Apple: Supply Chain Management Issues And Approaches To Its Improvement

Introduction

As Apple's presence expands and multiplies more and more every day, so does the question of their responsibility to various stakeholders within its ecosystem. The relationship between Apple and its offshore suppliers has been a key issue for the company, as widespread media coverage is creating awareness of conditions throughout its supply chain. The question of whether Apple should take equal accountability for corporate social responsibility (CSR) as it currently does for its financial performance continues to be heavily debated.

Through the lens of Apple, this case study analyzes issues within its supply chain management at Foxconn and Pegatron, and how they can be improved through a multifaceted approach to reach a higher ethical standard. Then, it discusses the validity of the solutions to provide insight into how Apple should approach this issue, and how various stakeholders might be affected by it.

Background

Apple's great success came from its debut in the smartphone market. Besides its aesthetic design and cutting-edge features, Apple's products are differentiated from those of competitors because of technological infrastructure like iOS and iTunes. As discussed by Lee et al., the iPhone commands a premium price because of Apple's market position, which drives up Apple's profitability and market value (2016). In addition, Apple has a large group of loyal customers, often buying computers and tablets within the same ecosystem.

In order to maximize profit and reduce operating costs, Apple outsources manufacturing to mainly Foxconn and Pegatron in China. Apple's sales revenue in 2013 was $170 billion, compared with $131.8 billion for Foxconn (Lee et al., 2016). Accompanied by news of workers' suicides at Foxconn, Apple's corporate image was tattered by a BBC documentary, which claimed it violated workers' rights (Lee et al., 2016). Apple pledged to take accountability for the problem. Unfortunately, the situation turned out to be no different at Pegatron, where Apple chose to move most manufacturing tasks following the Foxconn scandal. Workers were still subjected to excessive overtime hours, extremely low salaries and terrible conditions. Though the public was made aware, customers' enthusiasm remained high and profits kept climbing (Lee et al., 2016). Presently, Apple still faces two conflicting demands: the call for change from critics of the workers' rights scandals, or to keep meeting demands of mainstream customers and continue business-as-usual.

Identification of Issues

Apple's business is driven and affected by a number of different stakeholders with ranging perspectives and desires, including customers, employees, shareholders, and suppliers. Apple's main issue is to find the balance between maximizing profit in the interest of

shareholders, while operating in a socially responsible manner, especially within its supply chain in China. Low wages and excessive overtime hours cut Apple's operating costs, at the expense of fair workers' rights and possibly, Apple's reputation. The large size of the company and number of manufacturing employees within the supply chain makes it more challenging for Apple to monitor human rights violations thoroughly enough. Additionally, cultural differences between China and the U.S. also play a role in the difficulty of monitoring workers' rights, largely because of varying social norms, legislation and leadership environments.

As discussed by Lee et al., Apple has been involved in a number of disputes over workers' rights; therefore, ensuring that CSR takes center stage as part of Apple's mission is crucial (2016). Jeff Williams, in charge of Apple's end-to-end supply chain management, explained in a letter to employees that he knew of "…no other company doing as much as Apple to ensure fair and safe working conditions" (Lee et al., 2016). However, when Foxconn began improving its labor practices, it also started losing orders from Apple, proving that workers' rights were not a top priority to the management (Clarke & Boersma, 2017). Ultimately, the management's obscure and misleading approach to CSR has wider implications for the rights of workers serving Apple, as well as for the broader community in which Apple operates.

Analysis of Issues

A firm is an open system that faces environmental uncertainty and has information process and resource dependence (Bode et al., 2011). As seen in the PEST analysis in Appendix 1, Apple is no exception, facing internal and external factors that affect its operations. Politically, differing regulations in America and China create varying constraints and opportunities for establishing appropriate labor costs and working conditions. Economically, Apple has a duty to its shareholders to maximize profit. From a social perspective, however, Apple faces pressure to take accountability for the workers in its supply chain. Due to its offshore operations, different working cultures and habits limit Apple's ability to standardize rules for employees across the two countries. Americans typically place more emphasis on work-life balance, whereas working as much as possible to increase standards of living is integral to Chinese working culture. As such, the company is presented with a conflict of interest. In a time of greater awareness of ethics, Kolstad argues that profit-only focused companies will be less competitive, as consumers are increasingly more willing to pay higher prices for firms with greater social responsibility (2007). Improving working conditions and salaries within its supply chain might sacrifice the company's profit in short-term, but not doing so may lead to litigation and brand risk in the future.

A key issue facing Apple is the disconnect between the management's pledge to pursue CSR and their actions concerning the matter. Although Apple's commitment is asserted, their ethical code is not equal across all geographies and industries in which it has a stake. As discussed by Macklin, ethical imperialism refers to the idea that behavior should be aligned with one universal ethical code (1999). Ethical relativism, however, is based on the idea that ethical code is subject to its context, giving more freedom to companies to create their own ethical criteria in making decisions. Apple operates under ethical relativism, paying its Chinese suppliers far less than it would likely pay an American counterpart. By outsourcing its manufacturing, it can adhere to Chinese regulations, regardless of the regulations it faces at home. Being socially responsible is not only about the way a company's profit is distributed, but more about the way the company makes its profit (Gribble 2019, pers. comm., 24 October). Consequently, it is legal for Apple to

pay $1.50 per hour for labour cost in China but it is also unethical for Apple to let labourers work long hours in a bad environment (Lee et al., 2016). Given Apple's position in the smartphone market and in the broader business world, Apple's management is compelled to consider the interests of shareholders and how the company is run, but should also think beyond those boundaries and claim ownership for all practices involved with generating its products (Badaracco, 1992). This is largely because of Apple's influence on leaders in the rest of the smartphone industry. By shifting some manufacturing over to Pegatron due to better profit margins even though Foxconn improved its working conditions, Apple sent a broader message to the community that profits were still of greater concern than social responsibility.

Furthermore, Apple's management makes use of the legal differences between China and the U.S. as an excuse to justify the conditions in which workers within its supply chain are working and living. As discussed by Långstedt, the "cross-cultural management paradigm" creates a framework for leaders to use culture as an excuse for actions (2018). Asymmetric information throughout the supply chain creates a divide between the management's intentions and their actions. As a result, Apple's company culture becomes vague and misleading. Dong & Liu discuss how the impact of culture on each member of the company can be a catalyst for change in company culture, especially when the company operates across different cultures (2010). By creating an ambiguous culture, employees or members in the supply chain may be inclined to act in ways that are not encouraged or allowed by Apple. Additionally, Key discusses the concept that ethical culture is based predominantly on perception in the sense that its impact is usually self-reported (1999). Apple's management is currently lacking a framework that contains standardized variables by which to measure the ethics of their supply chain and how to target problem areas. In summary, the issues facing Apple are being handled in such a way that the company culture and values are being skewed, having broader implications for the industry in which Apple operates.

Recommendation

Achieving an ethical supply chain is a difficult task for Apple, as it is predominantly outsourced. Given the complexity of this issue, putting internal reforms in place to create a more ethical supply chain, combined with an improvement in the management leadership style will be necessary to create lasting and ethical change.

The first aspect of the approach that would benefit Apple in its future business practices would be to enact sustainable reform in the supply chain. Apple does not have the power to change working conditions and laws in every country that its suppliers operate in. However, the management team does have the opportunity to change how much it pays its suppliers. Apple's current strategy has made it notorious for its price policy, pressuring suppliers to produce more at lower costs. Foxconn and Pegatron were forced to realize only 1.7% and 0.8% margins respectively, compared with Apple's margins of 40% (Lee et al., 2016). Apple could easily distribute some of its wealth more equitably to ensure that its suppliers have more leverage when it comes to meeting higher working standards and paying higher wages, reducing working hours, investing in safety, and so on. To ensure that this becomes implemented by its suppliers, Apple could enforce a mandatory minimum wage based on what it pays similar-level workers in other countries.

In addition to improving suppliers' margins and implementing a minimum wage for its suppliers'

employees, stronger enforcement of Apple's safety code of conduct would stress the importance of CSR within the company and to its greater environment (Clarke & Boersma, 2017). Independent auditing and monitoring of suppliers' financial statements would be important to succeed in realizing higher standards for working conditions and rights. This would be more easily implemented with a representative from Apple whose responsibility it would be to monitor these factors throughout the year and who has knowledge and experience in both cultures. Moreover, bringing together various stakeholders and institutions in a forum to stimulate debate and collaboration would bolster efforts to improve workers' conditions and address other ethical issues encountered in the future (Clarke & Boersma, 2017). The forum would provide a space for respective stakeholder groups to voice their opinions and concerns, without repercussions for their employment.

An improvement in the management's leadership approach would also be highly beneficial in making lasting changes to Apple's supply chain. The management team should emphasize CSR in their mission and strategy, portraying it as an integral part of its mission as opposed to a reactionary response to disputes over labor rights. This entails shifting their approach from ethical relativism to ethical imperialism. As discussed by Grojean et al. (2006), leaders will gain company-wide congruence of values through values-based leadership by setting an example, as employees, suppliers and other members observe leaders' behavior and its consequences. A concrete action that the management could take to prove its commitment to ethics in its supply chain would be to develop internal criteria for selecting suppliers that operate ethically and value social responsibility. This would put in place a measurable system for monitoring CSR. Furthermore, Apple should consider consolidating its supply chain by decreasing the number of suppliers it contracts, thereby granting it greater visibility and ability to communicate incentives more clearly. For suppliers whose revenues are largely reliant on Apple's purchases, they are likely to prioritize Apple's leadership and values, further highlighting why it is so important that the management team promote and uphold their stated values.

Evaluation of Recommendation

Through conducting supply chain reforms and changes to leadership style, Apple can successfully ameliorate labor disputes arising from suppliers and other critics, while simultaneously improving Apple's reputation and accountability for sustainable development.

Internal reforms can effectively reduce the negative impacts of labor disputes, preventing the same events from happening again. To begin with, increasing suppliers' margins is beneficial to the whole supply chain, allowing them to improve working environments and wage levels, and reducing overall brand risk. Apple is able to do this because of its high margins, extremely loyal customers and high switching costs (Clarke & Boersma, 2017), which can provide more profits for suppliers to focus on employees' welfare and improve its production line. Also, this can serve as a competitive advantage for suppliers, as fulfilled and healthy workers can help to shorten lead times, reduce brand risk and reduce production costs. Consequently, improving suppliers' margins might entice them to share those values, which is beneficial to upgrading the processing industry and achieving synergy in the supply chain (Kolstad, 2007). Furthermore, the false disclosure of financial data in order to hide the fact that employees are being squeezed can be minimized by auditing, certified by an independent, external body to ensure highest safety standards. This can even be carried out unannounced throughout the fiscal year to prevent dishonesty in reporting. A criticism of internal auditing is that it can breed corruption

through incentives to accept bribes. By having an Apple representative at the manufacturers' facilities, however, this issue can be mitigated and measured. In addition, stronger enforcement of the code of conduct, such as reducing work hour requirements, can improve employees' mental and physical health. An argument against overtime work hour limits is that a large number of employees want to work as much as possible due to economic necessity. Nevertheless, this can still be permissible on the basis of setting maximum overtime work hours and a minimum salary level, whilst ensuring overtime work is strictly voluntary. Furthermore, external criticism will help to secure higher margins for suppliers in order to improve welfare of workers. Some might argue that all suppliers might not use higher margins to spend on the health of its workers. Thus, it will be important to monitor spending on improving worker's salaries and living standards.

Moreover, it is necessary to build a multi-stakeholder forum to improve awareness of various stakeholders and build an ethical corporate environment. This strategy helps fill a void in the governance model that would establish connections between companies and NGOs to improve involvement of and cooperation with numerous stakeholders (Clarke & Boersma, 2017). Opponents may argue that this is not always effective to its full potential because not all concerns may not be addressed by the forum. However, this would solve some ethical problems workers are facing, which can lead to progress, nonetheless. This facet of the issue would ultimately serve to provide feedback as to how well the implemented solutions are working.

Reforms to leadership style are also important for fostering ethics, benefiting Apple's sustainable development. Both Apple and its suppliers should promote values-based leadership to emphasize the importance of the 'triple bottom line: people, planet, profit', because it will influence cohesion of values throughout the company and beyond (Badaracco, 1992). Internally, developing a reputation of ethical leadership can correct employees' attitudes and drive them towards ethical decision-making. Ethical leadership is positively related to ethical decisions (Brown & Treviño, 2006). In turn, corporate goals are more easily achieved due to employees' satisfaction, motivation, and organizational commitment. Simultaneously, Apple can set an example to companies globally about the benefits of ethical leadership management. This is important because it means Apple acknowledges the immense source of power they represent to influence industry standards (Badaracco, 1992). In this case, other companies can emulate Apple's approach to cultivate their ethical leaders for better management, which can also promote global industrial upgrading.

Ultimately, the combination of concrete initiatives for suppliers and shifts in the leadership style and communication should enable Apple to achieve lasting and sustainable change.

Conclusion

Apple is facing unprecedented challenges. Given Apple's reputation in its industry, the implications of the problems it is facing are more taxing than those of its counterparts. It is not only dealing with labor disputes in its supply chain, and how to assume more CSR in the future, but also with the fact that its actions will directly affect the corporate culture of other small and medium-sized enterprises around the world. Therefore, this paper suggests that Apple implements initiatives in its supply chain and leadership style to solve this problem at its root and cultivates a company culture that is conducive to ethical behavior for future sustainable practices.