Discussions on Problems and Strategies of Human Resources Management in Virtual Organization

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Abstract Virtual organization is a way of structuring and managing goal-oriented activities. This innovative approach to organization is a kind of resource mode of using, combining outside resources to improve of the enterprise competitiveness. The virtual management brings the reform of human resource management too. After analyzing the characteristics of virtual organizations, we discuss on problems of human resources management in virtual organization and bring forward our suggestions.

Key words virtual organization, human resources management, strategy, employee, incentive system

1 Introduction

Several constructs characterized by the adjective ‘virtual’ have achieved prominence in the fields of computing and telecommunications. Among the most important are virtual memory, virtual circuit and virtual reality. These ideas have proved of great theoretical and practical importance in the design and implementation of computer systems, networks and human–computer interaction, respectively. Related social and organizational constructs such as virtual office (Giuliano, 1982), virtual classroom (Hiltz, 1986), virtual corporation (Davidow and Malone, 1992), virtual team (Hammer and Champy, 1993), and virtual community (Rheingold, 1993) have also been introduced. The most extensive formulation of the theory to date is presented in Mowshowitz (1994). The current article is intended as a further contribution to discuss on problems of human resources management in virtual organization and bring forward some suggestions.

Michael E. Porter (1990) believes that the competitiveness of industries comes from competitive advantages of each value chain. Advantages cannot be easily copied during aggressive competitions. An article titled “Business Core Competencies” published on “Harvard Business Review” in 1990 recommended that corporations should focus on core competencies that are difficult to duplicate. The publication led into the popularity of “virtual organization”. A virtual organization is composed of two or more corporate entities (i.e. member corporate). Strategies are developed around one central business to fully utilize the collaborative organization model through a system of research & design, manufacturing, sales and marketing, etc. The business model replaced traditional hierarchical organization by market based alliances, realized the dynamic collaboration of primary corporate internal competencies and external market resource advantages. Therefore, the organization will have flexibility and fast response capabilities. It is viewed as an extreme case in the trends toward leveled organizational structures (Figure 1).
2 Characteristics of Virtual Organizations

The Characteristics of Virtual Organizations are consist of:
(1) An open organizational system without an official entity. A virtual enterprise is not a new physical entity. It does not have fixed internal organizational structure and command chain system. It neither has its own capital structure, nor has any product brand names. It is an open organizational structure. It builds a competitive value chain through the combination of external resources to reach business capacity that none of the member corporations can achieve individually.

(2) Flexibility and quick response. Collaboration focused on specific projects makes it easier to manage various resources based on market demands. The value chain units in the network will be adjusted dynamically according to market demands by increasing, decreasing, splitting, or merging actions. In the individualized multiple-facet consumerism market, this type of virtual organization is obviously advantageous.

(3) Simple and efficient structure. Because most business functions in the organization are achieved by outsourcing and many operations are processed by electronic businesses, organizational structure can be more leveled and higher efficiency.

(4) Easier internal control and more difficult external control. Internal control is the controlling capability of the organization to its internal resources. External control means controlling capability of the organization to its external resources. The effective operation of the virtual organization is depended on the extensive and close collaboration of the member companies. Because of the challenges coming from moral reliability and reverse selection, the organization would be very susceptible if the external resources of any member corporate are subject to problems like quality problems, pricing problems, timely delivery problems, etc.

3 Problems on Human Resources Management in Virtual Organizations

The characteristics of virtual organizations determined that the key of its success is the inter-linking collaboration of core competencies of the corporate units. A virtual organization is dependent on technologies and experiences. However, people are the entity who owns technologies and experiences. Therefore, how to promote the knowledge capital of an organization through human resources management is the key to improve the competitive advantages. Because of the special “virtual” nature of the virtual enterprise, the human resources management faces new problems:

(1) The problem of lacking a same goal.
Because virtual enterprise is an internet-style business, long term collaboration is rare. The cooperation is usually a temporary alliance to quickly respond to market demands or to secure business opportunities that can not be completed by one individual company. Within this consortium, the success of the whole enterprise is controlled by the effort delivered by each member company. However, the member businesses within a virtual organization usually do not demonstrate trust and cooperation from all members as expected by the supporters of virtual enterprises. The members pay more attention to their individual goals, not the intangible organizational goals.

(2) Communication problems.
The business members in a virtual organization are managed in a leveled structure. The commands are passed through effectively without much information loss. However, because multiple companies are involved, the communication within the organization members is challenged by disperse space and time.

(3) Problems caused by lack of trust.
The virtual organizations are usually short termed. The temporary nature may cause lack of trust among employees. Employees do not feel the assurance of their membership to the organization. Mayo George Elton pointed that employees need good inter-personal relationship, they need feel being cared by the organization, the satisfactory feeling of being cared by the employer is very helpful to improve work productivity. Lack of trust in virtual organizations may cause low motivation and low productivity.

(4) Culture differences in member companies.
Corporation culture is an invisible driving force of productivity. It plays an especially important role in the virtual organizations built upon collaboration and resource sharing. Each company in the virtual organization has its unique corporate culture. The companies may have incompatible even conflicting culture. This incompatibility has adverse effect to business operation.

(5) Employee incentive problems.
Employee incentive is necessary to reach high productivity in corporations. Because there are no efficient measuring methods to estimate employee contributions from different member companies to the general organizational goals, and employees may be near-sighted to enterprise potentials, it is difficult to define incentive policies. Employee incentive is often overlooked.

(6) Problems on the human nature of human resources management policies.
To ensure the normal operation of a virtual enterprise, it is common to sign large amount of contracts. The human resources management policies of virtual companies are usually made to define operation regulations, incentive/punish policies, profit division policies, etc. The policies seldom focus on people. There are not enough policies to promote positive employee motivation and regulate behavior standards.

4 Human Resources Management Strategies in Virtual Organizations

For the human resources management problems in virtual organizations, it is critical to timely identify and fix them effectively. This is imperative to ensure the positive development of the enterprise.

(1) Must establish a common goal.
In virtual enterprises, the ultimate goal is to achieve certain business functioning and to realize projected economic and social values by utilizing market opportunities. The goal of employees is to get competitive earnings and to realize personal values. Because of the short termed operation of virtual organizations, it is difficult for the employees to realize their personal goals, and consequently, the realization of organizational goals could be adversely affected. Therefore, the primary responsibility of human resources management in a virtual organization is to ensure a rational balance when managing the realization of organizational and personal goals. It is important to have each employee understand the target of organizational business scopes and personal career development goals right after the company is established, and make these goals the positive core spirit of the organization. Employees must be well informed with the organization’s operation status and constantly adjust themselves to the balanced goals.

(2) Experimenting virtual human resources department.
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The temporal nature of virtual enterprise is not the absolute truth. There is potential to build long term collaboration if the core competencies are not transferred to outsiders and mutual dependencies among member companies are high. But the differences of company business goals, conflicts of corporate culture and communication difficulties hinder the progression toward realizing the planned general goals of a virtual organization. Under this circumstance, the organization should try virtual human resources department. A human resources management team may be organized from resources of member companies’ HR departments. One of the responsibilities of this team is to deal with the challenging problems related to human resources in the virtual organization. However, the human resources departments of member companies still function independently from each other.

The experts of human resources management at the University of Michigan of the United States defined four roles of human resources management, i.e., Strategic partners, administrative experts, employee champions, and change agent. In the virtual organization, the virtual human resources department can play the same roles. Here, the strategic partner role has some special characteristics. Strategic partners are the strategic decision-makers of the enterprise. They provide human resources planning and systematic problem-solving plans in order to integrate human resources and business strategies. Some domestic scholars believe that the short-term life span of a virtual organization makes it unnecessary for the organization to develop business strategies. From my point of view, no matter how long the life span of a virtual organization is, it is necessary to develop strategic plans. Especially when the member companies are dependent on one another strongly and long-term cooperation is desirable, the organization must have a virtual human resources agency to develop long term strategic plans, at least to develop strategic plans related to human resources. Under some special conditions, in order to reach higher profit, increase capitalization, and reinforce competitiveness, the virtual organization may transform into a physical independent entity. Therefore, strategic planning is essential in virtual organizations and establishment of virtual human resources agency is feasible.

(3) Develop trust and good relationship.

Trust is the basic foundation of maintaining regular operations of virtual organization. Distribution of resources, calculation of work contributions, performance evaluation standards, information sharing, opportunities are all factors in trust development. Therefore, the operation of the organization must be open with high visibility, fare, and respectful to individual’s knowledge, expertise, attitude, behavior, and culture, etc. It also must establish and maintain good reputation.

(4) Cross culture training.

Cross culture training is the most effective measure to resolve culture differences and realize good cross culture management. Generally, the main strategy of cross culture training is to have cross culture sensitivity training to the managers of the member companies having frequent interactions. The training can be many formats, including culture education, interactive communication, cross culture study, and experiencing inter-personal relationships from different culture societies. The goal is to give the trainees an opportunity to learn the culture in other companies and understand the existing differences. The training will help managers to gain skills of identifying and resolving problems during collaboration and make it easier to have multiple-company cooperation.

(5) Establish double incentive system primarily based on member companies and supplemented by virtual organization incentives.

To have each employee highly motivated is the ideal situation desirable to virtual human resources management. Human resources capital theory pointed out that employees with human capitals play a decisive role to business performance. Practical management experiences show that, in businesses lacking good incentive systems, employees only use 20% - 30% of their potentials; in businesses with good incentive systems, employees can apply 80% - 90% of their potentials to work. Therefore, to increase productivity of employees and use the maximum of their potentials, the employer must declare that the employees own their human capitals. The employer needs to share dividends with his employees and make his employees decision-makers. The virtual organization built upon technical employees is not a legal physical entity and it does not have the traditional performance incentive base. Under this unique circumstance, the double incentive system is an alternative. The double incentive
system would primarily depend on member companies and supplemented by organizational incentives (Figure 2).

Figure 2 Virtual organization

a. Incentive primarily provided by member companies. Within the same virtual organization, the members have different position in the value chain and different profitability. This variation agrees with market economy patterns. The resulting fact is that employees possessing similar human capital may have different earnings because they work for different companies. It is not a violation of fairness standards. In a virtual organization, incentive practices and compensation is decided by individual member companies who are independent legal entities.

b. Supplemental organization incentives. After developing a fair performance evaluation system, the virtual organization may use a bonus incentive system to reward employees with monetary and honorary incentives if they demonstrate excellent performance. This incentive must be fair and balanced among all member companies in order to prevent complaints from members believing they have been treated unfairly.

(6) Assist employee personal development.

Besides maintaining its normal business operation, the virtual organization may develop an affordable employee career development plan. The organization should assist its employees to expand their knowledge and potentials, provide opportunities to fully utilize employee expertise, and help employees plan realistic career development goals. Provide key employees with comfortable working environment and personal development opportunities in order to increase positive motivation and creativity of these employees.

Because of the characteristics of virtual organizations and technical employees, the human resources management in a virtual organization differs from HR management of a traditional business. In this paper, the differences of HR management in a virtual organization and a traditional company are discussed from several different angles. The successful execution of these measures must be organized and planned wisely. Virtual organizations should develop a good learning environment, establish a learning business culture, and help employee development by knowledge sharing and other measures.

Human resources management in a virtual enterprise also needs to emphasize and educate teamwork spirit. Effectively combining teamwork management and personal development of technical employees, supporting employee career development while maintaining business development momentum, developing an environment that each employee can fully utilize his/her initiatives and personal values, and maximizing all employees’ potentials and intelligence, are all beneficial to promote corporate competitive advantages.
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