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Case Study 2: Case Analysis of Risk, Uncertainty and Managing Incentives

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Introduction

Risk analysis can be explained as the measurement of diverse results inside an organization. The outcome might be good, or they might come out worse than expected in a diverse scenario. Organizations look forward to eliminating any possibility of these risks, but it is never possible to do away with all of them at some point to master how a company avoid these risks, they will encounter difficulties. However, there are some initiatives that an organization can apply to minimize the possibility of occurrence of these risks. Some of the steps to avoid risk include identifying hazards, realizing that impact the risks might have on workers, assess the risk and yearly review as well as record the hazards as transformations take place. I will focus on United Airlines.

Apple's Recent Risk and Uncertainty

In the year 2019, the main risk that faced Apple organization is the competition risks, having a current strong decline in revenue and sales in their market in China. China has the main marketing space for Apple products, mostly iPhone as well as iPads. In the year 2017 the Company made around \$4 billion from its market in China, which was about 20% of the company's total revenue. Apple products are currently facing competitive challenges from phones like Huawei since there is a probability of losing around 6% of the company total sales due to the decline of the Chinese market of their products. From the calculation, the company is seeing a forecasting a total loss up to 20% of its revenue by the year 2020 if the rate continues the same in the coming months.

The problem of competition is more accelerated due to the ongoing trade conflicts amid the United States and China. The US is claiming that Chinese organizations are utilizing technology in such a way that it might affect the security of a nation. The current moves by the US to refuse the Huawei, a china base technology organization, is the reason behind the organization forecast decline of revenue up to 20%. There is a huge possibility of apple losing the market or even reduce their expenses in their profit margins in the coming years. Presently most of the Apple products are mostly sold at a 20% minimized pricing in the markets in China as compared to many countries. This is an initiative set focused on advanced competition and risks and uncertainties in the marketplace (fortune.com, 2019).

How to Improve Risk Management

Majority of the firm assumes risk management to be like risk avoidance, to evade risky projects that might lead to fails, losses or misers. There is a high level of competition amid most firm and this make most organization prepared and ready for the emergence of these risks. Most risks affect the revenue of a given organization. Every organization need to have in place relevant strategies to mitigate risk in the right way.

The advice that Apple organization should take to advance the level of competitive risk control by first establishing a team of specialists from diverse departments within the organization at the same time incorporating the exterior experts. The group can be made up of competition risk evaluation that organizes to assist the organization comprehend the variation of the competitive risks the organization undergoes and ways to deal with these challenges. After this there is the classifying of their competitors, pricing and their product. The team should focus to study more on the Huawei Company.

After having proper knowledge of their main competitors that is Huawei, the organization can make the work on developing a new form of technology as well as innovation by pioneering a new and unique product which most consumers prefer (Fishman & Parker, 2015). There is a need for the firm to develop advanced new products that have a great significant value compared to that of its competitors.

The main regions where competitors are taking advantage of is pricing since Apple has their prices set too high. With this factor, the risk management plan should also focus on evaluating the market state to check the risks that might emerge to either increase or reduce their revenue. It is important that the organization focuses on the value addition and the comprehension of the market dynamics on ways it can offer a business opportunity for their organization.

Adverse Selection

Adverse selection can be explained as a situation where one party has more important data concerning a certain product or a given market aside from one single party. The Apple association is undergoing more stress on their adverse selection, on the China markets at most where they are undergoing risks as well as uncertainties (Fishman & Parker, 2015). Some of the potential users of Apple products might not understand or explain the extra feature that apple provides compared to other products from diverse firms (Fishman & Parker, 2015). The user can also fail to explain the good attributes from apple products as compared to other organizations. Due to the non-visibility of relevant and proper data in the most markets the organization is at risk of losing their sales.

The adverse selection has the probability of leading to the asymmetry that results to the lack of effectiveness in quantity and pricing (Fishman & Parker, 2015). One of the many ways in which an organization can handle the issue is through adverse selection is by providing refunds, warranties as well as guarantees if in any case, a product generates an issue with the user - this assist in improving the presentation of the product and the customer's trust. Intermediation is also another way that Apple organization might implement to reduce the negative impacts of the adverse selection. The intermediaries can assist in the minimizing of the asymmetric data gap through creation of trust and creation of a strong connection amid sellers and the buyers (Fishman & Parker, 2015).

Moral Hazards

Moral hazard can be referred to as a risk taking action whereby one party involves into diverse transactions without faithfulness and with the conscious that the other party will undergo the consequences. The major cause of moral hazard is asymmetric information (Kaya & Vreeshchagina, 2015). Presently, the Apple organization is facing the issue of moral hazard by offering relevant information regarding its prices and products to the clients on their website among other social media pages. Since moral hazard takes place where one party lack sufficient data regarding the item or the transactions, the organization has used the chance of internet development to offer sufficient data needed by clients and all the other stakeholder to enhance understanding.

Offering necessary data to the users and creation of trust and creation of a strong connection amid sellers and the buyers have been utilized by most organizations to assist adverse data efficiency and minimize moral hazards. By trusting and frequently involving with customers, a firm is in a position to maintain a long lasting connection that can improve the company's competitive advantage. Through the establishment of a room that provides free flow of information and encouraging of contact interaction between the organization and the customers themselves, it help reduce the incidence of more occurrence of the asymmetric data which may reduce the cases of moral hazards.

Principal-Agent Problem

Business always higher individuals expecting them to perform tasks on their behalf passed to their interests. The issue comes in when there is conflict of interest amid the agents and the principal relation to payment of salaries and incentives. Not like any other company, Apple Company have their principal agent issue where the workers are employed and expected to perform in a certain way. However both the agent and the principal of this company have diverse interest which are the major cause of problems in the organization.

The agent is needed to perform most of their duties and meet the interest of the principal they instead go ahead and meet their own interest which cause most of their problems. The new notion to a principal agent interaction that is implemented by the organization aims in eradication of the use of tacit notions and the decision making founded on the agent notions. The top management officials are need to hold strong their base wage in stock that encourages the agent to double up their performance.

In this case, the decision created by the organization affect them in a direct way in the long run. The new strategy ensure that the executives are also given long lasting tasks to avoid them in striving on the short term advantages. This strategy adopted by Apple can assist minimize the conflict of awareness and make the agent perform towards the objectives of the principal since they are among them.

Organizational Structure The company's organization structure facilitates effective as well as rapid innovation, a very important step in the progression of a well organization. The organizational structure offers respect to the organization strategies that further the innovation and advancement of a certain company. Apple Inc. contains a hierarchical organizational structure that contains divisional characteristics as well as weak practical matrix. These characteristics are important in product founded teams that are within an organization like the macOS and iOS (Kaya & Vreeshchagina, 2015).

The issue with the company administrative structure is the fact that it is a weak functional matrix that incorporate little to no decision making from their major workers. In the weak operational matrix, the largest management manages the main project and create decisions. Apple organization need structure transformation that allows participatory decision making from both the management and employees to enhance cooperation and smooth running of operation by every member of the organization in the achievement of their predetermined goal and objective. The employees also need to feel as part of the organization and it would be best if they are incorporated in making decisions so that they can become self-motivated in achieving what they also set.

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COMPENSATION THEORY: MANAGERIAL ECONOMICS

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