CHAPTER OBJECTIVES

After reading this chapter, you should be able to:

1. Understand the types of virtual organizations
2. List the various models of a virtual workplace
3. Enumerate the types of virtual teams
4. Explain the difference between a virtual and a traditional organization
5. Understand the specialized HR activities required for virtual organizations
6. List the prerequisites for the success of a virtual enterprise

iGATE is a fast-growing virtual company that provides IT services, business consulting and business process outsourcing to its clients. This internationally renowned company has over 6,600 employees and has bagged quite a few awards for its smart HR practices. For instance, the annual DATAQUEST IDC Best Employer Survey adjudged iGATE as India’s top employer. Similarly, a Business Today–Mercer–TNS cross-industry survey, Best Companies to Work for in India, selected iGATE as the second-best company in India. As an endorsement to its commitment for quality sustenance, the company was awarded the highest rating of the Capability Maturity Model Integration (CMMI) Version 1.2. The renowned annual guide from Brown-Wilson Group, the Black Book of Outsourcing, has listed iGATE as one of the “50 Best Managed Global Outsourcing Vendors in 2008”. The HR policies and practices of iGATE focus on the five beliefs collectively called SOARS, which stands for strength, originality, academic rigour, relevance, and serenity.

iGATE has a diversity index of 11 per cent, which is the highest among offshore-services providers. The other unique programmes of iGATE that aim to create a world-class human resource system that will suit a global workforce include the introduction of newer human resource frameworks and policies like the technical and behavioural competency framework, career planning and management process, and competency management system. It also utilizes a “HAP-PSYCAP” model for developing the psychological capital of the company, the “Leaders 2 Leaders” (L2L) programme, which is a five-day residential programme to fulfil the development needs of the senior members of the organization globally, and the “Leadership Coaches Workshop” for developing coaches for the project managers. The HR policies and the success of the virtual firm iGATE indicate how these two are intertwined. We shall now see the various HR aspects of a virtual organization in this chapter in detail.
Introduction

A virtual organization is a new kind of technology-enabled organization formed for the internationalization of business operations. In virtual workplaces, employees operate at a remote distance from one another and also from the managers. As a modern concept of the twenty-first century, a virtual organization has established an entirely new kind of relationship among organizations, employees and customers. This new breed of virtual organizations exists mostly on the Internet without any physical location. It is based on the idea that an organization, team, individual, product or service need not be physically present even though it appears to be so. Today, organizations all around the world are spending huge sums of money on information technology just to develop virtual forms of office. The driving force behind such initiatives as a virtual workplace is to make organizations more responsive to the changes in today's business world.

There will be no physical presence or permanence of workers in such enterprises. Further, members in this set-up, though geographically divided, work together through computer technology. The cyberspace provides the platform for the working of virtual organizations. It is actually an electronic medium for data exchange brought about by the combination of computer software and telecommunications. In virtual organizations, the members create flexible linkages among themselves in order to attain common objectives and the teams are dissolved on the completion of objectives only to reappear in new combinations for other tasks. In the virtual era, traditional departments, divisions and offices simply disappear, leaving an amorphous mass of people connected electronically and sharing information through video-conferencing and e-mail, as and when required. Virtual organizations are networks of suppliers and customers who share cost, information skills and markets among themselves. Overseas call centres and outsourcing, are examples of virtual organizations. However, in practice, the majority of the virtual organizations are not completely virtual since they still keep real-world elements like physical offices and do organize face-to-face meetings.

A virtual organization represents the concept of organizational flexibility unrestrained by the traditional barriers of place and time. It is actually a network of cooperation achieved through information and communication technology (ICT). In fact, ICT coordinates the activities of the organization by blending the employee's skills and the resources suitably in order to achieve the strategic goals of the organization. We shall see the important definitions of virtual organizations in Box 31.1.

Characteristics of Virtual Organizations

Virtual organizations are actually unconventional organizations where the relationship among the members or partners is unique. Although the members are physically separated, they remain electronically connected and work as a single unit towards the accomplishment of common objectives. Physical space and a comprehensive organizational structure are no longer required in virtual organizations. In fact, this kind of organization has several unique characteristics which distinguish it from a traditional business organization. We shall now see the characteristics of virtual organizations in detail.

- A virtual organization is made up of a temporary network of companies or teams bound by common tasks.
- Virtual organizations, like traditional ones, have specific goals which are usually time-bound.
A virtual organization emphasizes a flatter hierarchy and voluntary commitment from members.

The organizational structure of a virtual organization is typically short-lived, fluid and flexible.

Virtual corporations are normally customer-driven organizations with the presence of highly skilled people working in a collaborative environment.

Virtual organizations combine talents and capabilities for creating virtual products.

Their members are mostly geographically dispersed but interdependent and connected by information and communication technology (ICT) tools.

The membership is usually dynamic, with members joining when their task begins and leaving when it ends, without waiting for the whole project to be completed.

A virtual organization requires the development of relationships with a wide variety of potential partners, each having specific capabilities that complement the others.

**Types of Virtual Organizations**

Information technology, which caused the disintegration of the organizational hierarchy and physical boundaries, resulted in the birth of various forms of virtual organizations. At present, several forms of virtual organization are in existence and each one has a few unique characteristics. We shall now see Bradt’s classification of virtual organizations, as mentioned in Figure 31.1.

**Alliance Organization**

The essence of an alliance organization is the horizontal networking among its partners. It replaces the traditional vertical organization, in which all powers were centralized in a
single organization and the employees just executed the orders. In case of the alliance type of virtual organization, each partner (an independent organization) linked with the virtual organization performs different but related activities. In fact, the core competencies of the partners are combined to produce synergy effect for the virtual organization. For instance, the marketing aspects can be carried out by the virtual organization, while product manufacturing or assembling, and delivery can be done by its partners.

**Displaced Organization**

In a displaced organization, the individual members are geographically dispersed but connected by information technology. However, the physical separation of members is usually not known to the outsiders, who perceive them as a single unit. Teleconferencing, video-conferencing, e-mail and other modes enable the virtual organizations to make the customers believe that all the employees are functioning from the same office. Many software and investment companies are adopting this style of operation in which employee dislocation is not known to the customers. For instance, internationally, a virtual shift system may operate when different teams around the globe deal with the same project at different times, each group leaving progress reports for the next team in another place to continue as it concludes...
Foreign institutional investors (FIIs), who operate in different securities markets around the world, are similar to displaced organizations.

**Invisible Organization**

An invisible organization will not have a physical structure as such, except that a small place will be used as an office for a few employees. The primary duty of these employees is to attend to the phone calls of the customers in need of the goods or services offered by this kind of virtual organization. The products of such an organization are mostly virtual and directly downloadable from computer. It uses telephones as its primary tool to exchange information with the customers. BSNL Hungama portal is similar to this type of virtual organization. This type of organization keeps no visible high-street branches but operates through a network of call centres and back offices.

**Truly Virtual Organization**

This type of organization is a mixture of the characteristics of alliance, displaced and invisible organizations. The Internet is the major platform for performing its operations. In fact, the Internet enables it to offer its products or services to the customers. Book publishing companies often use the truly virtual organization to market their products and pay it a commission for its role in displaying and selling its products. For instance, once orders are received for the books, the virtual companies generally send the hard copy from the publishers’ warehouses. Delivery is handled by independent agents. The online Amazon.com bookstore is a typical truly virtual organization.

**Models of a Virtual Workplace**

Like the different types of virtual organizations, the workplaces within the virtual organizations can also be classified into different kinds on the basis of the nature of networking among the members of the organization. Surely, there would be neither physical office nor physical presence of employees in any of these virtual workplaces. Typically, the models of workplace are categorized on the basis of where the employees of these organizations are located. As shown in Figure 31.2, there are three popular models of virtual workplaces available for virtual workplaces.
organizations. These are the (i) telecommuting, (ii) front-line and (iii) cyber-link models. We shall now see these virtual workplaces in detail.

**Telecommuting Model**

In the telecommuting model, employees often perform work from their home and remain away from the office. The organizations can have formal or informal arrangements to facilitate the employees’ skipping office and working from home. A virtual employee of this nature need not attend office for a specified number of days in a week. Depending upon its policies and facilities, the organization may choose any number of employees as telecommuters. However, in reality, it normally permits the senior employees to be telecommuters so that they can save their precious time for performing the job.

The telecommuting model of a virtual workplace has its own merits and challenges. Telecommuting is capable of (i) eliminating or reducing the office space requirements, (ii) saving the time and cost of commuting by the employees to and from the office, (iii) ensuring the best work–life balance for employees, and (iv) helping the special cases among employees, like women employees during pre- and post-natal stages. However, it also has several challenges to surmount. These are:

- Unlike traditional organizations, setting performance standards for employees in measurable standards is difficult. The evaluation of employee progress in work and in quality of performance and the extent of goal accomplishments may pose challenge to the management of virtual organizations.
- Team unity may become a casualty of telecommuting workplaces. The organizations may find it difficult to coordinate the activities of the employees, who may perform their work at their own convenient time.
- Organizations may not be sure about the statutory and non-statutory rights and duties of the telecommuters and the organization. This may cause confusion in labour issues concerning the telecommuting employees.
- Determining the criteria for identifying employees to be covered under telecommuting may become a contentious issue for the organization, affecting the cordiality between employer and employee and also between employee and employee.
- The development and maintenance of dedicated channels of communication may also be a challenge in a telecommuting workplace. The organization needs to ensure a hassle-free operation of the electronic instruments on a sustained basis.

**The Front-line Model**

In this model, the employees generally work neither from their office nor from their home. Instead, they perform their work from the client’s workplace or site. The purpose of this model is to enable the clients to get the services of the virtual organization onsite. This facilitates the clients to have a better control and an easy and immediate access to the activities of the virtual organization. In a way, this also helps the virtual organizations in ensuring reduction in space cost and enhancing customer satisfaction. However, the major limitation of this model is that the performance and behavioural problems of the employees would be known to the clients at once, thus affecting the image of the virtual organization. This model may enhance the space requirements of the clients, causing time and cost inconvenience to them.
Cyber-link Model

In this model, the team of producers, suppliers and customers is networked through cyberspace and works collectively and collaboratively towards the achievement of common goals like creating a product or service. The primary purpose of this model is to ensure complete client satisfaction and get repeat orders. Thus, this model works towards long-term cooperation between the virtual organization and its clients. However, in the cyber-link model, the teams are formed for achieving specific goals or missions. Once a goal is achieved, the team is dissolved and the members of the team may form new teams with new or existing members to carry out the next goal. An important prerequisite for the success of this model is the complete revamping of the culture and work system. The major strengths of this method are (i) a goal-driven approach and faster execution of work; (ii) the empowerment of employees as they decide their teams; (iii) an effective communication among employees; (iv) self-directed teams that enhance involvement and motivation; and (v) IT-based information sharing that facilitates shifts in duties and responsibilities of employees.

Types of Virtual Teams

Virtual teams are groups of employees who perform common tasks though separated by time and distance. However, these employees are connected to each other through electronic means like e-mail, video-conferencing and other Web-based devices. The team members, cutting across functions, organizations, cultures and regions, join together and combine their skills and knowledge to accomplish the goals and targets for which they come together. The efficacy of these teams is usually measured in terms of productivity, flexibility, creativity and unity. Basically, three important types of virtual team are found to be functioning in virtual organizations (see Figure 31.3). These are the (i) project team, (ii) service team and (iii) process team. We shall now see the various types of virtual teams.

Project Team

A project team is formed to complete specific and time-bound projects. Its duration usually depends on the length of the project. Depending upon the specific requirements of the project, its composition is decided. Again, depending upon the skills required for the performance of different modules as part of the project, sub-groups can also be formed to complete specific tasks or modules as part of the project. When the project team functions as several sub-groups, it becomes essential for the team members to have periodic meetings to plan and synchronize the various activities of the project. The project team, if necessary, can enlist the services of other employees of the organization who may not be part of the project team.

Service Team

The primary purpose of forming a service team is to attend to the specific problems of the clients. The expertise of the service team may be available to clients across a number of organizations, places and countries. As such, the talent pool of the service team may not be organization- or location-specific. Rather, a service team is generally capable of providing expert advice to several organizations located in several countries. Online information technology support provided to client organizations is a typical task of service teams. A major characteristic of a service team is that it is need-based and therefore avoids working on a continuous basis. When a problem is reported from a client organization, a service
team is formed and entrusted with the responsibility of resolving the problem. Once the problem is sorted out, the service team is promptly dissolved only to be reassembled for the next client's problem.

**Process Team**

A process team is formed when the organization aims at evolving a continuous response to a long-term challenge of a business. Since the time and duration of the challenge cannot be predetermined, this kind of team usually functions for an undefined period. Its membership is dynamic and flexible as it works for an indefinite period. The nature and type of interaction among the team members usually depend on the objective of the process team. The managerial teams formed to devise strategies for expanding the business operation in the market continually are examples of process team. The goal of a process team is not time-specific, and thus it may function as long as market expansion remains the objective of the organization.

**Difference between a Virtual and a Traditional Organization**

Although a virtual organization is the Web-based form of a traditional organization, it has several characteristics that distinguish it from the latter. In fact, the unique characteristics of virtual organizations such as dispersion, empowerment, restlessness and
interdependence of employees make them different from the traditional organizations. Dispersion may mean the scattered location of the employees of the organization; empowerment refers to enhanced and independent authority and responsibility for employees; restlessness refers to continuous changes in the organizational practices, policies and team characteristics; and interdependence refers to the networking and interdependence of the employees for goal accomplishment. Table 31.1 lists the primary differences between a virtual and a traditional organization.

<table>
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<th>Table 31.1 Differences between a Virtual and a Traditional Organization</th>
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<tr>
<td><strong>Virtual Organization</strong></td>
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<tr>
<td>Virtual organizations do not usually have any physical presence or permanence.</td>
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<td>There is no face-to-face communication among the members in completely virtual organizations. They rely on electronic communication to share information.</td>
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<tr>
<td>The membership is dynamic in nature, with members joining and leaving the organization when their roles begin and end.</td>
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<tr>
<td>Virtual organizations keep a flatter hierarchy and insist on voluntary commitment from their members and on self-discipline.</td>
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<tr>
<td>Performance evaluation and work control are virtual and difficult.</td>
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<td>The HR department is usually web-based and built on partnership.</td>
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<td>Statutory HR practices governing the functioning of employees are not clear and effective, but evolving.</td>
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<tr>
<td>Leadership and control are self-managed.</td>
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<td>The employees’ skills and knowledge are usually developed through the e-learning process.</td>
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<td>The power of employees depends on their role in business process.</td>
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**Human Resource Management and Virtual Organizations**

The HR management in virtual organizations is mostly performed through e-HRM. The HR management of virtual organizations requires radical thinking and an innovative approach on the part of the HR managers. From an HR perspective, virtual teams may be composed of experts who are geographically divided and yet connected by informational and
communication tools. They work together to achieve the purposes of time-bound projects. Obviously, the selection, training, management, and assessment of the performance of members of virtual organizations pose new challenges to HR professionals and call for a newer understanding of the different dimensions of people and their problems.

“Truly virtual organizations create new problems for human resource management. A networked company does not require a personnel function but its core management must be adept in managing people at a distance, some of whom may not be ‘employees’ as such. They are true ‘human resource managers.’”15 The HR managers in virtual organizations have to effect transformations in skill, team working, identification and empowerment. While performing the HR activities, they need to be more

- **Strategic:** The HR managers should emerge as strategic business partners and involve themselves in the strategic planning process of the virtual organizations.
- **Flexible:** They must possess adequate skills in change management. Since changes are quite common in virtual organizations, they must keep the HR policies and practices dynamic, fluid and receptive to changes.
- **Cost-efficient:** The HR managers must be able to prioritize the HR activities of the organization from the cost perspective. They must learn to perform the HR functions in a cost-effective manner. The major cost component of a virtual organization is labour cost. This is because any saving in HR cost achieved by HR managers can bring down the overall cost of the organization substantially.
- **Customer-oriented:** The HR managers must keep a critical focus on customer need satisfaction while framing HR policies and practices. Since virtual organizations are customer-dependent, the HR managers must provide excellent support and service to the managers and employees in their quest to fulfil the needs and expectations of the customers effectively.16

**E-HRM**

The performance of HR functions through information technology is the essence of several of the definitions of e-HRM. We shall now see some of these definitions in Box 31.2.

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<th>Box 31.2</th>
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<td>“E-HRM may be defined as a network-based structure built on partnerships and typically mediated by information technologies to help the organisation acquire, develop, and deploy intellectual capital.”17</td>
<td>“E-HRM means planning, implementation and application of information technology for both networking and supporting at least two individual or collective actors in their shared performing of HR activities. Crucial aspects of e-HRM: the use of information technology in a two-fold manner, i.e. as a medium with the aim of connection and integration.”18</td>
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<td>—D. P. Lepak and S. A. Snell</td>
<td>—S. Strohmeier</td>
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<td>“E-Human resource management is defined as a way of implementing HR strategies, policies, and practices in organisations through a conscious and directed support of and/or with the full use of web-technology-based channels. E-HRM is as concept a way of ‘doing HRM.’”19</td>
<td>—H. Ruël, T. Bondarouk and J. K. Looise</td>
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We may define e-HRM as a system concerned with HR policies and practices that ensure the best utilization of human resources, which work in a web-based environment towards the fulfilment of common goals.

**HR Activities Required for Virtual Organizations**

While framing the HR policies and procedures of virtual organizations, it should be ensured that the rules are simple, easy to understand, and self-explanatory in nature. The HR department in a virtual organization must design HR policies which suit the specific requirements of the virtual environment. For instance, virtual organizations are mostly temporary and flexible; the HR department must consider these factors while framing HR policies for training, performance, and evaluation. The usual performance evaluation practices of traditional organizations may be of little relevance to virtual organizations, and the HR managers must think beyond their conventional approach. We shall now see the human resource management requirements of virtual organizations.

**Recruitment and Selection**

Prior to recruiting members for virtual organizations, the HR department must set upper and lower limits for the organization's expectations from potential applicants. The successful candidates must be able to fulfil high-performance expectations and derive satisfaction and motivation from the task itself. Besides, the HR department must ensure that the recruitment process is faster and time-bound, as employment in virtual organizations is goal-centred and temporary. Therefore, the organizations must make the optimum use of technology for recruiting candidates. Many virtual organizations are using web-based e-recruiting effectively for building their applicant pool. E-recruitment facilitates target-oriented and focused recruitment campaigns and ensures a faster processing of applications.

The selection process should also be unique in a virtual organization, because it provides a rare and precious opportunity for a face-to-face contact with the future employees. The HR people must use this opportunity for building a relationship with and creating a lasting impression on the employee about the organization, since the work would be done mostly in the non-face mode. As team-based performance is the essence of a virtual organization, the HR department must ensure that there is team compatibility and the selected members gel well with the team to which they are assigned.

**Training and Development**

Although the purpose of any training is skills acquisition, the mode of delivery in virtual organizations must be unique. Virtual organizations often provide e-learning facilities for skills enhancement and knowledge acquisition. E-learning refers to the use of the electronic media to conduct online training for the employees. In practice, three forms of e-learning platforms are available for training the employees of virtual organizations. These are (i) computer-based training, where the course information is provided on the computer without any link to external learning resources; (ii) web-based training, where information is presented through the Internet, intranet and extranet with necessary links with outside learning resources; and (c) technology-based instruction, where audio-visual tools, including computer and TV, are used extensively for training the virtual employees. E-learning activities
of a virtual organization also include activities like live workshops, virtual discussion and conferences, simulation, e-assessment, and e-mentoring (like coaching and e-mail exchanges) through electronic mode.\(^\text{21}\)

The HR department must be sensitive to the special needs of the virtual employees and should have necessary provisions in the training system. For instance, the training must be so designed as to enable the employees to plan, prioritize and schedule their activities on their own with little external guidance. Besides, the emphasis on training in virtual organizations should be not only on the skills and knowledge of development but also on sharing them among the employees. In the course of training, the HR department must identify the competencies of the employee and ensure that these competencies are shared among other members.\(^\text{22}\) Employees of virtual organizations should also be taught about the distinct practices to be followed while working from home. The practices may include, among others, techniques of time management, office organization at home, and child caring.

**Compensation**

The reward system should be distinct and appropriate for virtual organizations, where employees are judged only by results. Unlike in the traditional organizations, the compensation packages of virtual organizations should consider the flexibility and goal achievement ability of the employees. In this regard, the organization can adopt a ‘person-based’ system for determining the compensation of each employee. As such, this type of compensation model primarily considers the job holder as the unit of analysis and not the job.\(^\text{23}\) Obviously, the focus of compensation in virtual organizations should be on compensating the skills, knowledge and ability of the virtual employees.

**Performance Evaluation**

Since there is no face-to-face contact between the superiors and the subordinates in virtual organizations, the HR department must depend only on the end results produced by the virtual employees for performance measurement. It must have clear performance objectives and criteria for evaluating the virtual employees. It must set measurable standards for performance evaluation. The performance standards may be expressed in terms of quality standards, goal accomplishment and speed of performance. The HR department may use electronic modes of communication like e-mail, telephone and fax for conducting evaluation and sharing the results. Similarly, the performance evaluators, like the supervisors, must possess an adequate technical knowledge about the employee to be evaluated by them. In case the supervisor does not have adequate technical competency to evaluate the subordinates, the performance evaluation might not be effective and justifiable.

**Communication**

Virtual employees should be encouraged to increase their level of explicit communication so that their grievances are recognized expeditiously and addressed appropriately. The HR managers can implement “communication training” programmes for virtual employees to enhance trust and understanding. In virtual organizations, the employees would also be missing face-to-face informal communication like grapevine with their superiors and co-employees.\(^\text{24}\) In this regard, the HR department must ensure that the information channels
of communication are supplemented with telephonic conversation, e-mail communication and periodic face-to-face meetings to keep the two-way communication channels open.

**Control Process**

Virtual organizations call for new kinds of control process that ensure greater involvement of employees and self-imposed discipline. As part of the control process, the organization must first set scientific performance standards, then measure actual performance critically, and finally compare the actual performance with the standard performance. In case of performance deficiency, the HR department can organize skills acquisition trainings. Through training and counselling, the HR managers can also enhance the individual’s feeling of self-efficacy and the proactive approach necessary for success in virtual work programmes. The employees can also be trained to structure their behaviour and work by keeping to-do lists and developing routines.

**Coordination**

Since virtual teams are mostly involved in team-based activities, coordination among the team members is critical. It is critical to the success of the organization, and the HR department must ensure that the electronic media are optimally used to enhance the coordination among the employees.

In addition to the usual HR functions, HR managers need to put in special efforts that can enhance the perception of social support which may prove to be helpful in reducing negative fall-outs of jobs such as work and non-work conflict, job stress and monotony. Box 31.3 outlines an example of the HR practices of virtual organizations.

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**Box 31.3 HR Benefits at Amazon.com**

Virtual companies, which are the new breed of traditional business enterprises, are fast emerging as the powerhouses of global economy. These virtual companies require new kinds of organizational strategies and structures. Many virtual companies have designed and developed highly imaginative HR policies that best suit their organizational requirements and conditions. The case of Amazon.com, a virtual firm, is worth mentioning here.

Amazon.com is an internationally well-known e-commerce company. It is one of the Fortune 500 companies and also the world’s biggest online retailer. As a virtual company, it offers a wide variety of products ranging from books and electronic goods to diamonds and toys. The company offers products through international sites and a world-wide network of fulfilment and customer services centres. It also provides an e-commerce platform to other retailers and to individual sellers to market their products. Currently, it employs more than 20,000 people throughout the world.

The HR policies of Amazon.com offer several benefits to its employees. Some of them are medical plans to meet individual needs with ‘in-network’ and ‘out-of-network’ options, company-paid short- and long-term disability plans, vision plans, dental plans, healthcare and dependent-care flexible spending accounts, Amazon.com-restricted stock units for every full-time Amazon.com employee, general employee discount programmes and employee assistance programmes, including dependent-care referral services and financial/legal services. Depending upon the level and position offered to the employees, relocation assistance and allowances are provided to the employees. These include, among others, packing and unpacking of the personal goods and car; fully furnished, temporary housing, which also includes maid service, utilities, and parking; and rental or real-estate tours to assist the employees in finding a new residence.

Adapted from: www.amazon.com/Benefits-Careers-Homepage/b?ie=UTF8&node=23936901.1
Benefits of Virtual Organizations
In a technology-enabled business environment, virtual organizations are gaining growing acceptance among the business people. They view virtual organizations as the best means to harness the benefits of information technology in the most productive and profitable way. In fact, the benefits of a virtual organization are so overwhelming that it is all set to occupy a place of prominence in the future business scenario. We shall now see these benefits of virtual organizations here.

Absence of Distance Barrier
The physical distance of members is no longer an important factor in establishing an organization. When everyone can access everyone else wherever they might be, distance cannot be a hurdle.

Reduction of Overhead Costs
The need to reduce costs is the driving force behind the formation of a virtual organization. The usual establishment expenses can be reduced vastly.

Faster Response
Virtual organizations save time as they are able to respond quickly to customer requests, and to process or present information in the desired form.

Savings in Space Cost
A virtual organization capitalizes on the telecommunications infrastructure to overcome the constraints of space. The cost of space is reduced considerably in this form of organization.

Round-the-clock Service
Virtual organizations facilitate the distribution of work across time zones. This makes them work for nearly 24 hours a day.

Better Managerial Efficiency
Virtual organizations, through an improved utilization of the electronic equipment for communication, supervision and control, can enhance the efficiency of the managerial personnel.

Customer-driven
Virtual organizations are mostly customer-dependent and -driven enterprises. As such, there is a greater emphasis on enhancing customer satisfaction and getting repeat business.

Precise Performance Measurement
In a virtual organization, an accurate measurement of productivity and efficiency is possible with the help of electronic devices. This can assist the management in the proper allocation of staff to work tasks.
Competitive Edge
Organizations adopt virtual working as part of a long-term strategy to transform the entire business processes eventually in order to face the intensified national and international competitive challenges.

Exploiting the Labour Market Imbalance
Geographic labour shortage and surplus can be neutralized as virtual organizations cover labour markets of different regions and countries.

Avoiding Man-hour Losses
The loss of productivity arising out of absenteeism and sick leave can be prevented when employees are hooked to their offices through electronic devices from their home even when they are ill.

Reduced Work Stress and Fatigue
Since the time and duration of work are determined by the employees, work-related stress and fatigue can be reduced considerably.

Maintaining the Work–Life Balance
The work–life balance can be well maintained by the employees in virtual organizations as the time is judiciously shared between work and personal activities like child caring and parent caring.

In other words, virtual corporations can reap the benefits of interdependence—reduced overhead, increased profits, and greater commitment from members and customers.25 In fact, virtual organizations provide an increased array of opportunities for future business collaborations.26 However, for the virtual organizations to be really effective, there should be a reciprocal loyalty in the relationship between the management and the workforce.

Limitations of Virtual Organizations
Although virtual organizations have several benefits to their credit, they also have their own limitations, which retard the faster growth of these organizations. We shall now see the weaknesses of the virtual organizations, which follow systems like telecommuting and cyber link.

Absence of Managerial Control
The major problem of virtual organizations is their inability to ensure adequate supervision and managerial control over the activities of the virtual employees, who work away from the management.

Technology-related Problems
When there is a mechanical or technological failure while performing a piece of work, it may not be possible to make alternate arrangements immediately. In such a situation, the work may get affected and there could also be deadline problems for the individual employees and the organization both.
Misuse of Electronic Instruments and Consumables of the Organization

There is a scope for dishonest and unscrupulous employees to use the company properties for purposes other than those for which these instruments have been given to them.

Limited Application

Virtual organizations are not suitable for all types of business operations. As such, they have very limited utilities and are mostly confined to the creation of virtual products and services.

High Maintenance Cost

In addition to the equipment and installation cost, virtual organizations may have to spend huge sums of money on routine maintenance costs like the one related to network.

Aloofness and Job Boredom

In the absence of emotional and social support, virtual employees may find it difficult to perform their job all alone. Working with non-living beings for long hours is bound to cause job boredom to the employees.

Absence of Involvement and Commitment

Since the employees mostly remain away from the office and keep only a formal and irregular contact with their superiors and colleagues, they may not develop any affinity towards their organizations. Consequently, their level of involvement and organizational loyalty would not be high and the organization may eventually suffer in the form of high labour turnover.

Prerequisites for the Success of Virtual Enterprises

Though virtual organizations can offer several benefits, all these benefits may not be derived in equal measure. This is because the efficiency levels may differ from one organization to another. However, the following factors can enhance efficiency in the functioning of any virtual organization:

• The HR people should make all efforts to create a discussion forum for virtual workers so that they can meet their colleagues face to face to discuss the events and matters of common interest. The HR managers can also use the opportunity to provide information on role expectations and stakes.

• Virtual workers are managed only through electronic mode; hence, they must be made to feel part of a collective effort by enlightening them on a sustained basis about the shared values and affiliation.

• They should be provided with flexible and adaptable communication, and updating and support mechanisms, to enable them to work from anywhere and deal with evolving projects.

• The members usually represent different cultures and come from different backgrounds, and they will expect to be able to do things in their own way. This makes the recognition of cultural diversity among the workforce an absolute necessity.
Virtual working is almost wholly dependent on communications technologies. Hence, it needs to be ensured that the team members have a core IT capability and are adequately familiar with technology to solve recurring problems associated with software and hardware.

Summary

1. A virtual corporation is a temporary network of companies that come together quickly to exploit fast changing opportunities.

2. The kinds of virtual organization are alliance organizations, displaced organizations, invisible organizations and truly virtual organizations.

3. An alliance organization means horizontal networking among its partners who perform different but related activities.

4. In a displaced organization, the physical separation of employees is not known to the outsiders, who perceive them as a single unit.

5. An invisible organization will not have a physical structure except for a small place to house a few employees who attend to the phone calls of the customers in need of its goods or services.

6. A truly virtual organization is a mixture of the characteristics of alliance, displaced and invisible organizations.

7. The three popular models of virtual workplace available in virtual organizations are (i) telecommuting, (ii) front-line and (iii) cyber-link.

8. In the telecommuting model, employees often perform work from their home and remain away from the office.

9. In the front-line model, the employees perform their work from the client's workplace or site.

10. In the cyber-link model, the team of producers, suppliers and customers is networked through cyberspace and works collectively and collaboratively towards the achievement of common goals.

11. The three important types of virtual team seen in virtual organizations are (i) project teams, (ii) service teams and (iii) process teams.

12. A project team is formed to complete specific and time-bound projects. A service team is formed to attend to the specific problems of the clients across a number of organizations, places and countries. A process team is formed when the organization aims at evolving a continuous response to a long-term challenge of a business.

13. E-HRM may be defined as a system concerned with HR policies and practices that ensure the best utilization of human resources that work in a Web-based environment towards the fulfilment of common goals.

14. The benefits of a virtual organization are the absence of a distance barrier, reduction of overhead costs, a faster response, savings in space cost, round-the-clock service, better managerial efficiency, customer-driven enterprise, precise performance measurement, a competitive edge, exploiting labour market imbalance, avoiding man-hour losses, reduced work stress and fatigue, and maintaining work-life balance.

15. The limitations of virtual organizations are the absence of managerial control, technology-related problems, the misuse of the electronic instruments and consumables of the organization, limited application, a high maintenance cost, aloofness and job boredom, and the absence of involvement and commitment.

Review Questions

Essay-type questions

1. Examine the various kinds of virtual organizations using examples.

2. Delineate the various models of virtual workplace using suitable examples.
3. Illustrate the different types of virtual teams using relevant examples.

4. Evaluate critically the specialized HR functions required for virtual organizations.

5. Discuss the strengths and weaknesses of a virtual organization.

6. Enumerate the challenges faced by the virtual organizations in India and suggest measures for improving their efficacy.

**Skill-development Exercise**

**Objective** – The objective of this exercise is to show you how to develop a compensation package for virtual employees in a cost-effective way.

**Procedure Note** – The class is split up into groups. Each group has (1) an HR manager, (2) two HR team members, (3) a job evaluator, (4) two employee representatives, and (5) two observers of the meetings. The role of the observers is to observe the various aspects of the role-playing sessions and report on them.

**Situation**

Ranchip is a leading ICT system integrator and distribution company in India. The company primarily focuses on key areas such as system integration, networking consultancy and a wide range of support services. It is a fast-growing company with a vision to emerge as one of the top five companies in the industry within the next two years and the *numero uno* in the next five years.

The management of the company rightly recognized the critical role of the employees in the realization of its ambitious growth plan. It wanted to hire and retain the best workforce through an attractive compensation package. Since the compensation package offered to the virtual employees is computed differently, it instructed the HR department to design a new compensation package which is not only cost-effective but also sufficiently attractive to retain the virtual teams comprising experts with cross-functional skills and knowledge. Thus, the HR manager set on the mission of developing a new compensation package for the virtual employees.

**Steps in the exercise**

There are four steps in the exercise:

**Step 1:** The HR manager meets the employees’ representatives to ascertain their compensation needs and suggestions for the new compensation package.

**Step 2:** He contacts the job evaluator and gathers information about the worth of various job positions and about the pay scales of similar positions in similar organizations in the industry.

**Step 3:** He convenes a meeting of his HR team to finalize the new pay scale for the employees after due consideration of the relevant reports and guidelines. The revised compensation package will then be sent to the top management for approval.

**Step 4:** The observers analyse the performance of the members in the role-playing session and give their feedback.

**Case Study**

Inno-fast is a global software solution provider engaged in IT services, consulting and process outsourcing. The company aims at providing integrated technology and operations solutions to its clients at their doorsteps. It plans to focus on business process improvement, greater operational efficiency, better productivity and improved response time. It is a subsidiary of one of the leading home-appliance makers of India, Immanuo International. Although it is a relatively new entrant to the software industry, the company is confident of winning a sizable market share, thanks to the popularity of the management of its parent company and its brand image.

A year ago, Immanuo International deputed 20 of its employees for the managerial cadres in the just-started Inno-fast to groom the new business. Ms Anita Gupta, the HR manager of Immanuo International, was also sent to this subsidiary company to look after its HR functions. The first task assigned to this young and talented HR manager was to form a virtual team with cross-functional
diversity to work with the clients and from remote places. The team was expected to develop solutions for the clients’ technology-related problems and requirements. The top management of Inno-fast insisted that the HR manager complete the process fast because many companies expressed keen interest in availing its services.

Ms Anita Gupta began her work in right earnest and opted for e-recruitment. She conducted targeted and focused recruitment campaigns. She also obtained the services of external agencies in recruiting the employees. As part of the e-recruitment drive, she communicated the requirements of the organization to the job market, sourced and processed the applicants through an applicant tracking system and selected 42 employees, including 20 freshers, to form a virtual team. The selected employees were then brought together for intensive skills acquisition training. The skills acquisition level of the virtual team was found to be satisfactory in the post-training assessment. The members also gelled well as a team and found their training fruitful. The HR manager was appreciated for forming the team within such a short span of time and training its members well.

Inno-fast launched its full-fledged business operations and began to send the team members to different client sites for developing solutions for their IT requirements and problems. The operations of the company progressed smoothly and the clients expressed their satisfaction. However, this trend did not last for long as, after a year, the company witnessed a gradual increase in the resignations submitted by the new employees. The company was puzzled about the sudden increase in exits. The top management instructed the HR manager to identify the reason for the high number of resignation requests, which, if allowed, might cause high labour turnover.

An enquiry within the organization and observations revealed that the employees who submitted their resignations had not fostered any loyalty towards their organization and had very little sense of belonging. This could be due to the fact that they were mostly away from their office, performing their work from remote places, and had no continuous social contact with their colleagues and the company. To add to this woe, the virtual employees were also facing problems of job boredom and aloofness in their work. The rivals in the industry have exploited the situation and were attempting to lure the employees to their fold.

Now, the management is of the view that the training programmes designed by the HR manager and based on the traditional module are not working well with the virtual employees. As such, something more than training was required to retain these employees and also for persuading the leaving employees to take back their resignation letters. Although the management has not doubted the efficiency of the HR manager, it was disappointed with the result of her operations.

Questions for discussion

1. What is your general assessment of the situation prevailing at Inno-fast?
2. According to you, who should be held responsible for the situation prevailing in this company and why?
3. If you had been the HR manager, what would you have done earlier and what would you do now to overcome the problem?

Notes


