

CASE 14

Apple Inc.'s Ethical Success and Challenges*

Headquartered in Cupertino, California, Apple Inc. experienced many challenges throughout its business history. In 1997 Apple's share price was \$3.30. Fifteen years later its share price rose to \$705.07 (although its share price decreased to \$425 the following year). In 2014 Apple split its stock 7-1, meaning each share was worth a seventh of its previous value, and stockholders were given seven extra shares of stock to make up the difference. Apple's stock price has become a key benchmark for the technology sector. For the past eight years, Apple earned first place among *Fortune* magazine's World's Most Admired Companies. To millions of consumers, the Apple brand embodies quality, prestige, and innovation.

Although companies tried to copy the Apple business model, none have been able to discover what it is that makes Apple so unique. Apple is ranked first in innovation by *Fortune* magazine and is a market leader in the development and sales of mobile devices. Many believe Apple's success stems from a combination of several factors, including the remarkable leadership skills of former CEO Steve Jobs, a corporate culture of enthusiasm and innovation, and the high-tech products for which Apple is known. These combining qualities allow Apple to revolutionize the technology and retail industries.

APPLE'S HISTORY

Apple's first product, the Apple I, was vastly different from the Apple products most are familiar with today. This first handmade computer kit was constructed by Apple cofounder Steve Wozniak. It lacked a graphic user interface (GUI), and buyers had to add their own keyboard and display. Cofounder Steve Jobs convinced Wozniak that it could be sold as a commercial product. In 1976 the Apple I was unveiled at the Home Brew Computer Club and put on sale for \$666.66.

Jobs and Wozniak continued to create innovative products. Soon their new company, Apple Computer Inc., surpassed \$1 million in sales. However, the mid-1980s brought difficult times for Apple. In 1983 the company introduced the Apple Lisa for \$10,000. The product flopped. In 1985 Steve Jobs was ousted after internal conflicts with the Apple CEO. Its computer products the Mac I and the Newton were not successful, and the company underwent several CEO changes. With declining stock prices, the future of Apple was in jeopardy.

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Steve Jobs returned to Apple in 1997 to try and save the struggling company. The return of Jobs introduced a new era for Apple. Jobs immediately began to change the company's corporate culture. Before Jobs's return, employees were more open about Apple projects. After he returned, Jobs instituted a "closed door" policy.

Aside from efforts to protect intellectual property internally, Jobs was also a proponent of using litigation against rival companies suspected of patent infringement. Apple sued Nokia, HTC, and Samsung in 2009, 2010, and 2011, respectively. Perhaps the most notable lawsuits were made against Samsung, where both companies filed suits against each other across nine countries over a three-year period. In total, Apple and Samsung filed over 40 patent infringement lawsuits and counter suits related to intellectual property rights. The companies decided to end litigation outside of the United States, choosing to focus instead on cases that are still active in the United States. Today Apple continues to remain vigilant in protecting its technology and ensuring information remains proprietary.

Jobs also created a flattened organizational structure; rather than go through layers of management to address employees, he addressed them directly. Perhaps one of the most noticeable changes, however, was Apple's expansion into new product lines within the electronics industry. In 2001 Apple launched the iPod—a portable music player that forever changed the music industry. The company also introduced iTunes, a type of "jukebox" software that allowed users to upload songs from CDs onto their Macs and then organize and manage their personalized song libraries. Two years later Apple introduced the iTunes Store, where users could download millions of their favorite songs for \$0.99 each online.

The introduction of the iPhone in 2007 was a turning point for Apple and the beginning of a paradigm shift for the entire world. The iPhone was a revolutionary new smartphone with the music capabilities of an iPod. The success of the iPhone cannot be understated. In 2015 iPhone market share was nearly tied with Android smartphones in the United States. The new generation iPhone 6 accounted for close to half of all new smartphone sales.

The same year that Apple introduced the iPhone, Jobs announced Apple Computer, Inc. would be renamed Apple Inc. This signified that Apple was no longer just a computer manufacturer but also a driver in consumer electronics. Some saw this as a shift away from computers toward consumer electronics such as Apple TV, iPods, iTunes, iPhones, and iPads. However, it may be more accurate to say Apple is reinventing computers, or at least what they look like and how they are used. With the introduction of tablet computers such as the iPad, Apple began to take market share away from its top competitors in the computer industry, but in the process sales of its Mac computer line were also cannibalized by consumers opting for a tablet. Sales of desktops, laptops, and netbooks began to decline after tablet computers were introduced. Although analysts believed tablet sales would continue growing at a rapid rate, the tablet market became saturated with fewer than expected customers upgrading their current tablets to newer versions. Because nearly half of all U.S. households own at least one tablet, this has translated into stagnating industry growth and low sales. Consequently, just as Apple cannibalized its own line of Mac computers with the introduction of the iPad, it appears that its newest iPhone, which features a larger screen, is eroding the iPad market. The dynamic fluctuation in PC and Mac computer sales and the frequent introduction of new smartphones make it difficult to predict future sales of Apple products. Only time will tell if Apple's devices improve in market share or are overtaken by a rival platform.

APPLE'S CORPORATE CULTURE

Apple's transition from a computer to a consumer electronics company is unprecedented—and hard to replicate. Although many can only speculate about why Apple succeeded so well, they tend to credit Steve Jobs's remarkable leadership abilities, Apple's highly skilled employees, and its strong corporate culture.

The concept of evangelism is an important component of Apple's culture. Corporate evangelists refer to people who extensively promote a corporation's products. Apple even had a chief evangelist whose job was to spread the message about Apple and gain support for its products. However, as the name evangelism implies, the role of evangelist takes on greater meaning. Evangelists believe strongly in the company and will spread that belief to others, who in turn convince other people. Therefore, evangelists are not only employees but loyal customers as well. In this way, Apple was able to form what it refers to as a "Mac cult"—customers who are loyal to Apple's Mac computers and who spread a positive message about Macs to their friends and families.

Successful evangelism only occurs with dedicated, enthusiastic employees who are willing to spread the word about Apple. When Jobs returned to Apple, he instituted two cultural changes: he encouraged debate on ideas, and he created a vision employees could believe in. By implementing these two changes, employees felt their input was important and they were a part of something bigger than themselves. Such feelings created a sense of loyalty among many working at Apple.

Apple prides itself on its unique corporate culture. On its job site for corporate employees, it assures potential applicants that the organization has a flat structure, lacking the layers of bureaucracy of other corporations. Apple also emphasizes that it does not adhere to the average work day. Instead, Apple markets itself as a fast-paced, innovative, and collaborative environment committed toward doing things "the right way." By offering both challenges and benefits to applicants, Apple hopes to attract those who fit best with its corporate culture.

Apple also looks for retail employees that fit well in its culture. It wants to ensure that its retail employees make each consumer feel welcome. Inside Apple retailers are stations where customers can test and experiment with the latest Apple products. Employees are trained to speak with customers within two minutes of entering the store. To ensure its retail employees feel motivated, Apple provides extensive training, greater compensation than employees might receive at similar stores, and opportunities to move up to manager, genius (an employee trained to answer the more difficult customer questions), or creative (an employee who trains customers one-on-one or through workshops). Apple also offers young people the chance to intern with the firm, become student representatives at their schools, or work remotely during college as phone customer support representatives.

Another benefit Apple offers combines employee concerns with concerns of the environment. In an effort to reduce its overall environmental impact, Apple offers incentives such as transit subsidies for employees who opt to use public transportation. Additionally, as part of its long-term commitment to sustainability, Apple is spending \$850 million for 25 years of solar power. Its Cupertino facility runs on 100 percent renewable energy and is equipped with shuttles for employees. Apple's free buses are powered by biodiesel. Apple also began construction on a new headquarters facility, named Apple Campus 2. With a budget of \$5 billion, the new facilities will include a fitness center, underground

auditorium, and 300 electric vehicle charging stations. The new buildings, expected to be completed in 2016, will be LEED certified and incorporate solar technology. The Campus is also conveniently located so that many employees can walk, ride, or carpool to work. These incentives reduce fuel costs for employees while simultaneously lowering emissions released into the environment.

APPLE'S ETHICS

Apple has tried to ensure its employees and those with whom they work display appropriate conduct in all situations. It bases its success on "creating innovative, high-quality products and services and on demonstrating integrity in every business interaction." According to Apple, four main principles contribute to integrity: honesty, respect, confidentiality, and compliance. To thoroughly detail these principles, Apple drafted a code of business conduct that applies to all its operations, including those overseas. It also provides specific policies regarding corporate governance, director conflict of interest, and guidelines on reporting questionable conduct on its website. Additionally, Apple provides employees with a Business Conduct Helpline they can use to report misconduct to Apple's Audit and Finance Committee.

Many of Apple's product components are manufactured in countries with low labor costs. The potential for misconduct is high because of differing labor standards and less direct oversight. As a result, Apple makes each of its suppliers sign a "Supplier Code of Conduct" and performs factory audits to ensure compliance. Apple may refuse to do additional business with suppliers who refuse to comply with its standards. To emphasize its commitment toward responsible supplier conduct, Apple releases an annual Apple Supplier Responsibility Report that explains its supplier expectations as well as audit conclusions and corrective actions the company takes against factories where violations occur.

ETHICAL ISSUES AT APPLE INC.

Although Apple has consistently won first place as the World's Most Admired Company, it experienced several ethical issues in recent years. These issues could have a profound effect on the company's future success. Apple's sterling reputation could easily be damaged by serious misconduct or a failure to address risks appropriately.

Privacy

Consumer tracking is a controversial issue. With the increase in social networking, mobile devices, and Internet use, the ability for companies to track customers is greater than ever before. For Apple, more customer information can help the company better understand consumer trends and subsequently market its products more effectively. However, the firm must still show respect for consumer privacy, and a perceived breach in privacy is likely to result in a backlash against the company.

In 2011 Apple experienced just such a backlash. Apple and Google disclosed that certain smartphone apps and software, often utilizing the phones' internal GPS devices, collected data on the phones' locations. Consumers and government officials saw this as an infringement on user privacy. The companies announced that users have the option

to disable these features on their phones, yet this was not entirely true for Apple's iPhone. Some smartphones continued to collect location information even after users disabled the "location" feature. Apple attributed this to a glitch it remedied with new software. In future iPhone releases, Apple improved the privacy features of iOS, the mobile operating system found in the iPhone and iPad. The security feature upgrades include enhanced Wi-Fi security and a policy that location features are turned off by default on new iPhones. Once the smartphone is set up, users have the option of turning on the location feature if they desire. Both Google and Apple defend their data-collection mechanisms, but many government officials disagree that these tracking techniques are appropriate.

In 2015 the FCC investigated whether a major wireless carrier violated consumer privacy rules by tracking mobile Internet activity without users knowing. The wireless carrier claimed users can opt out of its tracking and advertising program. The FCC and other government agencies continually develop mobile privacy legislation that addresses the rapid technological advancements in mobile devices. While these actions should improve consumer privacy, they could also have profound effects on Apple, other electronics companies, and wireless carriers. Perhaps as a way to preempt legislation, some major mobile carriers have already decided to eliminate services that track user activity.

Another privacy controversy was related to Apple Pay, software that allows consumers to purchase items through their iPhones. The mobile payment system became a target for hackers, who exploited vulnerabilities in the verification process of adding a credit card to an Apple Pay account. Apple Pay was designed with simplicity at its core—users can complete transactions by waving their iPhone in front of a wireless reading machine. Apple also implemented a number of security features into Apple Pay so consumer information is safeguarded. The issue with hackers gaining access to payment information is at least partially the responsibility of the banking institutions, since they approve the addition of credit cards to Apple Pay accounts. Banks did not ask enough security verification questions, making it easier for consumers to add credit cards to their accounts but also leaving the door open for increased fraud.

Compromised information from Apple Pay was not the first time an Apple system was attacked by hackers. Just a few months before vulnerabilities in Apple Pay were exploited, hackers broke into 26 iCloud accounts belonging to celebrities. Many people use iCloud's remote cloud storage capabilities to store photos, videos, and music. When the hackers gained access to the cloud-based accounts, they leaked nude photos of the celebrities. These highly publicized scandals led many to criticize the security of iCloud, with some completely losing trust in Apple's ability to secure user information across the entire iOS ecosystem. These celebrity photo leaks came at a time when iCloud was also being targeted by cybercriminals trying to intercept and obtain usernames, passwords, and personal data from users in China. Apple responded to the attacks by enforcing more stringent password requirements and adding extra layers of encryption to its iPhone and iCloud infrastructure.

Price Fixing

Another major ethical issue for Apple includes allegations of price fixing. A judge ruled that Apple had conspired to fix prices on electronic books (e-books) in conjunction with five major book publishers. A federal judge ruled that Apple was part of a deal that required publishers to give Apple's iTunes store the best deals in the marketplace for e-books. According to allegations, Apple allowed publishers to set the e-book prices for the iPad, and Apple received 30 percent of the proceeds (known as the "agency model"). The agency model is thought to be less competitive than the wholesale model, in which retailers and

publishers negotiate on the price. However, if a competitor was found to be selling the e-book for less, Apple was to be offered the same lower price. This scheme is more commonly referred to as a most-favored-nation clause and can be used by companies to dominate the market by keeping competitors out. After striking the deal with Apple, publishers then approached Amazon about participating in the contract. In court, Apple faced fines totaling \$450 million as part of a settlement agreement. Apple denied any wrongdoing and acknowledged only passive association with the deal to set e-book prices.

Rioting

In early 2012 Apple halted sales of the iPhone 4S at retail stores in China. This result came after massive crowds waiting for 48 hours outside of the flagship store in Beijing began to riot. Tensions grew between prospective buyers waiting overnight who tried to edge themselves closer to the front of the line. The estimated crowd was upwards of 2,000 people, which alarmed police officials who asked Apple not to open the store as a safety precaution. Customers waiting for the iPhone retaliated by throwing eggs at the store and attacking a mall property manager mistaken for an Apple employee. To their dismay, customers were encouraged to purchase the iPhone online or through other authorized sellers. Other stores in Shanghai and one other in Beijing opened as scheduled and quickly sold out of the iPhone 4S. Many questioned Apple's ethics about how they handled this situation and the dangers to customer and employee safety.

Another instance of rioting associated with Apple occurred later in September when more than 2,000 Foxconn plant workers assembling the iPhone 5 broke out into a fight in the plant's dormitories. Authorities sent 5,000 police officials to restore order at the plant. Workers reportedly broke glass windows of guard shacks and destroyed railings throughout the property. Reasons given for the riot varied and included alleged beatings from factory guards, stress among workers required to produce products in a short period of time, and frustration with the work environment itself. This is not the first time Foxconn's environment has been questioned, and as a major Apple supplier, both companies have the responsibility to ensure workers at the plant are being treated fairly. More on Foxconn will be discussed later in this case.

Sustainability

Apple has taken steps to become a greener company and reduce the environmental impact of its facilities. It also has restrictions addressing the manufacturing, use, and recycling of its products. However, the company admits that the majority of its emissions come from its products. In 2013 Apple stated its operations contributed to 33.8 million metric tons of greenhouse gases released. While less than 2 percent came from its facilities, 98 percent came from the life cycle of its products, including manufacturing, product usage, transportation, and recycling. Since Apple's success hinges on constantly developing and launching new products, the environmental impact of its products is a serious issue.

One practice for which some consumers have criticized Apple is planned obsolescence—pushing people to replace or upgrade their technology whenever Apple comes out with an updated version. Since Apple constantly releases upgraded products, this could result in older technology being tossed aside. Apple undertook different approaches to combat this problem. For one, the company strives to build quality, long-lasting products with materials suitable for recycling. To encourage recycling, Apple implemented a program at its stores where old iPods, mobile phones, and Mac computers could be recycled.

Consumers that trade in their old iPods can receive a 10 percent discount on a newer version; those with old Mac computers that still have value can receive gift cards. Apple partners with hundreds of regional recyclers and has established recycling programs in 95 percent of the countries where its products are sold. Despite the recycling programs, many consumers still throw away their old products out of convenience, particularly if they have no value. E-waste remains a significant issue as consumers continue to improperly dispose of their old electronic devices.

Apple made a controversial move by temporarily removing 39 products from the Electronic Product Environmental Assessment Tool (EPEAT) rating system. The rating system provides green standards for computers and is used by many schools and governments when purchasing computer products. Apple stated it felt its products adhered to green standards not measured by EPEAT. Many consumers felt Apple might be embracing less eco-friendly products or was engaging in greenwashing. Many large buyers such as the city of San Francisco threatened to drop Apple computers as a result. Apple rejoined the EPEAT rating system after consumer feedback indicated that dropping the system was a mistake. With sustainability becoming a major concern for many buyers, Apple must carefully anticipate consumer reactions before implementing similar changes in the future.

Intellectual Property

Intellectual property theft is a key concern at Apple and is an issue the company aggressively pursues. Apple is serious about keeping its proprietary information a secret to prevent other companies from acquiring its ideas. This led to many lawsuits between Apple and other technology firms. In 1982 Apple filed a lawsuit against Franklin Computer Corporation that impacted intellectual property laws. Apple alleged Franklin was illegally formatting copies of Apple II's operating system and ROM so they would run on Franklin computers. Franklin's lawyers argued that portions of computer programs were not subject to copyright law. At first the courts sided with Franklin, but the verdict was later overturned. The courts eventually determined that codes and programs are protected under copyright law. This law provided technology companies with more extensive intellectual property protections.

Another notable case was Apple's lawsuit against Microsoft after Apple licensed technology to Microsoft. When Microsoft released Windows 2.0, Apple claimed the licensing agreement was only for Windows 1.0 and that Microsoft's Windows had the "look and feel" of Apple's Macintosh graphic interface system (GUI). The courts ruled in favor of Microsoft, deciding the license did not cover the "look and feel" of Apple's Macintosh GUI. Although there were similarities between the two, the courts ruled that Windows did not violate copyright law or the licensing agreement simply by resembling Macintosh systems.

Two other lawsuits involved more serious ethical issues on Apple's part. One involved Apple's use of the domain name iTunes.co.uk. The domain name had already been registered by Ben Cohen in 2000, who used the name to redirect users to other sites. Cohen eventually used the domain name to redirect users to the Napster site, a direct competitor of Apple. Apple attempted to purchase the domain name from Cohen, but when negotiations failed the company appealed to UK registry Nominet. Usually, whoever registers the domain name first gets the rights to that name. However, the mediator in the case determined that Cohen abused his registration rights and took unfair advantage of Apple. Apple won the right to use the domain name, which led to complaints that Apple was being favored at the expense of smaller companies.

Apple faced another trademark lawsuit from Cisco Systems in 2007. Cisco claimed Apple infringed on its iPhone trademark, a name Cisco had owned since 2000. Apple and Cisco negotiated to determine whether to allow Apple to use the trademark. However, Apple walked away from the discussions. According to Cisco, the company then opened up a front organization, Ocean Telecom Services, and filed for the iPhone trademark in the United States. Some stakeholders saw Apple's actions as a deceptive way to get around negotiation procedures. The lawsuit ended with both parties agreeing to use the iPhone name. However, Apple's actions in this situation remain controversial. In a twist of events, iOS, the name given to Apple's mobile software, was also a trademark owned by Cisco. This time, Apple avoided controversy by acquiring the iOS trademark from Cisco before publicly using the name.

As was mentioned in the introduction, a more recent case came in the form of a lawsuit between Samsung and Apple. Apple claimed Samsung infringed on multiple intellectual property rights, including patents, trademarks, user interface, style, false designation of origin, unfair competition, and trademark infringement. Specifically, Apple claimed Samsung used key features of its iPhone and iPad, including glass screens and rounded corners, along with many performance features and physical similarities. A jury found Samsung guilty of willfully infringing on Apple's design and utility patents. Apple was initially awarded \$1.049 billion in damages, and Samsung's allegations of infringement against Apple were dismissed within the United States. After years of litigation Apple was ultimately awarded \$119.6 million, only a fraction of the initial damages the company sought against Samsung.

Apple produces expensive and technologically competitive products, so it makes sense that the company takes great strides to protect its intellectual property from theft. Apple's aggressiveness regarding patent protection led it to file lawsuits against some powerful companies, including Microsoft and Samsung. It also filed a lawsuit against HTC Corporation, a Taiwanese smartphone manufacturer that makes phones for Google's Android products. Apple accused HTC of replicating a range of cellphone features protected under Apple's patents. Although the lawsuit is directed toward HTC, it also indirectly targeted Google since it is a major client of HTC. Eventually, HTC and Apple agreed to drop the lawsuits against one another and accepted a 10-year licensing agreement.

One overarching ethical issue is the question of the legitimacy of Apple's claims. Is Apple pursuing companies it honestly believes infringed on its patents, or is it simply trying to cast its competitors in a bad light to gain market share? Although it might seem Apple is too aggressive, companies that do not adequately protect their intellectual property can easily have it copied by the competition, which uses it to gain a competitive foothold. It is up to the courts to determine the validity of Apple's allegations.

Threats to Other Companies

A recently released document suggests that in 2007 former CEO Steve Jobs allegedly threatened former CEO of Palm, Edward Colligan, with patent litigation if Palm did not cease and desist poaching valuable Apple employees. Jobs suggested each company should respectively comply with the idea of not taking valuable employees away from competitors. This "unspoken agreement" seems to have also applied among companies such as Adobe, Google, Intel, Intuit, and Pixar. The document came to light because of lawsuits filed by former Apple employees. Jobs's firm stance on the matter was made clear to Colligan, who countered with a response that this type of collusion was highly unethical and Apple's employees had the right to work at other companies. In 2010 the U.S. Department

of Justice filed an antitrust lawsuit against the aforementioned companies and required them to dissolve the agreement. Current CEO Tim Cook made it clear Steve Jobs was the only one with knowledge to this agreement and no other Apple employees were involved.

Supply Chain Management Issues

As mentioned earlier, Apple makes each supplier sign a supplier code of conduct and performs factory audits to ensure compliance. In addition, Apple says it has empowered over 6 million workers by teaching them about their rights, increased the number of suppliers it audits each year, and allows outside organizations to evaluate its labor practices. These audits appear to be an important component of controlling the supply chain. Apple discovered a correlation between improved compliance and the number of audits—facilities audited twice, instead of once, showed a 25 percent gain in compliance rating, while three audits resulted in an even greater 31 percent compliance score improvement. In the last few years serious supply chain issues have threatened to undermine Apple's status as a highly admired and ethical company. This threat is likely the catalyst to Apple's continuous supply chain improvements.

To meet the repeated demands of Apple consumers, products from the company must be readily available. Most of Apple's products are manufactured throughout Asia, with a majority produced within Foxconn and Pegatron factories in China. In the past, multiple accusations pertaining to improper working conditions, underage labor disputes, and worker abuse (that resulted in suicides) have come into question. Apple has been labeled as an unfair sweatshop, and critics launched multiple campaigns against the company. This resulted in negative publicity from protestors, who asked current Apple consumers not to support Apple's unlawful practices by purchasing its products.

Additionally, despite attempts to audit its factories and enforce strong supplier compliance standards, a large percentage of the suppliers audited by Apple violated at least one part of its supplier code of conduct every year since 2007. Suppliers claim Apple's manufacturing standards are hard to achieve because of the slim profit margins afforded to suppliers. In contrast, competitors like Hewlett-Packard allow suppliers to keep more profits if they improve worker conditions. According to suppliers, Apple's focus on the bottom line forces them to find other ways to cut costs, usually by requiring employees to work longer hours and using less expensive but more dangerous chemicals.

In this environment, mistakes and safety issues become more common. Thankfully, Apple appears to be making progress. According to the company's own audits, 92 percent of Apple's suppliers were in compliance of working-hour limits (60 hours per week). Additionally, audits discovered six facilities employing a total of 16 underage workers. Although Apple acknowledges that the problem of underage workers needs to be totally eliminated from the supply chain, each year the audits uncover fewer facilities out of compliance. In the past, problems with Apple's supply chain also included falsified records, overcrowded worker dormitories, and other labor violations. Apple claims suppliers who violate company policies are re-audited every 30, 60, and 90 days, or until the problem has been rectified. If a core violation is discovered, such as employing underage labor, employee retaliation, and falsified documents, the supplier is put on immediate probation while senior officials from both companies address the problem. Apple has dropped 18 suppliers for violations since 2007.

Several high-profile events at Apple factories generated criticism of its supply chain. In January 2010 over 135 workers fell ill after using a poisonous chemical to clean iPhone screens. In 2011 aluminum dust and improper ventilation caused two explosions that killed

four people and injured 77. Additionally, over a dozen workers committed suicide at Apple supplier factories. Much of the media attention focused on the conditions at Foxconn, one of Apple's largest suppliers with a background of labor violations. Foxconn continues to assert it is in compliance with all regulations.

Some blame factory conditions on Apple's culture of innovation and the need to release new and improved products each year, requiring suppliers to work quickly at the expense of safety standards. However, the Foxconn and Pegatron factories are some of only a handful of facilities in the world with the capacity to build iPads and iPhones, making it difficult for Apple to change suppliers. Additionally, inconsistent international labor standards and fierce competition mean that virtually every major electronics producer faces similar manufacturing issues. As media and consumer scrutiny increase, Apple must continue to address its supply chain management issues. However, as one current Apple executive told *The New York Times*, customer expectations could also be a problem since customers seem to care more about the newest product than the labor conditions of those who made it.

Apple claims it is significantly improving supplier conditions and becoming more transparent about its labor processes. CEO Tim Cook visited Foxconn to personally see the labor conditions firsthand. Apple worked with Foxconn to improve worker safety, including testing more equipment and setting limits on workers' hours. The Fair Labor Association (FLA) states that Apple has dramatically improved the accountability of Foxconn and completed 280 of the FLA's recommendations. However, continual monitoring of its suppliers and enforcement of ethical standards are necessary to assure stakeholders that Apple takes the well-being of workers in its supply chain seriously.

THE FUTURE OF APPLE INC.

Apple appears optimistic about its future. The company has created a cult following of consumers who are intensely loyal to Apple products. Apple's products are meant to offer superior solutions to those of competitors. In one of Apple's newest offerings, the company is taking its forays in the music industry further. For instance, Apple acquired Beats Electronics for \$3 billion. Beats Electronics is the company behind the popular Beats by Dre headphones and other co-branded electronics featuring Beats speaker systems, such as laptops. This purchase comes after Apple launched iCloud, a service enabling consumers to create and listen to their music collections without having to upload individual songs. While Google and Amazon offer similar music storage services, Apple has more songs at its disposal with iTunes and its record label agreements.

Also in 2015 Apple began selling the Apple Watch, a wearable computing device that functions as an extension of the iPhone. Wearable devices, often called "smartwatches," seem to be the new direction in innovation. Many of Apple's competitors, like Samsung and companies targeting fitness enthusiasts, have extensive lines of wearable devices that sync with various operating systems and mobile platforms. In an effort to combat investor speculation that it is no longer innovating, Apple introduced the iPhone 6 and iPhone 6 Plus after many consumers demanded an iPhone with a larger screen. Apple is designing products to continue expanding its customer base and remain relevant in the industry. The company is aiming to refine current products while continuing to develop new ones. Seizing on these opportunities can increase Apple's share of the smartphone, smartwatch, and tablet consumer electronics markets.

Apple has its share of threats. It constantly faces lawsuits from various competitors over alleged intellectual property violations. Additionally, although Apple's aggressive stance helped protect its intellectual property, its tight hold over its products and secrets could be disadvantageous as well. Google, for instance, has a more open-source approach. It has shown great support for the open-source movement, which advocates opening software and software codes in order to secure more input from outside sources. Although this openness increases the risks of intellectual property theft, it allows for innovation to occur more rapidly because of additional collaboration. This software strategy has helped Google compete with Apple; Android phones hold a nearly equal market share with Apple's iPhones. Apple may eventually need to re-examine whether its closed system is the best way to compete.

The most recognizable threat seen around the world was the death of Steve Jobs. In October 2011 Apple Inc. lost one of the most important aspects to its company. With the passing of the Apple founder and CEO, eyes are now turned to CEO Tim Cook. Tim Cook was Apple's corporate operations officer for many years before becoming CEO. Cook takes a more traditional approach in his management style by prioritizing project and supply chain management over creative engineering, attending investor meetings, being accessible to the media, and paying out dividends to stockholders, among other activities. He still maintains the secretive nature of the company but appears to be more approachable than Jobs.

Yet while Cook seems to possess the skills necessary for the CEO position, some fear he lacks the creative skills that made Jobs such a visionary. Jobs was considered to be a "creative builder;" able to recognize consumer needs and develop revolutionary products to meet these needs in dynamic ways. A major concern is that Cook does not possess these skills. This prompted many to question whether Cook's leadership might change Apple's culture negatively. On the other hand, others feel Cook could make Apple more competitive with his strong strategic management skills. The change in tone of the company is the big difference between the leadership styles of Cook and Jobs and will likely have a profound impact on the firm.

In the last decade, Apple has excelled at keeping pace with the quickly evolving computer and consumer electronics industries. Although skeptics have raised questions on whether Apple is still the driving force behind innovation, many believe new products are on the horizon. Its diversification, collaborative corporate culture, and product evangelism propelled it to heights that could not have been envisioned when Jobs and Wozniak sold their first computer kit in 1976. Although Apple has experienced many challenges along the way, the company has clearly showcased its ability to understand consumers and create products that have been implemented and used in customers' everyday lives.

QUESTIONS FOR DISCUSSION

1. Explain how Apple's philosophy and organizational culture have impacted how it handles ethical decisions.
2. Why is Apple's industry so competitive and how could this affect the ethical risks in Apple's operations?
3. How do you think Apple has handled the various ethical issues that it has faced in the past?

SOURCES

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