

THE VIRTUES OF THE VIRTUAL ORGANIZATION

ABSTRACT

Purpose

This paper attempts to conceptually clarify and examine success factors for the establishment and subsequent sale of a successful small virtual organization, Millennium3, in the financial services sector in Australia.

Findings

The paper describes the concept of a virtual organization, outlines some distinct characteristics of virtual organizations and provides some historical and current background to Millennium3 (M3). It then provides a descriptive evaluation of outcomes from semi-structured interviews with all M3 executives and, based on those interviews and organizational structure, examines its overall performance.

Practical implications

It concludes with some critical success factors for M3 and gives the reader an idea how a corporation successfully works as a virtual organization.

KEYWORDS

Virtual organization, virtual corporation, financial services, entrepreneur, virtual manager, millennium

HEADING

The virtues of the virtual organization
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BODY

Modern organizations are faced with a dynamic and turbulent environment that requires flexibility and fast response times to changing business needs. Many organizations have responded by adopting decentralized, team-based and distributed structures (DeSanctis & Jackson, 1994; and Drucker, 1988), described in the literature as virtual, network and cluster organizations (Beyerlein & Johnson, 1994; Camillus, 1993; Goldman, et al., 1995; and Mills, 1991). Advances in communication technologies enable organizations to acquire and retain such distributed structures by supporting coordination among people working from different locations.

In order to understand the scope of virtual and networked organizations it is necessary to comprehend that virtual organizations come in many shapes and sizes and there is no typical structure. That is, each virtual organization is a unique construction. An early article by Byrne (1993) describes a virtual organization as: “a temporary network of independent companies – suppliers, customers, even erstwhile rivals – linked by information technology to share skills, costs and access to one another’s markets. It will have neither central office nor an organization chart. It will have no hierarchy and no vertical integration.”

The term “virtual organization” is also used to cover a wide range of geographically dispersed organizations. These may be linked by common goals with each requiring a new style of management and reassessment of the role of management. The Internet and related technologies are used as a means of communication and collaboration (Collins, 2002).

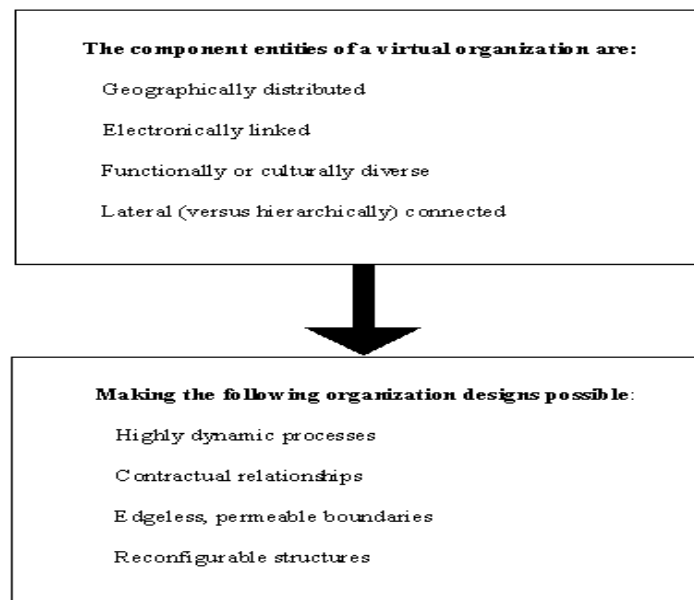
When appraising virtual organizations, the following issues need to be considered:

- Time and location where the key characteristics of a virtual organization rely on the concept of anytime, anyplace and anywhere. Hence, the coherence between time and location is radically reduced.
- Levels of involvement. The company may be working entirely on a virtual basis, depicting a high degree of involvement. On the other hand, by reducing the scale of involvement, it may be that only teams within a corporation operate on a virtual basis. These departments may be detached or otherwise outsourced from the line organization.
- Technological advances where new technology developments, such as wireless, Internet and multi-media applications, groupware, intelligent software agents and database systems, create new and flexible ways of working.
- Management issues. In a globalized world where companies are interlinked and there are reduced barriers in respect to cultures and languages, a “New World” thinking has emerged and companies increasingly gear their strategy toward a global marketplace.

Designing the virtual organization

The components that make up a virtual organization – individual employees, teams, departments, units or firms – are geographically distributed, functionally or culturally diverse, electronically linked and connected via lateral relationships. These attributes enable the organization to dynamically modify business processes to meet market demands, to coordinate via formal and informal contracts, to define the boundaries of the firm differently over time or for different customers or constituencies, and to re-arrange relationships among components as needed. Figure 1 summarizes the attributes of virtual organizing and the implications for organizational design. It is important to note that these attributes can be applied to employee-employer relationships, to teams, to firms and to inter-organizational arrangements.

Figure 1. Communication processes for virtual corporations



Source: DeSanctis & Monge (1998), pp.4-5

The role of technology

Companies are facing strong downward pressures on price and fulfilment time and a shortening of product cycles, while market forces are demanding increasing quality and service, customer responsiveness and “individualized” production. At the same time, the rapid advance of information and communication technology (ICT) is offering organizations the global reach and communication capabilities that previously were impossible. Electronically integrated virtual organizations and virtual teams are the results of efforts to look for novel ways to manage these new paradigms (Lipnack & Stamps 1997).

Early management concepts did not include the “virtual” theme. By the end of the twentieth century, management thinking began to take account of the introduction of business systems and the growth of the Internet. However, the learning organization recognized only the need to proactively create, share and transfer information. Because of this knowledge transformation, management became a formal way of encouraging innovation and lifelong learning (Collins 2002).

Many virtual organizations use electronic mail to share information and coordinate their work. Use of email allows groups to call on expertise whenever it is needed, regardless of where it resides. The use of email enables a group to create and sustain its identity without a shared physical setting and facilitates the existence of a group without visible participants (Finholt & Sproull 1990). The emphasis is therefore moving away from the task structure depicted in traditional charts of management hierarchy and processes in organizations are becoming more and more important.

Work design a critical concern

This in turn requires a rising demand for well-trained staff, new skilled profiles, job retraining and continuing education. The principle of “human capital” is now a widely applied concept in today’s business environment and many companies recognize human capital as a decisive factor in their success. Work design is a critical concern for managers because it bears directly on performance. How a company arranges work has a direct bearing on productivity, quality, cost, profits and customer satisfaction. Table 2 outlines three elements of work design for any work system.

Table 2. Work and rewards in the virtual workplace

| Element of work design | Traditional organization | Virtual organization |
|------------------------|--|--|
| People locus | Low direct labour costs. High division of labour with low task variety. Individual contribution. Work defined by function on a common site. | Moderate direct labour costs. Moderate division of labour with much task variety. Individual contributors/team combination. Work defined by processes and products that transcend the boundary of the organization. |
| Decision locus | Bound by procedures and protocols. Managed top-down. Long cycle time. | Fewer procedures. Individual decisions aided by expert systems. Instantaneous cycle time. |
| Information locus | Information available on a need-to-know basis. | Information on all aspects of the design, development and |

| | | |
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| | | distribution process available to entire network. |
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Source: *Crandall & Wallace (1998), p.3*

The importance of teams in the modern work environment has been widely reported. The conceptual brainstorming and motivation provided by teamwork far out produces the individual work product. At the same time, working in teams implies a great deal of understanding and acceptance within the team and often offsets personal bias. The virtual team is a construct of different team members who are based at different locations. Well-educated employees, facilitators, contractors or otherwise outsourced partners may be part of a virtual team. From their research, Stough, Eom and Buckenmyer (2000) detected the following characteristics of a virtual team:

- **Transcendancy.** Virtual teams can transcend time, distance, organization size and technologies because telecommunication technology can allow team members to communicate with one another via computer conferencing systems, Internet-based virtual meeting systems and electronic meeting systems.
- **Infinity.** Virtual teams can have an infinite number of participants. Network technology and groupware enable the participants from anywhere in the world to share information in a data server. Infinity enables virtual organizations to effectively mobilize a large number of employees to assemble virtual teams. Harper & Harper (1994) suggest that the number of participants in a traditional team is limited to reduce the cost and time of meeting.
- **Anonymity.** A virtual team enables its members to keep their participation anonymous. It can be designed to conceal the identities of those involved in the virtual team and even to conceal the existence of the team itself. These characteristics can significantly reduce the limitations and the problems of the traditional team. A traditional team may be more vulnerable to security problems, as it is often based on face-to-face meetings.

A study of a virtual organization

Millennium3 Financial Services Pty Ltd (M3) is an Australian-based private company licensed to provide advisory and dealer financial services. While having only 23 direct employees, M3 is approximately the 10th largest licensee in Australia while other financial services companies operate with 1,000 people to gain the same achievement.

Its services are provided to authorized representatives via a team of practice development managers. Services include business planning and development, compliance management, networking, marketing advice, commission management, recruitment assistance, human resource development, succession and exit strategies and planning and continuous development programs. These services are subsequently provided to the public by M3 authorized representatives and can include advice in the areas of personal risk management, life/trauma/income protection insurance, financial planning/investment advice, superannuation, estate planning and succession planning. M3 does not manufacture its own product, it provides a licensing regime, practice development and a channel through which the product is serviced.

M3 was established in 1996 when business models were not highly customer-oriented. It was set up as an additional company to CitiCover and P&SP (both these companies provided services to life insurance agents and supported them in terms of their business). A strategic decision was made to develop distribution channels and a separate company was needed to provide services and develop accounting practices into an integrated financial services model. This enabled the organization to deal with accountants and lawyers,

because the new company was not just seen as a financial services company. The best and most promising way to do business was via accountants, the so-called centers of influence. A study from the FPA (Financial Planning Association of Australia Limited) corroborated this belief; it found that 70 percent of Australians prefer to get financial advice from their accountants.

A fast changing environment

The first critical event for M3 was the 1999 sale of 50 percent of M3 Professional Services (a company dealing in the life risk and superannuation industry) to Austbrokers (a wholly owned subsidiary of ING). The motivation for this sale was the change in ownership, which provided M3 with access to all other member firms within the Austbrokers group. M3 introduced financial services as an added benefit to general insurance practices. For Austbroker this implied a growth in business development, because M3 would roll out financial services across its businesses.

In 2002, ING bought the last remaining 50 percent of the company. This sale was due the introduction of the Financial Services Reform Act 2001, which represented a huge potential liability for people who run smaller companies, such as M3. Although M3 is now wholly owned by ING, it acts independently and ING puts no restrictions on the company on what kind of products to sell. The reasons for this are that M3 is highly profitable, it has no compliance risk dramas and it is consistently over-target.

An organization with a difference

What makes M3 different from other organizations in the financial industry is that the company acts as a facilitator of other people's businesses and allows other corporations to operate their own business under their own names. M3 is just adding value to their advisors by building networks around them and this is the reason why M3 is marked with a high degree of virtuality – there is no need for controlling or directing. Furthermore, the company does not have the objective of having a public profile. The role of M3 is more about assisting and developing representatives' businesses.

The M3 vision is to be acknowledged as an outstanding organization displaying superior teaching and educative processes that demonstrate leadership, coaching, facilitation and, where appropriate, contracting skills. It wants to be seen as an organization that is helping the people the company works with improve their performance in their business and careers, and to have joy in their personal lives. Its objective is to build a collaborative organization of at least 20 practice development coaches plus support specialists who will serve the needs and wants of 1,000 financial and business advisory practices in the future. Assuming that each financial and business advisory practice serves 100 to 200 small to medium sized enterprises, M3 will be able to indirectly serve and influence the needs and wants of between 100,000 to 200,000 business clients, which employ 500,000 to 1,000,000 people.

The critical success factors

To find out more about the organization, taped interviews were conducted with the five senior executives of M3. Fundamental to the way M3 does business is the belief that it is a "collaborative" organization working with a group of other "collaborative" organizations. The hierarchal-based structures of the last millennia are no longer valid in a swiftly, ever-changing world. M3's business strategy is based on its philosophy and values, with the following values describing how the company conducts business:

- Lifelong learning. M3 is an educative organization and it recognizes the core of all change is belief and it is through education of beliefs that M3 masters its ever-changing environment.
- M3 teaches by example as well as by precept. It strives “to walk the talk” and to actually realize things that were either projected or on the agenda. A part of its success comes from the fact that M3 models and designs the behaviors that M3 clients will use in front of their clients.
- Interdependence. M3 seeks to build interdependent relationships with clients, suppliers and others with whom it is engaged in business. M3 works to help them move through dependence to independence and finally to interdependence. It is easier to add value and work with clients who have achieved interdependence
- Customer intimacy. The focus is on the long-term relationship value, rather than any short-term transaction value.
- All relationships entered must be founded on a win/win basis and M3 does not engage in business if the counterparty loses on the other side.
- Respect and courtesy. M3 shows courtesy and respect to all clients, customers and partners.

These values guide the collaborative nature of M3’s operations, which in turn helps create the following four factors that the organization considers critical to its success:

1. Value. Clients must receive, and perceive that they are receiving, more value than M3 charges them.
2. Continuous improvement. M3 continually reviews processes to ensure learning models produce the outcomes the clients want. The driving force of every successful entrepreneur is “the compelling drive to get it right.”
3. Unbiased. M3 strives to give unbiased advice as far as possible. When awareness of a bias exists, M3 discloses it to their clients and highlights the consequence.
4. Communication. M3 endeavors to communicate regularly in a clear, open and candid way. If M3 wants to stay lean and mean with a comparable small workforce, the use of modern information technology systems is key.

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