

# The Impact of IT on Business Partnerships and Organizational Structures

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## INTRODUCTION

Over the past decade, with the advent of the Internet, organizations have changed the way they communicate internally and externally, the way they are configured, and the way they build partnerships. Today's complex and volatile business world calls for changes and alternatives to the old and conventional paradigm of organizational design and new ways of doing business with others. E-business becomes one of the most important forces shaping today's business. Virtual corporations and e-partnerships become increasingly popular in the perception of managers and in business operations.

This article explores the changing nature, process, and practice of business relationships and network form of organizations in cyberspace. It also identifies and discusses a series of management issues raised in the processes of e-partnerships and virtual organizations.

## BACKGROUND

The virtual organization, which is actually a network form of organization, is a revolution in organizational design and has changed the definitions, boundaries, and forms of inter-organizational collaboration and partnerships. The network form of organizations is the defining business transformation of this generation (Malone & Davidow, 1994; Jin, 1999; Hagel & Singer, 2000). Cisco, for example, is a network of suppliers, contract manufacturers, assemblers, and other partners which is connected through an intricate Web of information technology. Seventy percent of Cisco's product is outsourced to its e-partners through Cisco's network (McShane & von Glinow, 2000).

As shown above, virtual organizations rely on IT network and e-partnership. Theoretically, e-partnership refers to a partnership relying on electronic (information) technologies to communicate and interact amongst partners. In practice, the term e-partnership is mostly associated with e-commerce or e-business partnerships. It may take different forms and involve various partners from or between virtual enterprises and brick-and-mortar companies, depending on the nature of e-business activities. It flourishes in particular in supply chains through adding

electronic components to the business partnership across firms (O'Toole, 2003). For example, in the manufacturing industry, the e-partners may include raw materials providers, component manufacturers, final assembly manufacturers, wholesalers, distributors, retailers, and customers (Cheng, Li, Love & Irani, 2001). This supply chain may involve a number of—even hundreds or thousands of—suppliers and distributors. The use of the Internet and other electronic media and the introduction of inter-organizational information systems are constitutive to e-partnerships and lead to the growth of virtual organizations.

E-partnerships share some common characteristics with traditional inter-organizational partnerships. But they are different in many ways and thus require different strategies and structures to manage them. Bell (2001) and de Man, Stienstra, and Volberda (2002) studied the differences and found that e-partnerships are generally entrepreneurial and less planned in nature, must move at Web speed, require flexible network structure, and have a short lifespan.

E-partnerships as “a new breed of online alliances, are fast emerging as the result of an incredible amount of Internet business in recent years” (Trask, 2000, p. 46). Entering an e-partnership is no longer a soft option, but a vital need for gaining a competitive advantage and customer satisfaction in the trend of economic globalization (meaning an increasing trend of economic integration worldwide). On the other hand, globalization is pushing companies to build informal network organizations, such as virtual organizations, that are able to work in a faster, cheaper, and more flexible way. E-partnerships and virtual organizations are products of the globalization and IT advancement over the past decade and they have fundamental synergy between them. They interrelate and interact with each other in this digital era.

## ADVANTAGES

The greatest advantage of e-partnership and virtual organization lies in the fact that they eliminate the physical boundaries of organizations, and that cross-functional teams and organizations are able to operate and collabo-

rate across space and time by communicating with each other via electronic channels. The Internet becomes the most important interface between participating organizations, teams, and individuals. E-partnerships and virtual organizations enable businesses to sell and deliver products and services across the world in a more efficient way in terms of speed and cost. Amazon.com, Priceline.com, and E\*Trade are some of the successful e-businesses that have depended on, and maximized profits from, e-partnerships.

Other perceived benefits of e-partnerships and virtual organizations may include greater business opportunities, better integration of suppliers and vendors, better management information, lower operational costs, better market understanding, and expanded geographical coverage (Damanpour, 2001). E-partnerships and virtual organizations may also offer the opportunity of consolidating resources of all partners and organizational flexibility as other forms of inter-organizational partnerships and alliances do.

In this rapidly changing competitive landscape, few organizations can rely on their internal strengths only to gain a competitive advantage in national and/or international markets. Inter-organizational collaborations, alliances, joint ventures, partnering, and the like are gaining unprecedented momentum, regardless of their organizational and management structures and styles and communication channels. An organization's resources are limited in one way or another. Forming a business e-partnership and taking a network form of organization is increasingly one of the most popular strategies available to an organization to take advantage of an Internet highway on the one hand and share risks, capabilities, and revenue with partners on the other. The driving forces behind building an e-partnership and a virtual organization share a lot in common with those driving any other form of inter-organizational collaboration. They include:

- to gain a competitive advantage or increase market share in national and/or global markets;
- to share revenue and expand sales between merchant and partners;
- to prevent competition loss;
- to meet changing demands of customers and markets; and
- to gain core competencies from competitors (Sierra, 1994; Dussauge & Garrette, 1999; Trask, 2000).

## **KEY ISSUES**

However, like e-business and e-commerce, e-partnership is also facing a range of issues related to the use of the

Internet, as well as the reliance on inter-organizational interfaces. The key issues identified are:

- challenges and risks of e-partnerships and virtual organizations;
- productivity and revenue sharing in e-partnerships and virtual organizations;
- transferring and sharing core competencies between participating organizations;
- power disparity; and
- quality and effectiveness of communication.

Addressing each of these issues has posed a formidable task in front of e-managers of various kinds of inter-organizational collaboration through electronic technologies and e-networks. The following discussion explores each of these issues in detail.

## **Challenges and Risks**

On the technological side, companies that are involved in e-partnerships must participate in external business relationships by using computer interactions. This forces e-managers to re-engineer their IT strategies and resources, and re-think their ways of communicating and doing business with e-partners in a virtual environment. Main issues to be considered are IT infrastructure and managers' and operatives' knowledge and skills associated with e-business.

On the human resources' side, e-managers are surely confronting management complexities of making cooperation work. One of the biggest challenges is conflict and differences in organizational and country cultures and systems. Each organization has its own culture developed from its own particular experience, its own role, and the way its owners or managers get things done (Hellard, 1995). In addition to the cultural differences at organizational level, multi-national e-partnerships inevitably encounter barriers caused by cultural differences between nations such as clashes between western and eastern cultures. Differences exist in systems including taxation systems, online intellectual property, and online trade and law. For example, EU member states must enact legislation to ensure that transfers of data outside their boundaries are allowed only to jurisdictions that can offer adequate protection of the data. The U.S. believes that minimal domestic regulation would foster cross-border Internet trade (Damanpour, 2001). Managing the culture and system differences across organizations and across nations is one of the high agendas that challenge managers of e-partnerships and virtual organizations.

While the Internet and network organizations facilitate improved communication of data, information, and

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