are capable of multiprocessing at Internet speed. In many corporations, starting with GE, it is these net-savvy youngsters that are teaching the old-timers how to navigate in the new information world.

Organizations can no longer maintain the traditional notions of power and information, where people at the top were the only ones in the know. Almost all employees have come to expect full disclosure of financial information, strategic decisions, customer wins and losses, and organizational changes. Open book management, informational town meetings, informational Web sites, and other means of information sharing have become commonplace rather than isolated, innovative experiments.

More and more today, even more than five years ago, employees at all levels expect to have a voice in the firm's key decisions. They expect to be engaged as informed adults, able to discuss bad news and good. More than anything, they expect to be told the truth, without protective secrecy or sugarcoating. After all, if they don't get the information from management, they can get it just as easily elsewhere.

In addition, many employees—particularly in service, knowledge, and key skill industries—regard themselves as free agents or volunteers who support the company and are entitled to information about it rather than as employees who exchange work for pay. The psychological balance of power has subtly shifted from employer to employee, partly because a booming economy in many parts of the world has created a labor shortage and provided increasing numbers of workers with investment portfolios. Even more, however, the shift stems from the unlimited sense of opportunity evoked by the information economy. With thousands upon thousands of start-ups, coupled with the e-transformation of traditional firms, more and more people feel—often rightfully so—that they can make it on their own, that they do not need the safety net of a company to work for. The barriers to entry for someone with a good idea and access to a computer are virtually nil, so why not take a shot?

With this attitude—reinforced by the idea of a "war for talent"—the shift from a control-based relationship between manager and employee to more of an information-based relationship has accelerated in the past five years. Not all managers have learned to operate in this way (regardless of age), but the need to do so has certainly increased.

## A New Relationship with a Network of Alliances and Partners

When we first wrote *The Boundaryless Organization,* the idea of a vertically integrated organization that could function independently—like the old Ford Motor Company—had already broken down. Thus we focused on the importance of being part of a value chain, and of making the external boundaries between value-chain members more permeable.

In the past five years, this trend has accelerated exponentially. Today's companies don't just form value chains, they form value networks that can include many dozens of players around the globe. For example, a traditional manufacturer today might purchase raw materials and components through an Internet-based bid process that widely expands the potential supplier base. Alternatively, the same organization might dramatically improve its purchasing power by joining its competitors in a consolidated buying site, perhaps managed through a joint venture owned by dozens of firms. Once the product is produced, the manufacturer might sell it through its own sales force, through alliances with a variety of distribution channels, or through an assortment of Web sites. These Web sites might be designed or run by other organizations, and the financial transactions might be managed through a variety of partners as well. In short, though most transactions move much faster now, the network of players that touch, expedite, or influence these transactions has multiplied.

At the same time, organizations in the past five years have engaged in a frenzy of structural realignment that has led to trillions of dollars worth of acquisitions, divestitures, joint ventures, outsourcing, and alliances. On one hand, many firms have realized that they cannot do everything—that they need to concentrate on core competencies and focused missions. Thus, for example, a number of automotive companies spun off or divested themselves of divisions that make components, leading to new companies such as Delphi Automotive (from General Motors), Visteon (from Ford), and Meritor (from Rockwell). On the other hand, once firms have created this focus, they have tried to gain critical mass in their competency area through purchases of similar firms. For example, since its creation, Meritor has bought Volvo’s axle business, Lucas-Varity’s brake business, and the Euclid Aftermarket Company, and then merged with Arvin Industries, another automotive supply company.

In other cases, whole industries have undergone consolidation because of the belief that larger firms could compete more effectively in the global marketplace. This has been the case in sectors such as aerospace, pharmaceuticals, and financial services. At the same time, in many of these sectors, the creation of critical mass has been proceeding almost hand in hand with the proliferation of alliances that offer opportunities, capabilities, or innovations that don't exist in the larger firm. For example, large pharmaceutical firms such as Pfizer (which acquired Warner Lambert) and GlaxoSmithKline (a merger between Glaxo-Wellcome and SmithKline Beecham), have hundreds of research alliances, co-marketing ventures, and clinical trial arrangements with outside partners. These alliances are facilitated—or even made possible—by electronic collaboration tools that are a result of Internet technology.

One other form of structural change that has occurred is an acceleration of outsourcing of functions previously considered part of the firm. Many firms now rely on partners to take care of all or part of their purchasing, information technology, finance, customer service, and human resources. For example, the outsourcing firm Exult handles all HR transactions and basic HR functions for Bank of America. Similarly, an Indian IT firm called Wipro manages data processing and application development for a number of U.S. and European Fortune 500 firms.

Taken together, these structural realignments have required firms to reexamine both their internal and external boundaries. While outsourcing is cost-effective, to be business-effective a relationship needs to be well managed, collaborative, and even evolutionary. The same is true for alliances—which need constant recalibration and dialogue. Acquisitions and mergers also generally require fundamental or even revolutionary rethinking about how parts of a firm fit together—rethinking that cannot be done without effective dialogue across boundaries. Thus boundarylessness has become a precondition for success for firms undergoing these structural shifts—which perhaps is why so many acquisitions and alliances have been less successful than planned.

## A New Relationship with Time and Space

A final shift that has made the concepts of *The Boundaryless Organization* even more critical in the past five years has been the total breakdown of time and space as a limiting factor in organizational interactions. Business can now take place anytime, anywhere. There is no place to hide and no place where communications can't reach. Cars, planes, trains, homes, restaurants, markets, and street corners are just as accessible as the office. And even though Motorola's Iridium project was a commercial disaster, the dream of communicating anywhere on the planet is close to reality as even the least developed countries of the world employ wireless and cellular technologies.

On a personal level, these developments have dramatically increased the productivity of most individual managers and employees. Decisions are faster, data more accurate, key people better informed. On the other hand, personal stress levels have increased as the expectations for constant availability and immediate response have grown almost out of control. Managers in most firms now routinely receive hundreds of messages per day—through e-mail, voice mail, telephone, fax, and in person. Sorting through this drift and finding ways to keep up and respond has become a major managerial challenge.

From an organizational perspective, the advent of anytime-anywhere communications has made almost all boundaries more permeable. Dialogue across levels can take place now not just in special town meetings but through chat rooms, e-mail forums, and interactive on-line events. Cross-functional and cross-organizational teams can work together through electronic collaboration spaces, easily sharing databases, ideas, work plans, and more—without needing more than an occasional telephone or in-person meeting. And team members from different continents can participate with total equality since the electronic space is not limited by time zones and geographic borders.

Yet even though all these capabilities are more available than they were five years ago, they're far from fully deployed and used in most organizations. And that is where the boundaryless levers still come into play. Having the capability to share information still does not mean that the right information is transmitted. In fact, often too much of the wrong information is sent, clogging the human bandwidth for response and action. Similarly, cross-boundary teams still require clarity about how much authority they can exert. Who makes decisions and on what basis? How do they get rewarded? What is their incentive for working at all hours of the day and night, at home or at the office?

The developments of the past five years have created enormous opportunities for more permeable boundaries in organizations, but leaders must still find the right ways to use these capabilities to achieve results. The technology alone is not enough. Leadership at a human scale is still required.

## A New Edition of *The Boundaryless Organization*

Given these realities of the twenty-first century, we felt that it would be important to senior executives to take a fresh look at the concepts of *The Boundaryless Organization,* and to find ways of incorporating them into their continually transforming firms. Thus we have not changed our basic messages, nor the tools and diagnostic materials that go along with them. We have, however, refreshed the book by updating many of the cases and even replacing some of them with more current examples.

To make the information accessible, we have continued to organize the book into four parts. Segments devoted to vertical, horizontal, external, and geographic boundaries describe how these barriers both help and hinder organizations and how managers can loosen them or break them down where necessary. Each part contains a pair of chapters, one to explain the boundary in question, and the other to provide specific action levers—the tools and techniques you can use to implement permeable boundaries and overcome the forces resisting the change.

Added to this edition, world-class executives start off each part with personal views of how the opening of boundaries has changed their organizations for the better. These accounts emphasize that creating the boundaryless organization does not happen by itself—it is, and always will be, a function of leadership, and there is no better way to learn about leadership than to listen to those who have struggled with it themselves.

Throughout the text, detailed examples from many organizations show the real difficulties that boundaries cause in today's businesses and the practical solutions that managers and consultants are currently applying. Brief questionnaires help readers evaluate their organizations' own structural boundaries and need and readiness for change. Finally, our concluding chapter is designed to help executives examine the nature of their personal boundaries and identify the specific leadership challenges they will meet as they take their organizations into the twenty-first century.

## Is This Book for You?

Organizations of all sizes have boundaries that increase costs, slow production, and stifle innovation, so our model and related tools for loosening and permeating boundaries can be used by executives and managers in large, midsized, or small businesses of all kinds. And since all levels of management affect how organizational boundaries operate, and since those boundaries in turn affect the work of everyone in an organization, managers at any level can apply appropriate selections of the tools we describe.

We realize that changing the nature of organizational boundaries is a challenging task. *The Boundaryless Organization* was written to make that task a little easier.

## Acknowledgments

Many contributors helped us transform this book from an embryonic idea to a finished product. First and foremost are the many clients and management colleagues who asked us to work alongside them in breaking down boundaries and who were willing to share their experiences in this book. We are particularly grateful to the four managers who provided first-person accounts of their boundaryless journeys. It is always easier to give advice from the outside, knowing that others have the ultimate responsibility for implementation and for dealing with the consequences. We have immense respect for the organizational pioneers and leaders noted in this book and for the countless other managers who have trusted our ideas and valued our experiments. We have learned much from them. Credit for results is all theirs. Any inaccuracy regarding their stories is our responsibility.

A number of consultant colleagues also helped to make this book possible. In particular, several members of Robert H.