

Developments in Business Simulation & Experiential Exercises, Volume 10, 1983

POLICY ANALYSIS AND DECISION: A CORPORATE RELOCATION SIMULATION EXERCISE

Albert S. King, Northern Illinois University
Deborah A. Lauer, Northern Illinois University

ABSTRACT

A one-hour experiential simulation exercise is presented in which participants are required to take roles as managers in a business firm confronting questions concerning corporate headquarter relocation. Role scenarios for the business functional areas of chief executive officer and corporate legal, human resource, financial, and public relations executives are presented. Each participant analyzes the problem from the perspective of the described functional role. Influence efforts are focused on structuring the chief executive's decision. After reviewing alternative action recommendations from the various functional areas, chief executives balance and weigh alternative arguments presented by each function in arriving at a decision. The simulation may incorporate an earlier developed conceptual schema for strategic decision analysis in formulating policy and provide an application for comparative analysis of intuitive and systematic reasoning in decision making. Alternatively, it may be used as an introductory exercise in group decision.

Learning Objectives

1. To grasp the structure and limits of corporate responsibility in the total business environment in which the firm is located, to facilitate understanding of the wide range of environmental pressures and influences affecting corporate decision making.
2. To understand how the preparation of a decision from a functional point of view interacts with the interests of the total company organization and marshal arguments for forceful and clearly communicated courses of action without losing sight of the company interest as a whole.
3. To understand the need for assigning priorities to particular corporate goals in balancing competing functional interests of profits and community relations in connection with a corporate relocation decision.
4. To extend application and understanding of a previously learned policy analysis model for systematic exploration of interrelationships between goals, subgoals, functional policy areas, and action alternatives in strategic decision making.
5. To understand how systematic policy analysis for comparing heuristic with programmatic decisions may be extended to accommodate alternative functional perspectives in a required context of managerial teamwork providing orderly and organized presentation of properly weighted and timely information.

Advance Preparation

Read the article "A Programmatic Procedure for the Evaluation of Policy Decisions," Journal of Management, Business, and Economics, Volume 7, Number 2, 1981, pp. 190-200. Also, read the Overview, Scenario of the I.R. Manufacturing Company, and the Procedure. Be prepared to participate in one of five class groups in a role playing

exercise.

Overview

We have learned from the previous exercise that organizational decision making can be viewed systematically as a hierarchical framework of independent goals, subgoals, functional policy areas and alternatives; that a programmatic approach may be employed for a more systematic evaluation. Most ongoing decision problems are not confined to such a disciplined analysis and are frequently approached through a variety of intuitive techniques. Also, solutions to problems are likely to have interactive effects on functional areas. Perhaps the most restrictive limitation of the policy model previously presented is elimination of possible synergy between action alternatives. The effect of a particular action may be enhanced by taking another action. For instance, installation of anti-pollution equipment in manufacturing, coupled with advertising this fact, might enhance short-run sales, whereas equipment installation without advertising might have no effect on sales. Through its "additive utility assumption," the model would impose the restriction that the effect of these two actions on the goal of improving short-run sales would be independent of each other. Introduction of organizational change, such as a newly-developed management information system, will often require restructuring of activities, oblige personnel to new tasks and roles, modify group relations, and make other changes in managerial planning and control. Selection of alternative actions impacts significantly on organizational goals and strategies, and has further implications throughout the organization. The possibilities of major structural changes, synergistic effects, and practicalities in ongoing decision making require adaptations and adjustment in the application of the model.

In this exercise, class members take the roles of corporate executives, faced with the problem of relocating the I.R. Manufacturing Company headquarters. Roles include those of president and four vice-presidents: legal, personnel, financial, and public relations. Each manager studies the problem from a limited functional perspective. For example, the legal vice-president examines legal problems associated with relocating the company, the personnel vice-president from the personnel point-of-view, and so forth. Managers attempt to select among several options by weighting and placing in perspective the arguments presented by each division. Then participants are asked to discuss and evaluate decisions by executive teams.

**Developments in Business Simulation & Experiential Exercises, Volume 10,
1983**

Developments in Business Simulation & Experiential Exercises, Volume 10, 1983

Scenario of the I.R. Manufacturing Company

In 1940, Ralph Williams, the founder of the company, moved the headquarters to be near financial and legal resources which I.R. needed in its growth years. The present headquarters' building was completed seven years later in 1947, and became a landmark in the city. For the past three decades, I.R. Company has been directed from this headquarters building, and until the last few years, quite successfully. But now I.R. has problems. Its profit picture has turned bleak. In trying to get at the problem, management has turned its eyes on its midwestern home. After an explosive population and business boom of four decades, the city is showing strains of escalating costs of essential public services and human care programs. The strain shows in urban decay, inefficient and higher-priced public transportation, rising crime rates, desperate measures to find new sources of tax revenue, and manufacturing organizations leaving the city. For I.R. this means rising costs of doing business, and less efficient operations; problems it doesn't need on top of its recent poor earnings.

Two years ago, a consulting team explored alternatives open to the firm. After more than a year of study, various alternatives have been presented to the management of I.R. Manufacturing Company.

Procedure

Step One. Before class, read the policy analysis model article and review the previous experiential exercise in decision making. Also, read the overview and analyze the corporate relocation scenario.

Step Two. Divide the class into five groups and randomly assign the five roles listed below. Each group should assign members to a specified role, and each member should evaluate the case from the information presented in Table 1 for the specific role assigned.

TABLE 1

Functional Roles

Alternatives	Financial Vice President	Legal Vice President	Personnel Vice President	Public Relations Vice President	President (in Relation to Board of Directors)
1. Remain in City	Advantages Major financial center Ease & efficiency of financial administration Disadvantages Substantial capital needed Rising city taxes Costs rising	Advantages Access to best law libraries & courts No major problems Disadvantages Increasing amount of legal administration due to increase in number of city boards, commissions, etc.	Advantages Large pool of skilled workers EEOC requirements easily met Disadvantages Intensifying labor problems High wage problems Employee complaints about canteen facilities and locale Difficulty in recruiting younger executives Declining productivity	Advantages Headquarters building is symbol of corporate responsibility Proximity to advertising agencies and media Disadvantages More rigorous programs to develop image of I. R. as a "go-getting" firm	Advantages Rich environment for executives Disadvantages Executives may be reluctant to leave
2. Sell, remodel, lease back	Advantages Headquarters building could be sold for \$50,000,000+ & leased back for 20 years Disadvantages May be viewed as stop-gap measure Possible higher cost of lease renewal after 20 years	Advantages None Disadvantages Difficulty with lease negotiations Possibility of I. R. moving before lease expires Lease renegotiation	Advantages Fewer employee complaints if headquarters is remodeled Disadvantages Same as "Remain in city" alternative	Advantages Issue of showing commitment to city May improve I. R.'s image Revitalization of neighborhood Disadvantages Explanation that alternative is not a stop-gap measure	Advantages Compromise stance provides capital Disadvantages May be perceived as cosmetic change
3. Greenville location	Advantages Some tax advantages Retain proximity to major financial center Slightly lower labor costs Disadvantages Expense of relocation Increased costs of communication and transportation	Advantages Community residents agreeable Disadvantages Possible protest by environmental groups Gaining access road off freeway Achieving average back-up city noise ordinance Possible problems with EEOC due to few skilled minority workers in area	Advantages Less demanding labor force Lower employee turnover Elimination of marginal workers Lower wages Disadvantages Employee association opposed to move Less availability of skilled labor Unknown productivity of local workers Problems of relocation	Advantages Building new site may project image of I. R. as solid and reliable Disadvantages Creating a favorable image in a new town Possibility of strained relations with government agencies because of flight from city	Advantages Least expensive of relocation alternatives Disadvantages Power traffic problems in commuting Disadvantages Possible loss of good personnel
4. Southern location	Advantages Significant tax advantages Lower labor costs Sharply reduced costs of property and building Disadvantages High relocation expenses Uncertain social effects	Advantages Few problems with environmental groups Little problem with government agencies due to I. R. status in area Disadvantages EEOC problems due to few skilled minority workers	Advantages Lower wages Large & eager labor pool Possibility of attracting younger executives Opportunity to create model working environment Disadvantages Shortage of skilled workers EEOC Problems Losing key management personnel Possible isolation from other large firms	Advantages Local government and media will probably be supportive Disadvantages "Sunbelt" area not perceived as prestigious Problems in establishing contracts with major media centers Problem of image due to "flight" from city	Advantages None Disadvantages Perception of "Sunbelt" as the "boondocks" Expensive Necessary to provide assistance to those who do not wish to move

Developments in Business Simulation & Experiential Exercises, Volume 10, 1983

Role 1:	President, I.R. Manufacturing Company
Role 2:	Financial Vice-President, I.R. Manufacturing Company
Role 3:	Legal Vice-President, I.R. Manufacturing Company
Role 4:	Personnel Vice-President, I.R. Manufacturing Company
Role 5:	Public Relations Vice-President, I.R. Manufacturing Company

A brief description of the roles is provided by the information presented in Table 1.

Step Three. Each of the student groups should conduct a meeting among the president and vice-presidents to make recommendations for the president's decision to be presented to the board of directors. Two separate procedures should be employed in arriving at a decision: (1) generally discuss the elements pro and con relevant to moving the headquarters location on a regular interactive group discussion basis (any weighting basis or schema the group wishes to adopt other than the systematic policy model may be used), (2) go over the group's entire decision again preparing a systematic policy analysis model and identifying the hierarchy of goal, subgoals, policy areas, and action alternatives posed by the case. Sketch a model outline and use the policy model systematic procedure for decision making learned from the previous exercise for heuristic and programmatic comparisons in arriving at group decision.

Step Four. Compare the intuitive ranking or alternatives with more systematic evaluations of actions noting the discrepancies and agreements. Compare both intuitive and systematic decision outcomes from the policy model with decisions arrived at through general group discussion outcome. Identify and explain what factors might account for the results in terms of the following points--additive utility theory as a decision principle limiting consideration of synergy; problems of incorporating explicit recognition of probabilities and presumption of intuitive prejudgement in allowing weightings of Importance to represent expected values; psychological versus social/psychological (or psycho-social) validity of the policy analysis model; extent of agreement between judgements using the systematic procedure and not using it; requirements for sharply separating objectives from functional policy areas and defining objectives in policy areas as independently as possible; requirements for maintaining consistency in evaluating contributions of importance in the model and considerations of capital versus social costs.

Step Five. Select representative from each group to present an overview and critique of issues covered in Step Four above with the entire class joining to discuss extensions and applications in using the policy analysis model with full open class discussion on restrictive assumptions and limitations of application.

Discussion and Summary Conceptualization

Seemingly easy, it is always difficult to apply theoretical constructs of decision-making to ongoing problems. Likely, many different views were expressed, and substantial conflict appeared within groups. Management was placed in a difficult position of choosing among even a limited array of alternatives and possibly confused in utilizing intuitive judgemental decision-making versus the programmatic procedure in deciding which alternative to follow. Added difficulties may have been encountered in fulfillment of

different types of functional perspectives. Members may as well have lacked knowledge and information concerning values and costs of alternatives as well as experience in structuring and applying the programmatic procedure. This exercise should have provided additional experience in utilizing a model for analyzing situations in making recommendations. Most likely it has served to stimulate further curiosity and inquiring into the model's application and limitations.

Members likely had difficulty in sticking with defined roles. It is likely that recommendations moved decision-making considerations into traditional profit consideration areas. It should be recognized that different management functions do have particular perspectives of organization and will develop a special skill and technique in influence attempts for shaping decision outcomes. By the time participants make their decision, they will be aware of the many ramifications corporate relocation has for groups, government, and individuals who are not part of the corporation. However, they may not perceive these ramifications as problems for which the corporation shares any responsibility, but simply as forces which must be overcome in order to effect the "optimal" decision. From an economic point of view, a move to the southern location may be the profitable decision, but this move has serious drawbacks if a corporation feels a moral responsibility to support the city and the citizens including personnel who live there. It is in the systematic weighting and discussion phase that participants can be confronted with the explicit question of recognizing corporate social responsibility as a business objective and showing deliberate weighting of its estimated importance.

Groups were likely sensitive to employing a more systematic procedure in generally discussing and deciding issues by ordinary means. One way would be to explicitly identify the following issues: environment of Greenville's; financial considerations including profit generating capital and production; commitment to the city; commitment to minority groups, a better building in which to work; escaping the problems of the city; improving public relations; commitment to current city employees. Each group could rank these and other issues on a three point scale as to the importance of each issue relevant to the decision. After ranking issues, results could be recorded by adding the rankings. Through the general discussion procedure it is likely that financial consideration will be deemed most important, comfort issues such as "escaping the problems of the city," will rank next in importance, and social concerns at least important. Use of the systematic policy model may lead to a different ordering altogether or at least introduce the group to logical questions of inconsistency in assigning weights to factors influencing the decision. Objectives of profit versus corporate responsibility in functional policy areas of financial, legal, personnel, and public relations are clearly defined with the same set of limited alternatives in each functional area. Here, it would become immediately apparent to each decision group that initial structuring of the decision problem as posed by the roles in the exercise presents a "mutually exclusive" decision situation. This structuring effect precludes the possibility of considering simultaneously adopting more than one alternative action. Still, formal sketch of the model including objectives of corporate social responsibility and delineation of all functional policy areas will force explicit consideration of the "expected values of importance" to be assigned to elements in the decision-making process supporting social-corporate responsibility and concern. Since

Developments in Business Simulation & Experiential Exercises, Volume 10, 1983

corporate responsibility as an objective is likely to receive some minimal estimate of importance, the alternative actions of no change, remodel, or a Greenville Location receive some value estimates of importance as well. The overall outcome will reflect a slightly different value system of the group's decision-making.

The appropriateness of this value system can then be discussed with such questions as: Should social responsibility play a more important role, be assigned greater importance in systematic corporate decision-making? Why is more weight given to such concepts when they are systematically considered by the model versus general group decision-making? How much more weight were they given? If the corporation is not expected to be concerned with social issues of decisions, who is? Can government force corporations to be socially responsible or could governmental agencies use the theoretical constructs of the model in requiring organizations be more explicit? If so, how successful are such efforts likely to be? If no, what are the alternatives?

If groups do not rank economic considerations as the most important issue, and Borne groups have not, then a different set of questions become appropriate. Examples of such questions are: Can a corporation survive and be socially responsible? Can a corporation meet its obligations to its stockholders and put any goal above profits? What other objectives likely influencing decision outcomes need to be explicitly incorporated in the systematic policy analysis model?

Students should have gained illuminating insights into the following considerations:

1. Additive Utility Theory, on which the policy analysis] schema depends, presents a most restrictive limitation in the sense that it eliminates possible considerations of synergy between action alternatives. In reality, it may happen that the effect of a particular action may be enhanced by taking other action. Knowledge of the model has a structuring effect of designing mutually exclusive schemas and imposes the assumption that the effect of alternative actions (across functional areas) are independent of each other. Another strong assumption in the model is that all the actions within a given policy area distribute their influence on achievement of objectives in the same proportions, as is indicated by weighting their sum by a single number for the policy area.
2. Understanding of an apparent paradox may arise from recognizing that if no alternative actions are proposed for a given policy area, its value according to the model automatically equals zero. In fact, however, all policy areas are presumably vital to the firm whether alternative actions are being considered in them or not. Explanation lies in discovering that the model should be applied for consideration of only incremental action beyond that which is already going on. Thus the "importance" of a given policy area utilizing the model refers only to the value of the new action which might be taken and not to the value of actions already ongoing.
3. Some other observations from experience in defining items to insert in the model are likely to be learned.

- (a) Comprehensiveness Rule--Although it is not necessary to list a complete spectrum of possible actions, it is essential to list all, policy areas and all objectives to which those actions may apply. Otherwise the model will, not be able to recognize aspects of value in some of the actions which really should be considered.
- (b) Separateness Rule--Objectives and policy areas should not semantically duplicate or overlap each other because this could effectively result in "double counting." It is also important that objectives and policy areas be defined as independently as possible.
- (c) Consistency Rule--It is important to account for the values of different items inserted in the model on a consistent basis. Contributions cannot be considered in terms of gross benefits in some instances, while in terms of net benefits after costs in others, and benefit/cost in still others. Any of these measures will work, but it should then be used throughout. The recommended procedure is to consider simply gross benefit in applying the model and later introduce consideration of cost.

REFERENCES

- [1] Eberstadt, Nicholas N., "What History Tells Us About Corporate Responsibility," Business and Society Review, (Autumn, 1973), Boston: Warren Forham in Lamont, Inc., 1978, pp. 300-302.
- [2] Friedman, Milton, Capitalism and Freedom, Chicago: University of Chicago Press, 1962, pp. 299-300.
- [3] King, Albert S., "Heuristic and Systematic Evaluation of Policy: Experiential Exercise in Decision-Making," Developments In Business Simulation and Experiential Exercises, Volume 8, Receeding of the Association of Business Simulation and Experiential Learning, Phoenix, Arizona, 1982, p. 205.
- [4] Lays, Wayne A. R., "Ethics in Business and Government: The Confused Issues," The Annals of American Academy of Political and Society Science, (July, 1968), p. 305.
- [5] Meyer, H. E., "Why Corporations Are on the Move," Fortune Magazine, (May, 1976). Volume 93, pp. 252-258.
- [6] Tyler, Gus, "On the Limits of Corporate Responsibility," Dissent (Summer, 1974), p. 100.