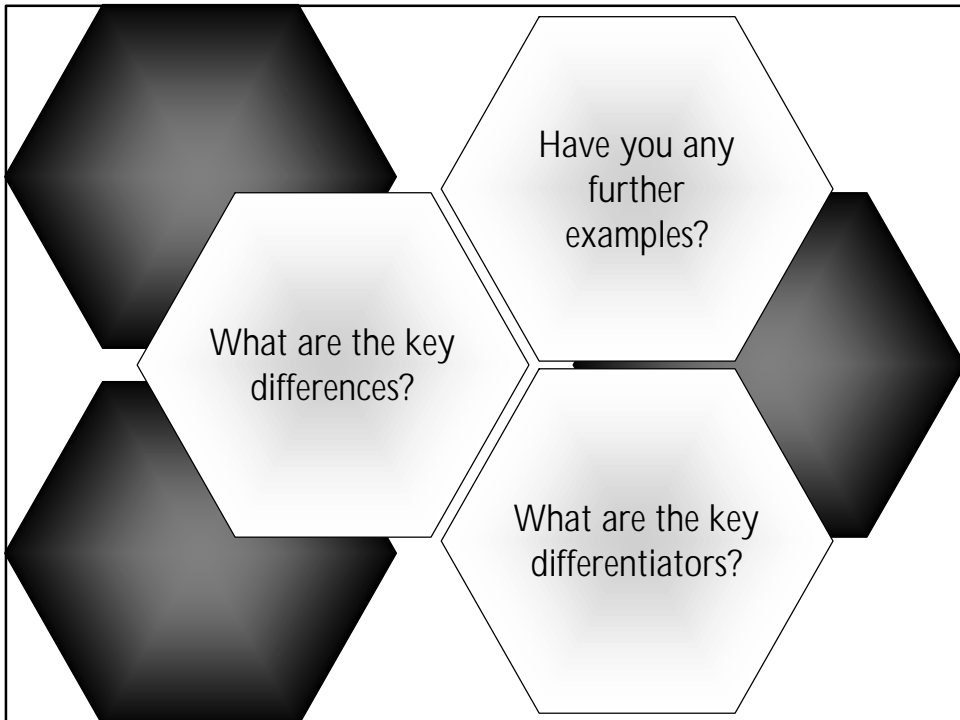
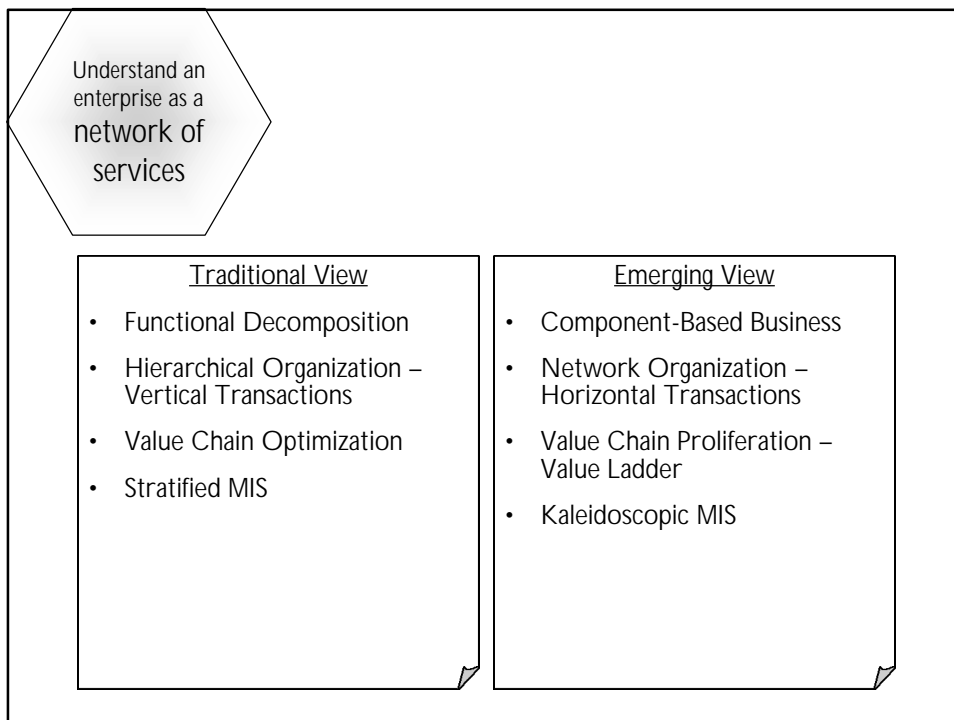
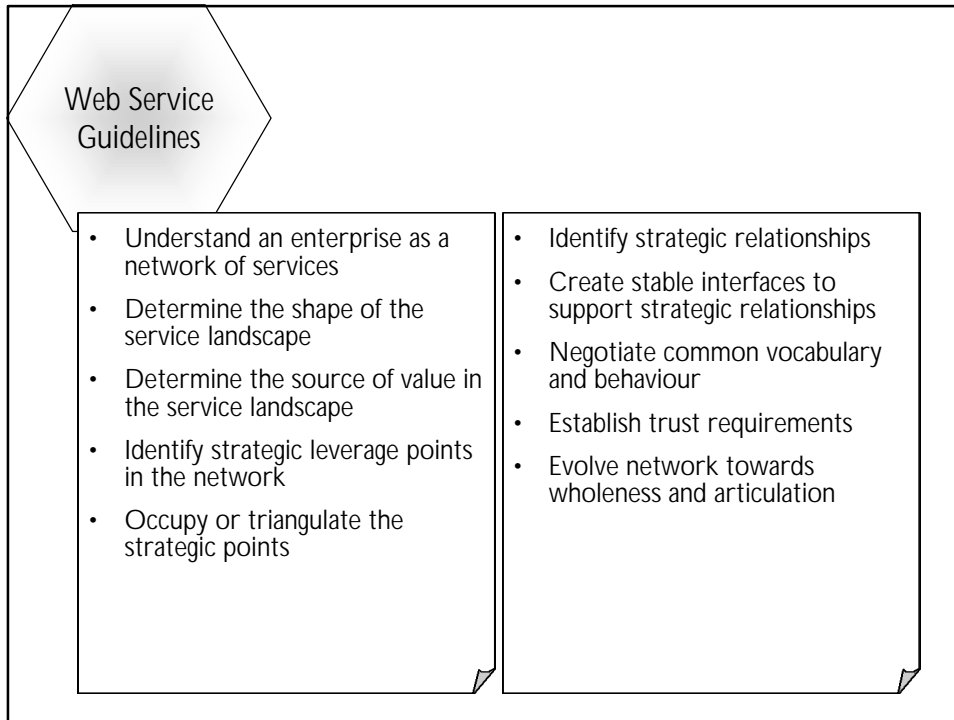


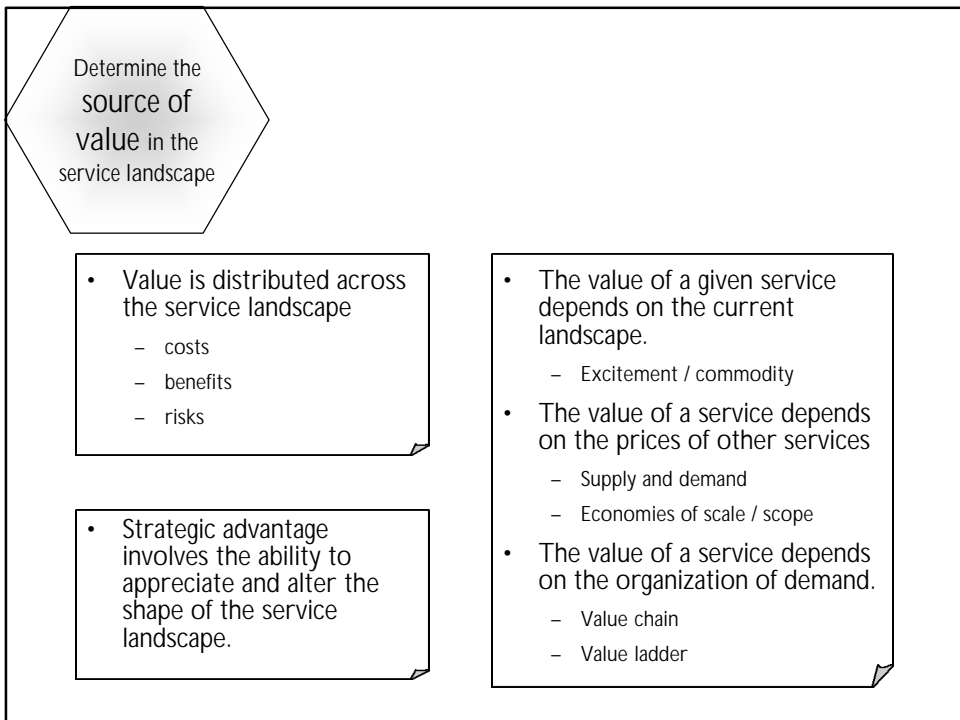
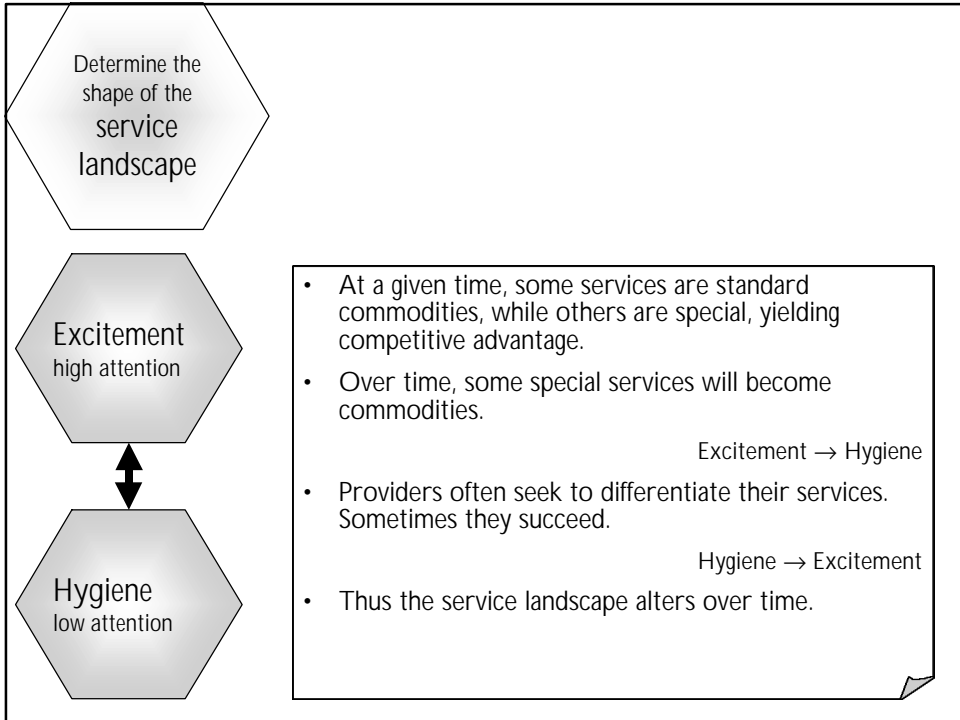
Examples

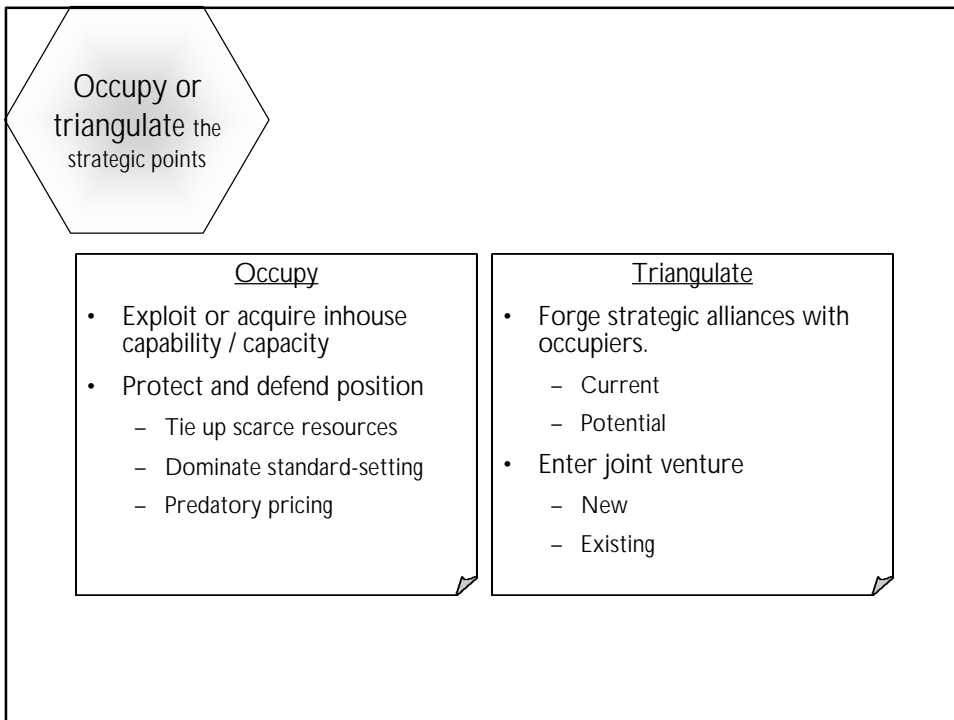
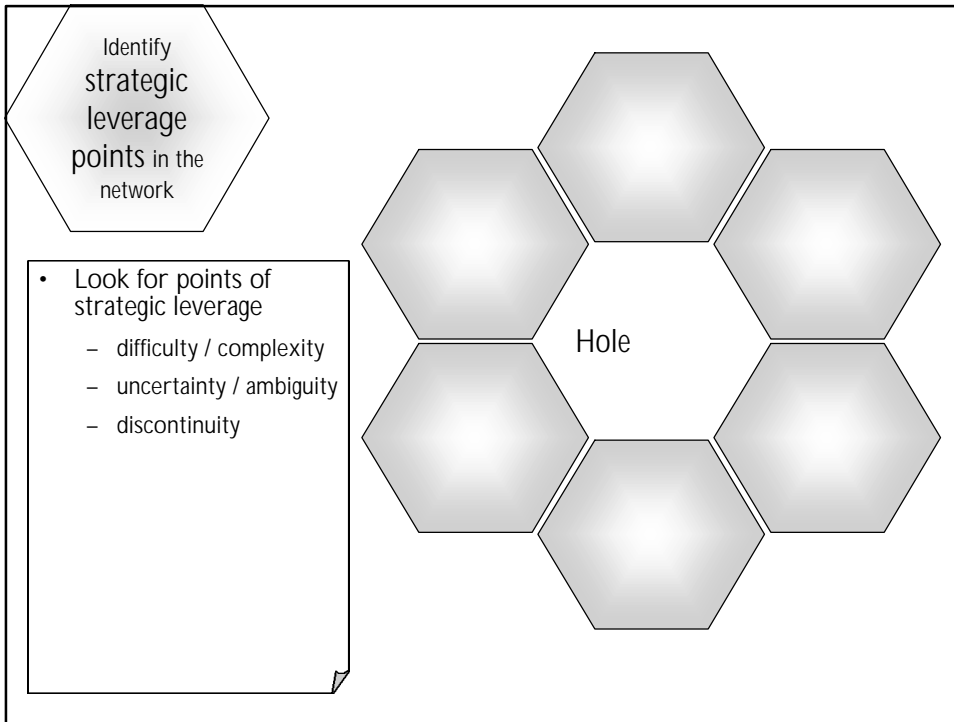
- Editor of news magazine wants picture from Kosovo.
  - sends staff photographer.
  - buys existing photo (from web-based library).
  - commissions freelance photographer.
- What are the advantages and disadvantages of each method?

- Electronic brokerage
  - NASDAQ system creates electronic market for over-the-counter stocks.
  - EasySabre airline reservation system
  - CommerceNet

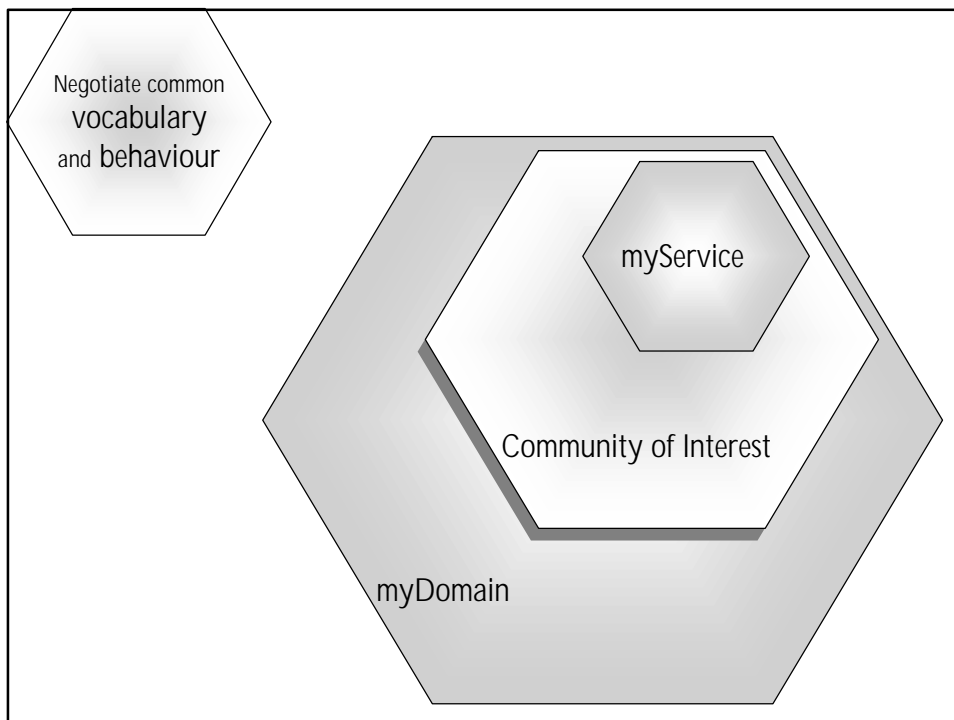
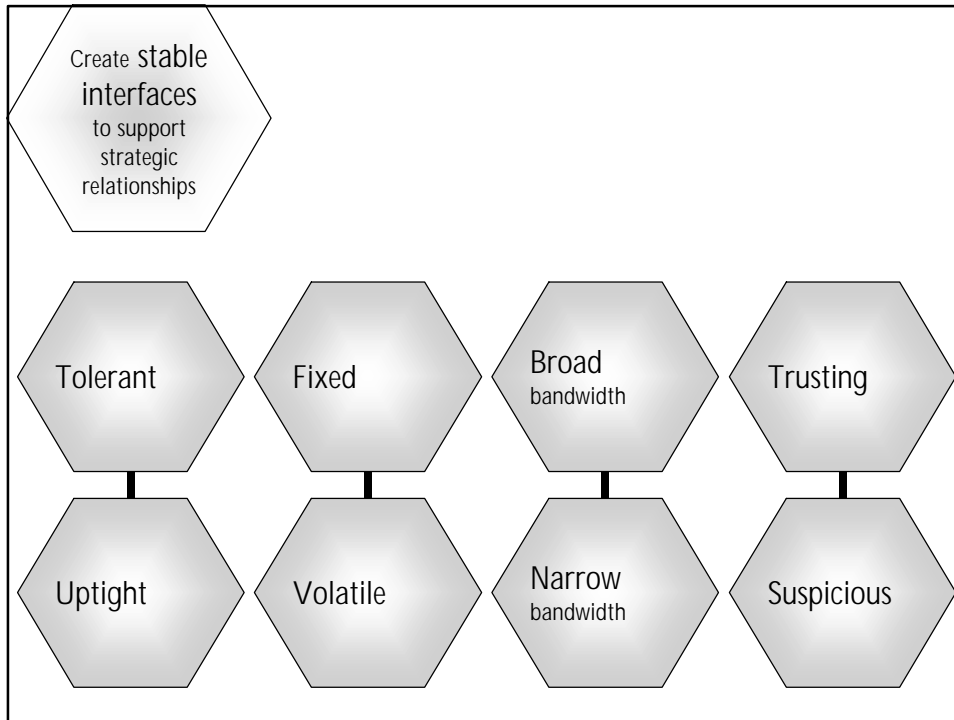




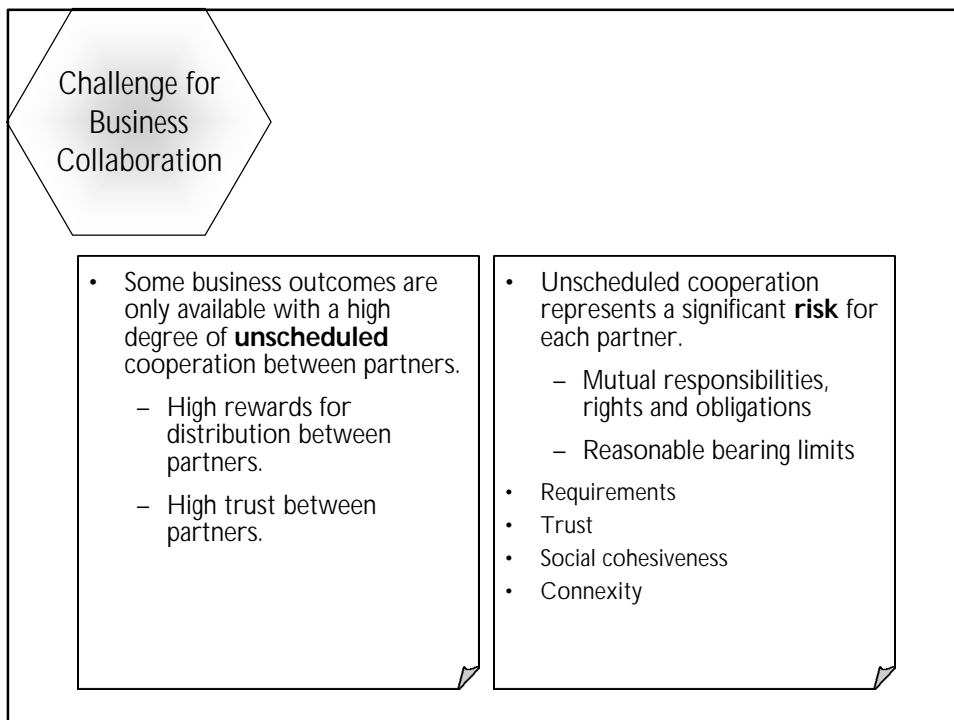
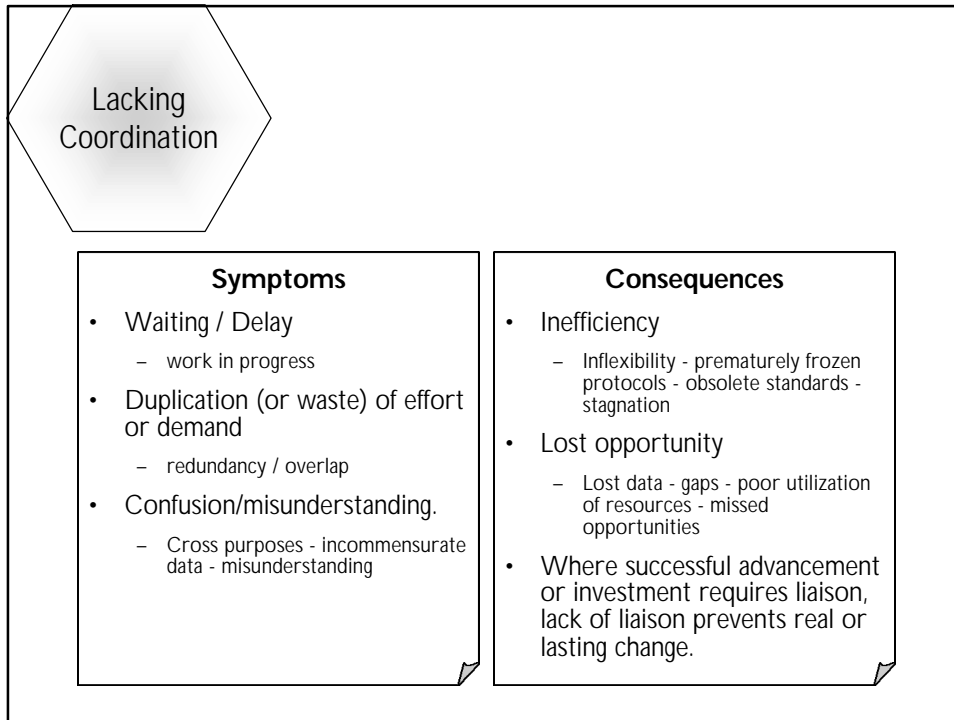


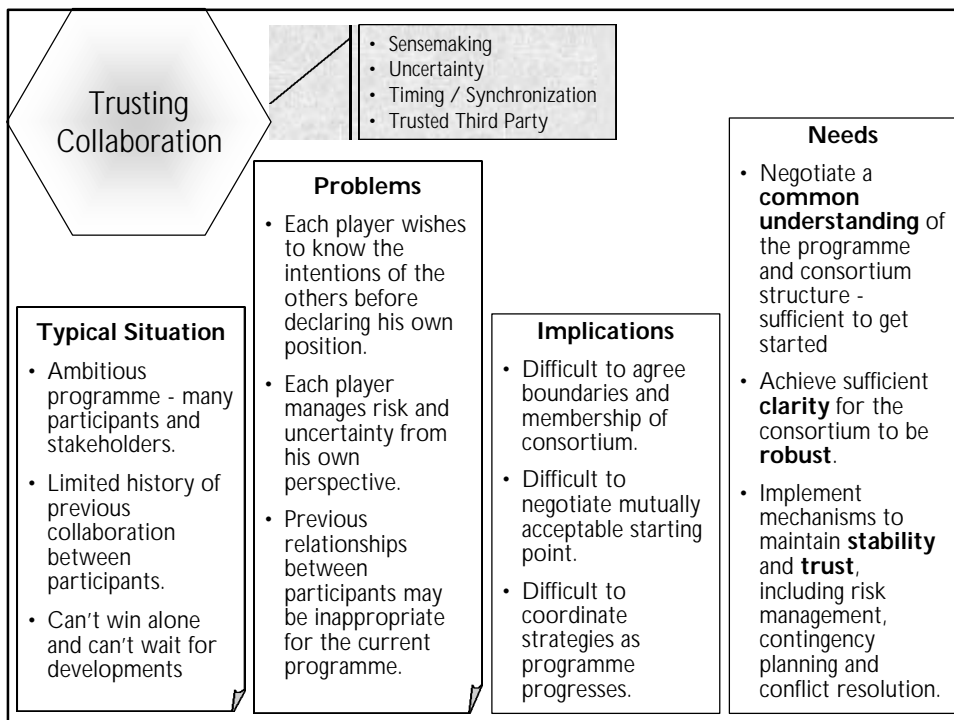
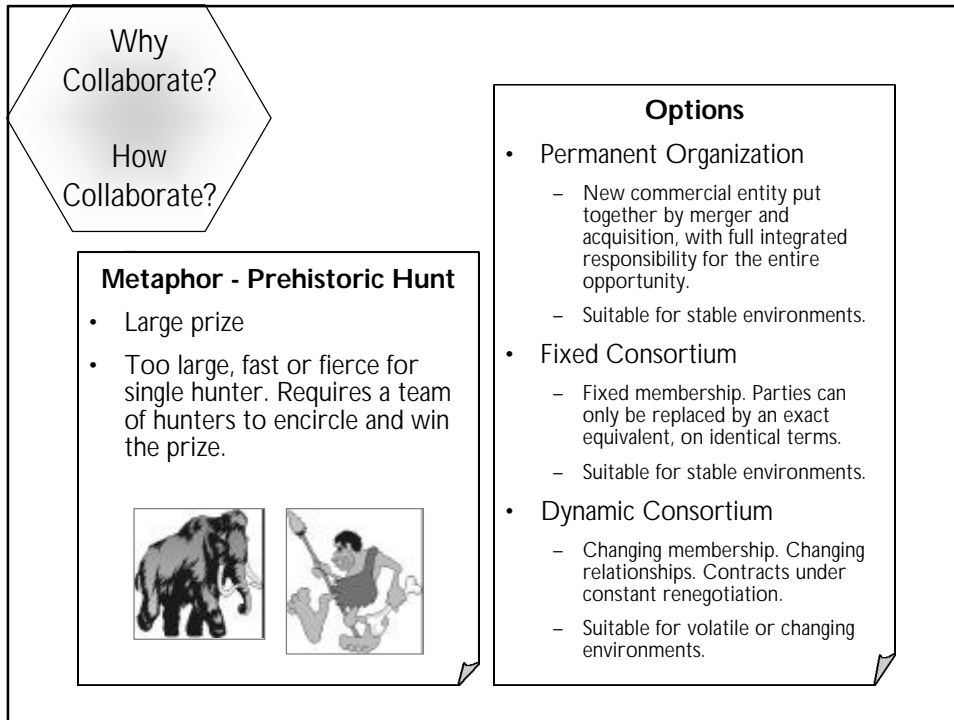


# Component-Based Business Workshop









**Risk and Moral Hazard**

- **Moral hazard** means taking unfair advantage of one-sided access to information.
  - Opportunism
  - Lack of conscientiousness / sincerity
- One way of guarding against moral hazard is through **contractual obligations**.
  - This can lead to distortion, inefficiency, inappropriate game-playing and/or excessive contingency.

- Why do you need more information?
  - assurance
- Why do you need to withhold information?
  - commercial sensitivity
  - intellectual property
  - costs of providing and supporting information
- Would you prefer to provide sensitive information to a regulator or trusted third party?
  - regulator needs ways of detecting opportunism and incentive incompatibility.

**Risk Banking Brokerage & Escrow**

- One of the functions of the **risk broker** is to act as proxy risk owner within company A's risk management system, for a risk that is primarily of interest to company B.
- In theoretical terms, it changes the **topology of risk** (in terms of power, proximity and interest) across the organization boundaries.
- In practical terms, it's a way of guarding against moral hazard while respecting the commercial privacy and intellectual property of both parties.

- **Risk escrow** is a mechanism for reducing the total risk across one or more commercial relationships. It works as follows.
- Companies deposit something with a **risk banker**, as a guarantee of their good faith. This might be confidential information, or contingency plans, or simply some form of risk catalogue. This would be checked for reasonableness and kept secure, and only released if negotiations or processes or relationships or contracts broke down (in some predefined manner).

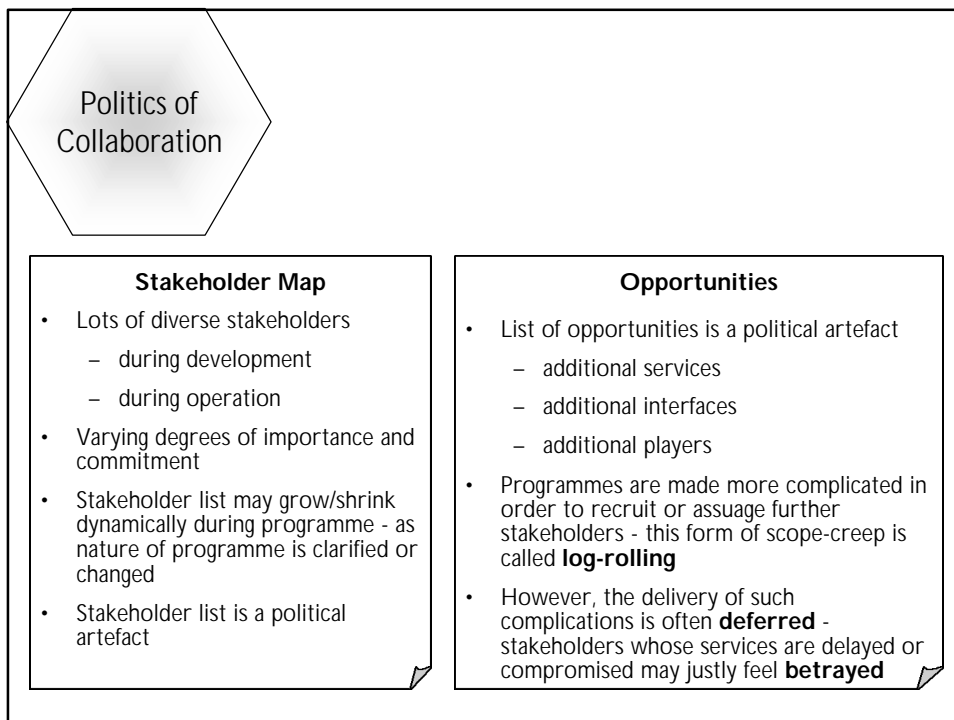
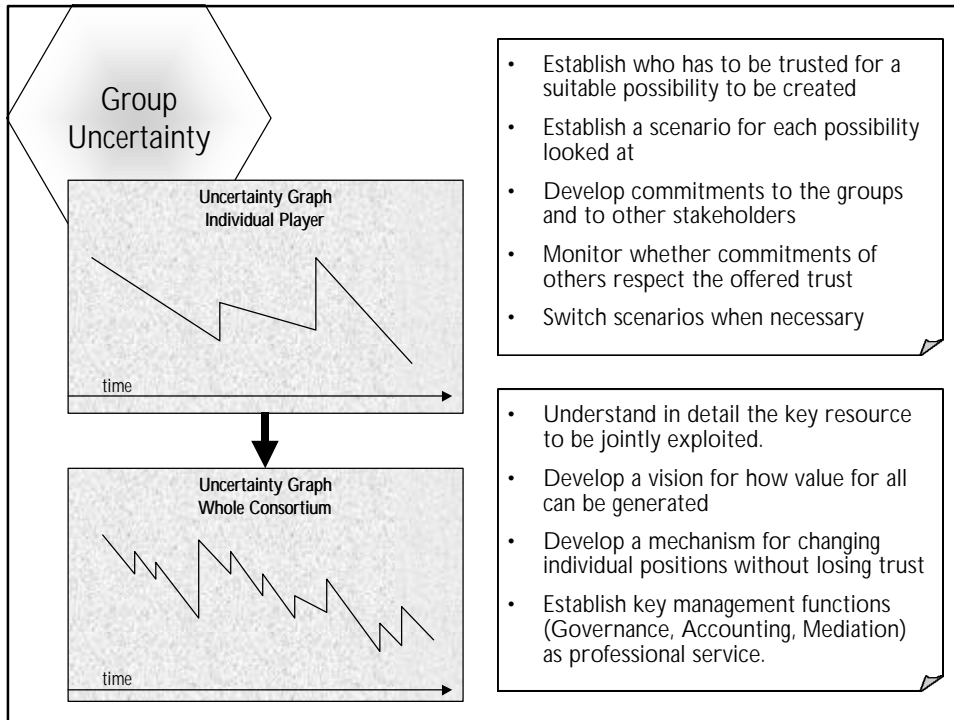
Example  
Small  
Procurement

- Profit
- Cashflow
- Uncertainty/Risk
- Moral Hazard

| Scenario  | Supplier Options  |
|---|---|
| <ul style="list-style-type: none"> <li>• Customer wants a tailored training course.</li> <li>• Small order now, with a possibility of larger orders later.</li> <li>• Significant set-up cost - development &amp; production of training material.</li> </ul> | <ol style="list-style-type: none"> <li>a) Set a high price for the training course, on the assumption that it will only be given once. You are then sure to cover your costs. Repeat orders result in excess profits.</li> <li>b) Set a lower price for the training course, on the assumption that it will be given many times. If this assumption turns out false, you will lose money.</li> <li>c) Charge the customer separately for the development and delivery of the training.</li> </ol> |

Example  
Large  
Procurement

| Question   | Issues  |
|--|---|
| <ul style="list-style-type: none"> <li>• What is a fair contractual basis for very large outsourcing contracts?                             <ul style="list-style-type: none"> <li>- Build the next generation of tank</li> <li>- Build a computer system for a whole government department</li> </ul> </li> <li>• <i>What are the key sources of uncertainty?</i></li> <li>• <i>What are the key tactics for avoiding uncertainty?</i></li> </ul> | <ul style="list-style-type: none"> <li>• There is often an element of research in the project leading to greater uncertainty of outcome.                             <ul style="list-style-type: none"> <li>- "We will reuse software components - but only if we can find any suitable ones, otherwise we will build them ourselves."</li> </ul> </li> <li>• What is the incentive for the software supplier to reuse existing software components, when the customer will pay for new ones to be built?</li> <li>• Who should bear the risk - or how should the risk be apportioned?</li> </ul> |



**Politics of Collaboration**

**Political Issues**

- A player with disproportionate amount of political power and influence may be able to disregard the social and trust norms constraining the other players - doesn't feel the need to cooperate.
- **Coalition fracture** - consortium dividing into two or more camps with distinct clusters of interests and perceived opportunities.
- Open / Closed

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**Biological Metaphors Symbiosis**

**Temporary Symbiosis**

- Some slime mould cells act independently when it's easy to get food. But when food is scarce, they attract each other and, in the process, develop a way of moving along the ground in search of more favourable feeding places.
- After arriving at new pastures, they unhook from each other and act individually again, until the next period of scarcity.

**Socio-Political Symbiosis**

- "One may be characterized by the existence of a central planning center where overall policy for the collectivity is formulated and then passed down to the parts in terms of specific actions for them to take in the service of both themselves and the collectivity.
- The alternative is a pooling process where the ideas of component groups are raised and then debated as mutual adjustments are made. The U.S. Congress is illustrative of the former while the SALT or START talks between the Soviet Union and the United States are like the latter."

source: KK Smith 1984

