

Developments in Business Simulation & Experiential Exercises, Volume 14, 1987

AN INTEGRATIVE SYSTEMS APPROACH TO SIMULATING FREE ENTERPRISE IN A SMALL BUSINESS COURSE IN A BUSINESS SCHOOL

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ABSTRACT

This paper explains a simulation and experiential process that has been used in a small business course. It shows how the case method can be used to facilitate the simulation some of the major characteristics of a free enterprise environment. Uncertainty and risk are simulated through the use of a random selection device for starting daily discussions.

INTRODUCTION

In competitive small business environments people must hustle to make sales by providing products and services cheaper and better than their competitors. Of all the skills needed by small business people, sales ability is probably the most important for success. Without sales they cannot survive, regardless of how adept they are at formulating strategies and keeping accounting records. Sales ability entails selling things, and ideas. Good salesmen have good personalities and are likable. In general people buy their goods and services from business people they like, all other things being equal.

Nature of Small Business Environments

In order to make money, small business people must understand the details of their environments, their businesses, and their customer needs. They must be able to make good decisions quickly during each business day. They must be able to make long range decisions regarding what to sell and where to sell it and also short range operating decisions involving pricing, hiring and training and firing employees, handling and selling inventories, making payrolls, paying taxes, etc.

Small business people must also be prepared to deal with the unexpected. The more they understand their environments the better they should be able to cope with the unexpected. Unexpected events include fires, burglaries, illnesses, and games played by employees, customers, and competitors.

Small business environments are both stable and unstable at times. During various time periods operations, given a particular strategy, may run smoothly; at other times changes may be required. Small businesses move from equilibria to disequilibria periodically as long as they exist. The chances of existing long in small business are not great. About 40 percent of all new businesses cease to exist the first year and some 80-90 percent cease to exist within five years of their foundings [1]. Hence, small business people encounter an inordinate amount of risk, uncertainty and danger of failure.

How might such an environment be simulated in a college business classroom?

A Small Business Simulation

First of all, the class process would need to be uncertain and provide the risk of loss, or gain, each day. The author has

discovered the most insecure and risky classroom situations are those that entail active participation on the part of students for grades. Students must be graded on how well they make and sell things in class. The classroom must be operated as a free market.

What can students make and sell in class? Ideas. How can the making and selling of ideas be graded? Subjectively, based on observation. The teacher can notice which students are selling most of the better ideas to most of the students and assign those students the highest grades in the class assuming the students obey the course laws. Those who make and sell very little in the classroom would either flunk or receive the lowest grades.

In order to simulate a small business market in a small business classroom students must be provided with raw materials from which they can produce something before they go to the classroom market. They would need to think about what would happen in the market on a given day and be prepared to sell what they have produced. Once the market opens, they must compete for their market share, namely their percent of the air time during a class period. If the class is 50 minutes long and there are 30 students in the class, if the market were carved up equally each student would have 1.66 minutes of air time. Since real markets are almost never carved up equally, some students might wind up with a 20 percent or more market share, capturing some ten minutes or more of market share.

In order to simulate a small business environment in the classroom it is important that the professor not manipulate the class to determine what market share each student receives. S/he should allow or require a free market. S/he should not protect or rescue incapable students. If a free enterprise competitive small business environment is to be simulated, the professor should maintain a laissez-faire policy and let the students compete for the air time on a free enterprise basis, wherein the most talented and hard working can win, as in real free enterprise small business markets. The process is inherently sink or swim.

Business Competition

The more prepared, skillful, and hard-working students will run the less effective students out of business during some market periods, or class periods. Each day some businesses will fold up and go out of business. Each day some students will attempt comebacks, perhaps to take over more market share. Some will wind up the course with a large income and high net worth. Others will have relatively little. Some will think the market was the best they ever had. Others will wish they had not gotten into business. Some will be exhilarated by the process; others will be deflated. Some will become more confident of their abilities and prospects; others will be less confident due to the experiential learning.

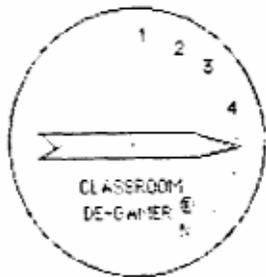
Students who do not do well might consider taking up accounting, computer programming, or some technical subject that does not require the selling of unrequired

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ideas or products or services to people or much talking or bullshooting with people. Perhaps they should not consider going into business for themselves in competitive small business environments. This self-knowledge produced by the experiential learning might save them losses later on in real business environments.

Simulating Daily Uncertainty

In order to give everyone an equal chance to sell a few points at the beginning of each market session, the professor uses a Classroom De-Gamer he invented to randomly select a student to start the selling for the day. If the randomly-selected student has not told the professor s/he was not prepared and obviously has not prepared for the day s/he loses a letter grade from the final course grade. This simulates the losses that can occur in a small business environment when the small business person is caught unprepared. Being unprepared only one time at a crucial time might cost the business person \$10,000 or more.



Past the opening spin of the fickle finger of fate of the De-Gamer, the class operates as a freely-operating competitive market. It becomes sink or swim, root hog or die. The author occasionally sells a few ideas himself, especially if the students have not produced what he thinks the market needs in terms of ideas, strategies, concepts, etc. If consulted by students he will answer questions of a technical or conceptual nature. He will help out much like a management consultant might in a real business environment.

The Classroom De-Gainer produces effects which both do and do not simulate processes occurring in the real business world. By auditing the students at the beginning of each period to determine if they are prepared, the De-Gamer is somewhat analogous to the IRS with its random audits. It keeps the students honest regarding their basic contract to be prepared. Real small business people need to be prepared to answer questions about services, products, etc. anytime a customer, employee, banker, etc. randomly desires information. On the other hand, the De-Gamer infringes upon the free operation of the market.

In real markets there are no De-Gamers to call on business people at the beginning of a business day. There is no De-Gamer to select one salesman of several competing salesmen in an environment to talk first at the beginning of the day. The De-Gamer is somewhat protectionist. In real business environments the earliest and most aggressive bird makes the first sale, or gets the worm. On the other hand, the author thinks on balance the De-Gamer adds more realism than it subtracts from the classroom simulation. It adds tension, uncertainty and the risk of loss each day. It keeps the students on their toes. While real business is sometimes fun, it is no rose garden. There are always pressures and stresses, and there are no free rides.

Fairness in Business Competition

This experiential process conducted for one hour a day for

35 or so days during a course involving real small business cases laden with a multiplicity of opportunities, problems, processes, people, and geographic regions will teach students to learn from experience and will teach them what exists in small business environments. Some students will complain the process is un-fair. Some will complain that some students know more about business than others before the class started because of business experience, that some are just naturally more articulate and confident than others, that some are "naturally" shy and are afraid to talk in groups, that they have "just never" talked much in groups, etc. But...tough luck.

The purpose of the course is to simulate a competitive small business environment. Small business competition is not "fair" in the real world in the sense that all small business people competing in a market must have equal abilities, skills, experience, knowledge, etc. Only a select few win in real world business competition. Small business is a field based on common sense requiring no special competence or certification to enter to which many are called but few are chosen as winners. Only the most skillful, competent, confident, enthusiastic, and hard-working win in real small business environments. The same should be true in a small business course simulating a small business environment. If students are victimized, rescued and protected in class in such a way that there is no fair competition and no real observable winners and non-winners the simulation breaks down.

Students must grow and develop the mental toughness and realism necessary for business success. If the experiential learning produced by the simulation is valid students will learn something about their relative abilities and disabilities as prospective independent small business owners. Those who discover they are relatively able in the simulation might want to consider more seriously actually starting a business of their own. Those who discover they are relatively disabled in the simulation might want to use this knowledge by pursuing other careers as an employee or do what is necessary to develop the necessary abilities.

PROCEDURES FOR THE SIMULATION

Following are some specific procedures used by the professor to facilitate the process:

The Case Method

A small business book (1) containing realistic cases is required for the course. Most of the professor's classes are devoted to case discussion. Of 50 sessions in the normal course, approximately 35 sessions will be devoted to case analysis operated according to the market process described above. General business principles and processes, book reports, and experiential exercises consume the remainder of the sessions--also using the market process above. There is almost no lecturing or instructing. It is important that some cases be long, detailed, and realistic. Realistic cases do not have only one answer and contain both relevant and irrelevant material. Since there is not only one answer, or product, student small business people who make sales do not do so because of having a monopoly but because of convincing consumers (other students) their product is better than competing products. This requires real communication and human relations ability.

Perhaps the biggest key to success for real small business people is being able to discover and focus on the relevant information in their environments and ignore the irrelevant data. This is not a simple problem in that most available data are irrelevant. Separating

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the relevant from the irrelevant in long, detailed, realistic paper cases develops analytical thinking ability, creativity, and the like, which are needed in real business environments and in realistic simulations of such environments. It is important that students be allowed to do some bullshooting in the market sessions, since bullshooting ability is a valuable skill for salesmen in real environments. On the other hand, they have to do some work.

Classroom De-Gamer

The Classroom De-Gamer is a circular 3/4" thick board 12" in diameter with a spinner attached. A circular classroom layout is used. Desks are positioned around the perimeter of the room. As many desks can be positioned in a room of given size in the circular classroom layout as in the sometimes unavoidable row and column layout. The De-Gamer has numbers affixed for assigning to students for row and column layouts. The De-Gamer is placed on a desk in the center of the room with the circular desk layout. All cases and other assignments are assigned at least one day prior to the day of discussion, marketing, etc.

The first day the professor spins the spinner of the De-Gamer. Whoever it lands on starts the selling for the day. Other students can jump in and try to sell something as soon as the De-Gamer-selected student finishes his/her pitch. The process operates on a generally laissez-faire basis until the case is exhausted of discussable relevant material and it appears there are no more good products to be produced and sold. Students themselves spin the De-Gamer for subsequent assignments. The rule is the last student pointed out spins the De-Gamer next. Thus there is a minimum of professor or governmental intervention or interference. Bureaucratic red tape is kept to a minimum.

Business Prospectuses

Each student is required to invent and design a business s/he for one reason or another might want to one day operate in the real world. It is important the professor not interfere with the students in their process of creating a business. Real small business people in the real world must decide for themselves what to do and where to do it. This is the quintessential decision of real entrepreneurs. Once they make this decision there is no one to get approval from in the real world and the professor should not require students to get his/her approval regarding what to do and where to do it. Bankers, consumers, and others will decide later whether to allow the business to exist.

The prospectus should contain relevant background information about the business--where it is to be located and how it is to be operated. This includes a description of the environment the business is to be located in, the nature of the product(s) or services(s) to be offered for sale, the layout of the building(s) if required, the nature of machinery and equipment required, employees required if any, and basic logistical and operating procedures. Crucial to the prospectus are forma balance sheets and income statements for the first year, fifth year, and tenth year of operation. Footnotes should be affixed to the statements explaining how the numbers were acquired or developed. Students are requested to disclose why they want this particular type of business.

Each student is required to prepare copies of the entire prospectus for each member of the class, normally 30-35 students. The prospectuses are then discussed like cases developed by professional case researchers using the Classroom De-Gamer and market simulation process described above. The main product in these discussions is

not a supposedly good answer or strategy; it is an analysis of the realism of the prospectus idea, whether it might work, whether it is based on decent research, etc. Alternative strategies or processes not discussed by the prospectus developer and writer are sometimes invented and sold. The prospectus discussions not only provide additional simulation of a small business environment in the classroom but they also give the prospectus developers feedback regarding the realism and practicality of their prospectus research, development, project-ions, etc.

Most undergraduate small business students taught by the author write about business ideas in their prospectuses they have carried around in their heads for several years. While these students are 20-22 years of age, more than 50 percent of them in most classes write about ideas they first imagined three to five years earlier. Bringing these ideas out into the light of day in the small business class market simulates the establishing of real businesses by entrepreneurs. Feedback regarding the chances of success of the idea provided by the class market is by no means as authoritative as feedback generated by a real market for a real business, but the processes are analogous in some respects. Students find the prospectus developing and discussing process especially satisfying. Many say they thoroughly enjoy it on course evaluation forms.

Using a Computer

The professor assigns three long detailed cases during the course which invite the use of spreadsheets. One entails the generating of 45 alternative income statements based on alternative product prices and projected sales growth rates. A large majority of his students have not yet learned how to use spreadsheets. The professor allots one day for a field trip to the Learning Resources Center in the university library. There a friendly student explains to the students sitting around PCs what keys to punch to "get into" the spreadsheet. Detailed handouts of procedures are provided for the various brands of computers in the center--Apples, IBM5, and Zeniths. Some students learn to use spreadsheets and develop alternative profit scenarios for the three cases mentioned above. This exercise simulates in a very realistic way what it is like when a small business person in a real business decides s/he could use a computer. They learn the time invested in learning how to interact with a computer and use the relevant software may or may not pay off in terms of better decisions, more products sold, and more profit (higher grades) made in a small business environment or course. The computer is only one variable contributing to profit.

Like a computer salesman calling on businesses in the real world, the author tells his students using a spreadsheet will help them better analyze three of the cases in his book, but he does not require the students to use spreadsheets. He leads his horses to water but he does not make them drink. This simulates computer selling-type learning in the business world.

Get-Rich Quick Book Reports

Each student is assigned the task of developing a book report on a get-rich-quick, how-to business book of their choosing. Some students always report on the same book, but normally 20-25 different books are reported on. At least two or three students always report on Napoleon Hill's Think and Grow Rich. These reports are typed and generally contain four or five pages. The purpose is to summarize the major idea, strategy, or steps presented in the book. Each student gives a three-minute oral report on the book. Thus each student gets exposed to

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several ideas for making money. The negative aspects of these books are discussed along with their positive aspects.

The professor tells the students most of these books are rip-offs. They imply anyone can get rich doing what the book recommends regardless of the real interests, talent, energy, and dedication of the reader. This exercise teaches students to beware of false business prophets, who are legion. At the same time the professor tells the students most of these books have a grain of truth in them. In 90 or so minutes of oral discussing of these books in class the students get exposed to 20 to 30 books of this genre which it would take them years to stumble upon and perhaps read in the real world. They now know the basic steps for getting rich in the stock market, real estate with no money down, one-minute selling, megatrends, mail order, positive thinking, and what have you. The professor tells the students this may be the best deal they ever got. Now they won't have to buy these books to find out what they are about. They now know what some of the professional media bullshooters say about getting rich in the business world.

Case Write-Ups and Reports

From time to time during the course, at least three written reports are assigned requiring analyses and recommendations regarding problems and opportunities in specific cases. A comprehensive final case write-up is required. The effectiveness and efficiency of the writing are graded. The primary concern is whether the writer has adequately diagnosed the problem or opportunity. What s/he decides to do about the situation is also important. Grammar and spelling errors are marked. The author requests that reports be written in simple English with short words and sentences, sensible paragraphs, and appropriate titles, headings) sub-headings, graphs, charts, and visual aids. Hopefully the format and writing process simulates the writing format and process used in most real business situations where written analyses and recommendations are required.

In three of the write-ups students not using a PC and spreadsheet are at a severe competitive disadvantage compared with students who do, much like some real small business people are who do not use computers who compete against businesses who do use computers. This simulation convinces some students they should learn something about using a PC--at least a friendly Apple Macintosh with a mouse. Some students learn it is difficult to compete as a writer with student writers who use word processors if they do not use one.

Grades

Approximately 80 percent of the course final grade is based class participation; the remaining 20 percent is based on the written work. Some students complain of course the process is unfair, as mentioned above, because they have never talked in class and so forth. The professor sometimes reminds them the course is based on experiential learning and attempts to simulate the real world and the real world is not fair. It is therefore fair that the course is unfair by penalizing them for their lack of skills or willingness to compete.

At the same time, some students will complain about the subjective grading, unless all are given A's and B's. While mid-term and final peer ratings are provided the student to counter-balance any arbitrary use of power on the part of the professor, the final grade is based on the professor opinion based on observation. Since none of the cases or readings had only one right answer and most had several satisfactory

answers, as do real business cases, there was no way to get anything 100 percent right, and little could be marked clearly wrong. This is fair, however, because this uncertainty simulates the uncertainty small business people have about their decisions and answers to their real problems.

Hence the grade reflects the professor's opinion regarding who produced and sold the most and best products (ideas) during the market period (course). In most courses the professor agrees with the student peer ratings since everyone can see who is doing what at all times in the market. On the other hand, if the professor does not agree with the student peer rating for a particular student he assigns the grade he considers correct or appropriate. Only about five percent make A's, but few fail to make at least a C, perhaps 10 percent. The simulation breaks down in analogous realism at this point, in that about 40 percent of all new business people flunk (go out of business) the first year, and only about 10 percent are passing (still in business) after five years. No professor could survive in any college failing as high a percentage of students in a course as the percentage of small business people failing in the real world.

The professor tells students their discussion grade is a function of not only the quantity and quality of what they say in class but also to some extent of how well they do not de-motivate their fellow students by their covert communications and behaviors in class. Whispering covertly to neighbors in class is outlawed, and violators are prosecuted. If whispering spreads in a class few will learn as much as they should be able to learn. Much energy will be wasted paying attention to whisperers who cannot be heard but will be seen by most students and who therefore negatively contribute to the whole class. Students who try to undermine the process and who agitate habitually in class are punished with a grade lower than they would have received had they not torn the process down.

Independent small business people must not tear down their environments or insult their competitors in face to face encounters. Independent small business people must obey the law. Unfortunately the professor must at times be the policeman, judge, and jury in a small business course simulating business environments.

The students have the option at any time to talk with the professor for an evaluation of their performance in class. The students are provided with numerical scores corresponding to the grade point system for their written work and they are provided with mid-term and final peer ratings. Peer ratings are based on a scale of 1-4, also corresponding to the grade point system. Each student evaluates every other student in light of the course criteria, the main criterion being the quantity and quality of ideas sold by individual students. Students are not required to consult with the professor during the course for feedback regarding their class participation performance. It is the responsibility of the student to request this feedback. As in a free enterprise environment, a formal accounting for results is required only at the end of the period.

Final grades for this experiential course are delivered to students at their homes by the U.S. postal service.

REFERENCE

- [1] Stapleton, Richard John. The Entrepreneur: Concepts and Cases on Creativity in Business (Lanham, Maryland: University Press of America, 1985).