

Apple Inc.'s Ethical Success and Challenges

INTRODUCTION

Headquartered in Cupertino, California, Apple Inc. has experienced many challenges throughout its business history. In 1997 Apple's share price was \$3.30. In 2011 its share price had risen to \$339.87. For the past four years, Apple has earned first place among *Fortune* magazine's World's Most Admired Companies. To millions of consumers, the Apple brand embodies quality, prestige, and innovation. The brand is valued at more than \$153 billion, making it the most valuable brand worldwide.

Although companies have tried to copy the Apple business model, none has been able to discover what it is that makes Apple so unique. Many believe that Apple's success stems from a combination of several factors, including the remarkable leadership skills of CEO Steve Jobs, a corporate culture of enthusiasm and innovation, and the high-tech products for which Apple is known. These combining qualities have allowed 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 of today. This first handmade computer kit was constructed by Apple co-founder Steve Wozniak. It lacked a graphic user interface (GUI), and buyers had to add their own keyboard and display. Co-founder 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., had surpassed \$1 million in sales. However, the mid-1980s saw some 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.

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' return, employees were more open about Apple projects. After he returned, Jobs instituted a "closed door" policy. Today Apple continues to remain vigilant in protecting its technology and ensuring that information remains proprietary. Jobs also created a more 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, in which users could download millions of their favorite songs for \$0.99 each online.

In 2007 Jobs announced that Apple Computer, Inc. would be re-named 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 that Apple is reinventing computers. With the introduction of tablet computers such as the iPad, Apple has begun to take market share away from its top competitors in the computer industry. Sales of desktops, laptops, and netbooks began to decline after tablet computers were introduced. Analysts believe that tablet computers will continue to grow at a rapid rate.

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' 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 will 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 very loyal to Apple's Mac computers and who will spread a positive message about Macs to their friends and families.

Successful evangelism can only occur 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 that employees could believe in. By implementing these two changes, employees felt that their input was important and that they were a part of something bigger than themselves. Such feelings have created a sense of loyalty among many at Apple.

Apple prides itself on its unique corporate culture. On its job site for corporate employees, it ensures 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 normal work environments in which employees are at their stations from 9:00 a.m. to 5:00 p.m. 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 work well in its culture. Apple wants to ensure that its retail employees make each consumer feel welcome. Inside the Apple retailers are stations where customers can test and experiment with the latest Apple products. Employees have been trained to speak with customers within two minutes of them entering the store. To ensure that its retailer 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 Apple or become student representatives at their schools.

Another benefit that Apple offers combines employee concerns with those 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. Its Cupertino facility is equipped with shuttles for employees, including free bus service between the Apple headquarters and the train station. Apple’s free buses are powered by bio-diesel. These incentives reduce fuel costs for employees while simultaneously lowering emissions released into the environment.

APPLE’S ETHICS

Apple has tried to ensure that its employees and those with which 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 more thoroughly detail these principles, Apple has drafted a code of business conduct that applies to all its operations, including those overseas. It has also made available on its website more specific policies regarding corporate governance, director conflict of interest, and guidelines on reporting questionable conduct. Additionally, Apple provides employees with a Business Conduct Helpline that 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 due to differing labor standards and less direct oversight. As a result, Apple makes each of its suppliers sign its “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 Apple’s 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 its audit conclusions and corrective actions the company will take against factories where violations have occurred.

ETHICAL ISSUES AT APPLE INC.

Although Apple has consistently won first place as the World’s Most Admired Company, it has experienced several ethical issues within 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.

PRODUCT QUALITY

One issue requiring consistent oversight is product quality. Apple's brand hinges upon product quality, so mistakes can create serious ethical dilemmas. In the fast-paced electronics industry, where several new products are introduced every year, mistakes can become hard to detect before product introduction. After Apple introduced the iPhone 4, consumers began to complain of reception problems. The problems were caused by antenna interference that occurred when users held the phone a certain way. Public relations experts have criticized Apple for appearing to minimize the problem rather than reacting quickly to remedy it. After *Consumer Reports* would not endorse the product, Apple provided free bumpers and cases for a certain period of time that resolved the reception problems. This product issue did not stop millions of consumers from purchasing the iPhone 4, but it does reiterate the great care Apple must take regarding product quality. Consumers view product quality as inseparable from Apple. Hence, a mishap in this area could damage the brand's strength.

PRIVACY

Privacy is another major concern for Apple Inc. In 2011 Apple and Google disclosed that certain features on the cell phones they sell collect 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. This was not entirely true for Apple as some of its phones continued to collect location information even after users had disabled the feature. Apple attributed this to a glitch that it remedied with new software. Both Google and Apple defend their data-collection mechanisms, but many government officials disagree. The government is considering passing legislation on mobile privacy, actions which could have profound effects on Apple and other electronics companies.

SUSTAINABILITY

Apple has taken steps to become a greener company, such as reducing its environmental impact at its facilities. However, the company admits that the majority of its emissions come from its products. In 2009 Apple stated that its operations contributed to 9.6 million metric tons of metric gases being released. While 3 percent came from its facilities, 97 percent came from the life cycle of its products. 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 is constantly releases upgraded products, this could result in older technology being tossed aside. Apple has undertaken different approaches to this problem. The company builds its products with materials that are suitable for recycling, it builds its products to last, and it recycles

responsibly. To encourage its customers to recycle, Apple has created a recycling program at its stores for old iPods, mobile phones, and Macs. Consumers that trade in their old iPods can receive a ten percent discount on a newer version. Consumers recycling old Macs that still have value can receive gift cards. Apple partners with regional recyclers that comply with related laws. Despite this recycling program, many consumers feel that tossing out their old products is more convenient, particularly if they have no value. E-waste will remain a significant issue as long as consumers continue to throw away their old electronics.

Apple has also publicly stated its achievements in reducing toxic chemicals within its products. According to Steve Jobs, Apple has eliminated cathode-ray tubes—which contain lead—from its products. Its iPods are constructed with light-emitting diodes (LEDs) rather than fluorescent lamps, which do not contain mercury. The company has also eliminated the use of two toxic chemicals, polyvinyl chloride and brominated flame retardants, from its products.

INTELLECTUAL PROPERTY

Intellectual property theft is a key concern at Apple, an issue that the company aggressively pursues. Apple is serious about keeping its proprietary information a secret to prevent other companies from stealing its ideas. This has led to many lawsuits between Apple and other technology firms. In 1982 Apple filed a lawsuit against Franklin Computer Corporation that highly impacted intellectual property laws. Apple alleged that Franklin was illegally formatting copies of Apple II's operating system and ROM so that 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 has provided technology companies with more extensive intellectual property protections.

Another notable case was Apple's lawsuit against Microsoft after Apple had licensed technology to Microsoft. When Microsoft released Windows 2.0, Apple claimed that 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 that 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 re-direct 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 the big company (Apple) was being favored at the expense of smaller companies.

Apple faced another trademark lawsuit from Cisco Systems in 2007. Cisco claimed that Apple had infringed on its iPhone trademark. Cisco had owned the trademark since 2000. Apple and Cisco had been in negotiations to discuss 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 U.S. 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.

PATENTS

With the many products Apple releases each year, it makes sense for it to protect its technology from theft. Apple's aggressiveness regarding patent protection has led it to file lawsuits against some powerful companies. For example, the company filed a lawsuit against Samsung, claiming that Samsung had copied the designs of its iPhone and iPad for its own products. It also filed a lawsuit against HTC Corporation, a Taiwanese smartphone manufacturer that makes phones for Google's Android products. Apple accuses HTC of replicating a range of cellphone features protected under Apple's patents. Although the lawsuit is directed toward HTC, it also indirectly targets Google since it is a major client. If HTC is found guilty of patent violation, then Google's phones could also be implicated. The ethical issue is whether Apple's claims are legitimate. Is it pursuing companies that it honestly believes infringed on its patents, or is it simply trying to cast its competitors in a bad light so it can become the major player in the market? Although it might seem that Apple is being too aggressive, companies that do not set boundaries and protect their property can easily have it copied by the competition, who can then use it to gain a competitive foothold. It is up to the courts to determine whether Apple's allegations have any validity.

Finally, a more recent lawsuit accuses Apple of patent violations. Kodak has filed a lawsuit against Apple and Research in Motion, alleging that the companies infringed on its patent on digital-imaging technology. In response, Apple countersued Kodak by claiming it violated Apple's patents. Unfortunately for Apple, a U.S. International Trade Commission judge ruled in Kodak's favor in Apple's lawsuit. The issue still stands regarding whether Apple infringed on Kodak's patents. Kodak is seeking \$1 billion in licensing revenue.

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 or services are meant to offer superior solutions to those of competitors. In one of Apple's newest offerings, Apple is taking its forays in the music industry further. The company has reached agreements with record labels to launch iCloud, a service that enables 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. Seizing upon these opportunities can increase Apple's share of the music and consumer electronics markets.

Apple also faces its share of threats. It faces lawsuits from various competitors claiming the company stole intellectual property. Additionally, although Apple's aggressive stance has helped it to 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 also allows for innovation to occur more rapidly due to additional collaboration. Google's Android phones are beginning to gain market share as a formidable competitor to Apple's iPhones. Apple may eventually need to re-examine whether its closed system is the best way to compete.

In the last decade, Apple has excelled at keeping pace with the quickly evolving industry of computers and consumer electronics. 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. The company shows no signs of stopping its momentum, while consumers have shown no signs of reducing their admiration for Apple.

QUESTIONS

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 risk in Apple's operations?
3. How do you think Apple has handled the various ethical issues that it has faced in the past?

Sources:

- Chloe Albanesius, "Apple Promises Free Bumpers, Cases for iPhone 4 Buyers," *PC Mag*, July 16, 2010, <http://www.pcmag.com/article2/0,2817,2366596,00.asp> (accessed June 6, 2011).
- Paul Andrews, "Apple-Microsoft Lawsuit Fizzles To A Close -- 'Nothing Left' To Fight About," *The Seattle Times*, June 2, 1993, <http://community.seattletimes.nwsource.com/archive/?date=19930602&slug=1704430> (accessed June 8, 2011).
- Julia Angwin, "Apple, Google Take Heat," *The Wall Street Journal*, May 11, 2011, <http://online.wsj.com/article/SB10001424052748703730804576315121174761088.html> (accessed June 6, 2011).
- "Apple and the Environment," Apple, <http://www.apple.com/environment/#recycling> (accessed June 8, 2011).
- "Apple chronology," *CNNMoney*, January 6, 1998, http://money.cnn.com/1998/01/06/technology/apple_chrono/ (accessed June 6, 2011).
- "Apple, Cisco agree both can use iPhone name," *Reuters*, February 22, 2007, <http://www.reuters.com/article/2007/02/22/us-apple-cisco-idUSWEN460920070222> (accessed June 8, 2011).
- Apple History, <http://www.apple-history.com/> (accessed June 6, 2011).
- Apple Inc., *Business Conduct: The way we do business worldwide*, 2010, http://files.shareholder.com/downloads/AAPL/1283312876x0x443008/5f38b1e6-2f9c-4518-b691-13a29ac90501/business_conduct_policy.pdf (accessed June 7, 2011).
- Apple Inc., *Policy on Reporting Questionable Accounting or Auditing Matters*, November 16, 2010, http://files.shareholder.com/downloads/AAPL/1281913948x0x443017/68a6df9d-b0ef-4870-ba8e-acc695b39e2/reporting_accounting_auditing_matters.pdf (accessed June 6, 2011).
- Apple, Inc., *Apple Supplier Responsibility 2011 Progress Report*, February 2011.
- "Apple Introduces iTunes—World's Best and Easiest to Use Jukebox Software," Apple, January 9, 2001, <http://www.apple.com/pr/library/2001/jan/09itunes.html> (accessed June 6, 2011).
- "Apple Recycling Program," Apple, <http://www.apple.com/recycling/> (accessed June 8, 2011).
- John Brownlee, "What It's Like To Work At Apple," *Cult of Mac*, July 7, 2010, <http://www.cultofmac.com/what-its-like-to-work-at-apple> (accessed June 6, 2011).

- "Building the Digital Age," BBC News, <http://newsvote.bbc.co.uk/mpapps/pagetools/print/news.bbc.co.uk/2/hi/technology/7091190.stm> (accessed June 6, 2011).
- Amanda Cantrell, "Apple's remarkable comeback Story," CNNMoney, March 29, 2006, http://money.cnn.com/2006/03/29/technology/apple_anniversary/?cnn=ye (accessed June 6, 2011).
- Alan Deutschman, "The once and future Steve Jobs," *Salon*, October 11, 2000, http://www.salon.com/technology/books/2000/10/11/jobs_excerpt/ (accessed June 6, 2011).
- "The evangelist's evangelist," Creating Customer Evangelists, http://www.creatingcustomerevangelists.com/resources/evangelists/guy_kawasaki.asp (accessed June 6, 2011).
- Facilities Report: 2010 Environmental Update*, http://images.apple.com/environment/reports/docs/Apple_Facilities_Report_2010.pdf (accessed June 7, 2011).
- "Former Apple evangelist on company's history," CNET News, March 29, 2006, http://news.cnet.com/1606-2_3-6055676.html (accessed June 6, 2011).
- "Governance: Investor Relations," Apple, <http://investor.apple.com/governance.cfm> (accessed June 6, 2011).
- Rob Hassett, IMPACT OF APPLE VS. FRANKLIN DECISION, 1983, <http://www.internetlegal.com/impactof.htm> (accessed June 8, 2011).
- Miguel Helft, "Will Apple's Culture Hurt the iPhone?," *The New York Times*, October 17, 2010, <http://www.nytimes.com/2010/10/18/technology/18apple.html> (accessed June 6, 2011).
- Steve Jobs, "A Greener Apple," Apple, <http://www.apple.com/hotnews/agreenerapple/> (accessed June 8, 2011).
- "Jobs at Apple," Apple, <http://www.apple.com/jobs/us/benefits.html> (accessed June 6, 2011).
- Ashby Jones, "So What's Up With this Apple/Google Lawsuit?" *The Wall Street Journal*, March 30, 2010, <http://blogs.wsj.com/law/2010/03/03/so-whats-up-with-this-applegoogle-lawsuit/> (accessed June 8, 2011).
- Yukari Iwatani Kane and Ethan Smith, "Apple Readies iCloud Service," *The Wall Street Journal*, June 1, 2011, B1.
- Yukari Iwatani Kane and Ian Sherr, "Apple: Samsung Copied Design," *The Wall Street Journal*, April 19, 2011, <http://online.wsj.com/article/SB10001424052748703916004576271210109389154.html> (accessed June 6, 2011).
- Dawn Kawamoto, Ben Heskett, and Mike Ricciuti, "Microsoft to invest \$150 million in Apple," CNET, August 6, 1997, http://news.cnet.com/MS-to-invest-150-million-in-Apple/2100-1001_3-202143.html (accessed June 8, 2011).
- Mary Ellen Lloyd, "Kodak Sues Apple, RIM Over Patents," *The Wall Street Journal*, January 14, 2010, <http://online.wsj.com/article/SB10001424052748704281204575002891721364642.html> (accessed June 8, 2011).
- Kieren McCarthy "Apple threatens iTunes.co.uk owner," *The Register*, December 6, 2004, http://www.theregister.co.uk/2004/12/06/apple_itunescoouk_domain_dispute/ (accessed June 8, 2011).
- Scott Martin, "How Apple rewrote the rules of retailing," *USA Today*, May 19, 2011, 1B.
- Nilofer Merchant, "Apple's Startup Culture," *Bloomberg Businessweek*, June 24, 2010, http://www.businessweek.com/innovate/content/jun2010/id20100610_525759.htm (accessed June 6, 2011).
- Millward Brown Optimor, *BrandZ Top 100 2011*, http://www.millwardbrown.com/libraries/optimor_brandz_files/2011_brandz_top100_chart.sflb.ashx (accessed June 6, 2011).
- Claire Milne, *Nominet UK Dispute Resolution Service Decision of Independent Expert*, March 10, 2005, http://www.nominet.org.uk/digitalAssets/766_itunes.pdf (accessed June 8, 2011).
- "Overview of the Open Source Movement," The University of Texas at Austin Graduate School of Library and Information Science, 2000, <http://www.ischool.utexas.edu/~l38613dw/readings/OpenSourceOverview.html> (accessed June 6, 2011).
- Marguerite Reardon and Tom Krazit, "Cisco sues Apple over use of iPhone trademark," CNET News, January 10, 2007, http://news.cnet.com/Cisco-sues-Apple-over-use-of-iPhone-trademark/2100-1047_3-6149285.html (accessed June 8, 2011).
- Steven Russolillo, "Kodak Obtains Favorable Ruling In Apple Patent Lawsuit," *The Wall Street Journal*, May 13, 2011, <http://online.wsj.com/article/BT-CO-20110513-711367.html> (accessed June 8, 2011).
- Martyn Williams, "Timeline: iTunes Store at 10 Billion," *ComputerWorld*, February 24, 2010, http://www.computerworld.com/s/article/9162018/Timeline_iTunes_Store_at_10_billion (accessed June 6, 2011).
- "World's Most Admired Companies: Apple," CNNMoney, <http://money.cnn.com/magazines/fortune/mostadmired/2011/snapshots/670.html> (accessed June 6, 2011).
- Suzanne Vranica, "Public Relations Learned the Hard Way," *The Wall Street Journal*, December 29, 2010, <http://online.wsj.com/article/SB10001424052970204685004576046302759708050.html> (accessed June 6, 2011).