Chapter III

The Virtual Corporation and Trust: Balancing Between Identity and Innovation

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*It is ironic that trust, often criticized by managers as a soft and unman-
ageable concept, is nevertheless a necessary condition for achieving the
competitive advantages related to strategic and structural innovations*
(Whitener, Brodt, Korsgaard and Werner, 1998)

Virtual corporations are seen as new organisational forms to ensure
knowledge sharing and innovation. In this chapter the reason for the knowledge-
creating competence of virtual corporations is explained. A shared identity and
mutual trust of the participants are of paramount importance to innovation.
Virtual corporations are in fact balancing on a tightrope. They have to create an
identity which is strong enough for the participants to trust each other. At the
same time the identity shared by the participants of the virtual corporation must
not become so strong that very promising innovative avenues are blocked. ICT
will fulfil an important function here which is mainly aimed at the support of the
social relation between the participants.

INTRODUCTION

Why do organizations work together more and more often in the form of
networks in general and virtual corporations in particular? Why are terms such as
trust, knowledge sharing and innovations used more and more frequently when

organizing (virtual) cooperation between organizations? What is the relation between these concepts and from which angle can cooperation between organizations be considered?

We shall examine this in more detail in this chapter and try to shed light on the complex pattern that is related to exchanges between parties and individuals. We maintain that 'trust' is the keyword in cooperation in networks in general and in virtual corporations in particular. This trust, however, is based in the shared identity of those concerned. We shall describe which aspects are important in obtaining and keeping mutual trust in organizations, but especially in virtual corporations. This chapter contains an analytical model, in which the relations between these different aspects of trust are represented. In the discussion of this model in the following paragraphs we shall argue that the virtual corporation is a successful form of organization for operating in an uncertain environment with a high degree of competition. On the one hand we see the traditional organizational form, in which innovation is hampered by the internal hierarchic supervision and the strong organizational culture and identity.

On the other hand, the exchanges of organizations take place on the free market, where the absence of a common culture and identity hampers the sharing of knowledge and the realization of innovation. Virtual corporations have the best of both worlds. However, this does mean that sufficient attention needs to be paid to the issues of trust and identity, which are often labelled as "soft."

RELEVANT APPROACHES

In this paragraph three lines of approach are described for the organization of activities and the relations between the individuals and/or parties concerned here.

The lines of approach are, successively:
- the transactional costs approach;
- the organizational capability approach;
- the social exchange approach.

The transactional costs approach has been chosen because it is a much-discussed theory in the literature to provide an explanation for the organization of activities. Trust, although not mentioned explicitly, plays an important part in this approach. The organizational capability approach embroiders on this. It contends that the transactional costs approach does not suffice for this explanation. Attention to knowledge is necessary as a supplement to the transactional costs approach. Examination from a social exchange point of view instead of the transactional costs theory sheds a clearer light on the dynamic aspects of relations (Whitener et al., 1998). This point of view helps to explain why people are still inclined to trust the other party instead of resorting to control.

The Transactional Costs Approach

The difference between the internal organization of activities and obtaining goods or services by way of the market can be made clear by means of the

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