BUSINESS ETHICS, EXPERIENTIAL EXERCISES AND SIMULATION GAMES

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ABSTRACT

To date the literature is nearly mute with respect to linking ethics to experiential activities. The paper suggests opportunities for such linkage. It also includes a discussion of the author's progress toward developing a marketing ethics simulation.

INTRODUCTION

While many claims have been made regarding the benefits of using simulations for a variety of instructional purposes (see Wolfe, 1985 for a critical examination of these benefits), with one exception (Smith, 1979) the gaming literature is mute when it comes to the subject of ethics. That is somewhat puzzling as simulations involve decision-making in a social context. They would appear to offer significant opportunities to deal with the ethical aspects of business decision-making.

While the authors contend that ethics has not suddenly become an important factor in the business environment, it certainly has become a more visible component. Recently the business press has bombarded its readers with stories of transgressions almost weekly (for example see Kidder, 1986; Wartzman, 1987; Ansberry, 1988). The national press is not far behind in the political arena. Ethics currently occupies a position of center stage.

With the growing awareness of ethics, business schools are beginning to offer courses or modules dealing with ethics. The approaches generally utilize lectures and case studies. However, the authors believe that simulations may offer a more effective medium for broaching ethical issues. This paper will focus upon several avenues for incorporating ethics into the simulation experience.

ETHICS IN SIMULATED BUSINESS ACTIVITIES

Current Pedagogy

Presently ethical issues tend to be ignored by instructors using experiential techniques (either exercises or simulations) unless there is strong evidence that some class members have engaged in significant ethical transgressions. Then time may be spent examining the ramifications of such actions and the penalties, which would be faced in the business world if the actions were detected. Unfortunately from the standpoint of influencing the values of future business leaders, ethical issues have not been one of the more pressing issues in the business school curriculum.

Ethical issues can be incorporated into current experientially based instruction by raising relevant ethical issues as the activity evolves. For example, an exercise dealing with the development of promotional messages for a product could provide a basis for discussing deception in advertising and its effects upon current and potential customers. When running a computer simulation, time could be spent discussing proprietary information and the effect that theft of such information has upon the individual firms, the industry and society.

In addition to discussing relevant ethical issues, the administrator could create companion scenarios, which would pose ethical issues relative to the experiential technique being used. The scenario could then form the basis for a discussion of the related ethical issues following the class reaction to the scenario. An example of a scenario being incorporated into a simulation for instruction and research purposes can be found in Rosenberg (1987).

Newly Designed Experiential Approaches

Experiential Exercises. A series of experiential exercises may be designed to cover most of the major ethical issues faced by business managers. The exercises could be used as a basis for a course in business ethics or as a module in ethics in a number of different business courses. The essence of the exercises would be to place the students in a situation containing an ethical dilemma. The positions taken by the students would then provide the basis for a fruitful discussion of the moral aspects of their decisions.

To be realistic, the exercises should be created to provide moral positives and minuses on both sides of the dilemma. It is a bit sterile for discussion purposes to create an exercise in which the ethical decision is obvious. The discussion would revolve around identifying the moral issues involved and evaluating the moral positives and negatives of each alternative action.

Exercises focusing on ethical issues can be stand-alone, or they may be tied to a simulation. If an exercise is tied to a simulation, it must set up a believable dilemma relating to the simulation at some point in the play. The exercise may be such that it is always appropriate for use sometime during the simulation experience. Alternatively, the exercise may be created to use if certain conditions occur during the simulation exercise.

Computer Simulations. Simulations may be developed to include a series of ethical dilemmas with which the participants must deal. One advantage of a simulation is that the players are involved in the outcome of the situation and thus have a vested interest in terms personal ego and/or the grade that is associated with the simulation. Unlike discussions or exercises, the simulation can create costs to the players, both for engaging and for not engaging in ethical behavior.

The authors are currently designing a simulation, which we have entitled Business Ethics in Action. It will be fully developed if we find a publisher or a business organization willing to commit to its development. In the meantime, we would like to share our thoughts with you.

Business Ethics in Action is a computer-based simulation created to provide a realistic educational instrument for use in teaching business ethics as part of the business decision process. It is designed to be used as a supplement to conceptual material and/or case analysis within the context of a graduate course in Business Policy or as a vehicle for a specific course in business ethics. Alternatively, it is intended as a principle tool to be used in specialized executive training and/or management development programs for industry and business either in-house or on campus.

Business Ethics in Action presents participants with realistic conflicts and a broad spectrum of ethical dilemmas in the areas of advertising and marketing, activity reporting, worker safety and employee relations, and general business practice as an overlay to a competitive, computer-based international marketing game in which market share, sales growth, and profitability are the criteria for success. Students are therefore required to resolve ethical questions within the context of a business decision process in which they are actual stakeholders.

Most text materials in business ethics are either conceptual or philosophical, and rely almost entirely on case analysis for applications of ideas learned. As a result, the student, even when asked to evaluate business decision-making by others from an ethical standpoint, is doing so as a detached observer of an incident which has already occurred, and one in which he/she has no stake in the outcome.

The proposed simulation places the decision-maker in the center of a classic dilemma: maximizing sales and/or profits while at the same time having to achieve these goals where an ethical conflict is involved. Profitability and sales-related goals remain the basis for evaluating players' performance in the simulation. What is unique to this simulation is the software, which permits participants to differentiate their decision-response according to varying situational and environmental cues both endogenous and exogenous. These cues are selected by the game administrator apriori from an extensive menu of ethical issues, and range from the patently illegal, to those which are permitted by law but are nonetheless either unjust, unfair, deceptive, or insensitive to the rights of others, individuals or groups.

A further unique aspect of the simulation software is its capability to interact automatically with any one (or all) of the competing teams either to reward or to invoke penalties in the form of fines or diminished sales, and impairment of the company image. The software is written for microcomputers and is, by design, both player and administrator friendly.

The simulation will consist of a player's manual, an instructor's manual and a micro-based computer program. The computer program will create live cases based upon the simulation using a series of scenarios. The scenarios will be pre-selected by the instructor from a set of scenarios included in the simulation. Current thinking is to allow the instructor the option of developing scenarios (industry, company or situation specific) which can be plugged into the simulation as additional modules.

The player's manual will include the rules of the simulation as well as an introductory chapter discussing ethics in the business environment. The instructor's manual will include detailed instructions for administering the simulation. The instructions will assume that the administrator has no special expertise in microcomputers. The manual will also include instructions for preparing customized scenarios and incorporating the scenarios into the simulation. The simulation will be written in BASIC.

The simulation environment is that of a general management simulation with emphasis upon the marketing function. It revolves around one product with quality level variations controlled by the players. The product is marketed in four markets: the U. S. and the EEC representing developed markets, Africa representing underdeveloped markets and Latin America representing developing markets. The simulation requires pricing, advertising, production, shipping and sales-force decisions and product quality.

The simulation duration is up to six-decision periods i.e. three simulated years following "two years" of historical data provided to the teams prior to the beginning of play. Each period will therefore cover 6 months of operation. The instructor will be provided with a menu of ethical dilemmas from which to choose a dilemma for each decision period beginning with the first period following the two historical years. The dilemmas will be integrated into the simulation in the form of a scenario provided with the simulation output. The players will face a situation which ostensibly offers a potentially significant improvement in operating performance by taking the unethical path, but with a concurrent risk of detection and consequent sanctions as in the case of the government, or consumer and/or market based response. Ethical issues covered by the scenarios include deceptive advertising, bribery, deceptive packaging, destructive competition, inferior products, hiring discrimination, unsafe working conditions, unfair labor practices, etc.

Two examples of scenarios to be incorporated in the simulation follow (actual scenarios for players are found in the Appendix):

A. Predatory Competition/Dumping

(1) Suggested sequence: 1st period of play

(2) Background:

a. All competing companies have large inventories, i.e. in excess of 6 months of sales.
b. The prevailing profit margin level (after taxation) at game startup is slightly above breakeven for the competing companies. Fixed costs represent approximately 60% of total costs.
c. Liquidities (current ratios) are approximately 1.5:1.
d. Company "X" is based in Latin America which has a large and growing potential market for the product sold by the competing firms. Company "X" has enjoyed a dominant share (approximately 75%) of the Latin American market since it is protected by a customs duty of 20% on the ex-factory price of the product.
e. Freight costs for the product calculated on ex-factory price for the U.S. based competitors (the players in the simulation) are as follows:

U.S. Market	0%
Latin America	5%
Africa	6%
Asia	7%

f. Prime interest rates in the U.S. are currently 10% p.a.

Note: All of the above information may be obtained by the simulation participants from the player's manual or the operating printouts, either directly (as in the case of the freight percentages), or through analysis of the various financial statements or market reports included in the printouts.

(3) Consequences:
The companies are free to set their prices as they see fit. However, a firm selling below cost may be charged with dumping which would automatically bar the company from selling in the Latin American market for one period. The likelihood of being charged with dumping increases as the spread between cost and price increases. When the spread passes a set magnitude, charges of dumping are certain. Of course, the firms have no knowledge of the nature of these consequences.

B. International Bribery

(1) Suggested sequence: 4th play period

(2) Background:

a. At this point in the simulation, the competing teams will have developed positions in the large, if turbulent, African market in terms of promotional investment, sales organizations, and product inventories.

b. The leading nations in this region, and those with the most attractive markets for the simulated product have just formed AOPE, the African Organization for Protective Economics. At its last meeting, AOPE adopted a resolution authorizing its executive management to selectively exclude overseas manufacturers and exporters from its markets where the management in its sole judgement deems appropriate.

(3) Consequences:
Each firm must decide whether to make payment to the consultant. It may attempt to negotiate with the consultant by making a smaller payment. The consultant may accept a smaller payment with the likelihood of acceptance increasing as the payment nears the requested $500,000. If no firm makes a payment, the market is shared among the firms according to their marketing effort.

However, if a payment is made, the market is shared among the one or more firms making payment in accordance with their marketing effort. The nonpaying firms are locked out of the market for the current period. All firms actually making payment (accepted by the consultant) will be charged with making illegal payments and fined $500,000 at the end of the period.

The game is intended for graduate students in an MBA program (or its equivalent) preferably integrated within the capstone courses. It may also find extensive use in management development programs, or "Ethics Awareness" programs, for business managers and executives from the middle-management level to senior corporate executives. It is rigorous but not overly quantitative. It is flexible in terms of the amount of time required to make it a meaningful part of an overall program, according to the program aims and overall substance. It also might be used effectively by researchers as a tool for action-oriented decision-process investigation.

COMMENT

While ethics has always been an important issue in business, the current interest shown by the press has heightened public awareness. Carefully crafted experiential techniques would appear to offer an ideal venue for discussing ethical issues.

The literature dealing with ethics in business is growing very rapidly. The Journal of Business Ethics is a good starting point for those not familiar with the field. Several other sources include Beauchamp and Bowie (1983), Cavanagh (1988) and Velasquez (1982).

APPENDIX

PREDATORY COMPETITION/DUMPING STUDENT SCENARIO

The Board of Directors at its recent meeting voiced its deep concern over your performance in company management. Their criticism focused on two areas in particular: first, the inventory buildup that has created weak cash positions, and second, your failure to gain market share, particularly overseas. In short, they have insisted on results in the immediate future!

Your analysis of the situation and the possible strategies for improving the company's position (and, of course, your own) include the following:

Company "X" based in Latin America enjoys its dominant market position there (approximately 75% of the market) solely because of a 20% protective tariff umbrella. Its products are acceptable in quality but not superior to your own, and it has invested only minimally in promotion.

Your sales agents in the area report that Company "X" is an inefficient producer with high costs. In fact, if it had to price its products at the current U.S. retail price level, it would be forced to operate at a loss.

Your sales agents also report that Company “X’s” financial position may be precarious and there have been rumors of discord within its management.

One strategy which suggests itself is to substantially lower the price of your product to the Latin American market for a prescribed period, below the current price level in that market (delivered and ex-customs). This could conceivably bring Company "X" to its knees, at the same time permitting you to reduce your inventory level. Having dislodged your principal competitor, you would then be in a position to raise prices to their former level or close to it, all this before the Latin American Governments could negotiate an anti-dumping treaty with the U.S.

INTERNATIONAL BRIBERY STUDENT SCENARIO

Your sales representative in the African market has informed you that the newly formed African Organization for Protective Economics (AOPE) has adopted a resolution authorizing its executive management to selectively exclude overseas manufacturers and exporters from its markets where the management in its sole judgement deems appropriate. You knew about the resolution from articles in the Wall Street Journal, Business Week, and Fortune. Subsequently, you received the following TWX from your sales representative:

> Just advised by senior official that new regulations require securing import license from AOPE in order to operate in this market. Your urgent presence to conduct negotiations to secure license is imperative.

You arrived in the region and together with your sales representatives commenced discussions with the head of the AOPE department dealing with your product group. The discussions proceeded smoothly and negotiations of specific terms dealing with product specifications and quality, price levels, technical support to be provided and logistic details as well as submission of relevant data as to your own company's financial condition were apparently completed satisfactorily.

On the final day of discussion, the senior department head with which you have been negotiating advises that you be invited to a private luncheon meeting with the Minister-Director of AOPE. When you arrive at the luncheon, you are warmly greeted by the Minister-Director who introduces you to the only other person present, his "consultant" on importer qualifications. At the conclusion of the luncheon and over brandy and coffee, the Minister- Director expresses his pleasure at the culmination of your negotiations and wishes you success. However, he also tells you that the import licensing agreement must be countersigned by the "consultant who has remained virtually silent during the luncheon and who did not participate in the discussion and negotiations. Moreover, the consultant's fee of $500,000 must be borne by you, and paid immediately (game period 4), but from the tone of the request you get the impression that the consultant might be agreeable to a lower amount.

You explain that this consultant's fee is a new development and was not figured in the cost/price calculations which were an integral part of the negotiations. While you are aware of the FCPA of 1977, you also know there is considerable pressure to revoke it. And, of course, there is the possibility of being excluded from this large and growing market.

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