

Business Ethics in Second Life

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Scenario

My name is Sinsin Snook. People know me because I am a five foot five white wolf who speaks broken French. Surrounding me is a small crowd of large breasted women and muscular men. Despite my animal appearance, the attention isn't on me, it is on Dotcom Sumbula, a dark skinned man in cowboy boots, who just flew in on his pink sail boat. To the right of the boat, a gray stone walkway leads to the Schwan's Schwamp Casino. I follow the path and stop at the black-jack table just inside the entrance of the rusty back alley gambling house. It is quiet in here, only a couple people sitting in front of the slot machines. I reluctantly place my last dollar on the line and within seconds I lose everything I have.

No, I don't have a gambling problem. In fact, I'm not sure I really lost anything because my visit to Schwan's Schwamp was not "real." My trip was not some dream or hallucination. It was a virtual experience in a world created by the residents who live in it. Schwan's Schwamp, the pink sailboat, the black-jack table, and the dollar itself are all products of a virtual world known as Second Life.

The Ethics of Business in a Virtual World

Created in 1999 by Phillip Rosedale, CEO of Linden Lab, Second Life (SL) is a virtual world filled with freedom and opportunity. Participants in this virtual realm do more than just communicate with each other and fly through the virtual skies in pink sailboats. Residents of SL are engaged in a newly created virtual economy with a real world dollar value. Within this virtual economy, residents buy, sell, and create their own virtual goods and services.

The virtual economy of SL essentially started in November of 2003, when Linden Lab changed a policy in SL that permitted residents to retain "full ownership of their virtual creations."¹ By allowing ownership of virtual creations, Linden Lab established value in totally virtual products. This unprecedented change in policy jump started a virtual economy that is rapidly growing in popularity. In January 2006, residents spent nearly five million US Dollars on purchases of various products and services. One year later, January 2007, monthly purchases

doubled to more than 10 million US Dollars.² Then only one short month later, *Entrepreneur* reported that monthly spending in SL topped 15 million US Dollars in the month of February.³

As the growth of commerce in this virtual world rapidly expands, new ethical issues begin to arise. With greater numbers of individuals and companies creating their virtual presence in SL, the ethical standards of virtual business operation come into question. Should the same ethical behaviors that guide real businesses guide the virtual businesses in Second Life?

Defining Second Life and the Virtual World

People new to the virtual world of Second Life may see this new form of commerce as nothing more than an elaborate video game. However, SL contains a functional economy that exists within its own virtual world. A virtual world is a three dimensional interactive computer generated environment that incorporates a first person perspective in cyberspace. SL moves beyond a basic computer generated world and includes an aspect of a “virtual community.” A virtual community is a collection of persons interacting under some common grounds in an environment that exists only in cyberspace.⁴ In the grand scheme of virtual worlds and virtual communities, SL comes about as close to an “open source” world as one can get, as the vast majority of the SL universe is the creation of the residents who participate in it.

Residents are registered users of the Second Life program. Each resident is graphically represented by an Avatar, which can be designed in nearly any shape or form. Linden Lab encourages residents to express themselves and their personalities through their Avatars. A short journey through SL will reveal people depicted in a wide variety of forms; male, female, animal, and subjects beyond the realm of what may be considered normal. The freedom to express is not limited to the Avatars alone. The bulk of the SL universe is built, owned, and operated by the residents who reside within it. Currently, there are about 4.5 million registered residents of SL, of which about 1.5 million are active residents who have logged on within 60 days. At any given moment, there are between 20,000 and 35,000 residents participating in the world.⁵

Using a system of currency called Linden Dollars; residents of SL can buy, sell, and actually own the rights to virtual real estate. What separates SL and other virtual worlds is that Linden Dollars have an actual monetary value. Approximately 300 Linden Dollars equal one US Dollar.⁶ The value of the Linden Dollar versus the US Dollar rises and falls on a daily basis.

The general condition of the SL economy and the value of Linden Dollars can be tracked by the LindenX, a currency exchange system accessible through the SL website.

What is “Real” and “Virtual?”

There is a continual haze that is ever increasing when trying to separate traditional, real business with virtual business. More and more “real business” is being conducted in virtual settings, from online banking to sites like eBay and Amazon. The line between real and virtual is blurring. When deliberating the ethics that guide both facets, one must be sensitive to this lack of clear distinction. For the purposes of this argument, a definition of real and virtual business is needed.

Any business that provides a good or service to an Avatar will be defined as a “virtual business.” The transactions of virtual businesses are experience based. The only “real” effect of a virtual transaction between buyer and seller is the experience associated with a virtual event or product. One can see a pair of virtual shoes, drive a virtual car, or own a virtual house, but the only “real” interaction with the item is the personal response to an item’s presence in the virtual world. Only the Avatar of the purchaser can have any interaction with the product in order for the product to be considered virtual. A traditional, contemporary business which provides tangible goods and services with some presence outside of cyberspace is to be considered “real.” This distinction is crucial as we attempt to define the two types of commerce as two distinct forms of business that share related ethical requirements.

Is it Even Real?

When deliberating the similarities of virtual and real business, an important counter argument must be addressed. Some contend that no one can be physically harmed or physically cheated in a virtual environment and that any transaction that occurs in a virtual setting is not a real transaction. Therefore, any harm caused in the virtual world is not “real harm” rather it is “virtual harm.” Since no real harm occurs, an incident that causes harm in the virtual world is not unethical. This reasoning, according to Tavani,⁴ commits the *virtuality fallacy*. The fallacy has the following form:

1. “X” exists in cyberspace.

2. Cyberspace is virtual.
3. Therefore, X (or the effect of X) is not real.

One can observe this false reasoning in an actual SL situation involving Adidas, the athletic apparel giant. Adidas uses SL to brand and develop new products. They sell customizable virtual shoes in SL. During a four week period following the release of their SL product, Adidas sold over 15,000 (pairs of) virtual shoes.⁷ A virtuality fallacy argument for the sale of virtual Adidas would look something like the following:

1. The sale of Adidas brand virtual shoes exists in cyberspace, specifically SL.
2. Cyberspace and SL are virtual.
3. Therefore, the sale of virtual Adidas is not real, nor is the effect of such a sale.

Even if one was to assume the argument contains true premises, the effect of selling virtual Adidas extends beyond cyberspace. The effect is the associated experience of the resident who purchases virtual Adidas and sees them attached to their Avatar. Also at stake is the value of the Linden Dollars that change possession during the purchase, which hold a real world US Dollar value. One can argue the act of selling virtual Adidas is not real because it occurs only in cyberspace. However, the effect of selling virtual Adidas is real and extends beyond cyberspace through the resident's experience and the associated cost of the purchase. As the experience of purchasing and receiving virtual Adidas is real, so too must be the harm associated with a bad virtual business transaction. The inherent "goodness" or "badness" of a transaction does not make any difference in a resident's ability to experience it. The experience and associated cost of a bad virtual business transaction would result in a negative experience. Negative experiences are a form of harm as they may cause grief, pain, or insult. While a purchase in SL is virtual, its associated experiences are real and therefore the purchase is subject to the same ethics as a real business transaction.

What are Real Business Ethics?

Unfortunately, in either virtual or reality based realms, there are no worldwide defined universal codes for business ethics. Different areas of the world have different cultures, with

different laws, imperatives, practices, consequences, and forms of resolution. Only local laws exist to curb and shape behavior in a manner that benefits society. Even within the United States, individual company ethics differ from one code of ethics to the next. SL is a worldwide system of commerce, and as a result, it faces a vast array of different ethical codes concerning business practices. With no established and accepted worldwide ethics codes to guide business in the virtual realm, two ethical theories were examined as a means of guiding behavior as the SL economy grows.

Consequence Theories as Guidance

Consequence based ethical theories present a guideline for virtual business transactions. These theories suggest that the primary goal of a moral system is to produce desirable consequences or outcomes for the members of the system's society. This theory states that consequences of actions and policies provide the ultimate standard against which moral decisions are to be evaluated.⁸ The real business consequences of not providing a pair of Adidas shoes to a person that entered a store and gave a clerk money would be against the law and result in prosecution, along with other negative consequences. To do so would be stealing and would be morally wrong as it would promote others to steal and break down the system of commerce that an economy requires. This is strong evidence to support a utilitarian theory. Utilitarians draw on the principle of social utility and the belief that social utility can be measured by the amount of happiness produced.⁹ The greatest amount of happiness in this situation occurs when people are not victims of theft and commerce survives. Consequence based utilitarian ethical theory provides a moral system for business ethics that, if adhered to, creates the greatest good for the greatest number of people.

The principal of social utility is the foundation which guides moral behavior and results in a state of happiness. The moral value of actions should be measured by social usefulness and their utility can be measured by the amount of happiness created. An action has greater moral permissibility if it produces a greater amount of utility. More utility ultimately leads to a greater amount of happiness. It is a universally accepted desire to avoid pain and seek happiness; an overwhelming majority of people desire happiness. It is an intrinsic good for its own sake. Happiness is not merely a means to some further ends. Using this reasoning as a base, it is accurate to say that promoting happiness should be the criteria for moral decisions.¹⁰

Under the utilitarian view, the most ethical behavior in the SL economy would be the action that creates the most happiness; furthermore, these morally correct actions support the continued hyper-growth as reported in *Entrepreneur*, *Business Week*, and *Inc. Magazine*. As businesses sell more virtual goods and services, the person behind the Avatar experiences the product and a subsequent degree of happiness and satisfaction. In order for the virtual commerce of SL to exist and the community to grow beyond the 4.5 million mark, people must get what they pay for. Otherwise, commerce will slow, residents will be unhappy and unsatisfied with their SL experience, and the sustainability of the SL economy will falter.

In the grand scheme of things, a virtual product and a real product serve to satisfy the same thing; a consumer's specific need or want. Although a virtual product cannot be physically handled or experienced in some tangible manner, there is an implied emotional response as a result of an interaction with the product in SL. A real product can be handled, but there is also an associated experience and an emotional response due to ownership. Physical interaction is not required for a product or service to have value. The act of selling a product, virtual or real, implies some exchange of value. The manner in which a product is delivered has no bearing on its ability to create an emotional response. Therefore, the utilitarian theory which prevents a merchant from stealing from potential customers establishes a moral code for the virtual businesses in SL.

Virtuous Theories as Guidance

A second set of ethical theories that should guide the virtual business world are virtue ethics. A virtuous business person in SL will conduct themselves in a way that demonstrates good character traits by the kinds of habits they develop. The vast array of freedom and choice which SL provides requires residents to individually question the ethics of their business habits.

Virtue ethics focuses primarily on character development and moral education, it does not need to rely on a system of formal rules⁴ Part of the appeal of SL is the fact that there is no established system of rules or law. SL does provide a list of six community standards to which people ought to adhere by. The list provides general standards of behavior for issues concerning harassment, bigotry, indecent exposure in public areas, and assault.¹¹ With only one's imagination to limit him or herself, SL business transactions take place in a world where personal freedom gives residents the chance to choose their own destiny. In SL, residents are

forced to ask themselves repeatedly, “What kind of person should I be?” Residents choose their appearance. They choose if they want to own property and if so what to place on that property. They choose when and where they want to travel, and how they communicate with other residents when they arrive. This continual questioning of one’s self leads residents into a pattern of virtue based ethical development. Virtuous habits lead individuals to place an emphasis on being moral people by simply making them think about what they are doing.

Without much conscious effort, virtuous behavior guides both the virtual and real business worlds. In order for a business to be successful and profitable, it must provide the product or service it promises to deliver. A business that trades on Wall Street cannot hide behind the mask of a flying white wolf named Sinsin. In SL, “No one knows you’re a dog.” So why deliver? Although the product or service will never be seen, tasted, or touched, it has value. It has a value to the person that created it and it has a value to the resident that desires it. Because a distinct price has been agreed on, it is no different than a product or service anyone could obtain through a contract and the traditional exchange of currency. As in the case of a tangible product or service, there are monetary and time costs incurred. Value is implied from the associated costs, desired profit of the owner, supply, and demand for the product or service. SL commerce provides a product or service that is coded by a human and therefore has value properties comparable to that of software. The value is real to both the buyer and the seller. So just as it would be unethical for the seller not to provide a good that has been paid for, it is equally unethical for a resident to copy or otherwise acquire a product without paying for it. The virtuous behavior that is required for both types of businesses to succeed is to provide the product or service in exchange for the price that was agreed upon.

Virtuous business practices provide a means to a sustainable SL economy. It is the responsibility of the residents and business owners of SL to act in a manner that supports functional commerce. If consumer confidence in the business practices of other SL residents falters, the burgeoning economy will fail when residents view any purchase to be riskier than the perceived benefit of buying the product. To continue the success of SL and the businesses that rely upon it, it is the ethical responsibility of the residents themselves to act in a virtuous manner and understand the consequences of failing to do so. Virtuous residents seek to develop their character in a morally correct manner after questioning what they believe to be morally right.

Conclusion

The inherent individual freedom of SL allows residents to create themselves and the virtual world as they see fit. In SL, there are no ethical watchdogs or set of professional business guidelines established to oversee the exploding economy within this universe of cyberspace. Linden Lab should remind residents that despite SL being a virtual world, there are real effects from their actions. Additional points should be added to the community standards using consequence and virtue based theories as guides. These points should emphasize the effect of one's actions in a virtual world and remind residents that all of their actions have an effect on real people. Creating awareness about the effects and consequences of people's actions will help prevent unethical business behavior as the community and economy continues to develop.

It is the responsibility of residents to view their personal business decisions under the consequences of virtue based ethical models. Linden Lab has vociferously declared a laissez-faire policy within the boundaries of SL. The monumental growth seen in the Second Life economy over the last year signals that unofficial ethical codes have been created. They are adhered to on a daily basis when pertaining to business decisions. If the unspoken ethical groundwork of SL did not exist, one would not observe such a positive trend in SL economic growth. Linden Lab should adopt the unspoken code that exists between residents and call attention to the importance of ethical business behavior. Linden Lab should expand their community standards to include points addressing business ethics. By raising awareness of the importance of virtuous behavior, the virtual commerce of SL will continue to be a reality.

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