

THE VIRTUAL ORGANISATION AS COMPETITOR — YOUR WORST NIGHTMARE

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THE NEW COMPETITION

Pause a moment, and carry out a simple mind experiment: imagine your worst competitor.

What does it look like? Perhaps it has unusually small capital requirements. Undoubtedly it always has the optimum number of people working for it, exactly as and when it needs them. It is both flexible and adaptive. It is readily able to change its tactics at the drop of a hat. If it should so wish, it enters or even creates new markets at a moment's notice; *and on top of all those advantages, it is also enormously productive.*

It is present anywhere and everywhere it wants to be. It is stealthy. Yesterday it was unnoticeable, unobtrusive and silent. But today it is in your market. It appeared instantly and unexpectedly, as if by magic. It has violated all those comfortable assumptions in your plans that held fast to the idea you had impervious entry barriers. You thought no-one could touch you. At least, not a completely unknown outsider. Now you realise that those barriers do not exist any more - perhaps they never did. In any event, you now see them shattered. Years, if not decades, of proprietary investment just evaporated overnight.

This new competitor beats your important figures on all fronts. It seems impossible for you to catch it or to match it.

What happened?

The alchemist's trick has been performed. The new competitor has taken the elements of production and transmuted them into organisational gold. For it, fixed costs have become variable. For it, unavoidable costs have become avoidable. For it, tangible assets (and the very significant costs of servicing them), have become less-costly virtual assets.

Virtual assets do the same work as tangible assets, only they are not physically where you normally might expect them to be. They are also completely "scaleable", appearing - albeit at odd times and in unusual places - exactly as and when they are needed. They also disappear when they are no longer needed - with nil switching cost either in or out.

The new competition is populated with people who have contracts that are both flexible and meaningful. The competitor's contracts define units of productive service and measurable beneficial output, rather than a commitment to complete or exceed a certain number of hours sitting behind an employer's desk. The competitor's people may not even work in an office. Some may work from home. Many others will utilise the various new kinds of work place that are neither within the confines of the traditional office, nor are they inconveniently force-fitted into the residential home. It is quite possible that your competitor's office work will not even be performed in your country. With all the benefits from cost effective computer networks and time-zone-shifting, your hypothetical competitor may even be able to complete some work in what seems to be no time at all.

This new competitor is your worst nightmare. It is called the Virtual Organisation. Once it has arrived, it can be seen. It also can be felt. But you cannot fight it because it is not really there. It presents no real target. It is populated with virtual employees, who are located in virtual offices, and who work in virtual time. It has virtual assets that are managed rather than owned, having all the benefits of being variable, scaleable, and moveable. It is a dynamic, resourceful yet minimalist instance of your own organisation. It is truly unbeatable.

Could this new competitor exist?

Yes.

Of course you will expect there to be a few caveats and cavils surrounding this assertion. But, if like many organisations, your costs of labour together with those that are associated with the acquisition, servicing, retention and disposal of buildings are towards the top of your list of ranked expense items, your business may indeed qualify. It is almost certain to qualify if many of the business activities attracting these costs are in knowledge-intensive or information-intensive work, or if they are clerical or administrative.

What has happened to make the virtual organisation a possibility and even a threat?

Over the last decade we have seen the emergence of new working practices that have been brought about through the growing maturity of information technology.

In the early 1980's I headed an internationally distributed project team. We worked all the way from marketing concept through design and development, and into manufacturing . One third of the team was situated just outside Boston, USA. The remainder was located in Reading, England. At that time there was a demographic wall in Boston - there were not enough skilled engineers locally who could work on the project, so my group in Reading was set up. The primary manufacturing plant was located was Clonmel, Ireland. Another corporate manufacturing site in Augusta, USA was nominated to second source the product.

As we were all working for a world leader in information technology, we were able to use the modern electronic mail and on-line conference facilities to supplement our frequent face-to-face contacts. We were able to effect design changes by electronic communication between sites. Most impressively, we could modify the actual engineering blueprints and get production changes implemented abroad without having to walk out of the UK research laboratory. Our product was a world beater, yet we did not realise we were also among the pioneers of the new work practices then starting to emerge through the use of IT.

The difference today is that similar facilities are more and more accessible to smaller companies and individuals. With lowered costs and lowered entry barriers, ten years later we now find that there are few business or people who are not enfranchised to work in this way.

IT-Enabled Work Practices allow work to move around the world. They shatter all our entrenched beliefs about the location and timing of work. These practices pose both an opportunity and a threat.

Managers will want to know how to apply the principles of IT-Enabled Work Practices in their own organisations. When looked at in this strategic context (for example by examining, as we have briefly, the Worst Competitor Scenario) I refer to this emerging topic as *Future Work*. It aims to uncover new technological and work-practice possibilities, and marshals these to *advise the business strategy, so that informed decisions can be made*.

THINKING STRATEGICALLY

One of the biggest problems that people and companies face when thinking about strategy is that very often it involves little more than responding to the initiatives of competitors. But to continue to think in this reactive way is to face certain oblivion during the dawn of a newly emerging era. The Virtual Corporation is the prototype of a new organisational structure that has just raised the stakes by some orders of magnitude. Time is no longer on your side. To do nothing but await the virtual competitor can be a very high risk strategy indeed. Some companies will awaken to find that their worst nightmare has materialised, with the strategic high ground already fully occupied.

If strategic reaction is indeed too risky, how should organisations plan? How do people and organisations discipline themselves to start to think *pro-actively*, rather than *re-actively*?

My answer is to think the unthinkable. Challenge the unchallengeable. Think laterally. Consider all the principles and possibilities of *Future Work*. Consider again that virtual competitor: Where is it based? How is it organised? What unrealised aspirations are there within *your* business that it would make the focus of its own attention? What prospective customers do you only wish you could be servicing, that it might now reach out towards and satisfy? What hidden flexible suppliers can it tap into? Where will it be strong and you remain weak? Where will it invest? Who will be its allies?

Then ask how much room is left in the industry it has left for you.

Although a scan of your environment can provide a rich source of inspiration, so too can your present choices about your existing organisation of work. Suppose you had the chance to restructure any way you chose.

So now, imagine *your* organisation. Free it from today's constraints of place and time. What else can you now achieve?

As another mind experiment, knowing what you now know, take your CEO and put him in a shed in the car park. Then get him or her to justify, from that point, every single item of significant past capital investment all over again. Question what work is done, where is it done, and why is it done there? What are the alternatives? Then get the rest of the Board to justify everything, right up to the point that they end up back in their plush boardroom.

Do you think they will get back there? I doubt it, and most probably so do you, too.

If you could re-invent your entire organisation, and you were fully aware of *Future Work* possibilities, would you simply re-create what you have today? Or would there be a gap of missed opportunity? Could the ideas of *Future Work* help to change the unchangeable - could this gap be filled?

The concept of the virtual organisation as competitor, is nothing other than a zero-based method of thinking about the organisation's architecture in the light of the new possibilities of *Future Work*. By using the ideal concept of a virtual organisation - externally and then internally - senior managers can start to think with the interests of their organisations uppermost. They can enrich their strategy. And, most importantly, they can reduce risk by shifting their locus of approach from followers to become the intellectual leaders.

The smart organisation is the one that survives.

It is my experience that companies who have been successful in *Future Work* do not really often talk about it. Because working virtually (how close this is to working "virtuously"!) is a natural way of being more efficient, it is therefore a source of competitive advantage. By any conventional standard *Future Work Organisations* can be highly profitable. Additionally, the position they take within the industries they chose to enter or create is very strong, if not unassailable. Thus they are profitable, sustainable, and very, very quiet about it.

Another important, yet different form is the stealthy Transparent Competitor - to be found on the other side of the coin to the Virtual Competitor. The term "Virtual" means that it is apparent, although the substance seems intangible. There is absolutely no doubt, on the other hand, that "Transparent" organisations exist in substance, yet cannot easily be seen. That is until they surface, when they become highly visible and very real indeed.

Through chance or planning, Transparent Competitors build up strategic assets in a totally unrelated industry to yours. Then they reorganise those assets into a new mix. *Et viola!* They emerge from nowhere as a very concrete and powerful competitor. They, too, break all the supposedly insurmountable entry barriers of the industries into which they intrude.

Some of these magical companies are household names. Think for a moment about what business General Motors is in? Obviously they make millions of vehicles. But today they are also in the credit card business.

Dana Corporation is also in the automotive business, and very successful it is too. But one of its outstanding divisions is in commercial credit - running leasing programmes for computer companies such as Apple and Compaq. Its typical customer leases only one or two systems, so we're not talking about corporates here, yet Dana have turned this into a highly profitable business.

We all seem to know that Tesco and Sainsburys are in the food business. But who would have expected just a few years ago that BP would be regarding them as major competitors in the petrol business?

Marks and Spencers, too, is in multiple businesses. So if you were in the credit card sector, you might be getting quite interested, if not concerned, about the activities of both GM and M&S. Or indeed others.

VIRTUAL AND LUMPY REAL ESTATE

If your competitors could move their work around the world, without incurring prohibitive charges, to wherever it was either cheapest or most conveniently carried out, you would be worried. Especially if you were not also doing that. In fact, there is one kind of work that carries almost trivial transport costs - anything that requires intellectual work can be moved very cheaply indeed.

And there are more live examples of this than most of us would suppose, among the famous being NYL:

The insurance company, New York Life, were increasing their volume of business and needed more claims processing people to handle it. They hit a demographic snag. People who live in NY and who are all capable with figures, could earn far more on Wall Street than any insurance company would ever pay. But by using modern communications, the company was able to shift the work to where it could find a proficient English-speaking workforce - it went to Ireland.

The lesson for managers? Knowledge workers can work anywhere. For them work has shifted from hand to head, and where it is done hardly matter any more. Ideas are the most easily exported commodity in the world. That's why several large companies are having computer software written in India. They gain the benefits of highly educated and skilled people for a fraction of what they would pay in Western Europe or North America.

The same applies to that other new icon of the modern way of doing business - the help desk. Ring into any of the major IT software companies and your call could be put through to almost anywhere: USA, Ireland, the Netherlands. It has now become economically viable to provide a similar 24 hour facility for any service sector running daytime UK / night-time Australasia.

The idea could be attractive, for example, to motoring organisations - they simply do not need to have their control rooms in the UK any more. Or your direct banking account, open 24 hours a day, could also be run world-wide from two or three centres in different time zones. In each of these examples the person you would be talking to would have instant up to date information available, through technology, of course.

One new axis of work spans New York, Barbados, Co. Kerry, The Highlands and Islands of Scotland, Bombay, Singapore and beyond. Another places Martinique, Guadeloupe, and Paris within the same domain. In the emerging global world of *Future Work*, it is language rather than national boundary that defines where work is done. There are messages in this that are as important for politicians as well as for managers.

Ask yourself, "Is the present location of work sensible?"

But then ask the even more fundamental question, "Is the very idea of an office appropriate any more?" Originally "Office" - meant "officer" as in a job or a role. But in the last century it became corrupted in normal usage into just meaning a place where a job is done. I think that this semantic shift has constrained our thinking about doing work. It is another constraint waiting to be broken.

The recent recession has focused our thinking on the downsides of property, especially its inflexibility and solid over-permanence. Office buildings tend to be "chunky" or "lumpy"- comparatively simple to obtain, but disposed of with difficulty, and often in chunks. As a result the traditional organisation finds itself exposed to a growing and sprawling portfolio of buildings. Amusingly many companies have woken up and found themselves in the property business. Recall Woolworths, when it changed to become Kingfisher, and declared that one of its major divisions would then be in the property side of the business.

Many companies have mistakenly confused the solidity of their premises with the solidity of the business, and proudly engraved their logos into the concrete of their pristine new corporate head offices. Of course, all it achieves is slightly to reduce the value of the building to the next tenant or purchaser.

It is also worth bearing in mind that even when you introduce new work practices, it is very unlikely that there will be any contribution to the bottom line until you can dispose of a whole building.

Have you recently considered the ROCE of your offices? Bruce Lloyd has shown time and again, over the last five or so years, that a maximum of only five to ten per cent of an office building yields any return at all. Often the real return is about one third of this figure. I have seen independent calculations from large organisations that come to the same conclusion. Based on a total possible utilisation of 365 days a year, the figure is arrived at after making allowance for a 5-day week; an 8-hour day; holidays, sickness, late arrivals and early departures. The time utilisation of office space clearly represents an appalling return on capital employed.

The true figures are probably even worse than this when space utilisation is also accounted for. Large portions of office buildings are often taken up with expansive reception areas. Many contain offices that are constantly unused. It really is quite fair to say that the real utilisation of office space must often be in the single percentage figure region. However, it is refreshing to see that with a little innovative thought and simple technology, some companies have successfully set up highly productive facilities that require less than half the conventional floor space.

THE TELE CONUNDRUM

Teleworking has been receiving increasing publicity for some years. In 1988, Francis Kinsman in uncovering some macro-economic issues commented that "Teleworking has the potential for relieving the seemingly insoluble problems of road and rail congestion ... and also the potentially insoluble problems that stem from the imbalance between the south-east of the country and everywhere else". Today teleworking can offer real bottom-line benefits as well as opportunities to businesses - when managed properly. It can also make a major contribution to any company's social responsibility charter.

Successful teleworking usually requires the working week to be multiplexed - typically involving two to three days in a more traditional office and the rest of the time spent perhaps on the road or working from home. Iain Valance, CEO of British Telecom has mused that a teleworker is a person "who travels to work, not down the Piccadilly line, but down the telephone line and who arrives at the office without actually leaving home."

But there are other non-office, non-home work locations emerging. One is the Telecottage, which originated in Sweden where a lot of people for practical reasons could not work from home. The big gap is the supply and demand. Many people would like to work this way. But big organisations have

not yet discovered how to unlock the outsourcing conundrum to make use of them - or migrate their own staff to the alternative model. Research sponsored by BT and carried out at Henley Management College's Future Work Forum has identified middle-manager resistance as a major barrier to change. Behind all the rationalisation is the fact that many managers do not trust their own staff. Yet practically every study has repeatedly found that when it is allowed, teleworking is more productive than conventional office work.

One company in the USA did a very simple but revealing exercise. It got a list of all its personnel together with their ZIP (post) codes. It discovered that 60 per cent were all commuting one hour each way from the same neighbourhood. The solution? A plan to convert a condominium in that area and provide data links to the existing office building. Studies have shown that typically some eighty per cent of the hours saved each day go instead on company business.

EXECUTIVE SUMMARY

Without a shadow of a doubt many of the ideas in this short article could and should be applied to your organisation as *Future Work* is everywhere re-casting the very basis of competition. There are already sufficient case studies to prove the point. If your organisation has not yet surveyed and staked out its place on the *Future Work* stage, then its destiny is exposed to others outside.

In the world of business we can be sure of precious few things. Among these is a belief that the economic imperative will somehow find a way to determine who the winners of tomorrow will be. If you wish to be among their number, the time is ripe to conduct a reassessment that takes into account these new opportunities and threats.

One of the biggest challenges in this is the need to re-think the business. The kind of thinking that is now needed goes beyond the normal strategic planning cycle. The standard question: "Where do we want to get to tomorrow?" must be asked again and again, each time with the rider: "And where even better, taking into account *Future Work* possibilities?"

An excellent way to jolt thinking into this new world is to confront your worst nightmare. It has not been my intention to alarm or to scare, only to alert, and perhaps to warn. Neither you nor I want the nightmare to turn into reality. The sure way to prevent the spectre from materialising is first to recognise the likelihood that a virtual competitor is lurking somewhere close by. Is it? What is the worst it could do? How?

And when you truly and fully understand the answers to these questions you will know your Virtual Competitor as well as you know your own organisation. As a by-product, you will also have completed your strategic *Future Work* plan.

Simply to become that Virtual Organisation.

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Details of the *Future Work Forum at Henley* are available from The Secretary, Future Work Forum, Research Centre, Henley Management College, Greenlands, Henley-on-Thames, Oxfordshire, RG9 3AU, Tel. +44 (0) 1491 571454.