

## **Subject- Business Management**

### **Topics for Today's Class (25/04/2020)**

- **Meaning of a Virtual Organization**
- **Characteristics of a Virtual Organization**
- **Advantages of the Structure**
- **Disadvantages of the Structure**
- **Examples of virtual organizations**

### **VIRTUAL ORGANIZATIONS**

The term virtual organization is used to describe a network of independent firms that join together, often temporarily, to produce a service or product. Virtual organization is often associated with such terms as virtual office, virtual teams, and virtual leadership. The ultimate goal of the virtual organization is to provide innovative, high-quality products or services instantaneously in response to customer demands.

The term virtual in this sense has its roots in the computer industry. When a computer appears to have more storage capacity than it really possesses it is referred to as virtual memory. Likewise, when an organization assembles resources from a variety of firms, a virtual organization seems to have more capabilities than it actually possesses.

### **BACKGROUND**

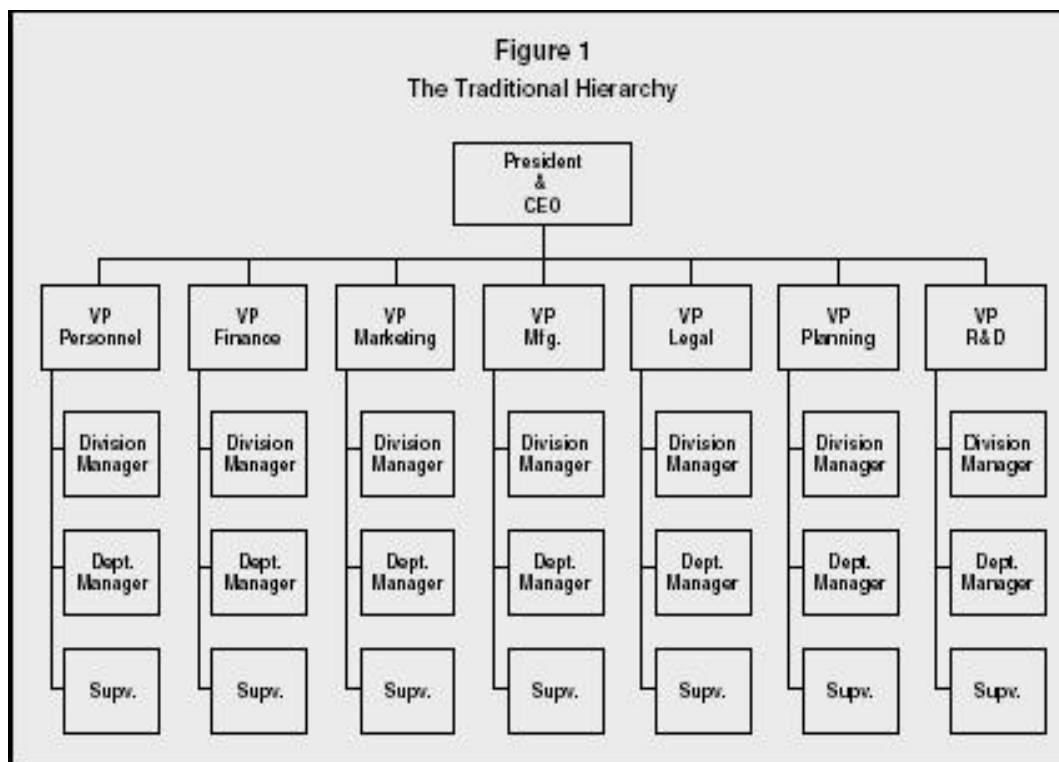
Traditional organizations integrated work vertically; that is, they delegated authority in a pyramidal, hierarchical structure. As the pyramid shape suggests, power was concentrated primarily among the handful of individuals at the top. This organizational form, shown in Figure, was first developed in the United States in the late 19th century with the advent of mass production.

The prominent theorist of traditional hierarchical organizations was the renowned industrial engineer, Frederick Winslow Taylor. His book, *Principles of Scientific Management*, introduced the principles for designing and managing mass-

production facilities such as Ford's automobile factory in Michigan and Carnegie's steel works in Pittsburgh.

The hierarchical structure was designed to manage highly complex processes like automobile assembly where production could be broken down into a series of simple steps. Hierarchical corporations often controlled and managed all activities of a business from, the raw materials to their allocation to consumers. A centralized managerial hierarchy controlled the entire production process, with white-collar workers establishing rules and procedures to manage a blue-collar workforce.

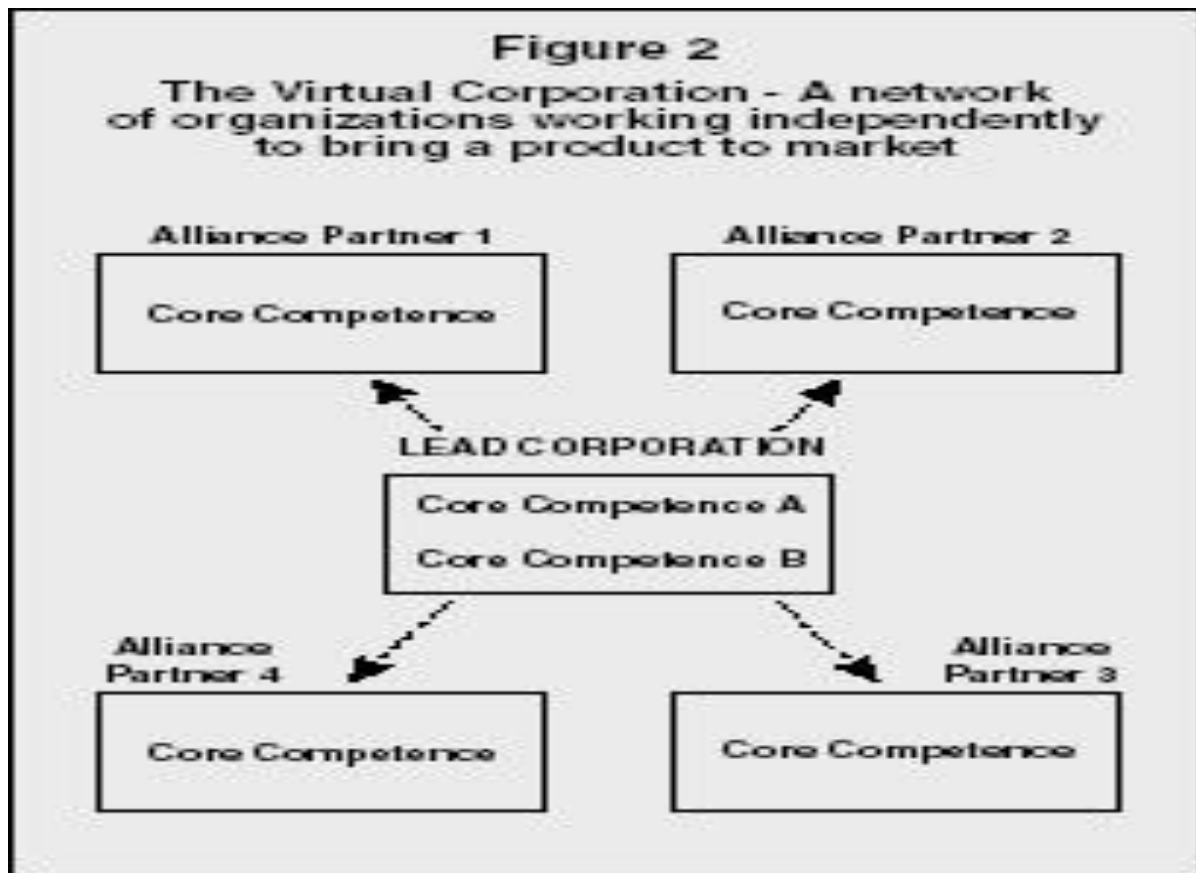
From World War II until the early 1980s, the trend was to build increasing layers of management with more staff specialists. This centralized hierarchical structure was seen as effective for managing large number of workers, but lacked agility and was unable to process information rapidly throughout the organization.



**The Traditional Hierarchy**

## THE NEW BUSINESS FORM

Ray Grenier and George Metes discuss the shift to this new organizational structure as a response to unprecedented customer expectations and alternatives, global competition, time compression, complexity, rapid change, and increased use of technology. They describe the virtual model as a lead organization that creates alliances with groups and individuals from different organizations who possess the highest competencies to build a specific product or service in a short period of time (see Figure 2).



The Virtual Corporation - A network of organizations working independently to bring a product to market

Grenier and Meters further explain that these alliances are virtual because products and services are not produced in a single corporation whose purpose is longevity. Rather, these new virtual organizations consist of a hybrid of groups and individuals from different companies that might include customers, competitors, and suppliers who have a focused purpose of bringing a high-quality product or service to market as rapidly as possible. These alliances may be temporary with short concept-to-delivery cycles.

William Davidow and Michael Malone, authors of *The Virtual Corporation*, claim that virtual corporations will be central to the new business revolution. Their concept of the virtual corporation brings diverse innovations together such as just-in-time supply, work teams, flexible manufacturing, reusable engineering, worker empowerment, organizational streamlining, computer-aided design, total quality, and mass customization into a coherent vision for the twentieth century corporation.

The virtual corporation is more permeable than traditional organizational forms. Interfaces in a virtual organization between company, supplier, and customers continuously change, resulting in a blurring of traditional functions. Inside the office, work groups and job responsibilities may shift regularly. The virtual organization may not have a central office or an organizational chart. Suppliers, customers, and even competitors may spend time alongside one another in the virtual organization.

## **CHARACTERISTICS OF A VIRTUAL ORGANIZATION**

Partners in virtual organizations share risks, costs, and rewards in pursuit of a global market. The common characteristics of these organizations include a purpose that is motivated by specific market opportunities, world-class core competence, information networks, interdependent relationships, and permeable boundaries.

Virtual organizations represent structures that are motivated by specific market opportunities. Once the alliance has been formed and the opportunity has been exploited, partners may move on to new partnerships and alliances.

Each partner in a virtual corporation contributes a world-class core competence, such as design, manufacturing, or marketing. This ability of multiple firms to

create synergies among world-class functions and processes creates untold possibilities.

As organizations create these new linkages, advanced information technology becomes an important element, and key to the success of a virtual organization. Computerized information systems allow employees from geographically dispersed locations to link up with one another. The virtual office may use desktop videoconferencing, collaborative software, and intranet systems to enhance the flow of information among team members. Besides the need for instantaneous communication with one another, members of these autonomous virtual teams have increasing requirements regarding the amount and quality of information they need to do their work.

Members of the virtual organization, in turn, create a network of interdependent relationships. These relationships require firms to be much more dependent on one another than they have been in the past, demanding unprecedented levels of trust. Strong interdependencies cause organizations' boundaries to be blurred as competitors, suppliers, and customers enter into cooperative agreements. These new relationships among firms obligate organizations to use innovative management practices.

### **Advantages of a Virtual Organization Design**

There is a good reason why a recent forecast by the World Economic Forum called virtual teams “one of the biggest drivers of transformation in the workplace.” There are considerable advantages to virtual organization design. These advantages include:

- **Lower Overhead Costs.** Virtual organizations enjoy significant decreases in operating costs. Most organization able to save office space and save million due to a shift toward virtual teams and remote work. American Express also enjoyed lower overhead costs to the tune of nearly \$15 million thanks to a focus on hiring remote workers.
- **Improved Employee Satisfaction.** Employees are simply happier when they are able to work from home. Mostly remote workers have reported that they have lower stress levels. The study also showed that a shift toward remote work led to fewer absences and a higher morale.

- **Improved Employee Efficiency.** Remote employees get more work done without the transactions of the office. In a recent survey of worker stated that working remotely allowed them to accomplish more in less time.
- **Improved Scalability and Growth Potential.** Without the overhead typically associated with maintaining an office space and fewer investments in supplies, companies can free up capital to improve their scalability and growth potential. Remote teams are simply more agile.
- **Larger Talent Pool.** Startups who hire workers remotely are able to access a larger pool of talent. You can hire talent from anywhere in the world without limiting yourself to one specific geographic location.
- **Improved Employee Retention.** Employees that are happier in their work are more likely to stick around. With competitive salaries, remote workers are less likely to leave their jobs.
- **Access to New Markets.** Hiring remotely allows your startup to tap into new markets. This is particularly useful when it comes to remote sales teams, who will be able to reach out to new customers that otherwise would have been out of reach for your organization.

The benefits of remote and virtual teams are numerous. However, many teams hone in on these benefits without addressing the downsides of choosing a virtual organization design. It's important to understand both the advantages and disadvantages of virtual organization design to ensure that you make the best choice for your startup.

## Disadvantages of a Virtual Organization Design

To offset the benefits of hiring remotely, there are some serious disadvantages. Often, startups that opt for a virtual organizational design without being fully informed find out about these disadvantages the hard way.

**Difficulties in Installing a Company Culture.** Remote teams often have problems fostering cohesiveness among the team. Remote teams often choose their own work hours, which can lead to a fragmented company culture. Once that culture is in place, it can be difficult to make the changes required to get things back on track.

- **Lack of Camaraderie( friendship).** Remote workers rarely speak face-to-face. Even companies that make full use of video chat solutions often find that it isn't enough to fully simulate the camaraderie that you build when you work together in an office environment. There is less opportunity for impromptu conversations. You learn less about the people that you work with. Companies with remote teams need to take steps to bring their teams together and facilitate that togetherness.
- **A Need for Increased Focus on Communication.** Because your teams will not be able to pass information between themselves like they would in an office environment, you need to give them the tools and policies that ensure that they actively communicate. Whether that means setting up a slack channel, getting on daily calls, or simply encouraging them to email each other new information often — communication plays a key role in the success of virtual organizations.
- **Reputational Risks.** A poorly run virtual team can lead to knocks to your reputation. Some potential customers may be wary of working with a company that has a virtual office with remote employees and may not take your startup as seriously.
- **Security and Compliance Issues.** Working remotely means passing a lot of data back and forth. In some industries (health, financial, etc.) it may be too risky for startups to opt for a virtual organizational design. Ensuring that you understand how the disadvantages of virtual hiring can offset some of the advantages is critical for making the right decision for your startup.

## **EXAMPLES OF VIRTUAL ORGANIZATIONS**

An industry that is known for its use of partners and alliances is the entertainment industry, which has partnered with the computing, communications, consumer electronics, and publishing industries to convert movies, textbooks, and other software into digital formats.

Increasing numbers of firms are moving to these new organizational forms. Corning, the glass and ceramics maker, is one such firm known for making partnerships work to their advantage. Corning has partnered with such firms as Siemens, Germany's electronics conglomeration, and Vitro, Mexico's largest glassmaker. Alliances are so important to Corning's business strategy that the corporation has defined itself as a network of organizations.

Computer organizations that have successfully implemented forms of this new structure include Apple Computer and Sun Microsystems. When Apple Computer linked its easy-to-use software with Sony's manufacturing skills in miniaturization, Apple was able to get its product to market quickly and gain a market share in the notebook segment of the PC industry.

Sun Microsystems has been considered another highly decentralized organization comprised of independently operating companies. Sun positions information systems as a top priority, trying to achieve faster and better communication. With numerous "SunTeams," members operate across time, space, and organizations to address critical business issues. Sun managers identify key customer issues and then form teams with the critical skills and knowledge needed to address the issue. This team might include sales people, marketing personnel, finance, and operations from various places around the globe; customers and suppliers may become episodic members as necessary. Weekly meetings may take place via conference calls. Critical to the team's success is the selection of talent from the organization, defining a clear purpose for the team's efforts, and establishing communication links among the team members.

Sun has been working on further development of technologies such as EDI (Electronic Data Interchange) and RFID (Radio Frequency Identification technology). Both EDI and RFID will impact information exchange globally and across numerous industries.



## **CHALLENGES**

Virtual organizations can be very complex and problematic; they fail as often as they succeed. Among the many challenges of the virtual organization are strategic planning dilemmas, boundary blurring, a loss of control, and a need for new managerial skills.

Strategic planning poses new challenges as virtual firms determine effective combinations of core competencies. Common vision among partners is quintessential to cooperating firms. Focused on a common goal, firms develop close interdependencies that may make it difficult to determine where one company ends and another begins. The boundary-blurring demands that these boundaries be managed effectively. Coordinating mechanisms are critical elements for supporting these loose collections of firms.

Virtual structures create a loss of control over some operations. This loss of control requires communication, coordination, and trust among the various partners, as well as a new set of managerial skills. Employees are exposed to increased ambiguity about organizational membership, job roles and responsibilities, career paths, and superior-subordinate relationships. This ambiguity requires management to rethink rewards, benefits, employee development, staffing and other employee-related issues. Developing leaders who are able to create and sustain these organizational forms is critical.

## **FUTURE OF VIRTUAL ORGANIZATIONS**

The business environment will no doubt require firms to become even more flexible, more agile, and to bring products and services to market at an increasing rapid pace. Traditional organization forms are no longer capable of sustaining the needs of this relentless pace. New forms of organizing, such as the virtual organization, hold promise as organizational leaders experiment and learn new strategies for managing in the twenty-first century and beyond. These new structures, however, will require managers and leaders to face exciting challenges as they move into an environment of increased uncertainty and volatility.