

Ethical Practices in Apple Inc

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Introduction

Companies should not sacrifice ethics for the sake of profits, instead; ethics should drive business towards profitability. However, due to the competitive business environment, some manager may be tempted to engage in unethical business activities in order to reduce operational expenses and increase revenues resulting in higher margins, hence out pacing their peers in the industry.

Ethical behavior of firms has received overwhelming interests among researchers due to recent cases of corporate scandals, which has led to increased government regulations, pressure from the media and stakeholders underpinning the importance of ethical behavior on business performance. However, Berrone, Surroca and Tribo (2007) observe that the link between ethical behaviours of firm and business performance is yet to be fully established. On the other hand, Bamford and West (2010, p.25) and Jensen (2001) assert that ethical business practices aid business firms to gain competitive advantage because ethical behavior of firms generate positive externalities, necessary for long term performance of the firm. Jensen (2001) disputes the notion that ethical behavior of firm foster business performance, terming ethical initiatives “investments without payoff”

Recent media reports indicate that Apple, one of the world’s largest and most economically successful organizations in the world, undermines ethical principles in pursue of profits, though, Apple explicitly state that its business practice are underpinned by ethical principles and norms. Among the allegations levelled against the technology giant include: deceptive marketing practices, tax avoidance, child labour and, recent cases of compromised products. Therefore,

there is a need to discuss and evaluate ethical behaviours of Apple in the light of these allegations.

Overview of Apple Inc and its Activities

According to Apple (2012) and Morrissey (2010) Apple Inc was founded by Steve Jobs and Steve Wozniak in 1976 and has over the years grown to become a leader in the computer industry. The management and visionary leadership of this technology company is credited for revolutionizing technology through innovation of major products such as the iPad, iPhone, iPod, iMac and Apple TV. Additionally, Apple sells digital content through the iTunes Store, iBookstoresSM, Mac App Store and App StoreSM together with application and operating software applications iCloud, iTunes and iOS.

Apple's flagship of strong brands in the computing and phone segment has made the company to be highly respected internationally and contributed immensely to the success of the company.

The success and recognition of Apple, both in the domestic and international markets, necessitates that the giant computer and phone maker puts in place ethical policies to aid maintain the positive image the company enjoys in the domestic and international markets, therefore continue to gain competitive advantage over industry competitors. Though, Apple Inc does not produce its products directly but outsources production to Chinese firms, it ensure that the suppliers engage in ethical business activities. Apple (2012) reports that Apple Inc requires suppliers to abide with Suppliers Code of Conduct that seeks to entrench ethical behaviour in suppliers business activities.

Ethical Policies in Apple Inc

In the contemporary business environment, multinational companies are either outsourcing

business activities to cheaper destinations in Asian countries such as China and India, or sourcing production services from the Asian countries. Yip (2007) explains that multinational business enterprises prefer to outsource the production of their products, or source products from Asian countries because of low cost, high skilled labour in the Asian countries, especially India and China. Additionally, Karlgaard (2012) continues to explain that manufacturing plants in Asian countries produce high quality products at low production costs making them attractive to multinational business enterprises keen to enhance their competitiveness in a competitive business environment. Apple, just like other multinational companies, seeking to cut on their labour and operational costs has outsourced its production of computer and phone products to China in order to produce high quality products at low production costs and enhance competitiveness over competitors in the computer and phone industry. Hitt et al., (2012, p.168) also note that Apple Inc sources products from Asian countries, particularly from China, where Chinese manufacturing companies produce a variety of electronic products such as microchips, screens, batteries among other electronic gadgets.

Jennings (2010, p.46) observes that manufacturing plants in Asian countries engage in unethical business activities in order to reduce production costs and so remain competitive in the international market. Therefore suppliers in China who sell their products to Apple in order to produce and sell at competitive prices engage in unethical business activities in order to reduce the cost of production, a benefit that is passed to the buyer, in this case Apple. Jennings (2010, p.50) continues to observe that Asian manufacturing plants, especially in China exploit their workers, as employees are made to work for long hours for peanuts. Asian manufacturing plants have been also accused of using child labour in their plants to reduce production costs. These

exploitative behaviours of Asian manufacturing plants are awash in news and other reports, for instance, Foxconn, an outsourcing company in China has been accused of employee mistreatment, use of child labour, gross violation of basic employee rights and poor working environment. Therefore, an ethical corporation that obtains supplies from Asian manufacturing plants should use all the right channels to ensure that the supplier does not employ unethical business activities to reduce production costs and other operational costs. Collier and Evans (2011) state that Apple Inc being an ethical corporation that would like its suppliers to engage in ethical business activities outlines a supplier code of conduct. Collier and Evans (2011) assert that the supplier code of conduct that Apple Inc gives its suppliers does not include Asian countries only but also other suppliers located in other locations around the world. The code of conduct requires suppliers of Apple Inc to conduct their business practices in a manner that respects labour rights, upholds human rights, observes ethical principles, promotes health and safety of employees, respects the environment and enhances management systems. The code, for example, requires that employees' of Apple Inc's supplier should work a minimum of 60 hours in a week and be granted a day off in a week. The code of conduct that Apple Inc is a scion of internationally recognized ethical standards and is meant to ensure that Apple's suppliers do not engage in unethical business activities in their push to reduce production costs.

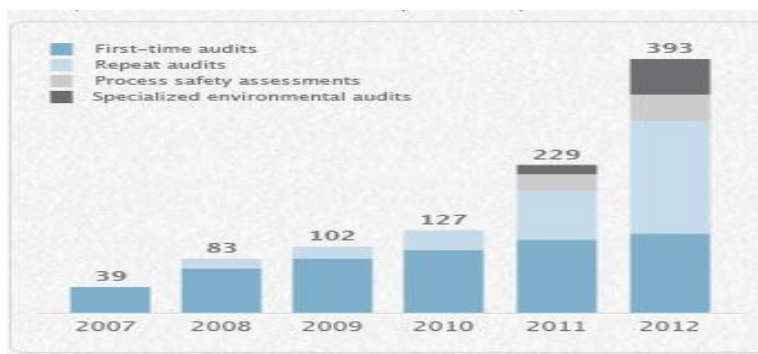
Collier and Evans (2011, p.25) state that Apple conducts frequent and impromptu visits to their contractors to assess conformity to the supplier code of conduct. Noncompliance with the supplier's code of conduct gives Apple Inc the right to terminate a contract of a supplier that does not comply with the code and is involved in core violations. Among the ethical behaviours that Apple terms as core violations include physical abuse, underage working, forced labour,

significant environmental pollution and subjecting workers to conditions that are a threat to their lives and safety. Pratap, Radhakrishnan and Dutta (2012) report that Apple in the annual supplier responsibility report indicated that it had terminated its contract with Guangdong Real Faith Pingzhou Electronics (PZ) for employing underage labourer in its production plant, an indication that ethical business is not rhetoric to Apple Inc. Apple (2012) states that it does all within its capacity to make sure that serious breaches, which it considers as core violations are stopped and corrected to ensure that the supplier does not carry them to the next customer. However, if a supplier is not committed to fixing the violations, Apple Inc sever the relationship with the supplier and reports the unethical business practices to the relevant authorities. For example, in the case of Guangdong Real Faith Pingzhou Electronics (PZ), Apple reported cases of underage labour in PZ to the authorities and the company was temporarily suspended and fined for child labor.

Cases of supplier's engagement in unethical business activities heavily damage Apple Inc reputation like in the case of Foxconn, Apple Inc came under immense pressure from the public and the media for allowing its supplier to exploit workers. Consequently, Bredeson (2011) notes that Apple provides an annual responsibility progress outlining suppliers effort to comply with the laid down standards. Bassi, Frauenheim and Costello (2011, p.193) observes that Apple enlightens workers of suppliers on labour laws and regulations and Apple's code of conduct with regard to employee treatment by the supplier, which shows Apple's commitment to ethical business practices. Further, because Apple is highly committed to seeing its supplier practice ethical business activities, the California based technology giant trains the management of its

supplier’s on ethical business activities to ensure that the management does not engage in unethical behaviours due to incompetence. In addition, Apple Inc promotes ethical business activities in its core business operations, which are not outsourced to third parties in Asia. The technology giant has a code of business that is observed in all of its operations. The company has also specific policies that seek to address areas prone to unethical behaviours such as conflict of interest, procedures on reporting questionable behaviours and corporate governance, all this aimed at enhancing integrity. Additionally, Apple Inc has established an Audit and Finance Committee that employees report any unethical behaviour. Therefore, it is evident that Apple Inc is committed to ethical business practices.

Figure 1. Audits conducted by Apple in the year 2012.



Source: Apple (2012)

Allegations of Unethical Business Practices by Apple Inc

Although, Apple Inc remains the most recognized, admired and respected computer and mobile phone manufacturer, the technology giant has been engaged in breaches of ethical business practices and principles. Among the ethical issues Apple Inc is has breached include: charging much higher prices in the Australian market than in other markets; making unfair advantage through its dominant market share; condoning harsh working conditions, which are present at its suppliers; misappropriation of the IPR (intellectual property rights) of rival companies;

promoting and authoring software that restricts freelance authors' distribution rights; and engaging in unethical marketing activities and compromised quality on its latest iPhone.

One serious breach of ethical business practices that Apple Inc has breached is on underage labour and working conditions. Despite measures Apple has taken to curb the use of underage labour and improvement of working conditions in manufacturing plants of its suppliers, there are numerous reports of underage and poor working conditions in the supplier's plant. Vascellaro (2012) observes that Americans are questioning if it is indeed ethical to own an iPhone given the horrid working conditions at where iPhones are manufactured. Employees who manufacture Apple's products are mistreated, overworked and underpaid despite Apple reporting robust profit year on year. According to Pratap et al., (2012) the largest maker of Apple product Foxconn located in Shenzhen, China, 5% of the entire workforce is comprised of underage workers, employees including the underage workers work for over 16 hours without overtime pay and workers are exposed to dangerous working environment. Because of the abhorrent working environment in Foxconn, the author further observes that Foxconn has been reporting increased cases of death as a result of suicides, exhaustion and explosions. Other employees have become disabled as a result of coming into contact with dangerous chemicals such as hexane and neurotoxin. Due to the strikingly glare cases of workers exploitation by suppliers of Apple Inc like Foxconn and lack of disciplinary actions by Apple Inc, it is evident that the technology giant is not doing enough to protect workers labour and human rights. Apple Inc can invoke its powers contained in the supplier's code of conduct to compel Foxconn and other Asian manufacturing plants to improve workers' conditions or else risk losing business relationship.

In the recent past, following the launch of iPhone 4, there are media reports that iPhone 4 has

failed to live to its expectation due to its poor quality. The brand of Apple's products has been synonymous with product quality, however, the recent cases of compromised quality of iPhone 4 cast Apple Inc in a bad light, creating ethical dilemmas for the company. Customers have been complaining about iPhone 4 poor reception, a problem that Apple accepted was caused by antenna interference when the iPhone was held in a certain manner. The technological company instead of solving the reception problem opted to mitigate the problem by providing iPhone users with bumpers and cases to resolve the reception problem. Though, the technology giant is responding to the fast changing needs of the consumer by introducing numerous electronic gadgets in the market in a span of one year, it has a moral obligation to make sure the products in the market are beyond board when it comes to quality. Superior product quality is a tenet of ethical business practices, therefore, Apple Inc failed to fulfil its ethical principle by availing to the market a faulty gadget.

Apple has been accused of engaging in deceptive advertising practices by concealing vital information to the consumer about the iPhone 4, which is an unethical business practice. Odies and Hartline (2010, p. 71) observes that deceptive marketing activities are only beneficial to a business enterprise in the short run, however, it damages the company's reputation in the long run as customers switch to reliable products. A technological giant like Apple should be more consumer centric than profit centric to build long-term relationship with the customers. Lane (2008) observes that Apple Inc is being sued for withholding information about iPhone battery. The company failed to disclose to the consumers that the battery can only be charged 300 to 400 times, meaning that the battery has a useful life of one year, and the battery is not user replaceable. The company also did not disclose that the battery of the iPhone is encased in the

iPhone and only the manufacturer can replace it at \$85.95. Lane (2008) states that Apple is being charged for “purposeful and fraudulent concealment” of vital information to the product users, as the information was only released three days after the release and launch of the iPhone in the market, highly inconveniencing consumers. Deceptive advertising activities constitute unethical business practices, which are also morally unacceptable; consumers should be given all relevant information about a product to make an informed decision before committing to buying the product.

Despite Apple having established an Audit and Finance Committee and structures to check that the company safeguards its repute by engaging in ethical business practices, Callahan (2012) observes that Apple, though, the most admired business enterprise, it is the least ethical corporation in the United States of America. Callahan (2012) point out that Apple has been evading taxes by transferring intellectual property to tax havens to circumvent profits from that IP. Apple Inc being the most valuable and profitable corporation is an ethical leader and should be a role model for smaller companies, therefore inventing tax avoidance scheme is undermining the ethical leadership mantle. Other unethical business practices that Apple Inc has been accused of committing include infringement of patents and environmental damage. Apple was recently sued by Kodak for infringing on Kodak’s patent of digital imaging technology, a case that is still pending in court. In a related issue of ethics, Riley (2007) posits that Apple Inc is accused of using dangerous chemical bromine in the iPhone undermining green and sustainable business initiatives.

Conclusion

Companies across the world are operating in a tough business environment; some managers

believe that the only way to compete successfully is through engaging in unethical business practices. Manufacturing plants in China such as Foxconn, which is a supplier of Apple's product, engages in unethical business practices to reduce production costs. The company overworks employees, underpays employees, provide abhorrent working condition and employs underage workforce, something that is unethical. Apple having established a business relationship with Foxconn should promote ethical business practices by enforcing the supplier code of conduct; however, it has failed to crack the whip on its largest supplier. On the other hand, Apple has its own share of unethical baggage such as tax evasion, deceptive marketing practices, poor product quality, environmental pollution and patent infringement. It is, therefore, evident that though Apple is the most valuable and profitable company in the United States of America, it is the least ethical.

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