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**The Effects of Virtual Communities on
Multinational Corporations**

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OBJECTIVE

The objective of this research report is to examine the role of virtual communities in enhancing operational efficiencies of multinational corporations. The report also discusses the aspects that are necessary to sustain a virtual community.

WHAT IS A VIRTUAL COMMUNITY

When people think of virtual communities they often link the term with interactive videogames, social networking pages such as MySpace or Facebook, or gamer sites for technologically savvy teens. However, virtual communities of the twenty-first century provide much more to our world than their traditional stereotypes have. New virtual communities have the potential to and already have been in the process of changing the face of multinational communication forever.

A typical multinational corporation's virtual community may differ based on its planned objective and operating system. However, in general upon entrance to a virtual world one is able to communicate instantly with one member of the community or all at a simple click of a button. Depending on the community, a member could be able to share photos, stories, resumes, areas of expertise and much more for other members to see. Furthermore a company is able to provide manuals and materials within their community for insight and training purposes.

BENEFITS OF VIRTUAL COMMUNITIES

The current versions of virtual communities used by multinational corporations each provide a different, distinct service. Yet all operate in nearly the same manner by providing an online and therefore virtual forum for discussion and interaction among members. This need may not seem necessary for small domestic corporations, as they are able to reach an acceptable level of communication by picking up the phone, passing people in the hall, or walking down to an adjacent office.

However, when dealing with multinational corporations, both large and small, virtual communities allow multinationals to achieve the same level of communication as small firms by simulating the communication through a virtual world.

Often virtual communities stimulate this communication through the creation of an avatar for each member. This avatar performs the same basic functions you would in the work place. By allowing members to post information both personal and professional about themselves in the virtual community you allow closer knit conversations with co-workers as well as superiors. By doing this, you give employees a feeling that the corporation they are employed by is more than just an occupation, it is a family. You also allow employees to pool the knowledge of every single person in the community and therefore people are able to attain information faster than they would originally.

It may sound minimal, however the formation of relationships through communication has profound effects on employees and employers satisfaction which then leads to the overall performance of the corporation.

The current offerings of virtual communication can easily be separated into three distinct sectors, each containing a unique goal. As James Surowiecki stated in his book “The Wisdom of Crowds” masses, which I will be referring to as virtual communities are well equipped to solve problems of cognition, coordination and cooperation.

As Surowiecki explains, problems of cognition deal with situations which may not necessarily have a correct answer but have apparently wrong answers. Questions such as “What color are apples?” are cognition problems, because while one person might say red and another may say green, the person who says purple is obviously wrong.

Problems of coordination deal with a situations concerning a group of people or things that must figure out how to organize themselves around each other in a way that works for everyone. Coordination problems are seen every day. Such as on the road, how do you fit so may vehicles in one place and prevent them from wrecking?

Cooperation, like coordination deals with a group. However, with problems of cooperation you are looking at situations where the goal is to convince people that they ought to work in a group atmosphere and do what benefits the whole even when this may not be what is best for the individual. Problems of cooperation are often the most complex and deal with most notably, taxes.

CHALLENGES OF VIRTUAL COMMUNITIES

While there are many beneficial aspects to virtual communities and successful uses of them as we will discuss in the next section, there are also some notable setbacks which can occur if a virtual community is not monitored properly. There are also areas where virtual communities have been shown to fail or not pose themselves as a long term asset to a corporation.

Many virtual communities pose a first mover advantage, meaning that they are only useful for a short amount of time while they are new and exciting to its users. This happens most notably when corporations attempt to involve their customers in their virtual community as Mercedes- Benz did.

Mercedes used their virtual community to allow consumers to “test drive” their up and coming models and give them suggestions on what they would change. While Mercedes-Benz’s announced that virtual community had provided great insight for the company they abandoned their project after only a year.

Mercedes-Benz spout with virtual communities brought up many opinions from skeptics about the successfulness and sustainability of virtual communities when involving customers. In the history of virtual communities there have been very few, if any notable corporations that have used customer based virtual communities. While there have been no success stories from the international level which leads one to believe that marketing through virtual communities has a flaw in theory.

I believe this flaw is caused by community loyalty, something that is difficult to obtain when dealing with people who have little in common other than their taste of cars. It is difficult to argue that a commonality on such a minuet level would cause loyalty to a community they derived little from.

Another important aspect a corporation must pay attention to when beginning a virtual community is to make sure members of the virtual community feel as if they are deriving a benefit from their participation. This is the problem I believe forced the closure of the Mercedes-Benz virtual community. For a virtual community to be successful, people must feel that it is benefiting them and not just another aspect of their job. When they feel it is a true benefit, they will become more loyal to the community and therefore enhance the community as a whole.

The last fatal flaw seen in many corporations was a lack for total commitment into their virtual community. In many cases corporations used virtual communities as trial programs. Because of this their communities were not well thought out or planned. This led to an automatic failure in their communities as they were not operating as a true community would.

For true success in the virtual world a multinational corporation must be committed to the success and sustainability of their community. Planning and thought process of attaching their community to a specific internal flaw is vital for long term achievement in the corporation.

CASES IN POINT

Crestcom, Inc.

When translated into the world of international business the three previously mentioned sectors can help to solve many problems. The most common problems encountered in the business world are concern issues of cognition. Take for instance Crestcom, an international management training corporation which operates in over fifty countries around the globe. For this company, its' goal is to help enhance companies through their management training workshops, videos and seminars.

Because of the breadth of this companies reach, employees come into contact with people and businesses from all over the world. This naturally implies that these people will all have their own unique qualities, problems and solutions. To help Crestcom employees meet each customer's needs to the best of their ability, they use a virtual community to solve problems of cognition.

With the implementation of a virtual community, employees are able to send a question out into their community and then await a multitude of responses that pertain to their specific business. For example, if a Crestcom employee were working with an international corporation on management practices it becomes quite obvious that cultural circumstances play a large role in nearly all facets of the business.

Without a virtual community this company would be forced to use someone with extensive knowledge of the specific company's regional culture. However, a company such as Crestcom is able to pool the knowledge of all Crestcom employees about cultural effects on business and then store that data for future use by its employees.

Fortune 500 PC Maker

Another example of a virtual community which has been successful in solving problems of cognition is in the case of a Fortune 500 PC maker which was left unnamed by AllBusiness.com. According to AllBusiness, this PC maker used a virtual community to help aid their customer service reps in answers questions and achieving customer satisfaction.

Because of this multinational corporation's virtual community its' five thousand customer service representatives spent on average two to three minutes less answering each

customers problem. What may seem minuet in the realm of time saves the corporation and approximated four million dollars annually.

McDonalds, Inc.

Coordination problems are slightly more difficult to identify in the world of business. However, what they translate best into is the creation of personal relationships among the thousands of employees in a multinational corporation. When dealing with large companies, especially those with branches in multiple countries, you face the problem of employee loyalty and retention.

It is difficult to make an employee, especially to vital upper management, feel appreciated by their superiors, especially their CEO when the CEO has so many employees to cover. However, with a virtual community upper management is able to interact with their CEO every day.

This interaction can be as simple as greeting each other on the way to their office or having an actual conversation with the CEO. This method of virtual communication is much more personal than an email or letter but is much more manageable for a CEO who at the same time can be completing the needed work for the day.

McDonalds used this aspect of virtual communities for its' benefit to help increase employee retention rates. While recently on a trip in Dubai, CEO Mike Roberts was able to upload photos of his trip and have day to day conversations with his employees. With a virtual community he was able to be at his "virtual desk" in an entirely different country and communicate with his employees.

In the service industry employee turnover can nearly double a salary in costs for retraining and the loss of productivity. With a virtual community you increase employee retention, bring back lost employees which saves money on training costs, retain productivity faster from returning employees and increase productivity.

Caterpillar, Inc.

The last category which virtual communities are used for is cooperation. One of the main problems with cooperation in multinational corporations is information sharing. Because members of the corporation are spread out across the world and many have little to no contact it is difficult to convince employees to help others when it does not benefit them.

Furthermore, even if an employee were willing to share information with another, without a virtual community there is no forum for this sharing to occur. With virtual communities you allow people to build relationships, which increases the likely hood that they want to share their research, findings or helpful methods. You also provide a forum for this information sharing to occur.

The increase in information sharing for Caterpillar beginning in 1999 has now evolved into an estimated 75 million dollars in savings. Caterpillar began by creating small communities amongst employees in the same departments across the world. The departments for which they created communities for were ones where employees usually worked alone without anyone to ask questions of. With these first virtual communities, employees were able to bounce ideas off of each other and exchange reference information.

Today, Caterpillar has expanded its' communities to include dealers and suppliers to the point that 15 percent of their communities contain all three. Intangible benefits from these virtual communities have increase in a multitude of areas. Productivity has increase 40%, with cost

decreasing 25% and quality increasing 4%. Overall, this use of virtual communities has been enormously profitable for Caterpillar and many other corporations. However, as you can see from the three examples they have an increase benefit for multinational corporations because of the specific challenges they face on a daily basis.

CONCLUSION

As virtual communities become more evident in the world of business I expect a few trends to occur. Virtual communities designed to solve problems of cognition will spiral through the service sector, especially in the area of customer support. The general trend in the cost of labor is rising around the world and therefore is often outsourced to other countries.

However even in these countries, where labor is generally cheaper than America, the cost is still rising and therefore cutting into corporate profits. Whereas a decade ago outsourcing was on the cutting edge of the business world I expect that virtual communities will soon take this place.

Problems of coordination are going to remain fluid throughout all sectors of large corporations, but will remain more densely in those which are multinational. While virtual communities pose benefits for domestic corporations their breadth is found to be a larger assistance with corporations whom are crossing language and geographical location barriers.

Last, problems of cooperation will remain largely in the manufacturing sector. I believe that this is where it will become the most profitable as this is where you find many technical aspects and specialized work. Because of this specialized work, questions and advice are found more sparsely. Virtual communities bring this sparse information to an engineer much quicker than a talk over coffee break or a phone call and drastically increase productivity by decreasing time spent.

The virtual communication industry is destined to grow as the years pass. As our world looks for more ways to become connected with its global partners, virtual communities will continue to provide a unique forum which has the ability to solve many multinational's everyday headaches and concerns. Because of this they will continue to act as a useful remedy to the coming years challenges throughout the world.

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