An Apple a Day: Ethics at Apple Inc.

INTRODUCTION

Headquartered in Cupertino, California, Apple Inc. has experienced many successes throughout their business history. Apple's journey to success has not been without ethical challenges along the way. Apple's success can be seen from their stock price, up from $3.30 per share in 1997 to $320 per share in 2020. Although companies try to copy the Apple business model, none have been able to discover what it is that makes Apple so unique. Apple is a market leader in the development and sales of mobile devices. Although Apple has consistently won a spot on *Fortune*'s World's Most Admired Companies list, it has experienced several ethical issues throughout the company's history. As a "tech giant," Apple is monitored extensively due to their extremely large market share and consequently the ability to abuse this power. Consumers and regulators stay alert for instances of abusive power, monopolies, and unfair practices that should be rectified.

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 monitor. 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

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times for Apple. In 1983, the company introduced the Apple Lisa aimed at business users for $10,000. The product flopped. In 1985, Steve Jobs was ousted after internal conflicts with Apple's then-CEO. The company's products, such as the Mac I and the Newton, an early personal digital assistant (PDA), were not successful, and the company underwent several CEO changes. With declining stock prices, the future of Apple was in jeopardy.

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 with the public 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. As competition in the smart phone category heated up, 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 more than 40 patent infringement lawsuits and countersuits 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 their 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, an application that allowed users to 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. While iTunes has since been phased out, it was a landmark moment for both Apple and the music industry. 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 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. The iPad was so popular that Apple sold more 1 million iPads in 4 weeks. Less than 2 years after its release, consumers had purchased more than 25 million iPads. However, the growth in tablet computers is diminishing. Analysts believed tablet sales would continue growing at a rapid rate, but the tablet market eventually became saturated with fewer than expected customers upgrading their current tablets to newer versions. However, while Samsung and Amazon both report a decline in tablet sales in 2019, Apple reported growth with its newest model which features its first ever first-party keyboard.

In October 2011, Apple Inc. lost its iconic leader with the death of Steve Jobs. Apple's current CEO Tim 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. He still maintains the secretive nature of the company but is 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.

Apple is attempting to design products to continue expanding their customer base and remain relevant in the industry. In 2015, the Apple Watch was released, making waves in wearable technology. It is a wearable computing device that functions as an extension of the iPhone. With its easy-to-use interface and broad selection of apps, Apple has dominated the smartwatch category. Though 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, Apple holds 47 percent of the market share. It's next closest competitor, Samsung, only holds 13 percent of the market. Apple followed up this win with the introduction of Airpods, wireless Bluetooth earbuds, in 2016 and the HomePod digital assistant in 2018. Cook contends that wearables are a top contributor to the company's growth.

In addition to its products, Apple's services have been a source of growth for the company in recent years. Apple Pay is a digital wallet service users can use to make payments through their smartphone devices. Introduced in 2014, Apple Pay expanded throughout the United States and internationally. The service substitutes the need to carry around credit and debit cards. When the consumer wants to check out, he or she can use the smartphone to communicate the payment information to the terminal and make the transaction. Building off of this success, Apple introduced the Apple Card in 2019, a digital credit card.

Apple Music is an app offering that allows subscribers to stream music on demand. Released in 2015, the service provided costs $9.99 per month for its individual plan with a three-month free trial. Apple Music drew the ire of musicians at the beginning of its service, particularly singer Taylor Swift, because it initially planned to avoid paying artists for the free trial. Apple changed its mind and agreed to compensate artists. Rather than being a public relations disaster for Apple, the incident helped create awareness about its new service offering. Apple has now surpassed Spotify in paid subscribers in the United States, according to The Wall Street Journal.

Apple TV+, a streaming service, was launched in 2019. While it was late to the streaming game—with long-established competitors such as Netflix, Hulu, and Amazon Prime—Apple has more than 10 million subscribers. Unlike other services, Apple TV+ launched with original content only, lacking the back catalog of content that other platforms offer. Apple invested heavily in premium originals, such as The Morning Show, Servant, and Dickenson. Possibly due to production delayed associated with the COVID-19 (coronavirus) pandemic, Apple invested in content deals in 2020 to fill its empty back catalog, thus expanding its product offering.

Thanks to its innovative products and marketing strategies, Apple has grown into one of the most admired and successful brands in the world. To millions of consumers, the Apple brand embodies quality, prestige, and innovation.

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 leadership abilities, Apple's highly skilled employees, and their 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 their 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 they refer 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. 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 those working at Apple.

Apple prides themselves on this unique corporate culture. On their job site for corporate employees, Apple markets the company as a “demanding” but rewarding workplace where employees work among “the best of the best.” Original thinking, innovation, inventing—all are common daily activities for Apple employees. By offering both challenges and benefits to applicants, Apple hopes to attract those who fit best with their corporate culture.

Apple also looks for retail employees who fit well in their culture. It wants to ensure that their retail employees make each customer 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 their retail employees feel motivated, Apple provides extensive training, greater compensation than employees might receive at similar stores, and opportunities to move up to higher level positions, such as 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 people the chance to intern with the firm, become student representatives at their schools, or work remotely during college as home advisors.

Another benefit Apple offers combines employee concerns with concerns of the environment. In an effort to reduce their overall environmental impact, Apple offers incentives such as transit subsidies for employees who opt to use public transportation. In addition, as part of their long-term commitment to sustainability, Apple spent $850 million for 25 years of solar power. Apple's global facilities run on 100 percent renewable energy, including retail stores, offices, and data centers. Apple also opened a new facility, named Apple Campus 2. With a budget of $5 billion, the facility includes a fitness center, underground auditorium, and 300 electric vehicle charging stations. The buildings at the campus are Leadership in Energy and Environmental Design (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 their employees and those with whom they work display appropriate conduct in all situations. They base their 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 their operations, including those overseas. They also provide specific policies regarding corporate governance, director conflict of interest, and guidelines on reporting questionable conduct on their website. 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 their 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 their standards. To emphasize their commitment toward responsible supplier conduct, Apple releases an annual Apple Supplier Responsibility Report that explains their supplier expectations as well as audit conclusions and corrective actions the company takes against factories where violations occur.

ETHICAL ISSUES AT APPLE

Although Apple is widely admired, they have experienced several ethical issues. 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 their products more effectively. However, a perceived breach in privacy is likely to result in 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 they remedied with new software. In subsequent iPhone releases, Apple improved the privacy features of iOS, the mobile operating system found in the iPhone and iPad. The security upgrades have included enhanced Wi-Fi security and a default policy that location features are turned. 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 question whether these tracking techniques are ethical.

Another privacy controversy was related to Apple Pay, software that allows consumers to purchase items both online and in-person 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. 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 and also leaving the door open for increased fraud. Apple released a credit card in 2019 with advanced security features to make credit card fraud significantly more difficult. The Apple Card, intended to replace a traditional credit card, is built into the iPhone Wallet. Its enhanced security and privacy features mean Apple, unlike regular credit card companies, will not know purchase data for its customers. Additionally, the card uses one-time unique dynamic security codes, replacing the static three-digit CVV.

To improve the security of its devices, Apple launched a bug bounty program designed to reward security researchers who discover and disclose to Apple vulnerabilities in Macs, MacBooks, Apple TV, and Apple Watch. Apple then resolves the security issues and rewards the finder with $1 million. Before the bug bounty existed, security researchers could discover system flaws and abuse them or sell the knowledge to exploit brokers. Additionally, under the new iOS Security Research Device Program, Apple gives development phones to trusted security researchers to discover vulnerabilities in the underlying software and operating system.

In 2016, after a couple opened fire in an office in San Bernardino, California, killing 14 people, Apple faced a privacy issue that pitted them against the FBI. The FBI believed that the husband's encrypted iPhone could reveal important information about the attack. Interestingly, only a few years earlier, Apple had developed encryption systems making it more difficult for forensic investigators to get into the system. The FBI asked for Apple's help, but Apple claimed that providing the government with a way to bypass their own security measures would set a dangerous precedent that could place the privacy of millions of customers who use Apple products at risk. The FBI issued a court order mandating Apple to help the government in this matter. Apple refused, and the FBI dropped the case after they were able to hack into the iPhone without Apple's help. The conflict elicited mixed feelings from the general populace. Some felt that this was a special case that could be used to fight terrorism while others believed it would allow the U.S. government, and possibly other governments, to hack into the phones of private citizens whenever they felt a need. This is just one of several cases where the government has asked for access to secured tech devices in their investigation. Privacy advocates believe the conflict between the government and tech giants like Apple is far from over. To this day, Apple refuses to unlock iPhones for the FBI.

Another large complaint from consumers and developers occurred when Apple removed several screen-time and parental control apps from the App Store. In some cases, Apple asked companies to remove parental control features from their apps, and in other cases the apps were simply removed from the store entirely. One app, Freedom, which allowed users to temporarily block certain sites and apps on their devices, had more than 770,000 downloads before it was removed. Apple stated that the apps they removed violated their rules because they allowed one iPhone to control another. However, these practices had been allowed for years and the apps had approved hundreds of versions of their apps over this time period. Apple responded that they made these changes because of the risk that these apps could gain too much information from the users' devices, particularly a concern because the devices often belonged to children. The threat against privacy and data security is something that Apple does not tolerate, but the timing of the ban on these particular apps brought suspicion. Shortly after the incident, Apple launched their own Screen Time tool, allowing users to limit and monitor their use of apps and overall phone usage. Such timing focused antitrust concern and scrutiny on the issue of Apple's dominance and control over apps in their marketplace. Apple denies that the timing of these changes had to do with the launch of their Screen Time tool. Users have voiced discontent with Apple's Screen Time tool, stating it provides less restrictions and is more complicated than the apps they were previously using. Another issue raised is that the new tool included in Apple's software requires all users within a family to have iPhones, whereas the apps used previously allowed parents with iPhones to control their child's Android devices.

In 2019, Apple again faced criticism for how it protects consumer privacy when it was discovered Siri recordings were kept without permission from users. By default, a small percentage of recordings were sent to contractors who would grade the communication for quality control purposes. Apple responded quickly, reviewing its practices and policies, ultimately deciding to make the grading process an opt-in selection for Siri users and to no longer store audio recordings. Additionally, Apple brought the evaluation of recordings in-house. Thus, Apple's customers, though loyal, do have product problems and service concerns that require the company to make tough choices.

Price Fixing

Another major ethical issue for Apple includes allegations of price fixing. A judge ruled that Apple conspired to fix prices on 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 approached Amazon about participating in the contract. In court, Apple faced fines totaling $450 million as part of a settlement agreement. Apple denied wrongdoing and acknowledged only passive association with the deal to set e-book prices. In 2016, the Supreme Court refused to hear Apple's appeal. Apple was found guilty of violating the Sherman Act and was fined $450 million, $400 million of which was refunded to impacted buyers.

Price-fixing allegations against Apple are not confined to the United States. Russia's Federal Antimonopoly Service found Apple guilty of forcing 16 retailers to fix prices on the iPhone. Allegedly, Apple even contacted retailers who they felt were not adhering to the agreed-upon price. Apple has denied these charges and claims resellers have always had the right to price their products as they choose.

Antitrust

Just months after the introduction of the iPhone, a class action lawsuit was filed against Apple claiming Apple illegally formed a monopoly with AT&T. The claim was that Apple violated California's antitrust law and the Sherman Antitrust Act. At the time, customers who purchased an Apple iPhone signed a two-year service contract with AT&T, the exclusive carrier of the iPhone. This locked in Apple customers with only one option. The five-year exclusivity agreement between Apple and AT&T was publicly reported. However, many argued that the exclusivity was not disclosed in the contracts customers signed, and customers were not aware they were ultimately locked into five years of AT&T service. This lawsuit resulted in many other similar lawsuits being filed. The case went to the Supreme Court.

The antitrust case against Apple turned its focus to the App Store practices of Apple. Apple charges up to a 30 percent commission to app developers, bans them from selling their apps elsewhere, and ultimately drives the price of apps. The 30 percent commission fee forces app developers to increase the price of their apps in order to maintain profits. App makers have complained for years that the practices are unfair, and that Apple has used monopoly power to raise app prices and become a tech giant. The app store has more than 2 million apps and these apps drive the daily lives of customers. Without the app store, iPhone users could not listen to music (Spotify), catch a ride (Uber), or share photos (Instagram). Some competitors of Apple such as Spotify, Netflix, and Amazon have sought to avoid these fees paid to Apple by encouraging their consumers to subscribe directly to their services, but small app developers do not have this option.

Apple's questionable app store practices resulted in more legal attention. In previous litigation against Apple, the court noted that the 30 percent commission fee is a cost that in the end falls on consumers because consumers pay the premium app price, a price that developers have set to cover their fees. There was much controversy over whether consumers could sue Apple for the practices they use to regulate the app store or not. In *Apple v. Pepper*, Apple argued they were simply re-selling the apps from third-party developers to consumers and therefore had no direct relationship with the consumers. They argued that consumers had no grounds to seek damages from them, as they were a marketplace from which developers could sell their products. They held the position that app developers set their own prices therefore the apps were actually purchased from the developers, not from Apple. Apple's evidence supported that app developers were the only party able to bring antitrust lawsuits against them. The Supreme Court, however, did not agree, and the case ruled that since consumers purchased apps directly from Apple, the consumers did have the ability to seek antitrust charges against Apple. This court case made clear that consumers may sue Apple for allegedly monopolizing the market for the sale of iPhone apps. However, this case did not address whether Apple is guilty of violating antitrust laws. The ruling simply allowed antitrust cases to proceed forward. The lawsuit has raised anti-tech sentiment toward the big tech giants and concerns of their dominance have grown, causing a wide-spread antitrust of these large companies.

Sustainability

Apple has taken steps to become a greener company and reduce the environmental impact of their facilities. They also have restrictions addressing the manufacturing, use, and recycling of their products. However, the company admits that most of their emissions come from their products. Since Apple's success hinges on constantly developing and launching new products, the environmental impact of their products is a serious issue. Since Apple constantly releases upgraded products, this could result in older technology being tossed aside. Apple has undertaken different approaches to combat this problem. For one, the company strives to build quality, long-lasting products with materials suitable for recycling. In addition, in the past 10 years the average energy consumption of their latest products has decreased by 70 percent. To encourage recycling, Apple implemented a program at their stores, Apple Trade, so old devices such as iPods, iPhones, and Mac computers can be recycled. More than two-thirds of the iPhones Apple receives through Apple Trade are used by new owners. If a phone is not in good enough shape to refurbish, Apple invented a disassembly robot, Daisy, that can take apart iPhones to recover the materials.

Intellectual Property

Intellectual property theft is a key concern at Apple and is an issue the company aggressively pursues. As we've discussed, Apple is serious about keeping their proprietary information a secret to prevent other companies from acquiring their ideas. This has 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 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 U.K. 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 their 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. 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 mentioned earlier, the company filed a lawsuit against Samsung. 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 their 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 more than $1 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 $539 million, only a fraction of the initial damages the company sought against Samsung.

One overarching ethical issue is the question of the legitimacy of Apple's claims. Is Apple pursuing companies they honestly believe infringed on their patents, or are they simply trying to cast their 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.

Supply Chain Management Issues

Also mentioned earlier, Apple makes each supplier sign a supplier code of conduct and performs factory audits to ensure compliance. In addition, Apple says they have empowered millions of workers by teaching them about their rights, increased the number of suppliers they audit each year, and allowed outside organizations to evaluate their 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. 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 have come into question. Apple has been labeled as an unfair sweatshop, and critics have launched multiple campaigns against the company. This has resulted in negative publicity from protestors, who asked current Apple consumers not to support Apple's unlawful practices by purchasing their products. A report by China Labor Watch, a New York-based non-profit, in September 2019 said that more than 50 percent of Apple's workforce at Foxconn in August were temporary workers, violating China's labor laws which set a limit at 10 percent. Even as student workers returned to school, the number of temporary workers still exceeded China's labor laws. Other issues included violations related to overtime work, failed bonuses, internship laws, and safety.

Some workers had more than 100 overtime hours in one month, though Chinese law sets a limit at 36 overtime hours. Some dispatch workers were not paid their bonuses. Additionally, student employees worked overtime which violates internship laws. Lastly, the safety of the workers was put at risk due to the lack of protective equipment and occupational health and safety training. The report also revealed that the factory in question does not report work injuries. Though Apple denied most of the allegations and said workers are all receiving the appropriate compensation, Apple would not disclose which allegations were true. Apple should work to be as transparent as possible in the face of negative publicity.

In addition to being scrutinized over improper working conditions, Apple has been criticized for its tight profit margins. 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 forced 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. According to the company's own audits, 96 percent of Apple's suppliers are in compliance of working-hour limits (60 hours per week). Apple won the "Stop Slavery Award" from The Thomas Reuters Foundation for their efforts to create a more transparent supply chain. In addition, audits in 2018 discovered only one underage worker. Apple acknowledges that the problem of underage workers needs to be totally eliminated from the supply chain, and each year the audits uncover fewer facilities out of compliance. Apple's policy requires suppliers to continue to pay wages to underage workers, even after they are sent home, and provide educational opportunity. After the worker reaches legal age, the supplier is required to offer the individual employment once again. 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 will drop suppliers who do not improve.

In spite of these audits, several high-profile events at factories have generated criticism of Apple's supply chain practices. In January 2010, over 135 workers fell ill after using a poisonous chemical to clean iPhone screens. In 2010, more than a dozen workers died by suicide at Apple supplier factories. In 2011, aluminum dust and improper ventilation caused two explosions that killed four people and injured 77. Much of the media attention focused on the conditions at Foxconn, one of Apple's largest suppliers with a background of labor violations, but Foxconn asserts it is in compliance with all regulations. The death of an employee at a Chinese iPhone factory in 2018 renewed concerns over working conditions.

Some blame factory conditions on Apple's culture of innovation—more specifically, the need to release new and improved products each year—which requires suppliers to work quickly at the expense of safety standards. Because the Foxconn and Pegatron factories are some of only a handful of facilities in the world with the capacity to build iPads and iPhones, it is difficult for Apple to change suppliers. 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 their supply chain management issues. As one current Apple executive told *The New York Times*, customer expectations could also be part of the problem since customers seem to care more about the newest product than the labor conditions of those who made it.

Apple has worked to improve supplier conditions and transparency about their labor processes. CEO Tim Cook personally visited Foxconn to see the labor conditions firsthand. Apple has worked with Foxconn to improve worker safety, including testing more equipment and setting limits on workers' hours. The Fair Labor Association (FLA) confirms that Apple has dramatically improved the accountability of Foxconn. However, continual monitoring of their suppliers and enforcement of ethical standards are necessary to assure stakeholders that Apple takes the well-being of workers seriously.

Taxes

Tax issues have become a substantial burden for Apple on an international scale. In 2016, the European Union ruled that Apple owed $13.9 billion in back taxes due to their business dealings with Ireland. The decision created conflict among Apple, the EU, Ireland, and the United States. Before this controversial EU decision, the U.S. government had questioned Apple over their tax practices. In what is known as a tax inversion, Apple moved their headquarters to Ireland. According to some regulators, Apple funnels non-U.S. income through two Ireland businesses to avoid paying the higher U.S. corporate tax. The United States has one of the world's highest corporate tax rates at 35 percent, while Ireland has one of the lowest corporate tax rates at 12.5 percent. By law, Apple's profits that are kept offshore are not taxable in the United States. Many multinational companies that started in the United States, including Caterpillar and McDonald's, have chosen to incorporate in countries that have lower tax rates.

This has generated criticism that Apple and other firms are using loopholes in tax law to avoid paying the taxes they would normally owe. Many stakeholders have decried these tax arrangements as unfair, claiming that the business Apple does in the United States incurs significant profits, and therefore Apple should reinvest in the U.S. economy by paying their fair share of taxes. Countries like Ireland have received serious pressure to close loopholes that allowed large tax breaks. In 2013, the U.S. Senate led a special probe to determine whether Apple was using tax strategies simply to avoid paying U.S. taxes. As part of their findings, the Senate claimed Apple was using special loopholes to pay less than a 2 percent tax rate in Ireland.

Much like the U.S. government, the EU believes multinational firms are using European countries with lower tax rates and higher tax breaks to avoid taxes. In 2013, a special task force was created to investigate whether the tax breaks these companies received were illegal according to European law. If Ireland provided Apple with special tax breaks it did not provide to similar companies, it could constitute as illegal favoritism. CEO Tim Cook questioned the fairness of the proceedings. Nevertheless, in 2016, the EU claimed Apple's tax agreements with Ireland that provided them with special tax breaks were illegal, and the firm owed Ireland $13.9 billion in back taxes. With interest, Apple paid more than $16.7 billion to the Irish government in 2018. Ireland was not pleased with the ruling, claiming the EU overstepped their bounds by prescribing Irish tax law. Apple claims the EU does not understand how Apple operates and that the taxes they pay in Ireland adhere to all applicable laws. However, the EU continues to maintain that Ireland provided Apple with favorable treatment, which clearly violates European law.

In another push from Europe, Apple agreed to pay more than 10 years in back taxes to France, totaling approximately $558 million in 2019. Many believe the EU is unfairly targeting Apple. France, in particular, has its eye on U.S. tech giants. It became the first country to introduce a digital tax targeting Google, Apple, Facebook, and Amazon, earning the tax the acronym GAFA. The GAFA tax law is a 3 percent tax on digital advertising and other revenues of tech firms with total revenue of more than $842 million. Only time will tell if other countries will follow suit.

Batterygate

In December 2017, Apple admitted that it had been intentionally throttling the performance of old iPhone models in order to prevent issues with older batteries. While many people were upset to hear Apple was knowingly slowing their devices, much of the criticism stemmed from Apple's lack of transparency. The company's admission followed consumer speculation and data from an iPhone benchmark developer. Apple defended its decision, saying that slowing the devices helped to prolong the life of the products. The throttling mechanism was designed to prevent phones from unexpectedly shutting down when old iPhones tried to draw too much power. Regardless of Apple's intent, many declared the company was not trustworthy. Consumers also speculated if Apple was bogging down old phones to push new iPhone sales.

In an attempt to win over the critics, Apple discounted iPhone battery replacements for select models in 2018 and released educational content about how to maximize battery performance and preventing unexpected shutdowns. Apple iOS 11.3, released in March 2018, included a new Battery Health feature that provides data on charge level over time, average screen on and off times, battery usage by app, and maximum battery capacity. Despite Apple's efforts to save face, the company faces more than 60 class-action lawsuits. Without a doubt, Apple could have protected its reputation by proactively disclosing to consumers the intention to slow down old phones. Instead, Apple risked damaging consumer trust by failing to speak up.

THE FUTURE OF APPLE INC.

In recent times, the headlines have more frequently cast a negative light on Apple, some of which undoubtedly has been caused by their practices. The U.S. and international governments face unprecedented challenges in determining how to control the tech giants in the right way. These challenges have been a significant topic in politics, as governments debate how to manage the power of these large companies that are continually undermining fair competition in their markets. The government must decide where to draw the line to provide fair practices for both consumers and the competing companies.

Despite continued conflicts with the EU government over their tax arrangements, Apple appears optimistic about their future. The company has created a cult following of consumers who are intensely loyal to Apple products. Notable acquisitions include Shazam, Emagic, Siri, Beats Electronics, NeXT, Inc., Anobit Technologies, and PrimeSense. Apple has made strategic acquisitions to improve their products and stay ahead of the pack. For example, Apple acquired a British artist-services startup called Platoon in 2018. The service allows music artists to distribute music without a record label. Platoon could be a key component in Apple becoming a music-rights owner, giving Apple Music exclusive recordings.

Apple has their share of threats. They constantly face lawsuits from competitors over alleged intellectual property violations. In addition, although Apple's aggressive stance helped protect their intellectual property, their tight hold over their products and secrets could ultimately be disadvantageous. Google, for instance, has a more open-source approach. Google 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 greatly outnumber Apple iPhones in many countries. Apple may eventually need to reexamine whether their closed system is the best way to compete.

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. Their diversification, collaborative corporate culture, and product evangelism propelled them 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 their 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 they handle 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 they have faced in the past?

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