Chapter II

Towards a Networked Economy

Introduction

This book is about mobile services in a networked economy. For some readers, the term “networked economy” may well be self-evident, but for others the meaning may be somewhat unclear. Therefore, in this chapter I will clarify what the term “network economy” means in the context of mobile services, and particularly in this book.

This book is not about mobile networks from a technological point of view; neither is it about network externalities as defined in economics. The way each of us understands the meaning of the term “network economy” is very much related to our academic background or the kind of business we are in. According to Frels, Shervani, and Srivastava (2003, p. 31), the term “network” is widely used both by economists and marketers (not to mention organizational theorists and sociologists). In marketing, the term has meanings such as “business networks” or “social networks,” whereas economists originally used the term “network” to refer to phenomena such as “network externalities.”

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In this book, the term “networked economy” refers to business networks, that is, networks that represent a new kind of organizational form that has emerged as an intermediate way of organizing between markets and hierarchies. According to Borgatti and Foster (2003, p. 995), a networked organizational form has emerged “to balance the flexibility of markets with the predictability of traditional hierarchies.” Although business networks are not a totally new concept, Achrol and Kotler (1999, p. 146) note that there has been a rapid evolution in the number, form, and complexity of these networks. As the competition is increasingly between networks of firms rather than among firms, “companies embedded in strategic networks will enjoy significant market advantages in the future” (Achrol & Kotler, 1999, p. 146). Albeit Achrol and Kotler declare that the concept of network is “a new managerial ethos,” which leads to a “relational mechanism of governance.” The question of whether or not a networked model is an ideal way of organizing a business is much more complicated and multifaceted than one would think.

The extensive review of existing theories and models of vertical integration strategies later in this book will demonstrate how the optimal decision between various alternatives (i.e., using markets, joining strategic networks, or doing everything within your own company) depends on several external factors such as the maturity and uncertainty of the market, the speed and nature of environmental and technological change, the complexity of the goods and services, not to mention cultural issues or timing. Our goal is to evaluate which of these forces are particularly important within the context of the mobile services industry. Further, by analyzing three different mobile markets, namely Japan, Finland, and the United Kingdom, we will try to find out if there are any major differences in the vertical integration strategies of mobile operators in these markets.

We have every reason to believe that the role of a “networked economy” will be increasing in the future. As early as 1993, James Moore anticipated in his book that as an ecological approach to management becomes more common and executives become conscious of coevolution and its consequences, the pace of business change itself will accelerate. According to Achrol and Kotler (1999, p. 161), “vertically integrated manufacturing firms are morphing into internal and external networks.” Borgatti and Foster (2003) note that there appears to be “a growing consensus that inter-organizational alliances and joint ventures have significant impacts on firm-level outcomes” (which is a key issue in this book). Further, the Organisation for Economic Co-operation and
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