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IMPACT OF UNETHICAL PRACTICES ON BUSINESS ENVIRONMENT: A CASE STUDY ON TOYOTA

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ABSTRACT

Purpose: This paper tries to identify the unethical practice carried out by the Toyota. It also tries to examine the impact of these unethical practices on their respective employee performance, their employee relations, company credibility, and on the society. Lessons can be learned from these experiences and preventive measures can be applied across international borders to improve business conduct in other developing economies.

Design / Methodology/ Approach-The present research paper is conceptualized and is based on case study analysis in order to find the impact of Toyota's unethical practices on the stakeholders

Findings: By analyzing the Toyota's case study, it was found that due to Toyota's ignorance of safety people lost the trust in Toyota cars and opted for other cars. Hence the brand reputation of Toyota's was crashed.

Limitations: Present research is conceptualized and is purely based on case study analysis; ergo the limitations of this paper is lack of primary data

Practical implications: this case can act as an example for the other companies and therefore better regulatory setups can be formed to avoid such incidents in future

Keywords: unethical, credibility, border, employee relations.

1. Introduction

Business involves a number of objectives including profit maximization within a framework of social and other obligations. Ethics in business is related to national factors as well as global perspectives, varies from country to country, and potentially it is affected by many factors including the strength of legal, business regulation and human characteristics such as ethnicity, gender, level of education and socio-cultural environment. There is often a conflict between the pursuit of profit and the exercise of ethical conduct in business as managers pursue profit to maximize returns to investors and often to maximize their own self-interest. Carr (2004) argues that most executives, from time to time, are almost compelled in the interests of their companies or themselves, to practice some form of deception when negotiating with customers, dealers, labor unions, governmental officials, or even other departments of their own companies. Ahmed (2009) describes this as a moral hazard that arises when agents (managers) are tempted to act in their own self-interest and not those of the principal (usually equity and debt investors). However, investors are no longer regarded as the only stakeholders in business organizations and managers must be cognizant of the, sometimes conflicting, interests of other parties such as government, employees, and various other social groups that may be affected by business operations and activities. Under competitive conditions when a free market economy prevails, managers make choices to maximize short-run profit, but to be sustainable in the long-run business organizations must usually satisfy both profit expectations and acceptable norms of ethical business practice. As the globalization process takes hold and the world begins to resemble a global village, so business ethics has become an international issue. The United Nations (UN) (United Nations, 2003) has produced a document proclaiming norms for conduct and operations of transnational corporations and other business enterprises. These norms cover general obligations to promote human rights as well as recognizing international and national law, including the rights of indigenous peoples and other vulnerable groups such as consumers and workers, and also have regard to environmental protection. A low level of ethics in the business sector is a part of wider socio-economic and political problems faced by many countries: often loopholes in legal and business regulation contribute to the corruption that can plague business operations.

1.1. Business Ethics

Business ethics are moral principles that guide the way a business behaves. The same principles that determine an individual's actions also apply to business. Acting in an ethical way involves distinguishing between "right" and "wrong" and then making the "right" choice. It is relatively easy to identify unethical business practices. For example, companies should not use child labour. They should not unlawfully use copyrighted materials and processes. They should not engage in bribery.

According to Investopedia, "Business ethics is the study of proper business policies and practices regarding potentially controversial issues, such as corporate governance, insider trading, bribery, discrimination, corporate social responsibility and fiduciary responsibilities. Law often guides business ethics, while other times business ethics provide a basic framework that businesses may choose to follow to gain public acceptance."

2. Literature Review

Ferrell, Fraedrich and Ferrell (2004) suggest that business ethics comprises moral principles and standards that guide behavior in the world of business. Whether a specific behavior is right or wrong, ethical or unethical is often determined by the public as embodied in the mass media, interest groups and business organizations as well as through individuals, personal morals and values. Thus, ethics in business is directly related to social values, norms and global business trends and is negatively related to corruption in society. In this research, evidence of social discontent with business conduct is sought through a review of significant business issues reported publicly as unethical practice. 1.1. What is ethical behavior in business? Sobhan (2000) argues that the supreme ethics in any society must be founded on the principle of justice. A society, which deprives its most productive citizens of resources despite their proven integrity in the use of such resources, is likely to perpetuate poverty as well as underdevelopment and will in the process erode the foundations of a democratic society. Wood (1992) suggests that ethical actions are not, in the final analysis, the responsibility of the individual alone. Instead, most actions are the result of managers and employees following the norms of accepted behavior in the companies in which they work. As Bangladesh is an economy in transition the evolutionary process of transforming its business ethical values, norms and moralities has greatly hampered its organizational development. Business organizations are not yet fully implementing international standards or codes of ethics. Trevino and Nelson (1995) define ethics as the principles, norms and standards of conduct governing an individual or group. They also comment that two types of factors influence ethical behavior: characteristics of the individual and the characteristics of the organization. England (2006) suggests that ethical decisions are made by business people, based on the following considerations: 1) how employees can feel fulfilled professionally; 2) how customers can be satisfied; 3) how profit be assured for the stakeholders or shareholders; and 4) how the community can be served. Trevino and Weaver (1997) linked the matter of concern about ethics in business practices to three factors: a) ethical failures diminish reputation; b) articulating ethical standards now makes it easier to respond to criticism later; and c) adoption of ethical standards is a hallmark of a profession. Shafique (1996) commented that ethical behavior appears to be largely influenced by a range of factors including the law, government regulation, social pressure, industry sector, ethical codes and personal standards. He observed that banking, despite being a highly regulated industry in most countries, has not gone untouched by ethical crises. He identified some unfortunate examples of unethical practices including abuse of inside information for personal gain, theft, discrimination, embezzlement, pursuit of profitability at the customer's expense, money-laundering and insider-loans. Boatright (2004) observes that the financial services industry still operates largely through personal selling. Personal selling creates innumerable opportunities for abuse and although finance professionals take pride in their level of integrity in the industry misconduct does occur. Shaw (2007) emphasizes that if people within business are to build their reputations on integrity and have a keen sensitivity to the ethical dimensions of their decisions, they must be guided by sound moral standards.

3. Objective of the study

i. To examine the impact of unethical practices on the stakeholders of Toyota.

4. Methodology

5.

This paper is based on the T**OYOTA** case study and is used to examine the impact of unethical practices on the business environment.

The case study method is a "preferred strategy when "how" or "why" questions are being posed, when the investigator has little control over events, and when the focus is on a contemporary phenomenon within some real-life context" (Yin, 1989, p.13).

5.1. Hypothesis

i. H_0: There is no significant impact of unethical practices on the stakeholders of Toyota.

5.2. An outline of the case study

On January 26, 2010, the company suspended the sale of eight models and announced that beginning the following week it would temporarily shut down five North American assembly plants. The company did not make public that it took these steps at the direction of the federal government, but the next day, Department of Transportation secretary Ray LaHood effectively called Toyota on the carpet by publicly stating that his agency had directed Toyota to suspend its operations—a statement that Toyota had to confirm.

On February 5, Toyota president Akio Toyoda finally appeared at a press conference. Facing the media, he apologized and announced a task force involving outside experts. But by now—after multiple explanations—the damage had been done.

Toyota temporarily shut down its manufacturing plants at a cost of $54 million a day; monthly car sales dropped below 100,000 for the first time in more than a decade; Toyota's U.S. market share fell to its lowest level since January 2006; the company's stock dropped 16 percent; Consumer Reports removed its "buy recommendation" on eight Toyota models; the Department of Justice and the Securities and Exchange Commission initiated investigations; and Congress opened up its own inquiry, complete with public hearings.

By 2011, two years after ascending to the top, Toyota was passed by GM as the number one carmaker in the world.

And even though a subsequent NHTSA study came out generally supporting Toyota's claim that there were no defects in the technical sense, and Toyota has since worked to claw its way back to its previous position in the public eye, Toyoda acknowledged that Toyota's crisis response, like the warden and prisoners in Cool Hand Luke, suffered from a failure to communicate.

5.3. An analysis of Toyota's ignorance on safety measures

An off-duty California policeman was driving a Toyota Lexus that accelerated in excess of one hundred miles per hour and crashed, killing the officer and his family. The incident received news coverage that featured a recorded cell phone call to 911 documenting that the acceleration was uncontrolled, and the driver had no part in the sudden acceleration

The following impact was made on the Toyota's Business Environment

i. The brand image of Toyota was crashed.

ii. People no longer trusted the brand and opted for other cars

iii. They have to halt the sales of eight of its top selling models in the U.S and recalled more than nine million cars worldwide. Because of this they have suffered billions of losses.

iv. In order to be a market leader in terms of quality, Toyota ignored the safety measures

v. People lost their lives due to uncontrollable acceleration in Toyota cars

vi. Toyota weren't honest with the public. They played a blame game an held suppliers responsible of the problem.

vii. Unwillingness of Japanese executives to work with North American regulators. The result for Toyota was a public rebuking from the NHTSA and the public perception that the company had something to hide.

viii. Loss of revenue as they had to pay $66 million in civil penalties.

ix. Lack of transparency as Toyota was accused of hiding the data accelerator pedals.

Thus the null hypothesis will be rejected and alternative hypothesis will be accepted

6. Conclusion

Toyota's reputation was based on its commitment to quality, reliability, customer focus, and excellence in design and manufacturing. The problem begins when an off-duty California policeman was driving a Toyota Lexus that accelerated in excess of one hundred miles per hour and crashed, killing the officer and his family. The incident received news coverage that featured a recorded cell phone call to 911 documenting that the acceleration was uncontrolled, and the driver had no part in the sudden acceleration. This incident due to uncontrollable acceleration led to the recall of 3.9 million vehicles in the U.S. on September 29, 2009 ascribed to floor mat problems leading to sticking accelerator pedals. The problem grabbed national attention in late January and early February 2010: An additional 2.3 million vehicles were recalled for sticking accelerator pedals. Toyota suspended sales of eight models in North America, expanded recalls to Europe and China, and shut manufacturing plants.

Later, Toyota's responses were seen as inadequate and began to strain the trust of the public, car buyers, regulators, and government officials. Toyota vehicle sales in the U.S. fell 16% in January 2010 and 8.7% in February compared to the same months in 2009.

Also lack of transparency, unwillingness to cooperate with the regulatory body caused a sense of insecurity between their stakeholders especially between their customers and suppliers. This resulted in the decline of sales as no one was willing to buy the Toyota cars like Lupe. She is still traumatized by the accident, and she refused to buy another Toyota car. So, Lupe opted for a Honda Accord.

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