Chapter IX

Exploring the Origins of New Transaction Costs in Connected Societies

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ABSTRACT

There is a considerable amount of literature in management science, which claims that the digital economy is a frictionless economy, where hierarchies and institutions disappear replaced by dynamic and self-organized webs of companies and consumers. This vision may influence the way managers build market strategies and manage organizations, but also the way policy-makers address relevant issues concerned with the so-called digital divide in the knowledge society. In this chapter we have addressed the frictionless vision, challenging the communication symmetry fallacy, on which is based the idea that the network economy is automatically eliminating the information and institutional hierarchies (even though we still believe that the Internet introduces radical changes in the way economic institutions are built and the way businesses are conducted). We provide primary and secondary empirical evidence that
does not support the frictionless hypothesis. The complexity of our interconnected world, the evolutionary nature of trust and learning dynamics, and the economics of mediation (the economics of relationships plus the economics of information infrastructure), play a major role in both the creation and reduction of these new hierarchies and transaction costs in digital society. The result is complex and not deterministically driven by network technology.

INTRODUCTION

There is a considerable amount of literature in management science, which claims that the digital economy is a frictionless economy, where hierarchies and institutions disappear replaced by dynamic and self-organized webs of companies and consumers, freely meeting on this new web of opportunities (Bakos, 1997; Hagel, 1999; Hagel & Singer, 1999; Evans & Wurster, 2000).

The implications of this vision, that we call the paradigm of the frictionless Internet economy and society, are huge. It may influence the way managers build market strategies and manage organizations, but also the way policymakers address relevant issues concerned with the so-called digital divide in the knowledge society (Norris, 2000; Compaine, 2001).

This idea is not new. As Agre (2001) reminds us, conservative legal scholars, back in the seventies, viewed social progress, teleologically, as the progressive reduction of transaction costs, and thus argued the perfect approximation of ideal markets. However, Rullani (1998) warns against this fundamentalist approach to Internet society, because it simply reintroduces the ideology of the invisible hand of the market and social darwinism against any idea of collective action.

In previous works (Mandelli, 2001b) and in this study, we have addressed the frictionless vision. This vision challenges the communication symmetry fallacy, on which is based the idea that the network economy is automatically eliminating the information and institutional hierarchies, though we also believe that the Internet introduces radical changes in the way economic institutions are built and the way businesses are conducted. However, we claim that the complexity of our interconnected world, the evolutionary nature of trust and learning dynamics, and the economics of mediation referring to the economics of relationships plus the economics of information infrastructure, play a major role in both the creation and reduction of these new hierarchies in digital society. The result is complex and not deterministically driven by network technology.
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