

Chapter 23

The Social Cost of Social Value Creation: An Exploratory Inquiry into the Ambivalent Nature of Complex Information Technology Intensive Firms

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ABSTRACT

Google, eBay, Amazon, Facebook, Myspace, Craig's List and their foreign equivalents, such as the Chinese QQ and Baidu, for example, are ostensibly complex, and – more troublesome - their attitudes are becoming increasingly contradictory, controversial, and conflicted: For one, Tom Malone's decade-old predictions of a decentralized network of a multitude of small, cooperating firms did not materialize; to the contrary and counter to the spirit of the democratic nature of information and information technology, these e-giants are defining their own industries and defying regulation, submitting the participants in their respective markets to proprietary rules via three central tenets: regulatory capture, regulatory arbitrage, and regulatory opportunism. In the present critical chapter the authors explore these traits of the Complex Information Technology-Intensive firms and formulate elements of a framework for their ambiguous nature that may lead to social cost exceeding their initially glorified social value creation.

INTRODUCTION

Our object of inquiry are information technology-intensive firms that are also 'complex' system, serving multiple constituencies with multiple objectives, their existence as networks is virtual,

they are modular or even incomplete firms with mostly only fractional functionalities compared to the traditional Porterian value-chain model, their user constituencies are fragmented and mostly not the paying clients, the metrics to measure the attainment of their goals are based on unobservables and rather difficult if not impossible to quantify and capture. They are community-based, social

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value-oriented, and network-centric models. Of an entirely new character, they do not merely represent a form of speciation or evolution from previous models. In order to configure and sustainably maintain such volatile and inherently unstable social networking models tremendous amounts of intentional and deliberate intelligent design is required. This is especially true when – as is the case with those types of firms - the variables strategy, structure, scale, scope, and social position have been radically deconstructed, reconfigured, and reconstructed in truly Schumpeterian spirit of creative destruction. Indeed those firms are not merely some adaptive evolution with a change in degree from some previous state but represent a radical departure from the original design of firms with a new nature altogether.

Insofar our perspective is different from previous treatments of the subject: While much of the literature concerned with this aspect of IT since the mid 1990s deals with the pragmatic impact of information technology on organizational design, and primarily remains concerned with epistemic problems and transactional aspects: their focus is on structuration issues, harnessing the potential of information technology through optimization, and the impact of IT on firms' activities, decision making processes and management effectiveness (see for example Brynjolfsson & Hitt 1997, and Brynjolfsson, et al. 1994), on one hand, and the necessary attributes to function under the new environmental conditions brought about by IT on the other (see Huber, 2003). Others have been concerned with the fragmented, partial, fractional, and modular nature of firms morphing into network structures (see Brusoni & Tronchetti-Provera, 2005). And yet an entirely separate issue was the effect of IT on markets (e.g. Varian, 2001, and Varian et al., 2004). Our concern, however, is ontological and explores the very reason for existence of such firms, their new nature, their fundamentally redefined character as productive elements of the economic complex. Indeed, they

are a new breed of firms that represent a paradigmatic change but with paradoxical consequences.

They are designed *sui generis*, *ex nihilo*, *ex ante*, and *de novo*: The design variables strategy, structure, scale, scope and social position are used at the opposed end of the spectrum of their initial meaning. For example strategy is not competitive but cooperative; structure is not bureaucratic-hierarchical but network-flat, scope is not driven by transaction cost, but by transaction profits; size is not a quantified measure, but a qualitative result of dominance; finally, the social position of the firm is not across the table of its users, consumers, and clients, but implicates them as partners in a collaborative way to co-produce and co-generate the products, experiences, and content. The resulting entirely new business models of social networks, transmutability (Arakji & Lang 2007; Hughes & Lang 2005), and community models, do not evolve organically, however. Unlike traditional industrial firms that coalesced around different technologies by carefully designing the management control structures as the integrative mechanisms, the new firms require an a priori conceptual design and configuration of the above five variables much like the blueprint for an architecture.

This paradigmatic distinctiveness, however, comes with a series of paradoxes: strategy and structure of these firms are becoming increasingly controversial as is the anecdotal ambition of Google for 'organizing the world's knowledge'. The scaling and scoping of their activities to monopoly status and single-firm dominant industry position increasingly contradicts the original aspirations for an atomized and consequently democratized network of equal participants. And since pursuing social goals with economic means was never straight forward they seem increasingly conflicted with their for-profit model for social value generation; unlike taxation, Google's redistribution of income and revenue between different constituencies is devoid of formal authority.

And a further combination of these three paradoxes could result in social cost outweighing the

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