



**THE STRATEGIC MANAGEMENT COLLECTION**

Mason A. Carpenter, *Editor*

# **Business Goes Virtual**

*Realizing the Value of  
Collaboration, Social  
and Virtual Strategies*

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PART I

# The Convergence

# CHAPTER 1

# Virtual Business

## Real or Imaginary?

All glory comes from daring to begin.

—Eugene Ware

### Welcome to the Future

Welcome to *Business Goes Virtual*. We are delighted that you have decided to embark on this journey of discovery. We hope that you enjoy reading this book as much as we enjoyed writing it.

As business leaders look to the future, especially in troubling economic times, many are considering how to remain competitive in an era of scant resources. For most, it seems likely that capital projects will be scarce and the idea of growing the workforce will be a distant dream. So what can business leaders do about this? Some savvy leaders are recognizing the potential of virtual business and the value of implementing a strategy to build a distinctive competitive advantage. *Business Goes Virtual* combines academic theory with real-world practitioner success stories to provide leaders with leading practices and lessons learned to help their organizations innovate and grow more rapidly.

Despite several false starts, the concept of virtual business is finally coming to fruition. Four critical enablers drive this new reality: social technology, visionary leadership, a culture of collaboration, plus an understanding of the virtual word. These four enablers—the so-called TLC+V of virtual business—have combined to create exciting and uncharted business opportunities waiting to be harnessed. Fortunately, many pioneering leaders have blazed the new cow path and demonstrated its untapped potential.

Today our world is a highly diverse and fluid economy where small companies or individual employees reconfigure themselves to quickly solve rapidly changing problems. Companies and individuals will have permanent and nonerasable reputations on the web that can be used to ensure trust and partnerships. Organizations that can think quickly will prevail. The socially connected network economy moves in real time and will continue to tear down and outrank establishment thinking. There is less value in branding when potential consumers rely on live feeds of customer satisfaction data showing how other people like themselves feel about the alternative offerings.

Imagine bringing a mobile Internet-connected device when you go to the supermarket: As you reach for a package of laundry detergent, it warns you that 70% of 10,000 people like yourself who tried the product did not like what it did to their laundry. Walking down the sidewalk in your new Nike running shoes, you are alerted by your watch that there is a sale on running shoes two blocks away, and your GPS guides your shoes where to turn. It sounds farfetched, but it is not really as increasingly the world goes virtual. Increased communication (and automated processing of judgment data) means increased transparency and more power to the customers. The World Wide Web is increasingly intelligent and social. Having strategies that allow you to innovate and embrace the new world of work will be key to your organization's evolution and sustainability.

This book examines four virtual business strategies that are showing unprecedented growth and opportunity. The "any place, any time" strategy focuses on providing high-quality service 24/7 by ignoring traditional geographic challenges. The "people know best" strategy harnesses the power of everyday people to create value. The "everyone has a stake" strategy considers the stakeholder view of the organization and guides leaders in tapping this vast store of wisdom. Finally, the "real in the virtual world" strategy offers incredible opportunity for real businesses to sell their wares in the virtual world.

As with all innovative strategies, some potential pitfalls will demand the attention of virtual business leaders, the first of which is developing a social media policy that creates a collaborative culture while protecting corporate intellectual capital; this is often a difficult balancing act. Equally important and just as challenging is the issue of not succumbing to the forces we plan to tap. Social technology is a double-edged sword and an angry consumer

group can quickly become a network army with incredible power: Witness the Twitter Moms who took on a large corporation and won.

Throughout the book, we present a collection of best practices derived from our case studies of *real* virtual business successes. We include a healthy dose of not-so-successful stories to remind us that these strategies are not a quick fix but rather the product of sound strategic planning. Finally, we gaze into a crystal ball and consider what is on the horizon. This uncharted territory will be of great interest to early adopters who are looking for the next *big thing* and to leaders that need reenergizing and a vision to create the future of work to attract the best and the brightest and reinvigorate what they feel has been lost.

## The Convergence

As the first decade of the 21st century drew to a close, many observers reflected on the *revolution* that had transformed the way people connect, communicate, and collaborate. Although there is some question as to whether we witnessed a true revolution, there is no question that a convergence of ubiquitous communication networks, low-cost appliances, exponential web-based content growth, and a cultural shift toward sharing know-how has created an always-on, always-connected, always-sharing environment. Today many of us assume that no matter where we are we should be able to connect immediately to our cyber security blanket. In fact, while one of us (John) was writing in Molokai, he was surprised and disappointed that the free Wi-Fi connection in his vacation condo blocked most social media websites, including Facebook, YouTube, and LinkedIn. As a result, he could not boast about the beautiful December weather to his snowbound friends in North Dakota. Ironically, only a couple of years ago he was ecstatic to find a hotel with free Wi-Fi—funny how our expectations change so quickly. No worries though, as both his BlackBerry and his Kindle allowed ease of connection to his needed social media sites . . . and so the boasting still got through.

This convergence has revolutionized how we connect with friends, family, and businesses. Today, executives, students, and soccer moms are equally connected virtually everywhere they go. But why is this of concern to us? The new reality is that all these people are able to use this omnipresent connection to perform business functions that once required

a physical presence. Take, for example, the act of browsing for, selecting, and ultimately purchasing a book. Armed with a Kindle (Amazon's electronic book reader), a customer can browse for a bestselling book, preview the first chapter at no cost, and if so inclined, purchase the book electronically in 100 countries around the world—all from the handheld book reader. The book arrives in about a minute, so the purchaser can begin reading the book instantly.

The Kindle is certainly having an impact on the way some consumers purchase books. According to an Amazon.com press release, on Christmas Day 2009, consumers purchased more Kindle books than physical books—the start of a revolution in the book industry.<sup>1</sup> The early success of the Kindle was seen by some to be a fad, though early adopters were convinced this was not a fad but in fact a shift change in consumer behavior. The advent of the Kindle changed the business model for the entire book chain. Other e-book readers followed, and in 2010, Apple launched their tablet, the iPad, which is a book reader on steroids. In 2010, Apple sold approximately 15 million iPads, making it the fastest-selling consumer electronic product ever.<sup>2</sup> Some see this as tremendous progress, while others worry that the physical book may become a relic of the past. From an environmental point of view, it seems that the purchase of an e-book should reduce one's carbon footprint, as no printing or shipping is involved, nor did the purchaser have to drive to a local bookstore or large box store.

Of course, to the companies that print, bind, and ship the book, this might not seem to be the desired way of the future. Nevertheless, the wise printers, binders, and shippers of the world are acutely aware of the transformation. Our point is that this virtual business model provides a new way for customers to purchase books and therefore has the potential to change substantially the industry. Similar transformations have occurred in the gaming and music industries.

Two recent viral videos captured the attention of the online community as they described in graphic detail the impact of the convergence. The first of these million-plus viewed videos is titled “Did You Know? 4.0.” As the suffix suggests, this is the fourth in a series of short videos that present interesting *facts* about the new world order. Some of the so-called facts have been disputed; however, for the most part the video series has accurately portrayed the tremendous change in the 21st century online environment.

The genesis of the “Did You Know?” video was a PowerPoint developed for a high school faculty meeting in 2007. The “Did You Know?” architects recognized the U.S.-centric bias in their education system and hoped to create an environment that would help American students “learn and grow so that they may become successful digital, global citizens.”<sup>3</sup> Designed to inform local educators, the original version of “Did You Know?” quickly gained popularity and has since been viewed by more than 5 million viewers, while the entire series has a total of more than 20 million viewers.<sup>4</sup> Each version of the video, along with a series of national adaptations and language translations, is available on the Shift Happens wiki—we highly recommend that you visit the wiki at <http://shifthappens.wikispaces.com>.

The current version of “Did You Know?” was specifically mastered to promote *The Economist* magazine’s Media Convergence Forum. Unlike the previous versions, the 4.0 version does not have an education theme but rather focuses on media convergence. We recommend the 3.0 version, which highlights some amazing facts and has been viewed by more than 12 million people:<sup>5</sup>

1. Did you know if you’re one in a million in China . . . there are 1300 people just like you?
2. China will soon become the Number One English speaking country in the world.
3. The 25% of India’s population with the highest IQs . . . is GREATER than the total population of the United States. Translation: India has more honor kids than America has kids.
4. Did you know the top in-demand jobs in 2010 . . . did not exist in 2004?
5. We are currently preparing students for jobs that don’t yet exist . . . using technologies that haven’t been invented . . . in order to solve problems we don’t even know are problems yet.

Take the time to watch the entire version at <http://www.youtube.com/watch?v=6ILQrUrEWe8>.

The second of the far-reaching videos is titled “Socialnomics,” the namesake of the book it was designed to promote. Like “Did You Know?”

the “Socialnomics” video includes a series of facts and figures about the new world: It begins with the question, “Is social media a fad? Or is it the biggest shift since the industrial revolution?”<sup>6</sup> and continues with statements including the following:

1. By 2010, Gen Y will outnumber Baby Boomers; 96% of them have joined a social network.
2. Social media has overtaken porn as the #1 activity on the web.
3. One out of eight couples married in the United States last year met via social media.
4. A 2009 U.S. Department of Education study revealed that on average, online students out performed those receiving face-to-face instruction.
5. The percentage of companies using LinkedIn as a primary tool to find employees is 80%.<sup>7</sup>

The author provides a list of sources for the various statistics;<sup>8</sup> however, the context of several facts has been disputed. For example, Josh Bernoff, the coauthor of the highly acclaimed book *Groundswell*, posted the following comment on the “Socialnomics” blog:

This video and blog post are a fascinating example of a social phenomenon—how statistics, shorn of context and eventually of sources, can spread like a meme.

Let’s just take as one example, statistic #2, that social media has overtaken porn as the top activity on the Web.

Your source is Huffington Post, but when you click on the Huffington Post link you find the actual article is on Reuters. Going there you find out that the actual research was done by Hitwise (<http://www.reuters.com/article/technologyNews/idUSSP31943720080916>) and that the actual fact is that social networks have overtaken porn in \*Web Searches\*, which is not the same as activity. And even Reuters doesn’t tell us what region this is in—is the US, or worldwide?

It’s not that I don’t believe it, it’s that in the absence of context these statistics lose much of their meaning.<sup>9</sup>

So what is the lesson? We agree with Josh Bernoff and others who suggest that some of the “Socialnomics” statistics were presented without context, which really is nothing new, as statistics are regularly misrepresented. Of course, we must challenge what we read whether it is on the web, on the television, in print, or in any other media. That said, the ideas presented in both “Did You Know?” and “Socialnomics” videos have awoken millions to the potential of social media, digitization, and the globalization—all that is good. The question for you and your organization is, how are you capitalizing on this convergence?

Interesting enough, in the time it took us to develop this manuscript, December 2009 to December 2010, a new version of “Socialnomics” appeared (see <http://www.youtube.com/watch?v=IFZ0z5Fm-Ng>) with the questionable statistic removed.<sup>10</sup> This in itself illustrates the power and self-correcting nature of social media.

### Virtual Business Defined (Sort Of)

The notion of a virtual business is a relatively new phenomenon and therefore many of the ideas presented in *Business Goes Virtual* are emerging concepts that are uncharted and await ratification. This certainly does not imply that there is not huge potential, nor does it suggest that the ideas do not build on a solid foundation; rather, it suggests that the ideas are new. In many cases, the ideas have been discussed for decades; however, the infrastructure simply did not exist to support the revolutionary ideas. The convergence we discussed earlier in this chapter has changed all that—the time is right to consider the merits of the virtual business.

So far, in this chapter we have penned the term “virtual business” more than a dozen times, we have discussed enablers and challenges, and yet we have not defined the term. As with many emerging domains, there is no consensus of how the term should be defined. Wikipedia defines the term as follows: “A virtual business employs electronic means to transact business as opposed to a traditional brick and mortar business that relies on face-to-face transactions with physical documents and physical currency or credit.”<sup>11</sup>

Our use of the Wikipedia definition is very deliberate. We are very aware that some readers will cringe as they read the word “Wikipedia” and immediately challenge the validity of the definition. However, we

believe that Wikipedia is an excellent source of material, especially given the subject of the book. Throughout *Business Goes Virtual*, we will use a variety of high-quality online references including blogs, wikis, social media, and corporate web presences as well as more traditional academic sources such as peer-reviewed journal articles, books, and conference proceedings. We will select the sources carefully; however, we will not differentiate based on whether the source is from electronic or paper media.

Wikipedia continues the virtual business article with the following example: “Amazon.com was a virtual business pioneer. As an online bookstore, it delivered and brokered bookstore services without a physical retail store presence; efficiently connecting buyers and sellers without the overhead of a brick-and-mortar location.”<sup>12</sup> The Wikipedia article on virtual business includes several subcategories of virtual business, as shown in Table 1.1.

Throughout *Business Goes Virtual* we will consider organizations in each of the categories shown in Table 1.1. Many other definitions exist for the term “virtual business” and although we do not want to engage in a lengthy discussion of which is best, we do believe we should explain what we mean by the term. From our study of businesses in the domain, we define the term as follows: A virtual business provides innovative solutions to new and traditional business challenges by exploiting social technology, leadership, and collaboration in both the real and virtual words.

## What’s Ahead

The aim of this book is to consider the theory and practice of virtual business with a view to helping executives chart a course toward a winning strategy based on social media. Unlike other books in the domain, this is not a book about the present; rather, it is a guide for the future. To be sure, we will spend some time reviewing what is working and not working today; however, the clear emphasis is building a strategy that will create value in the future.

We have worked diligently to provide a concise, no-nonsense view of virtual business. We have carefully selected the material we included to ensure it will be valuable for you. For those who desire more knowledge, we have included a comprehensive list of more than 100 references.

**Table 1.1. Wikipedia's Virtual Business Definitions**

Category	Wikipedia definition
Virtual business	"A virtual business employs electronic means to transact business as opposed to a traditional brick and mortar business that relies on face-to-face transactions with physical documents and physical currency or credit."
Virtual services	"Along with connecting customers with physical products, virtual businesses are starting to provide important services as well. Recently, the online delivery of professional services such as administration, design, and marketing services have risen in popularity. Such companies have refined their offerings to include services such as a Virtual Assistant, in which the person providing the service works out of his/her own office and provides services via the Internet or other technology."
Virtual worlds	"Some virtual businesses operate solely in a virtual world. Environments such as Second Life have enough economical activity to be viable for commerce and one can make a living from sales of virtual property, products and services to virtual customers in these virtual worlds."
Virtual corporations	"Groups of people can assemble online and enter into an agreement to work together toward a for-profit goal, with or without having to formally incorporate or form a traditional company. In 2008, Vermont amended its laws governing corporations to accept electronic forms of legally required meetings, operating agreements, documents, signatures, and record keeping. A Vermont corporation (S-corp or LLC), while required to maintain a registered agent with a physical address in the state, can be started, operated and terminated without any of the principals ever being in each other's physical presence."
Virtual enterprise	"A virtual enterprise is a network of independent companies—suppliers, customers, competitors, linked by information technology to share skills, costs, and access to one another's markets. Such organizations are usually formed on the basis of a cooperative agreement with little or no hierarchy or vertical integration. This flexible structure minimizes the impact of the agreement on the participants' individual organizations and facilitates adding new participants with new skills and resources. Such arrangements are usually temporary and dissolve once a common goal is achieved. A virtual enterprise is rarely associated with an independent legal corporation or brick and mortar identity of its own."

Source: Virtual business (2009).

We have also highlighted what we consider the *must-read* sources in the domain. If we mention a book by title or include a web page's URL, that is our recommendation for you to add it to your reading list.

The text that follows examines a number of key concepts in the domain. We hope to present these ideas in a user-friendly style that combines academic theory, real-world best practices, and some personal observations. Each of the styles provides a different view of the same subject; however, together we hope this blend provides a précis of the current state of knowledge management as well as a very exciting glimpse of the future. Each chapter will end with a very brief list of the main takeaways in the “Now You Know” section.

### Now You Know

- Virtual business is driven by a melding of three critical enablers: social technology, visionary leadership, and a culture of collaboration.
- The “any place, any time” strategy focuses on providing high-quality service 24/7 by ignoring traditional geographic challenges.
- The “people know best” strategy harnesses power of the everyday people to create value.
- The “everyone has a stake” strategy considers the stakeholder view of the organization and guides leaders in tapping this vast store of wisdom.
- The “real in the virtual world” strategy offers incredible opportunity for real businesses to sell their wares in the virtual world.
- A convergence of ubiquitous communication networks, low-cost appliances, exponential web-based content growth, and a cultural shift toward sharing has created an always-on, always-connected, always-sharing environment.