


Imperfect information and IT



On previous lesson

- ▶ Knowing information
 - Perfect, imperfect and asymmetric information
 - ▶ Knowing the behaviour of the others and rules
 - Imperfect
 - Incomplete
 - ▶ Searching and consequences
 - ▶ Information about price and quality
 - ▶ Auction models
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Role of IT

➤ IT is a tool to:

➤ fill the gap - to distribute information

➤ To eliminate the gap - using IT services to interconnect subject with negative effects of a gap

➤ Manage the information

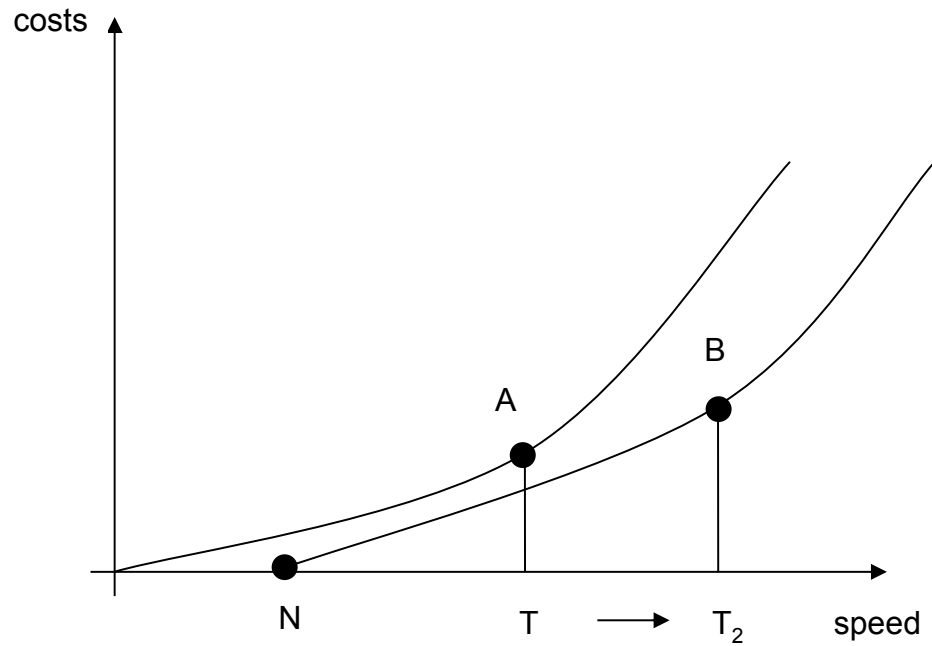
➤ To prevent the influence of the gaps

➤ To eliminate the gaps

The price of information

- Is almost individual
- It is equal to the searching (opportunity) costs
- It is important to divide the price of information and the price of access to information
 - To buy the possibility to search
 - To buy a possibility to share information
 - The question of technology
 - Higher speed means higher probability to find what I am looking for

Technology progress



Government and information

- It needs the information for making of the decisions
- It is important source of information
- It is supervisor on the market with information

Government as the information receiver

- The most of analysis is done by
 - state institutions
 - ministry clerks
 - National bank
- The government is the source of information for itself
 - The analysis can be wrong
 - The decisions can be wrong - moral hazard
 - The question of time

The government and searching of information

- Where is the equilibrium of searching
- Stigler model does not work
 - The process of searching is excluded from the process of evaluating and using of the information
 - The person who is searching does not know the effect
- We can not be sure that the government has right information
- We can not be sure the information are correct
 - Moral hazard
 - The Greece

The government as the source of information

- The government is not one source of information
- The motivation of the clerks
 - To publish only the information that are good for them
 - Moral hazard
- The subjects need the information from other source to prove it

The government regulates the market of information

➤ Direct approach

- Problem of the identification of information gap

- Absolute filling

 - How to do it

 - Law - market subject must give some information to the register

- Relative filling

 - Not necessary to identify a specific problem, just a group of problems

 - Mandatory insurance

The government regulates the market of information

❖ Indirect approach

- ❖ Development of information sources and channels
- ❖ Support of using services
 - ❖ Data mail-boxes
 - ❖ Digital signature
 - ❖ E-government
- ❖ Supporting the development of the information access

Knowledge we need more

- ▶ Service System
- ▶ Elements of service system
 - Client
 - Provider
 - Target
- ▶ Consequences and relations

Service system

▣ Provider

- ▣ Individual

- ▣ Organization

- ▣ Any of previous combined with the technology and/or piece of environment

- ▣ Technology that provider is responsible for

▣ Client

- ▣ Individual

- ▣ Organization

- ▣ Any of previous combined with the technology and/or piece of environment

- ▣ Portion of reality owned by Client

▣ Target

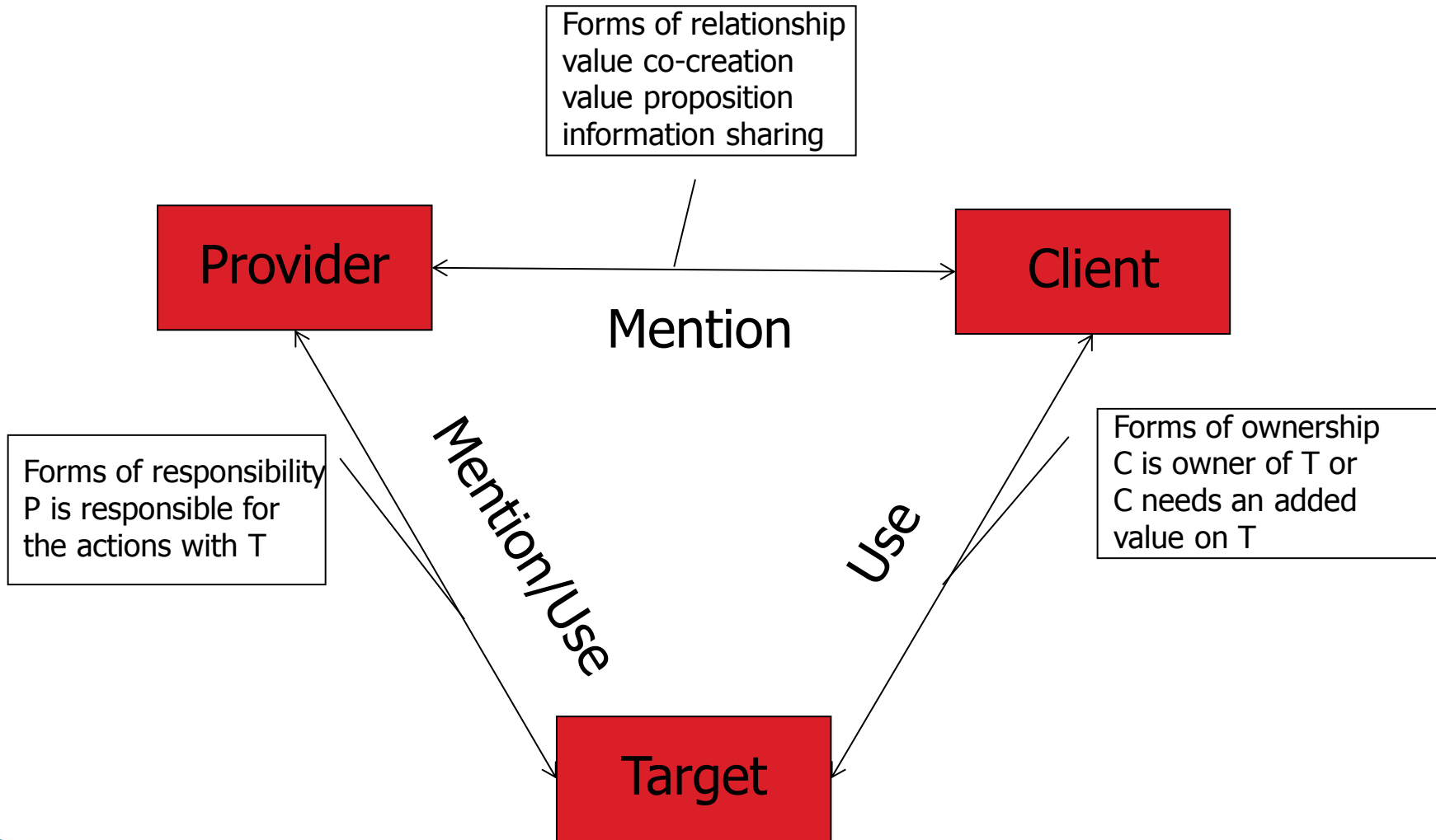
- ▣ The reality to be transformed or operated on by Provider for sake of Client

- ▣ People, dimensions of business

- ▣ Dimensions of products, technology artefacts & environment

- ▣ Information, codified knowledge


Mention – Use



Problem of moral hazard

- ❏ a tendency to take undue risks because the costs are not borne by the party taking the risk
- ❏ The customer is able to affect an event he is insured against, but the seller has no power to monitor or affect this event.
 - ❏ ERP supplier has limited information about customers IT security
 - ❏ Provider has limited information about the basement of the real client's problem
- ❏ Double moral hazard
 - Client does not know if the provider is able to operate on the particular target


Double moral hazard

- ▶ Illusion of value proposition
 - ▶ Provider is not able to see the basis of target
 - ▶ Client is not able to see the benefits of the cooperation
 - ▶ Both are motivated to share information and knowledge
 - ▶ Value proposition can not be set up
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Example

- ▶ The company needs information system to support its core business
- ▶ The company has serious problems with
 - communication with customers
- ▶ But also hidden problems
 - publishing information
 - time spent on one particular business case is too long – mostly caused by bad communication inside the company


IT company

- ▶ Offers a big customised ERP system together with CMS system
 - CMS system has connection to Social Networks
 - ▶ The problem to solve is the communication
 - ▶ But it is not a part of the problem
 - ▶ IT company needs to find its paths through particular targets – to analyse the situation if the client
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Value

- ▶ Value proposition is hidden
 - is hidden by the hill
- ▶ Hierarchy of barriers hiding the target
 - have to be overcome step by step
 - leads to process of value estimation
- ▶ **Value can not be proposed**
- ▶ **It can be only estimated**
 - is used to find value proposition
 - there is not a target, only target area
 - target area is the space of all sub-targets, corresponding with particular value estimation

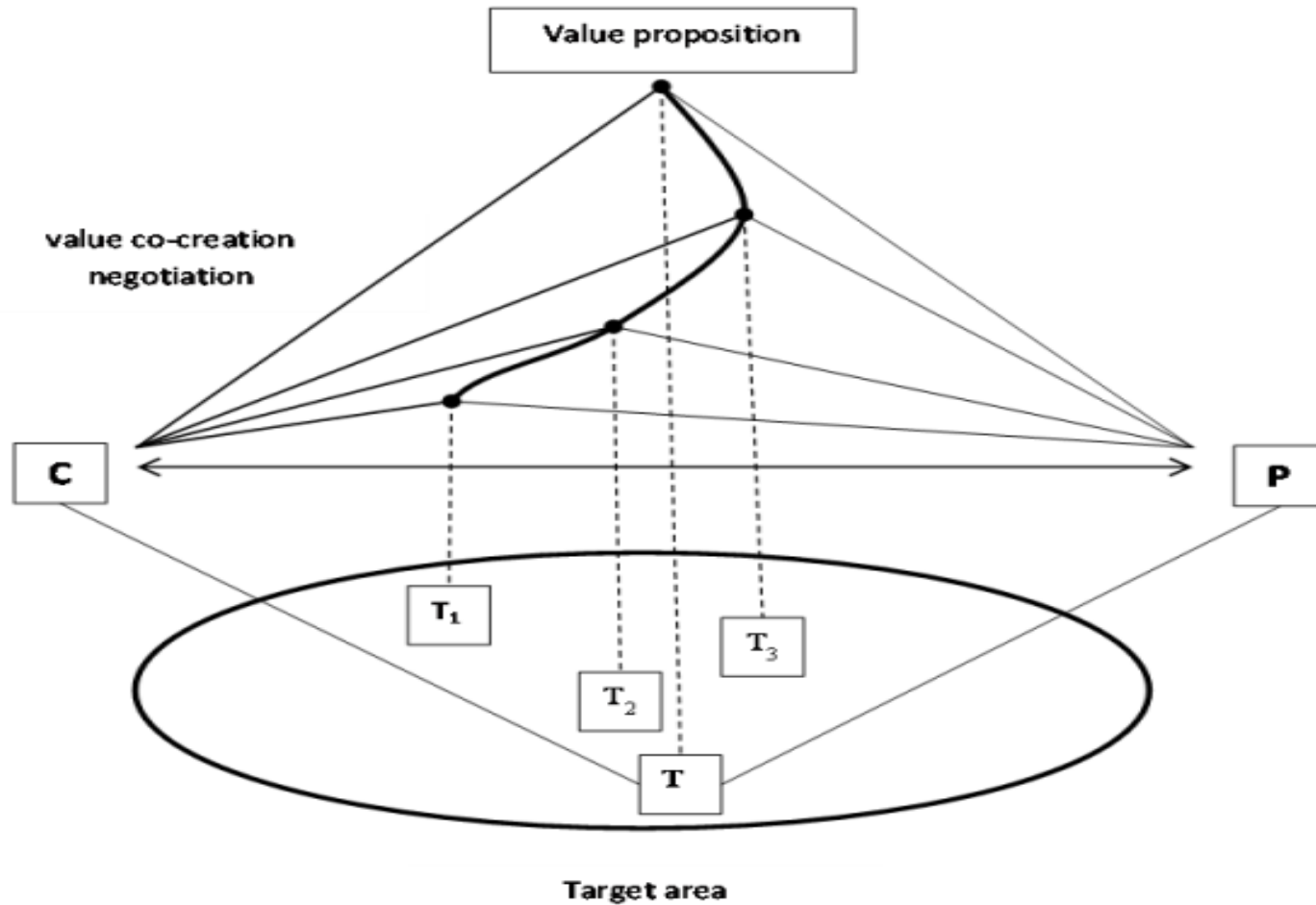
Value estimation

- ▶ modified by the value co-creation process
 - ▶ motivated by the decreasing of the level of information asymmetry of both parties
 - ▶ the process is about particularize of value estimations
 - ▶ till the moment of founding the value proposition
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Value proposition

- ▶ **can be found in the moment client and provider can see the target**
 - share the same point of view
 - both can see the utility level
 - and share as well
- ▶ **both partners agree with concrete mutual criteria of success**
 - variables to test
 - no of customers
 - profitability
 - target values
 - number of customers rise of 30%
 - profitability rises more than 10%

Value proposition



Costs of value estimation

- ▶ must be shared and paid
 - problem is complex
 - must be understood and explored
- ▶ provider must be paid for using his sources to do it
- ▶ **Client is paying for the analysis of the target area**

Conclusion

- ▶ Information asymmetry and its role in service system
- ▶ Value estimation
- ▶ Target area
- ▶ Negotiation and information sharing
 - Leads to target finding