

## Innovations of Enterprise Organization in the Network Economy Age

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### Abstract

Based on the network economy the innovation of enterprise organization is a kind of innovation activity which regards IT application as foundation, integrates resources and shares information as the principle, authorizes work team and emphasizes the humanized management as the guide, quickly responds to changing market demand as the goal. This paper, by anglicizing the drawbacks of traditional hierarchies organization mode and development trend of enterprise organization, discusses the learning organization, business process reengineering and virtual organizations which make contributions to the innovation of enterprise organization based on the network economy, and analyses the obstacles of achieving the organization innovation.

**Key words:** Enterprise organization; Network economy; Organization innovation

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### INTRODUCTION

The traditional hierarchy organization mode is set up based on British economist Adam Smith's theory about division of labor in the eighteenth century. Because the scale of production is expansion, and the human intellect is limited, so management range is also limited, organization of hierarchy's type or organization of the pyramid type is built. Indeed, hierarchical organization has promoted the progress of human society and the generation of the industry age. However, its effective performance is based on certain market background and assumptions for the premise: manufacturing is established based on mass production as the prototype; external operating environment of enterprise is usually stable, although it has change, it is measurable basically. While the development of IT technology makes the external environment of enterprise change in the age of Internet economy: global market competition is much fiercer than before day by day; the life cycle of product is shorter constantly; the demand of customer becomes more personalized; the production mode of many varieties and small batch gradually becomes the direction of the future development of the enterprise. In this case, the hierarchical organization increasingly exposes its defects, it performs in:

(1) It can't quickly respond to the demand of complex and changeable market.

(2) Lack of innovation space, everyone in the hierarchies is located in a working frame, because the innovation, deviant and adventure of a department will interfere with the organization to policy of other department.

(3) Members in organization who are passive obedience aren't helpful to develop the positives of member's working, and the workers have gradually become intellectual, smart workers, the boundaries of white-collar and blue-collar become blur at present.

(4) The technology of information and network makes

middle managers who mainly work on processing and transmission of information lose its necessity of existence, instructions can be reached the designated position one pace.

(5) Members of organization only respond to their own functional leaders, but don't care for work of other department and the final product and total goal of enterprise, it is not only achieve whole benefit of enterprise, but also will emerge the corruption.

(6) The segmentation of function greatly hinders the freedom transfer and access of information, which makes the application and promotion of the modern information technology and advanced management method be restricted in certain degree.

So many enterprises begin to explore how to transit from the longitudinal straight hierarchy to mode of horizontal network organization. The topic selection of this paper is generated based on this background.

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## 1. THE DEVELOPMENT TREND OF ENTERPRISE ORGANIZATION UNDER THE INFLUENCE OF NETWORK ECONOMY

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### 1.1 Obfuscation of the Enterprise Organization's Boundary

Enterprise through the information network can combine its own elements with production elements of other enterprise to form new productive forces. The communication among enterprises can't be limited by the time and space and shares information resources in the global scope. The boundary of economic activity of the domestic and foreign becomes blur, the boundary of enterprise is no longer clear as before, borderless enterprises become the new form of business organization.

### 1.2 Flat Structure of Enterprise Organization

With the application of network information technology, complex computer network will reform the information transfer mode fundamentally, which changes them from the class type into horizontal, and the structure of management organization closely related to the way of information transmission changes from the pyramid type into flat type. Top decision makers can face to face with grassroots executives, instructions can reaches the designated position directly, grassroots executives also can make decisions according to the actual situation, integration of the related management organization becomes the general trend, therefore the enterprise will develop from the vertical command, the multi-level control type organization to the flat information network organization which is mainly formed by experts.

### 1.3 Direct Enterprise Trading

One of the important characteristics of network economy is direct economy, that is transiting from circuitous economy in the age of industry age to the direct digital economy, which makes middlemen or wholesalers got great shock, more and more enterprises have started to adapt to the requirements of the development of network economy, to adjust its operation of production organization and take directly the mode of e-commerce operation of facing consumers.

### 1.4 Virtualization of Enterprise Organization

In the traditional enterprise, employees who stay in the fixed office every day work and deal with business according to the regulation schedules, but with the spread of the Internet, working space-time of staffs disappears, they can discuss work in any place and at any time through the information network, which makes the original enterprise entity losing the necessity of existence in some extent. Then it is "virtual". The virtual team of temporary form of dynamic alliance of making use of information technology (in particular network technology) used as coordinating means can beyond the space constraints to integrate the present resources together in different parts of place quickly.

With the development and the widespread application of the network technology, the enterprise must establish a new organization mode to keep the future competition advantage.,

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## 2. THE INNOVATION OF ENTERPRISE ORGANIZATION MODE

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The process of organization innovation don't have fixed mode in practice, therefore, the modes of organization based on Internet economy are also various.

### 2.1 Learning Organization and Organization Innovation

Although the concept of learning organization was put forward by Argyrols of Harvard in 1977, it prevailed in 1990s as a kind of effective way of transition of enterprises. As the publication of *The Fifth Discipline* which was written by Peter holy who was the professor of Massachusetts Institute of Technology and also was a new generation of management master, the learning organization came into the eyes of world. The information spreads world-wide in electronic velocity in the Internet age, and there is no secret for operation of enterprises and the only advantage is that you have the ability of learning much more quickly than your competitors and put what you learn into practice. Learning organization is a kind of organization which is good at creating, absorbing and inverting the knowledge and it has features as follows; the structure of organization is flat, and they communicate with others through information, the organization is open, the relationship of the staffs and the managers in

organization changes from owner-member relationship to partners and the organization can constantly adjust its internal relationship. Therefore, the most successful enterprise is “The learning organization” in the network age, the learning organization can adjust its behavior according to the new knowledge and the future goals of organization, and it is also a new organization which can enhance its ability of innovation by the management and applying of knowledge.

## **2.2 Business Process Reengineering and Innovation of Organization**

Business Process Reengineering (BPR) is put forwarded at first by the professor of Massachusetts Institute of Technology who named Michael Hamers and he wrote *Reengineering the Corporation: A Manifesto for Business Revolution* with James Champy. Theory of BRP breaks through the traditional Adam Smith’s thoughts of division of enterprise, and emphasizes process as core, and changes original management form which is based on function to offer a new thinking for the innovation of enterprise organization. The main point of BPR regards the business process as centre, gets rid of the restriction of theory of traditional organization division, promotes the customer’s orientation, the flexible organization, authorizing to employer and correctly applying the technology of modern information, to adapt to the rapid changing environment; the starting point is to apply IT technology to breakthrough the restriction of structure of existing organization function, from the point of process to integrate all kinds of activities of enterprises. On the one hand, through reforming business process, the structure of organization is to be flat, network, and bureaucratic system is correspondingly broken to make the cost of audit and supervision reduce. On the other hand, the application of IT makes the more enterprises of the whole society become knowledge enterprises. The Business Process Reengineering (BPR) is not directly focused on cutting staffs of the department, but organization of business changes a lot to bring the result of simplifying and flattening organization.

Management thoughts of BPR make important contributions to reform of organization. In fact, reengineering organization is achieved by reengineering process.

## **2.3 Virtual Organization and Organizational Innovation**

Virtual Organization is the product of the rise of the network economy, it is a kind of cooperative alliance which owns different knowledge and technology that can exploit, product, operate some kind of new product, to share technology, share cost and meet the market demand when the new opportunities occur based on information technology. It is different from other organization form and it has not fixed chart of organization and a large

number of organization levels, the relationship between members is a flexible partnership. Virtual organization can not only combine related enterprises organization in the value chain, but also it can link up to competitors to obtain “win-win” benefits.

Virtual organization has characteristics as follows: the first, IT-network-based, it combines the employees of organization, the employees of related organization and customers with each other to form a dynamic alliance. The second, it pursues the competitive advantage of time to capture “instantaneous” market opportunities and to meet customers’ needs. The third, its precondition is full trust, building full trust between the members is a prerequisite to establish and operate virtual organization. The fourth, based on the application and development of IT, the virtual organization realizes the integration of the different resources of regions and the change from the physical market geographic to the virtual market space. As a highly flexible and agile form of organization, virtual organization will be ideal goal mode of innovation of many enterprises under the network economy.

Three types of organization innovation above are not mutually exclusive, but are mutually reinforcing and complementary. In the Internet age, if an organization wants to locate in an invincible position, to be a learning organization is the basis, and process reengineering and the formation of virtual organizations are means.

## **3. DIFFICULTIES OF ORGANIZATIONAL INNOVATION**

### **3.1 Lack of Trust Among the Members is the Main Reason that Virtual Organizations Can’t Be Established and Effective Operation**

The society without trust can only rely on the official regulations, and sometimes the mandatory means is also needed. Traditional bureaucratic organization form is based on no confidence with employees. Revolution of IT makes all the ending of bureaucratic system possible, however, the trust has not been established generally so that these forms of bureaucratic organization is “stiff but not dead.”. And the management of virtual organization is a complex process, it is still lack of specific research about virtual organization at present, but the virtual organization and strategy alliance have many similarities, which can use the method and technology of trust management of strategic alliance partner..

### **3.2 Business Process Reengineering Has Great Risks to Make the Formation of Flexible Organization More Difficult**

The first performance of the risk of Business Process Reengineering is that business reengineering involves changes in many aspects, including to not only the structure but also the work process, values of enterprise

and management system and so on, While these exchanges happen at the same time, which may lead to confusion and crisis; Second, enterprises can not afford the high cost so that they can't undertake it and give up half way. Therefore, reengineering technologies and the ability of undertaking risks often restrict the feasibility of enterprise reengineering. So, early in the reengineering, and in the case of non-experienced, the first one or two narrower, lower-cost processes are selected to for reengineering, it can be in full developed when it accumulates some experience. It is worthy of showing that in most cases successful business reengineering which brings high profit will be far higher than the expected losses caused by high-risk.

### 3.3 The Organization Culture of Enterprise Is the Protection Zone for Surviving of Traditional Enterprise Organization

Culture of enterprises is that all staffs of enterprise have the values, beliefs and the perception of the world behind behavior shared. The original organizational culture firmly protect the original organization with its inherent stability, and resist any change occurs, the overall structure of the new organization is difficult to obtain; For the overall structure of the new emerging organization culture, the old organization will continue its strong resilience to pull the members of the new organization structure to make their behavior reverted, it leads that a new organization is not performed, even disorganized. Therefore, when we complete to establish the overall structure of the new organization, the transformation of enterprise culture must be completed, that is to break the existing protection zone to establish the adapted new culture of enterprise in order to realize "reborn" changes in organization mode.

## CONCLUSIONS

(1) Under the influence of the network economy, development trend of enterprise organization is the blur boundary, flat and virtual organization, and the trade of organization faces directly the final customers.

(2) In innovation of enterprise organization mode in the age of network economy, building learning organization is the basis, and process reengineering and the formation of virtual organizations are means.

(3) Lack of trust among members, the risk of process reengineering and the original culture of enterprise are the obstacles to realize the innovation of organization.

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