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RISK-FREE DECISION MAKING

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ABSTRACT

The purpose of this paper is to examine the detrimental effects of destructive competition which result in a phenomenon we have termed "risk-free decision-making." Destructive competition is first demonstrated in a simulation exercise called the "Nickel Auction," an experiential classroom learning exercise. The resultant behavioral manifestations which this simulation demonstrates, the "risk-free decision" phenomenon, are then discussed in-depth in the following paper.

THE NICKEL AUCTION¹

The Nickel Auction is an experiential learning method which illustrates the detrimental effect of destructive competition. It is easily executed in a group or classroom environment. The professor plays the role of auctioneer and selects five volunteers from the class to serve as the bidders. He then auctions off a roll of \$2.00 worth of nickels, one at a time, so each volunteer must have enough pennies to start the bidding. Two regulations must be followed during the auction: (1) neither the participants nor the audience are permitted to talk, and (2) the auctioneer must receive a minimum of one penny for each nickel. We have observed that the intensity of the competition usually builds by the time the bidders reach the price of five cents, and surprisingly, it is not unusual for a participant to bid six or even seven cents for a nickel.

The participants would stand to gain if they agreed (nonverbally) to collaborate with each other by allowing each to bid a penny for a nickel. By doing so, they could make a profit of 40 cents. However, collaboration, as this simulation illustrates, is rarely, if ever, achieved. In fact, we have yet to observe a Nickel Auction in which it has occurred.

The Nickel Auction exemplifies destructive competitive behavior which often occurs in society, and in fact, is reinforced by society. We have learned to accept, if not expect, competitive behavior, in which individuals pit themselves against each other for the grand "prize," even though the "prize" may actually be gained easily through collaboration.

This attitude of "winning at any cost" which society fosters, is one variable among many serving to reinforce a behavioral manifestation we have termed the "risk-free decision" phenomenon, discussed in the following paper. It is an attitude in which ethics and morality are often forgotten in the fight to win and which ultimately leads to the lack of ownership of behavior. As this simulation demonstrates, however, we all stand to lose from this type of attitude, whether we are talking about bidding for nickels or organizational management.

THE RISK-FREE DECISION PHENOMENON

Introduction

Numerous books have been published recently which are concerned with the problems wrought by our technological age-problems which have never before been encountered in the history of mankind. Factors such as the transience of modern life, the disintegration of the family and its functions, the fluctuating roles of men and women and the disenchantment with traditional religious and cultural values, all, like the tremors of an earthquake, seem to be shaking the very foundations of our culture. With the ever-present possibility of a nuclear holocaust, the depletion of our natural resources, the acceleration of technology without concern for the human element and the fracturing of knowledge into miniscule areas of specialization, man's existence is being reduced to an existential absurdity--a kaleidoscope of moments in time. It has become increasingly difficult to maintain faith in our future.

Alvin Toffler's popular book, Future Shock, deals extensively with the "disease of change." It is responsible, he states, for the "malaise, mass neurosis, irrationality, and free-floating violence already apparent in contemporary life..." [8, p. 11] He writes that while scientists pursue their never-ending quest for progress, technology has become an end in itself, with little or no regard given to its effect on humanity. While we continue to probe into the mysteries of the universe, we still know very little about ourselves and our own behavior. We are still unable to resolve the sociological and psychological problems which have plagued mankind since the beginning of time. The difference today is that the stakes are much higher and more terrifying.

Aurelio Peccei, President of the Club of Rome, examines similar issues in his book, One Hundred Pages for the Future. He emphasizes the need for nations to join together to find solutions to these problems, and stresses the frightening consequences of a world which relies solely on technology for its answers:

Meanwhile, in this search for security, human beings have fallen into a trap of their own unwitting creation.... Ultimately, in their total reliance on scientific reasoning, they forget the inspirations of philosophy, ethics, and faith, which alone can give lasting harmony to their endeavors. Without such support, and with too heavy reliance on their technological expertise, people rush headlong down the paths opened by technology without questioning where they may lead. The human future thus becomes totally unpredictable. [3, p. 6]

Additionally, Christopher Lasch develops Freud's theory of the Narcissistic Personality into a sociological construct in his book, The Culture of Narcissism.

¹ Adapted from Rapoport, A. and Chammah, A. Prisoner's Dilemma. The University of Michigan Press, Ann Arbor, 1970.

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He demonstrates that self-absorption has become so prevalent in individuals that it would seem to be a reflection of modern society itself. Narcissism is symptomatic of current social ills much as hysteria reflected the sexual repression which existed in Freud's time. Thus, we see the emergence of the "me" generation, and its accompanying problems, such as the increasing Impermanence of human relationships and the growing sense of isolation between individuals. Lasch's analysis touches upon many of the same issues which Toffler and Peccei discuss--problems engendered by our "progressive" age. As he succinctly illustrates:

Imprisoned in his pseudo-awareness of himself, the new Narcissus would gladly take refuge in an idée fixe, a neurotic compulsion, a "magnificent obsession"--anything to get his mind off his own mind...Contemporary man, tortured on the other hand by self-consciousness, turns to new cults and therapies not to free himself from obsessions, but to find meaning and purpose in life, to find something to live for, precisely to embrace an obsession...The prison life of the past looks in our own time, like liberation itself. [2, pp. 178-179]

The key, then, to the problems of our technological age and the uncertainty of our future, is that man, as he progresses materially, is creating a spiritual vacuum. He has lost the sense of who he is and the meaning of his own existence:

...we are not motivated by the search for good, by the desire to use our own best abilities... We are enticed by a spirit of adventure, by the attraction of the possible and we do what we are capable, or what we think we are capable, of doing, without weighing the possible consequences.... Yielding to the temptations of our new technological prowess, however amazing that may be, we are in danger of losing our sense of the meaning of life. [3, pp. 93-94]

The Phenomenon As Observed

We are living in an age, paradoxically, where we are permitted more choices than ever before, and yet confidence in our ability to make competent decisions has been completely eroded. Our lives have been invaded by the experts, so that even the most routine decisions cannot be made without consulting an outside source. Regardless of the choice, whether it involves diet, exercise, clothing, medical care, taxes, childrearing, marital relations, or even the number of hours one should sleep at night--there is a certified expert that tells us what to do. This is exemplified, for example, in the services provided by the company "Color Me Beautiful," which promises to choose the perfect colors for your home and wardrobe. The existence of this type of service, and others like it, implies that the individual needs assistance when making routine decisions. We are constantly told not to trust our own best judgment because there is always someone else more knowledgeable who should make our decisions for us. Consequently, people have begun to feel that they can no longer trust themselves or believe in their own individual ability to make the right decisions. Self-confidence in our own judgment has eroded to such an extent that many are looking for strong support groups to make their decisions for them, as seen in the popularity of pseudo-religious cults such as Jonestown and the frighteningly large following of

Reverend Sung Young Moon, where friends and relatives are now "kidnapping" and deprogramming their loved ones in a last ditch attempt to restore their individuality.

For the past several years, the authors have observed a behavioral manifestation exhibited in various forms which we have termed the "Risk-Free Decision Phenomenon." While it is necessary to point out that we did not invent or discover this behavior, and have not employed the use of statistical data, we have observed that all people, in all walks of life, exhibit this type of behavior in one form or another. While most would agree that risk-free decisions are not possible, people are acting "as if" their decisions are risk-free--they are acting on the assumption that they are not responsible for the consequences of their decisions. Individuals, in ever increasing numbers, refuse to own their behavior.

The risk-free decision phenomenon is reflected in the growing number of violent crimes committed with increasing regularity across the nation. Terrorism, hi-jacking, rape, robbery, assault, and murder are viewed in every home simply by turning on a radio or a T.V. newscast. It has become nearly impossible to pick up a newspaper or listen to the radio without reading or hearing about this type of behavior. As reported in the 24 January 1983 issue of Time magazine:

Between 1960 and 1973 the U.S. homicide rate doubled, from 4.7 murders per 100,000 people to 9.4. The rate has leveled off considerably and stands at 9.8 per 100,000 today. (Other countries' rates are, by U.S. standards, amazingly low: England, 1.1, and Japan, 1.0, are typical.) [1, p. 281]

As a result of these "routine" occurrences, Americans have grown to accept violence as a normal event in their lives, and have become seemingly numb to its underlying ramifications.

This behavior, where one acts "as if" one's decisions are "risk-free," includes not only acts of violence, but all forms of behavior which, in the conventional sense, are considered to be morally or ethically unacceptable. For example, studies have shown that an increasing number of people are running red lights more frequently and exceeding the 55-mile-per-hour maximum speed limit. The risks involved in ignoring traffic laws are obvious, but what is the explanation for the growing number of people who are acting "as if" there are no risks?

Organizations, institutions, and nations also exhibit this type of behavior. M. Scott Peck gives an appropriate example of this in his book, The Road Less Traveled. He was asked to prepare an analysis of the psychological causes of the My Lai atrocities and their subsequent cover-up. However, his:

...recommendations were disapproved by the Army general staff on the basis that the research recommended could not be kept secret. "The existence of such research might open us up to further challenge. The President and the Army don't need more challenges at this time," [he] was told. Thus an analysis of the reasons for an incident that was covered up was itself covered up. [4, p. 53]

The case cited above reflects a lack of ownership of behavior and its accompanying social reinforcement. It is behavior derived from destructive competitive environments in which no one can win, and the activity thus becomes a zero-sum game.

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The phenomenon of risk-free decision-making has become so salient in our society that it is completely unconscious--to the point where individuals and organizations are virtually guilt-free of the moral and ethical ramifications involved. It is a cultural Darwinian development--a phenomenon that has gradually developed over time and has consequently become an acceptable mode of behavior. What must be carefully considered, however, are the moral ramifications of this behavior, as reflected in the Bay of Pigs fiasco, the Vietnam war and the Watergate scandal--to name but a few. As John Platt succinctly illustrates in his article, "Social Traps":

When we begin to look at such examples, we see that many of our really troublesome social and political problems today are made difficult, not by stupidity or avarice or immorality but by a certain trap component of this kind. [5, p. 642]

The purpose of this article is to delineate the factors which allow individuals and groups to fall victim to the phenomenon of risk-free decision-making and to highlight current examples of behavior which appear to have been enacted on the presumption that the decision, from the outset, was "risk-free." Additionally, by examining some of the obvious, axiomatic propositions which most of us hold as self-evident, we hope, through creating an awareness of the behavior, to open the way for a solution. It is the intent of the writers to open this discussion with the conferees at the January 1984 ABSEL Conference in Hawaii.

Philosophy

When examining the phenomenon of risk-free decision-making, we must ask ourselves why this type of behavior is occurring in our society. We believe that there are several important social variables which tend to minimize or downplay the perceived risks and personal accountability inherent in decision-making. As discussed in the previous section of this article, these factors are inherent in the "disease of change" illustrated in Toffler's Future Shock, which have led to the gradual deterioration of traditional support systems. For example, Toffler predicts that the transience of modern life and the impact of technology will, result in temporary, fluctuating human relationships. He quotes Courtney Tall from his paper entitled "Friendships of the Future":

Stability based on close relationships with a few people will be ineffective, due to the high mobility, wide interest range, and varying capacity for adaptation and change found among the members of a highly automated society. [8, pp. 107-108]

When considering the above factors in relation to the variables of the decision-making process, personal accountability is considerably diminished in light of the short duration of personal relationships and the ease with which one can change one's role in society. For the man of the 1950's, for example, social pressures existed which made risk-free decision-making a highly unviable alternative. The family, church, education and occupational roles tended to remain constant and consistently reinforced congruent moral and ethical values. These factors provided a sense of stability in

terms of durable relationships, thereby increasing the pressure of personal responsibility for one's actions. For the man of the 1980's, the stability of marriage and family is questionable, and the durability of long-term relationships found in church, school or career is unlikely, given the mobility and norms of morality of modern life. Personal accountability therefore, is considerably diminished.

Consider the case of Richard Herrin, who murdered his girlfriend, Bonnie Garland, with a claw hammer. Richard procured the services of an expensive lawyer in addition to receiving the sympathy of the Catholic community at Yale, where he was a graduate summa cum laude. According to Adam Smith in his article, "I Just Killed My Girlfriend," in the March 1983 issue of Esquire magazine, due to the "crusade of compassion" of Father Peter Fagan and Sister Ramona Pena, Richard was portrayed as the victim rather than the killer in the eyes of the public. "'The girl is dead,' said Sister Ramona Pena; 'Why ruin a second life.'" [7, p. 23] The defense focused on Richard's inability to "know what he was doing," despite the fact that "the prosecution psychiatrists testified that he had passed all the standard psychiatric tests." [7, p. 24] Additionally, the defense tried to denigrate the value of Bonnie's life: "'Bonnie Was Sleeping With Someone Else' was the headline run by the New York Post after one day's testimony," according to Smith. [7, pp. 23-24] Richard was acquitted of first and second degree murder, and convicted instead, of manslaughter. "If you have a thirty-thousand-dollar defense fund, a Yale connection, and a clergy connection, you're entitled to one free hammer murder," said Joan Garland, mother of Bonnie Garland. [7, p. 24] Another example can be found in the case of Debbie Barret, convicted on 14 November 1981 for kidnapping, armed robbery and aggravated assault. She shot and killed her husband, but was sentenced to college where she was expected to maintain a "C" average. These examples are common today in our society, reinforcing the belief that people have the right to assume that their decisions are risk-free.

Secondly, another factor which has contributed to risk-free decision-making is related to Christopher Lasch's concept of our Narcissistic society--a society in which people have been socialized into thinking in terms of "selfishness" rather than "self-fulness"--in terms of competition rather than cooperation. This type of attitude is reflected everywhere, from Little League baseball to popular books such as Looking Out for Number One, to the nuclear arms race between the United States and the Soviet Union. Unfortunately, everyone stands to lose with this type of attitude. We want the freedom to make our own choices--to make our own decisions, but we are not willing to accept the responsibility for how those decisions may affect others. It is the desire for instant gratification--at any cost--without the willingness to accept responsibility for our actions. The paradox is that we stand to lose the very thing we desire--our freedom.

Consider the case of a woman in Richmond, Va., who filed suit against the school system because her child was removed from the position of first violin. She originally confronted the band instructor, demanding that he reverse his decision. He refused to change his mind, however, so she appealed to the Principal, who, to her dismay, upheld the band instructor's decision. She then appealed to the Superintendent of the school system, and he likewise, refused to interfere, so she took her case to court. Judge Warringer of the Richmond District Court of Va., threw her case out, stating that the only thing which surprised him was that any attorney would agree to bring such a case to court. We want something which leads to we need it. Rights have become a license.

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Finally, the school of philosophical thought, known as existentialism, may be seen as another contributing factor. We are living in an existential society, where the absurdity and unreality of human existence predominates our attitude, and a morbid preoccupation with the self governs our actions. Existentialism may be traced, in part, to various concepts of man which have significantly impacted our society and the way we perceive ourselves. For example, the concept of man as an animal, attributable to Darwin's Origin of Species [6, pp. 32-38] or Freud's concept that man is governed by subliminal sexual desires. The effect of these ideas has been to create the perception that man is a victim, either of his environment, his heritage, or his own unconscious motivations. Additionally, the modern age of computers, the great importance placed upon science and the faculty of reason, as well as the emphasis placed upon man's economic utility, have threatened modern man's sense of self--it is becoming increasingly difficult to develop a philosophy for living in the twentieth century. Existentialism then, can be seen as a rebellion against these attitudes. [6, pp. 38-41]

Existentialism, as a mode of being, is innate in everyone in the sense that all human beings experience subjective truth and make personal decisions based upon that truth. In terms of decision-making, it purports a purely individualist point of view--each of us are confronted daily with situations in which we must make a choice--and this choice, in existentialist terms, can be based only upon the subjective truth of the individual rather than objective, empirical rationalism.

There are positive and negative aspects to existentialism. Walt Disney, for example, posited the very best of the great existentialists because he was able to utilize his creative ability in a constructive way by enabling others to actually become involved with his characters. This is exemplified, for example, in the creation of his theme parks. We believe, however, that existentialism has contributed significantly to the risk-free decision phenomenon in the sense that people have lost the ability to perceive themselves as part of a larger, unified body of individuals, to which each contributes, either for the good or the detriment of the whole.

THE DERIVATIONS AND BEHAVIORAL MANIFESTATIONS OF RISK-FREE DECISION-MAKING

Examples abound in our society of risk-free decision-making, both at the individual and the organizational level. What follows is an array of behavioral manifestations which are obviously detrimental to society, but are not at all unique--they are simply reflective of the prevalence of the behavior. Note that the common feature of all these examples is the lack of cooperation, the lack of moral responsibility, and the desire to win--at any cost.

Individual

- Under the leadership of C.E.O., the former President of Bendix Corporation, William Agee, attempted to procure the Martin Marietta Corporation. The money expended in this "cannibalization" process approached \$98,000,000--monies that could have been invested in the company or used to provide jobs. Management, however, preferred to act without regard for the costs incurred to others, in addition to ensuring their own

interests via "golden parachutes." Bill Agee, for example, wrote himself a four-year contract which awarded him five million dollars.

Similar awards were also written for others in Mr. Agee's top management team. This behavior reflects an unwillingness to accept personal accountability for the attempted acquisition of the Martin Marietta corporation.

- A former college student owed the Federal Government ten thousand dollars for student financial aid. He refused to pay the money back, stating that he could not afford to, but investigation revealed that he had just spent eleven thousand dollars to buy himself a Porsche auto. He acted "as if" the debt was no longer his responsibility, nor was he willing to recognize the ramifications his decision had on others who depend on financial aid to pay for their education.

- John Delorean, former Chief Executive Officer of the Pontiac Division at General Motors resigned his six hundred thousand dollar-a-year job to start his own motor company. When the company faced financial disaster, Mr. Delorean was arrested and charged for selling two hundred million dollars worth of cocaine in order to save his dying auto company. The strange paradox of the situation is that on the day Mr. Delorean was arrested, a financier from Columbus, Ohio attempted to contact him to inform him that he had just established a financial arrangement which would provide the two hundred million dollars he needed. Mr. Delorean assumed a risk-free decision. His arrest forced him to take legal responsibility for his actions, but he obviously ignored the moral ramifications.

Organizations

- The Agriculture Department has been promoting the sale of tobacco for years, in foreign ports as well as domestically. Farmers are paid either to plant or not to plant tobacco, depending on the market. On the other hand, the Surgeon General has proved that smoking is directly related to cancer. The question here is whether the Federal Government should be held accountable for the promotion of tobacco when it has been conclusively proven that cigarette smoking can cause lung cancer, emphysema, heart disease, etc. Economic utility, it seems, overrides moral responsibility and a risk-free decision is justified.

- The Freedom of Information Act prevents all universities from releasing any information on their students without the consent of the student. It is illegal, for example, to send parents a copy of their children's grades unless the student provides written consent or the child is still considered a dependent of the parents. During the Iranian crisis, however, the Immigration Department requested information from various colleges and universities on the full or part-time status of their Iranian students. The Freedom of Information Act prevented the release of that information, but doesn't it seem a bit incongruous that the Immigration Department is unaware of the Freedom of Information Act?

- The Federal Reserve attempts to control inflation through interest rates and the money supply. On the other hand, the policies of the IRS encourage people to invest in property. By doing so, they are able to save money in taxes. For example, for those in the 50th percentile tax bracket, the 15% interest rate on a loan becomes only 7.5% after taxes. The 20% interest rate on a loan amounts to nothing more than 10% after taxes. This is true and can be calculated for the 30th and 40th percentile tax brackets as well. So while the government makes apparent attempts to control inflation, it is making it very difficult for the average American not to invest his money.

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- In their book, Dismantling America - The Rush To Deregulate, Susan and Martin Tolchin provide an in-depth analysis of the problems created by poor management and self-regulation in the nuclear power industry. They describe the fiasco of Diablo Canyon, a 2.3 billion dollar nuclear power plant located 12 miles west of San Luis Obispo, California. The Pacific Gas and Electric Company, the utility which constructed the nuclear reactor, is the first utility in the history of the nuclear power industry that had its license revoked to operate a nuclear reactor. Diablo Canyon is a prime example of risk-free decision-making. The resultant behavior manifests itself in the following manner. Tolchin and Tolchin state that:

The misbegotten Diablo Canyon experience featured the construction of a nuclear power plant on an earthquake fault; a mix-up of blueprints that led to earthquake-proofing the wrong reactor; dozens of major errors in design; falsified records; intimidation of inspectors; senior operators who had failed their licensing examinations; and senior managers who continually assured the public that everything was fine. Through it all, the nuclear regulators insisted that Diablo Canyon was a safe facility. [9, p. 1911]

The fiasco began when geologists working for the Shell Oil Company discovered an earthquake fault approximately two miles from the nearly completed reactor. However, despite reports from Federal agencies that a massive earthquake measuring more than seven on the Richter scale was possible along the fault line, the utility assured the public that the reactor could be "earthquake proofed." In further attempting to justify their decision--i.e., make it "risk-free," they intimidated consumers by informing them that they were paying 76 million dollars for every month that the Nuclear Regulatory Commission delayed in granting them a license to operate the plant.

The Nuclear Regulatory Commission, with serious reservations, eventually granted a license, but soon afterwards it was discovered by an engineer with PG & E that there had been a "mix-up" in blueprints and the wrong reactor had been earthquake proofed. Representatives of the nuclear industry placed the blame on a lack of "quality assurance," but the effect of the blunder destroyed public confidence not only in PG & E, but in the entire nuclear industry. The NRC's operations director, William J. Dircks, for example,

• . . . admitted that since the Diablo incident, the agency had uncovered "serious quality assurance breakdowns with broad repercussions" at four additional facilities. Dircks blamed the utilities for retaining quality assurance staffs "too small to maintain sufficient surveillance over the contractors' work." He itemized the causes of inadequate quality assurance: unqualified workers, falsified records, intimidation of inspectors, lack of authority, lack of communication, and poor to nonexistent procedures. [9, pp. 194-195]

These kinds of human factors manifest themselves when people believe and operate as though their decisions are risk-free.

Conclusion

While the Risk-Free Decision Phenomenon is growing in our society, there are many glowing examples which can be found where people have cooperated in order to achieve a common goal. For example, a study done by Cambridge Energy Research Associates of Cambridge, Mass., reports that, despite increases in

population and the number of appliances in use, Americans, on the average, are using 20% less energy than they were a decade ago. [10] It is our belief that destructive competition can only result in a lose-lose situation, as demonstrated in the Nickel Auction. However, when individuals are able to recognize that it is to their benefit to collaborate with each other, as in saving energy--everyone wins. It is time to recognize that we cannot survive in isolation--our very existence depends upon collaboration with others. Each one of us must assume responsibility for our own actions and behavior and we must come to realize there are no risk-free decisions. With every decision we make, there is an ownership to that behavior. We can no longer continue to blame the environment, the past, or others. The behavior is ours and ours to own with each consequence.

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