The Essence and Logic of the Virtual Organisation

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The Essence and Logic of the Virtual Organisation

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Introduction

As we move inexorably towards the new millennium, change and complexity surrounds and drives us in a way and at a rate unknown just a generation ago (Wigand et al. 1997). In dealing with change and complexity, our need for information typically increases, while our ability to find all the requisite knowledge and skills within one individual decreases. We become increasingly reliant on working with teams of people, on the more effective dissemination and exchange of information amongst group members, and on the more effective coordination and management of disparate activities and individuals with multiple and often conflicting perspectives and objectives.

The more recent developments such as the Internet, intranets and extranets which facilitate networks both within and between organisations, mean that in certain circumstances, the former requirement for collocation of people, tasks, resources all at much the same time have to some extent disappeared. This results in fundamental changes and rethinks to potential and satisfactory organisational structures, and also to the way in which organisations position themselves within their environment to compete and/or cooperate with other organisations. Hence we see the emergence of the notion of virtuality, of the virtual organisation, which has been defined as “an amorphous entity which is a combination of different companies or individuals that have combined to complete specific projects or business propositions and development” (Lawrence et al. 1998). In the face of change and uncertainty in business, virtual organisations are argued to offer a low cost, highly responsive and adaptable way to organise and compete. This paper deals with the essential reasons why virtual organisations are an effective way to organise. In presenting this argument we will examine the essential features of virtual organisations, and then go on to examine some essential business processes that characterise the operation of virtual organisations.

Fundamental Characteristics of Virtual Organisations

The essential and fundamental defining features of virtual organisations are as follows. Firstly, virtual organisations are capable of rapid and adaptable response to changing markets whether these arise as a result of globalisation, changing cost structures, changing customer needs and wants or some combination of these and perhaps other characteristics of today’s turbulent business environment (Goldman et al. 1994). Virtual organisations use existing organisational structures from one or more existing organisations, combining these in creative ways to forge new organisational capabilities and competences, thus averting the need to recruit and train, forge new work teams and buy new equipment and buildings (Magretta 1998).

Secondly, virtual organisations creatively utilise information and communication technologies to coordinate geographically dispersed activities. They also use these technologies as a fast and convenient channel through which to get in direct contact with their customers (Metes et al. 1998). These new technologies provide the information and communication framework necessary for the anywhere, anytime work that takes place in virtual organisations (Upton and McAfee 1996). In addition, it must be noted that virtual organisations are information intensive (Grenier and Metes 1995), and hence may well be expected to be heavily reliant on information technology. However, it must be acknowledged that dependence on IT, although extremely likely, may not be an absolutely essential requirement.

Thirdly, the needs and requirements of virtual organisations demand that each employee has the skills to contribute directly to the value chain of product and service design, production and delivery, thus contributing directly to the “bottom line”. Employees must also be capable of learning new skills, be positive towards the need for constant change and tolerant towards ambiguity and uncertainty in their working lives as well as sensitive to the possibly changing needs and wants of the organisations customers. Outputs and results are required and measured carefully, but human inputs are left as much to the individual as possible (Coutu 1998).

Fourthly, virtual organisations keep overhead costs and structures to a minimum. Administrative work is done as efficiently as possible by as few staff as possible. Where administrative overheads can be carried by those staff directly involved in the value creating activities of the virtual organisation, this may be preferable since they will do only what administration is directly useful and needed by them and their team (Goldman et al. 1994). The needs of administration should not impede the work of those involved in creating value for the organisation. The inertia, “heaviness” and clumsiness of the bureaucratic hierarchical organisation of the late twentieth century
should be avoided at all costs, and an investigative light should be constantly shone on administrative activities to see if they are absolutely necessary or whether they can be minimised further or abolished altogether. It is essential that the organisation retain its ability to respond and adapt to changing conditions and high administrative overheads and/or slow and bureaucratic procedures can always threaten this essential characteristic.

Fifthly, virtual organisations are opportunistic and avail themselves of profitable business circumstances even if they are apparently temporary. This characteristic means that virtual organisations are at ease with the idea of porous and changing organisational boundaries, changing their skills and skill levels through outsourcing and alliances. In these ways virtual organisations incorporate the competencies of other organisations employees so as to quickly adapt and change their skills base and thus take advantage of emerging business opportunities.

Essential Design and Maintenance Strategies

Having outlined the essential characteristics of virtual organisations it is now appropriate to look at the essential organisational processes and activities by which virtual organisations are created and sustained. These processes include the utilisation of outsourcing, the formation of tactical and strategic alliances, and the establishment and use of interorganisational systems, reliant on information and communication technologies.

Outsourcing is a fundamental design strategy for increasing organisational skill levels, expanding the skills profile, and catering for variable demands for certain skills. Outsourcing is a way of providing skills quickly without recruiting permanent workers and thus increasing the need for infrastructure and administrative support services (Oates 1998).

Another organisational design strategy that is fundamental to the creation and maintenance of virtual organisations is the formation of alliances (Metes et al. 1998, Friedman 1998). The objective here is similar to outsourcing. It is to enhance and augment the skill and competency profile of the virtual organisation both quickly and effectively. Suppose that organisations 1 needs a new set of skills plus some new capital equipment in order to design and produce a new product that changing market demand has shown could be profitably manufactured and sold. Organisation 2 has a department with a number of employees with the required design skills and who are not fully occupied at present. Organisation 3 has capital equipment that is essential to the manufacture and testing of the new product line, and that equipment has spare capacity in the evenings and at the weekends. Organisation 4 has the computer software that is needed to design the product range. Negotiations could take place between organisations 1 and the other organisations to form a virtual organisation to design and manufacture the new product line. It is expected that this can be done more quickly than any of the organisations separately could do it by the traditional means of getting a new product team together by recruitment and by purchasing the necessary equipment.

While seductively simple on paper, the formation and maintenance of alliances as described above is no trivial matter. People in different organisations, working on collaborative ventures, need to find a shared purpose or vision. This serves as a “glue” of the virtual organisation (Hedberg et al. 1994). When the desired results have been achieved and the purpose accomplished, then the virtual organisation dissolves as there is no longer glue to hold the structure together. But three further elements need to be mentioned. In order that purpose may be genuinely shared and for linkages to operate unimpeded, there must exist extraordinary levels of trust. Indeed, Lipnack and Stamps (1998) suggest that in the virtual organisation, trust must function to replace the usual rules, procedures and policies that dictate the behaviour of the more traditional hierarchical and bureaucratic organisations. With a trusting relationship in place amongst virtual organisation members, there is also a requirement for the risk(s) associated with the joint initiative to be shared. If risk is to be shared, and high levels of trust maintained, then clearly the purpose of the virtual organisation must be such that all members benefit in more ways than they would from remaining outside the virtual organisation relationship. Thus, the successful virtual organisation relies on the ability of the alliance to offer benefits to individual members in terms of increased productivity, increased revenues, increased profitability, increased market share, and the like (Friedman 1998).

The establishment of appropriate interorganisational systems (IOS) to facilitate communication, coordination and collaboration is another design strategy for virtual organisations. Such systems may include electronic mail facilities, shared databases, as well as the capability to carry out business processes and transactions across organisations and organisational groups. Such IOS may enable the coordination of work across regions, nations or continents, and across the same or different time zones (Metes et al. 1998). Although virtual organisations may exist without such systems, the establishment of such systems enables virtual organisations to be created and maintained more easily.

Challenges Ahead

It may be tempting from the preceding arguments and other relevant literature to conclude that virtual organising is the way of the future, almost akin to a business imperative for the successful enterprise in this
internetworked era. Yet there seems to be a range of challenges for managers to nurture a successful business within the conceptual framework of virtual organising. Let us consider just a few of these challenges.

Firstly, it is clear that virtual organising is the way of the future? Or must we as a community of researchers, define the circumstances and environmental forces conducive to the virtual organisation? Furthermore, if one has established that the business circumstances are appropriate for the successful formation of a virtual organisation, there remain further challenges as to how best to move from current structures, strategies and practices to those in keeping with the principles of virtual organising.

Outsourcing was mentioned to be an important design strategy for the virtual organisation but satisfactorily managing outsourcing contracts, deriving benefits from outsourcing and effectively managing the risks that ensue are known to be complex and challenging matters (Willcocks and Lacity 1998). Similar issues arise with the formation of strategic alliances. How do you find appropriate partners (i.e. those with appropriate and available skills and resources)? How do you form and manage such alliances into the future? How do you safeguard yourself against potential opportunistic behaviours of alliance partners? How do you dissolve alliances? The risk is that the literature paints a far too benign picture of the behaviours of business and the ease of forming and managing a complex set of linkages and relationships in a dynamic, competitive and global business environment.

As ICT are often viewed as a major enabler of the virtual organisation, then one must also consider the challenges that stem from interorganisational systems, databases and networks. For example, how is strategic IS planning to be conducted in such internetworked environments? How are we to determine information requirements across organisational boundaries and cultures? How far should we lock ourselves into technical solutions spanning organisations when we talk of temporary alliances with business partners? These issues are notoriously challenging when looking simply within one organisation, let alone when we attempt to span multiple organisational boundaries for uncertain periods of time.

Conclusion

New information technologies offer exciting possibilities for new organisational forms and structures into the next century. This paper has attempted to characterise the essential features of one such organisational form, the virtual organisation, and to consider the types of processes and activities that may characterise the typical virtual organisation. However, it has also acknowledged the many challenges of virtual organising, and argues that empirical research is needed to support conceptually exciting claims for virtual organisations in the literature.

Bibliography


