Chapter VIII

Virtual Organizing as a Strategic Approach to Stay Competitive—A Conceptual Analysis and Case Study

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Organizations are faced with a great challenge when trying to compete in the complex and unstable business environment of the twenty-first century. One of the potential solutions to this challenge is the new organizational form known as a Virtual Organization (VO). The aim of this chapter is to clarify VO as a phenomenon, and to discuss different degrees of virtuality. A conceptual analysis of the phenomenon is presented, focusing on the characteristics of VO and institutional and functional views of it. This chapter shows that the institutional view fails in many ways, and that the concept of VO should be understood rather as an organizational dimension than as a specific form. This chapter emphasizes the ongoing process nature of virtual organizations, and therefore proposes to use the term ‘virtual organizing’ than ‘virtual organization.’ An empirical study seeks to find out how the key principles of Venkatraman and Henderson’s descriptive VO model have been applied in a target organization. At the same time, the model is also evaluated. The empirical study shows that the model used provides a useful vehicle for analyzing the competitive effect of the target organization.

INTRODUCTION

Due to the globalization of markets and the increased need to react to continuous change, a growing number of new organizations have been established and many of the existing ones have been modified in the past few years. Organiza-
tional structures and approaches, like Weber’s model of bureaucracy or Taylor’s scientific management, can no longer be considered adequate for modern business.

To be able to compete in the twenty-first century, organizations will have to be more **flexible** (Lucas, 1996). Current developments require **decentralization**, which information technology (IT) should, in principle, be capable of coordinating. Jansen and Jägers (1997) argue that the noted shortcomings in the quality of present information systems, and the lack of insight as to how such coordination can be achieved in and by means of IT, is still something for the future. According to Malone and Rockart (1993), the primary changes today are being driven by changes in **coordination**. Information systems are becoming a direct instrument in coordinating and controlling organizational activities and are coming to replace the more traditional coordinating mechanisms. For this, other structures or other types of organization are needed (Jansen and Jägers, 1997). All kinds of close cooperative ties between organizations will develop so that the boundaries between organizations become **blurred** (Jansen and Jägers, 1997).

A new business environment calls for a strategy based on three elements: low cost, high quality and fast flexible responses to customer needs (Venkatraman 1994). Hale and Whitlam (1997) show that many successful organizations have been moving towards a genuinely different approach to conducting business in the future. According to Hale and Whitlam (1997), this appears to have been achieved by accident rather than by design.

Hale and Whitlam’s (1997) research shows that organization designers are facing a difficult task. They cannot rely only on traditional organization design variables, and in order to be successful they have to concentrate on, among several another things, how new organizational structures and technology influence work and people (Lucas and Baroudi, 1994). Organization designers are indeed facing many open, difficult questions: How should organizational structures be changed? What are the new coordination mechanisms and how should they be implemented? What kind of new internal and external integration is needed? Which possible steps and stages should be chosen for a future transition into a virtual organizational form?

Davidow and Malone (1992) introduced the initial term “Virtual Corporation” to the general public. Following the ideas presented in their book, Byrne et al. (1993) popularized the term further in a BusinessWeek cover story, and the virtual corporation came to mean a temporary network of independent companies that come together quickly to exploit fast-changing business opportunities.

The research questions for this chapter can be described as follows:

- What are the characteristics of a virtual organization?
- How have principles of virtual organizing been applied in a case target organization?

The research methods utilized in this chapter comprise conceptual analysis and a case study. The chapter will provide a conceptual analysis of the phenomenon of virtual organization (VO) based on current research literature. A single-case-study is made through interviews conducted within a Target Company. General observation of target organization behavior and archives material is also used as a method for collecting information. The nature of this information is therefore qualitative and the case study is mainly descriptive.
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