

Ethical issues in the consumer electronics industry management essay



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Throughout the world in which we live, we are faced with ethical dilemmas every day. The consumer electronics industry is no different in that they face issues in their day-to-day activities that violate ethical standards of society. Companies in this industry are among the most lucrative organizations around the globe. Many of these companies may seem sound and ethical from the outside, but what we do not see is the unethical behavior occurring at the lowest level of the organization. The consumer electronics industry has offered a number of products that have changed the way people live their lives, but the issue that faces these products are the unsafe labor practices that go into making the products. These high-tech products are often times created in sweatshops or factories with poor working conditions. The consumer electronic industry is growing more and more competitive every day. Companies want to create the latest cutting edge electronics for their consumers. Manufacturers in the consumer electronics industry are under an increased amount of competitive pressure to make the first, the best, and the most unique product available. Products are being passed through the supply chain more rapidly and the safety and health of the factory workers is often ignored.

In recent years, Apple is one of the companies that have been under fire for their unfair labor practices in their production factories overseas. Apple's success is due in large part to their innovative products that they create in their sweatshops. As per S. Prakash Sethi, " When it comes to the management of its supply chain and treatment of workers in the Chinese factories that make its products, it hides behind the constraints of prevailing industry practices." (Sethi, 2012) The biggest issue aside from the fact that it

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breaks local and national laws is the fact that these practices are in violation of Apple's code of conduct. Although a code of conduct is by no means the law, the company has repeatedly promised to change the way their factory workers are treated but that has yet to happen. Several reports have surfaced from Foxconn, a manufacturing partner for Apple, about employee suicides from the appalling working conditions in their facility in China. According to an article by S. Prakash Sethi, workers have reportedly faced unforgivable living conditions, below-standard wages, and hazardous conditions from toxic chemicals among other unjust treatments. (Sethi, 2012)

As a result of the heinous conditions, Apple not only faces pressures from the law, but also pressures from loyal customers and community investors. Apple's customers are continuing to buy their products, but some have become wary of the unethical ways the products are being made. This also has an impact on investors because they are less likely to support an organization if they face legal and ethical issues with the way their products are manufactured. Employee pressure is also extremely important to companies in the consumer electronics industry as well. According to an article from Ethicspoint, "research has proven that companies that are viewed as having a strong ethical culture enjoy competitive advantages due to high employee morale, low turnover, and decreased exposure to fraud or theft." (Compliance, 2012)

The primary responsibility of Apple and other Multinational Corporations is to generate revenue from the products they create. These companies have corporate responsibilities as well that include monitoring the impact of their

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business activities on their employees, customers and stakeholders and society as a whole. An organization's corporate responsibility should be expressed in its code of conduct where it can be seen by employees, stakeholders and society in order to be held accountable for their actions. Aside from these unethical trends in the consumer electronics industry, companies are facing extreme amounts of pressure to keep up with the demands of their customers and competition from their competitors.

Pressures Facing the Industry

A lot of negative light has been shed on the consumer electronics industry in the past several years. Almost all major electronics companies outsource their manufacturing and value chain activities overseas, where resources and labor are significantly cheaper. While outsourcing their manufacturing processes overseas, mainly to China, enables these companies to sell their products at lower prices here in the United States, far too many of these companies are also using their outsourcing as a way of getting around fair labor practices, and even straying away from the standards laid down in their own company codes of conduct. In the United States we are now becoming aware of just how bad it is in some of these manufacturing factories. This is because journalists and activist groups are visiting these factories and documenting the unfair labor practices that are being widely used. In the past few years, negative reports in newspapers and magazines have damaged the reputations of companies such as Apple, Dell, IBM, Lenovo, Motorola, Nokia, Sony, Toshiba, and many others. (Duhigg, and Barboza, 2012)

Organizations are using third party manufacturing facilities to assemble their products. Apple is one of the companies that has come under immense scrutiny in the past year for their ties to the infamous Foxconn manufacturing company. At Foxconn and many other electronics factories in Asia, unsafe working conditions, the use of child labor, impossible expectations to manufacture the products and brutal management styles are devastating the workforce and even leading to many documented cases of worker suicide. (Biddle) The unsafe and unfair conditions in these factories would never be acceptable practices here in the United States, and even as reports of these abuses flood into the US, there has been little effect on these companies' profits. For example, when the iPhone 5 was being manufactured at a Foxconn factory in China, and reports of the harsh conditions, factory explosions, and worker suicides began surfacing in the United States, still in the first quarter of its release, Apple's sales were only limited by the amount of production its factories in China could churn out. (Duhigg, and Barboza, 2012) This type of reaction of "turning a blind eye" is not a typical reaction for American consumers. This type of buyer behavior in the United States only increases the impossible expectations of factory managers in China. When Nike and Gap came under fire a few years ago for their unfair labor practices in overseas factories, there was public outrage and their profits suffered as a result. People began viewing their products as tainted goods, and the two companies made extensive changes to correct these issues. (Biddle, 2012)

In the consumer electronics industry however, it seems that the products themselves are viewed by the average American consumer as so valuable

that it's worth it to look the other way, and could care less about how it's made, as long as you have it and it's the newest and best gadget out there. Many of the companies that have come under scrutiny have reacted to the accusations by creating an auditing process for their factories and vowing to adhere to their company codes of conduct throughout their value chains. Although companies are trying to make corrections to these claims, changes in the way these factories operate and treat their employees have yet to be made.

Apart from unfair labor practices, activist organizations such as Greenpeace have also released reports urging several consumer electronics companies such as Apple and Nokia to reduce the carbon footprints left by their manufacturing plants in China, where there is far less regulation than here in the United States. (Perella, 2012)

Corporate Social Responsibility Activities

The utilization of inexpensive offshore production, laden with unethical ties, is obviously the trademark flaw of this industry from an ethical standpoint. This flaw makes the simple task of locating a technologically competitive cell phone or mp3 player produced in an ethical manner extremely difficult or near impossible. The previously mentioned ethical issues and pressures may exist in the majority of companies within this highly competitive and profitable industry, but quite a few of these same companies have become dedicated to their commitments for being socially responsible and have been proactive in improving their social and environmental impact in the process.

In fact, surprisingly, a number of consumer electronics companies are

consistently highly ranked in studies ranking corporate social responsibility
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due to these efforts. These include well-known companies such as Hewlett Packard, IBM, and Intel. The three previously mentioned companies were ranked in the top five of CR Magazines CR's Best Corporate Citizens of 2010, which ranked the 100 companies based on several elements including climate change employee relations, environmental, financial, governance, human rights, and philanthropy. (" CR's 100 Best Corporate Citizens 2010", 2010)

As previously stated, a number of companies in the industry have made contributions in terms of Corporate Social Responsibility (CSR). Socially speaking, the issue of the use of conflict minerals has been on the forefront of CSR efforts for a number of consumer electronics companies requiring these materials and elements for parts. Hewlett Packard along with several others in the industry has begun to employ the use of the Conflict-Free Smelter program to hopefully correct the issues along the supply chain causing social trouble. Environmentally, several companies within this industry have started supporting electronics recycling initiatives and have sought to increase energy efficiency within their products. While identifying those participating in CSR, we found that the majority share similar initiatives primarily aimed at openness and transparency.

While some of these companies are extremely active in their CSR roles, others tend to utilize fewer resources and expend less effort attempting to better their impact and image through these kinds of initiatives. Research in Motion is an example of the later and consistently produces some of the least environmentally friendly products on the market according to the

Greenpeace Guide to Greener Electronic. (" Guide to Greener Electronics", <https://assignbuster.com/ethical-issues-in-the-consumer-electronics-industry-management-essay/>)

2012) IBM, although highly ranked for being better than most in terms of CSR has had its fair share of issues relating to a lack in responsibility and in 2004 was even sued by 50 current and former workers for cancer attributed to workplace exposure. (“ The 100 Worst Corporate Citizens”, 2006) Apple could be viewed as lacking in these measures as well. Apple’s Former CEO, Steve Jobs, views on CSR were less than favorable while the current CEO, Tim Cook, has initiated an employee charitable matching program and other smaller initiatives, it has yet to see value in truly embracing this way of doing business (Chun, 2011). One can easily locate companies more or less socially responsible than others in an industry as large as the consumer electronics, but given the similarity of the CSR programs in this industry, it is this in combination with the ethical aspects of the companies that together drive our investment recommendations for Virginia Tech.

Social/Ethical Investment Policy Recommendations

Virginia Tech’s motto is Ut Prosim, That I May Serve. In a community where a hands-on engaging approach to education is used to help prepare scholars to be leaders in their fields and communities, Virginia Tech should take corporate social responsibility and ethical issues pertaining to the consumer electronics industry into account in its investment decisions. The University’s mission statement states that through its focus of “ the discovery and dissemination of new knowledge” they hope “ to expand personal growth and opportunity, advance social and community development, foster economic competitiveness and improve the quality of life.” (Virginia Tech, 2012) The statement emphasizes a positive impact on the social

environment. Ethically, an institution such as Virginia Tech should not be willing to sacrifice ethical reasons for expected financial returns.

Corporate social responsibility is an organization's obligation to maximize its positive impact on stakeholders and to minimize its negative impact (Ferrell, 2011). Financially, any investor's main goal is to receive as much financial return in any investment. However, in a community where a positive impact on the social environment is stressed the ethical issues looming throughout the consumer electronics industry should be taken into account when considering to invest. Virginia Tech strives to produce leaders in their fields and communities. For the students of the university to fully grasp the concept of the values Virginia Tech was founded upon, the university itself should be the ultimate leader. By not only stating but also doing and showing the university's purpose of emphasizing the importance of its values to the community. Due to the increasingly high demand for products in the consumer electronics industry, every company will always have a flaw in which they ethically possess. As mentioned earlier, many companies have begun to show transparency of the company by releasing social responsibility reports of critical working conditions in many of their factories. These companies are taking the initiative to develop into more ethically and socially responsible institutions. Virginia Tech should consider these acts of openness when selecting which companies within the consumer electronics industry to invest in. Finding a reasonable middle ground to satisfy both Virginia Tech's financial needs and ethical principles is a way to satisfy its corporate social responsibility.

The fact that Virginia Tech is a university center on technology it would be difficult to avoid certain investments due to ethical reasons. Sometimes the most advanced technology is produced in unethical ways. However, in recent years, light has been shed on the disturbing conditions in which products are made. Thanks to informing resources, many companies have started to address these ethical and social concerns and have introduced solutions to make improvements. One way social concerns have been presented to consumers is through a free website called Sourcemap, where consumers are able to track the lifecycle of each component of a product to map its carbon footprints. (Scott, 2011) Consumers can use this website to see if a company is taking the environment into consideration by going greener.

In the process of manufacturing electronics, many products contain toxic PVC (vinyl) plastics. According to Greenpeace, many of the major electronics-producing companies have adapted guides to greener electronics. The leading company in the consumer electronics industry with the best environment concerns is Hewlett-Packard. Some of the worst companies who have not done taken any initiatives in producing toxic-free products are Samsung, Dell, Lenovo and LG Electronics. (Greenpeace, 2010) Virginia Tech should stray away from investing in these companies, because the companies have yet to adapt plans to support the environment, which would make these companies more socially responsible. Aside from companies supporting the “ go green initiative, the condition in which factory workers are forced to work in is another issue. Although not everything about the manufacturing process of a product can be known, Virginia Tech can

research and find what information is available for certain companies and utilize this information in guiding their investment decisions.

For a university with foundations of research and technology, it will be hard to continuously stand by the values Virginia Tech believes in when investing in companies with the leading and most up-to-date technology. Even when the consumer population knows of the social wrongdoings that go into the manufacturing process of a product, consumers continue to purchase and pressure the company for its products. Should Virginia Tech do the same and only worry about their investment returns? As an institution stressing the importance of social and community development, they should also consider the impact on the community as a whole and stand by their values.

Investment Recommendations

After researching the Consumer Electronics Industry and comparing the good the industry does to the bad, it is our recommendation that Virginia Tech invest in only certain companies within the industry. We found, like any other industry, there are companies that are showing they are socially responsible and others that ignore being socially responsible and instead focus only on profit. One reason that Virginia Tech should invest in this industry is because of the continuous improvements in social responsibility that some of the members of the industry have shown. This has been shown in such initiatives as creating greener electronics and lowering their carbon footprint as discussed earlier. Another reason that Virginia Tech should invest in certain companies within the consumer electronic industry is because of the increase in electronic recycling that has shown up within many of these companies. Some companies have even gone as far as to set certain dates

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that they want to reach a certain amount of recycling. We feel that these ethical and socially responsible initiatives along with others gives Virginia Tech a good reason to invest in the consumer electronics industry.

There are certain companies that we would choose not to invest in because of their lack of social responsibility not necessarily their lack of growth and profit. One company that we would suggest Virginia Tech avoid investing in at this time would be Apple. We believe with their lack of social responsibility and their use of unfair labor practices, would not be a good ethical move for Virginia Tech to invest in. Apple was selling at \$193. 91 per share and has grown to sell for \$533. 25 per share in December of 2012. (YAHOO! Finance, 2012) This is a tremendous growth and from an economic standpoint it would make perfect sense to invest in Apple but our recommendation is based on how poorly Apple is doing when it comes to corporate social responsibility. Profit isn't everything and we feel that if Apple keeps ignoring their corporate social responsibility and solely tries to maximize profit then they may get caught up in more issues. Investing in Apple would not be a smart move, ethically for Virginia Tech.

One company within the consumer electronics industry that we believe Virginia Tech should invest in is Hewlett Packard. Hewlett Packard, as we discussed earlier, has consistently been one of the best companies in the consumer electronic industry at being socially responsible. The financials for HP are currently not that great, with a selling price of \$52. 03 per share in December of 2007 and now in December of 2012, a selling price of \$13. 94 per share. (YAHOO! Finance, 2012) This is not a good change over that time period, financially, but it is our belief that HP will be a better investment for <https://assignbuster.com/ethical-issues-in-the-consumer-electronics-industry-management-essay/>

Virginia Tech because they are a leader in social responsibility. We believe that this continuous effort by HP to be socially responsible will ultimately help them to rebound and be a profitable investment for Virginia Tech in the future. Another effort by HP that we believe will help make them a more profitable investment is that their computers are assembled in the United States. According to Brooke Crothers, "If Made In USA is a feature, Hewlett-Packard's got Apple beat." (Crothers, 2012) We believe that this is an important aspect that will help HP because of the economy and the fact that most people want jobs for Americans here at home. As shown we believe that it is pretty clear that Virginia Tech should invest in the consumer electronics industry, more specifically HP but not Apple. This investment will be profitable for years and years to come once HP recovers financially with the continuous growth of the industry.