

CROSSING THE DIVIDE INTO NEW VIRTUAL REALITIES

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Abstract

The Internet has impacted the forces that shape corporate strategy. Organizations will now have to restructure and redefine their organizational structure to reflect the changes in their strategy. Changes to the organizational structure will change the way work is being done. In essence, the Internet has reinvented both the organization and work.

In human affairs, political, social, economic, and business, it is pointless to try to predict the future, let alone attempt to look ahead 75 years. But it is possible and fruitful to identify major events that have already happened, irrevocably, and that therefore will have predictable effects in the next decade or two. It is possible, in other words, to identify and prepare for the future that has already happened (Drucker P., 1998).

“An organization that just perpetuates today’s level of vision excellence and accomplishment has lost the capacity to adapt. And since the one and only thing certain in human affairs is change, it will not be capable of survival in a changed tomorrow (Drucker P., 2003).”

If change is certain, then the most important question all top management should try to answer is—*what will that change look like?*

While it may be impossible to see the future through a looking glass, it certainly is possible to predict consequences of major events in the present. Restructuring corporate strategy to accommodate anticipated change will lead to further change in the structure of the organization and work in itself, in essence, reinventing both.

“Structure follows strategy (Drucker P., 1985).” Michael Porter talks about five competitive forces—entry, threat of substitution, bargaining power of buyers, bargaining power of suppliers and rivalry among current competitors (Porter, 1980). The Internet has strongly influenced these five competitive forces that shape corporate strategy.

In the past decade, the Internet has emerged as the primary channel of distribution for knowledge goods. This makes predicting “the future that has already happened (Drucker P., 1989)” simple. If the Internet is the primary channel of distribution for knowledge goods and services, it will soon be the primary channel for what we call ‘knowledge work.’ “This medium not only controls how things are communicated, but what things are communicated (Drucker P., 2002).” The Internet has already impacted the forces that shape corporate strategy. The consequences of its impact will be the predictable future.

Consequence #1: Knowledge work will face the law of supply and demand.

Knowledge work will be outsourced from all over the world. This would result in an excessive supply of knowledge workers, which would in return lower the knowledge worker’s bargaining power with suppliers. An example of how this is currently shaping up is Amazon.com’s marketplace called ‘Mechanical Turk.’ Small chunks of work are posted online for the general public to complete and thereby earn money. The completed work of all these ‘Turkers’ is reassembled, often within hours, to produce the completed product. The current trend of outsourcing knowledge work through consultants or contract based work may very well be over ruled in favor of a less expensive, yet more effective arrangement such as Amazon’s online platform. Online platforms that eliminate third parties give more managerial control to the company while simultaneously gaining a world of suppliers. These excessive suppliers will drive down costs for knowledge work until the supply and demand are in equilibrium at the most

competitive international price. Hence, knowledge workers that offer highly efficient work for the most globally competitive price will be the suppliers of tomorrow.

Consequence #2: Global trade consortiums and reference models will be the virtual police.

The Internet has created a global marketplace thereby, leading to greater global issues. “New tasks will require a different form of government (Drucker P., 1993).” These global issues will determine the intensity of competitive rivalry. In his lecture on April 19, 2011 at the University of Edinburgh, the former Prime Minister of England said, “Global issues will need global solutions.” The intensity of industrial rivalry will be regulated by global trade consortiums while regulatory standards will be based on universal reference models. These trade consortiums and reference models will be the agents of control of the virtual world.

Consequence #3: The key to finding jobs will be to know where they *will be*.

Though buyers will have high negotiation power to drive prices down due to the abundance of supply, it is important to realize that this trend may not last too long. This trend may last only until off-line companies go online. Once they do, there will be a sharp increase in the demand of technology jobs causing an economical disequilibrium until the demand and supply meet again. The U.S. Department of Labor spotlights network systems and data communications as well as computer-software engineering among the occupations projected to grow most explosively by 2016.

Consequence #4: Suppliers will have to focus on segmenting buyers in order to offer specialized services.

This implies that buyers will focus on buying specialized goods and services too. Buyers, therefore, will structure themselves to try to belong to a well-defined industry segment. The clustering of specialized suppliers for specialized buyers will help both the buyers and suppliers ‘act as a monopoly’ to sustain their bargaining power.

Consequence #5: The Internet will create a global supply chain of talent.

Entrepreneurs will spring up due to the low startup costs that the Internet offers, giving tough competition to established players. According to Richard Freeman (Time, 2009), director of the labor studies program at the National Bureau of Economic Research, “these really sharp, aggressive, Harvard-type students doing entrepreneurship, forming new businesses, would be the best thing that could happen to this economy.” These entrepreneurs will try to slice into any homogeneous market segment that has fattened due to the increasing globalization of markets, thereby giving intense competition to established players.

Consequence #6: The Internet will introduce more substitutes for products and services.

Low switching costs, low capital requirements and ease of distribution encourages companies to disengage from employment commitments and overhead expenses. Since knowledge work can be outsourced, it can be contracted. Costs for switching between contractors are substantially lower than expenses from employee turnover.

Consequence #7: A decentralized virtual ecosystem will develop consisting of deeply splintered specialists.

The Internet will create a virtual ecosystem where any service that can be contracted, can be decentralized. It is also important to realize that with the increasing specialization of suppliers, the work that can be contracted or decentralized will also be specialized. There will be a significant rise in Subject Matter Experts that would offer their services as consultants on contracts due to the increasing demand for specialized knowledge services and products. The organization chart of a virtual organization may look more like a bunch of inter-connected nodes with the central node being the top management than the traditional hierarchical chart.

Consequence #8: Central management will heavily depend on outsourced services that may result in centralized control being nothing but an illusion.

Virtualization will cause organizational structures to increasingly become flat. There will be a central node functioning as the top-tier management with functional periphery nodes. The peripheries will produce either knowledge goods or physical products. These peripheries may be individual contractors or specialized firms. Coordinating between these peripheries will be the most burdensome task for the central management, precisely because the peripheries are deeply splintered specialists.

Consequence #9: Educated knowledge workers set the competency standards for the peripheries.

“Education will become the center of the knowledge society, and schooling its key institution. (Drucker P., 2009)” With sources such as AcademicEarth.org, KhanAcademy.org, Wikipedia and the plentitude of online formal educational courses, the Internet has redefined education also. In the virtually globalized era, brain power is more valuable than physical strength. Qualifying professional certification exams will therefore become the measure of education at the workplace. In the words of Thomas W. Malone (Businessweek, 2007), a professor at the Massachusetts Institute of Technology’s Sloan School of Management and author of the 2004 book *The Future of Work*: “Google and Wikipedia are just scratching the surface of whole new kinds of economic organisms.”

Consequence #10: The highly decentralized, flat organization will have predictable managerial issues.

Managers will control the decentralized tasks that are directly tied to the bottom line with time and task tracking tools. Work will be transparent. Workplace ethics will be redefined in the light of a virtual workplace. *How* a task is accomplished will matter more than ‘When’, ‘Where’ or ‘Who.’ This implies that any decentralized task can be performed by the autonomous employee at his convenience and at his preferred location, his work will however be measured in terms of productivity. Virtual teaming will be a reality and timing will be a matter of what is comfortable between the various time zones.

Honesty and responsibility create the foundations of virtual contractual business and if this foundation is not strong, management will have difficulty balancing continuity and change. In the absence of strict regulation, rogues such as Jérôme Kervie of Société Générale or Nick Leeson of Barings—who were authorized employees that did unauthorized trading on behalf of their employers—can bring down the whole central node. Hence, the management of peripheries will require the implementation of high standards of work ethics.

Consequence #11: In the case of manufacturing, the Internet will make all value-added knowledge activities of the industry pass through peripheries; the final periphery will be the manufacturing unit itself.

“Selling is tied no longer to production but to distribution. (Drucker P., 2002).” Since manufacturing companies are subjected to attaining economies of scale to lower expenses and attain efficiency, the global supply chain will consist of highly specialized manufacturers. We can, therefore, infer that manufacturing activities that are similar in nature will consolidate themselves to form the final periphery in order to achieve the greatest productivity.

With the advancements in the transportation and logistics sector and the increasing free trade zones, we may foresee changes in the physical distribution channels and routes. However, the ever-changing political scenario of today may prohibit any accelerated change that could be in tandem to the virtual world.

Consequence #12: The Internet will create a substantial shift in the demographics of the working population.

People with special needs and stay-at-home mothers will be able to find online tasks to generate income. The shrinking number of jobs due to automation in the manufacturing sector will be inversely proportional to the number of jobs increasing in the knowledge society.

Consequence #13: Non-profits will have a new online wing.

Non-profits will not only focus on online print media for advertising, fund raising and publishing, but would also focus on creating online opportunities to penetrate their vision. They might, for instance, act as a regulator between job providers and people with special needs.

The significance of these consequences constitutes the science of good decision making for the future. In the words of Drucker himself, “Strategic planning is the continuous process of making present entrepreneurial (risk-taking) decisions systematically and with the greatest knowledge of their futurity; organizing systematically the efforts needed to carry out these decisions; and measuring the results of these decisions against the expectations through organized, systematic feedback” (2009). Strategic planning enables decision makers to guide and lead effectively. After all, “The task is to lead people. And the goal is to make productive the specific strengths and knowledge of every individual” (Drucker P., 2003).

About the Author:

As a Masters in Business Administration graduate from Missouri State University and an aspiring doctoral candidate, analyzing corporate strategy and operations has always been of great interest to me. I am passionate about sharing my discoveries of the most common ‘unseen’ trends with decision makers, as their managerial decisions, at the heart of it, affect human lives.

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