

## Chapter 6.6

# Strategy and Structure in a Virtual Organization

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### ABSTRACT

The business environment of the 21<sup>st</sup> century require organizations to respond quickly to market demands and thus traditional organization structures and strategy are no longer capable of sustaining the needs of this relentless pace. New forms of organizations in the form of virtual organization (VO) hold promise in the network world. Several organizations worldwide have already been experimenting virtual organizations' structures and processes. These new virtual structures and processes, however, will require newer strategies to succeed. This paper attempts to highlight some

strategy and structural issues of a VO. The study is conceptual in nature and inferences have been drawn from existing literature and practices.

### INTRODUCTION

Advances in internet and communication technologies are mandating organizations to experiment newer forms of organizations structures such as; distributed structures, network structures and virtual organizations for their business. A virtual organization is a network of companies which support each other around a product and or a service idea. The companies in the network should be seamlessly integrated by information

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and communication technologies so that to the customer it is not apparent that the different processes are handled by separate companies. With the availability of internet and other communication technologies a VO is a viable option for many innovative entrepreneurs. According to Lipnack and Stamps (1997), virtual team is “a group of people who interact through interdependent tasks guided by common purpose” that “works across space, time, and organizational boundaries with links strengthened by webs of communication technologies” (p. 7). We are using the same definition for our study.

(Mowshowitz, 1986, 1994) used the term Virtual Organization for the first time in 1986. Since then, literature on virtual organizations has grown. There have been numerous definitions of virtual organizations (Dubinskas, 1993).

*“In a virtual organization, complementary resources existing in a number of co-operating companies are left in place, but are integrated to support a particular product effort for as long as it is justifiable to do so.” (Goldman et al., 1995)*

*“Virtual organizations are distributed ‘business processes’. These processes may be ‘owned’ by one or more organizations acting in partnership. For a specific project, resources are assembled to perform a business process on behalf of the project owner(s), and then disassembled on completion of the contract.” (Wolff, 1995)*

A virtual organization (VO) is an alliance of companies formed for the purpose of delivering specific products and or services. According to Porter (1990) “A virtual organization is a collection of business units in which people and work processes from the business units interact intensively in order to perform work which benefits all” (Skyrme, 1999). The literature suggests that virtual organizations tend to be non-hierarchical (Beyerlein & Johnson, 1994; Goldman et al., 1995) and decentralized (Baker, 1992). The company who is

responsible for the products and services may be called the “core” company. The core company is linked together by information and communication technologies (ICT) with other companies called “satellite” companies or VO partners. Core company and satellite companies share information, resources and skills in a seamless way so that the core company can deliver products and services to the customer and can create an impression to the customer that they have control over every aspect of the business process (Townsend et al., 1998). With the availability and ubiquitous nature of networked based information technology, a company’s business processes theoretically can span across the entire globe. Opportunity exists for organizations to deliver goods and services to the customer efficiently without the need to have physical control and ownership of many of the businesses processes. So the viability of VO’s is a present reality rather than a distant possibility (Kotorov, 2000; Coulson & Kantamneni, 2000).

Nature of a VO varies in terms of its longevity and complexity. Figure 1 depicts several types of VO from very transient to somewhat permanent. A virtual corporation may arise out of some interesting product and/or service idea. The originator of this product and/or service idea may succeed to actually market the product through entrepreneurial initiative using the virtual organization framework. Over time a successful VO may achieve some sort of permanency and may grow to be a traditional company (Pang, 2001).

The research on virtual companies can be categorized roughly into three broad categories: 1) the conceptual description and definition, 2) empirical studies, 3) issues related to managerial implications.

The concept of virtual organization was evolving in the early 90’s as the internet and e-commerce was gaining momentum (Barnatt, 1995; Flaig, 1992). Davidow and Malone (1992) described virtual corporation as “edgeless, permeable and continuously changing interfaces, among company, supplier, and customer”. Blau

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