Analysis of the Importance of Corporate Ethics to Modern Manufacturing —— Enterprises: A Case Study on TAKATA

Qin Yu, Li Mo, Wang Jiayao, Chang Yujin, and Li Wei

Abstract—Corporate ethics is often regarded as an important factor in whether a company can develop in the long run, but many companies always tend to ignore this point. This paper takes the safe quality issue of Japan TAKATA’s airbag as the object of case study and uses case study as the research method. Meanwhile, from the perspective of corporate ethics and based on the moral consequence, deontology, responsibility, and rationalization, this paper analyzes the causes of ethical problems caused by quality problems of the airbag which concealed by TAKATA. In addition, innovative enterprise management systems and compensation measures after accidents are proposed. In terms of moral consequence, the enterprise aims to make profits. Although TAKATA neglects social security and ethical issues in the process, it achieves its profit goal. From the viewpoint of deontology, although TAKATA has achieved the goal of high returns, it has violated the universal responsibility and rules in people’s hearts. On the basis of responsibility and rationalization, TAKATA employees generally agree that the transfer and spread of moral responsibility is a manifestation of the lack of moral responsibility. At the same time, it is emphasized that enterprises should improve their management system and strengthen internal ethics, and personnel at all levels should be responsible for the enterprise. In conclusion, from the perspectives of moral consequence, deontology, responsibility and rationality, this paper discusses that companies should attach great importance to corporate ethics and the related solutions mentioned, such as recalls and compensation, which also provide references for various types of enterprises.

Index Terms—Corporate ethics, consequence, deontology, responsibility and rationalization, case study, TAKATA.

I. INTRODUCTION

In business, corporate ethics is always a problem that cannot be ignored. So far, some investigations on business successfully show that corporate ethics is one of the key factors of business success. Thus, cases of failed corporation have become the subject of studies, such as TAKATA, a Japanese maker of car-safety systems. Due to debt problems, TAKATA has filed for bankruptcy in 2017. The debt is the result of corporate ethics problem about air bags, so this case can be used as typical materials of corporate ethics research.

About corporate ethics, domestic and foreign experts and scholars have researched for many decades. In the perspective of domestic experts, they believe that corporate ethics plays a very important role in today’s rapid development. Additionally, in order to catch up with the development of the society, enterprises themselves must continuously transform and upgrade. Yang Fugui [1] shows that corporate ethics can give long-term and strategic impetus for enterprises. The construction of enterprises’ morality is a complicated and systematic project, which needs a long process. These enterprises should examine and make plans from the long-term perspective. At the same time, Mao Xiaoyang and Hao Xuehua point out that corporate ethics has become a focal point of corporate development [2], [3]. Besides, corporate ideological and moral construction are also a significant part of the development of advanced corporate culture. Wang Xulin, Tan Jishun, Yu Bin and Cao Qian also put forward their opinions: corporate ethics not only shapes the internal culture of a company, but also affects the reputation and market expansion of an enterprise [4], [5]. Bian Peng, Shang Yao and Su Yanan also explain that enterprises in the new era should not only uphold the basic qualities of traditional enterprises, but also add new moral connotations endowed by the times. Moreover, enterprises should seize the market opportunities and rules and invest efforts to improve their own moral image, so as to improve their competitiveness in the market and even the international market [6]-[8]. At the same time, Li Yalin and Jing Fengjie also mention corporate ethics greatly affects the operation and development of enterprises [9]. Foreign scholars hold the point that current enterprises should emphasize the teaching of ethics and the cultivation of moral quality. Meanwhile, they should strengthen the morality of practitioners, which is beneficial to the long-term value of enterprises. In their opinion, corporate ethics can wake up and motivate the employees’ passion to achieve the best financial profits. Since pursuing financial benefits is the main objective, and only they get the optimum profits, they can guarantee the survival and development of the corporation [10]. Moreover, V Sierra et al. consider corporate ethics and its commitment have great significance for the competitiveness and market reputation of brand products. For the competitiveness of enterprises, people often refer to the core technology, internal management and marketing ability of enterprises, which are the external competitiveness of enterprises. It is the morality of the enterprise that supports these external competitiveness. This is because: on the one hand, enterprise competition is ultimately the competition for consumers. Consumers will be more willing to buy the products and services produced by honest and socially responsible enterprises. On the other hand,
employees can achieve the most creative results in an environment full of trust, responsibility and ambition, and such an environment can only be built on the basis of honesty, trust, fairness and respect for values. Strengthening moral construction is conducive to developing the potential of enterprises and enhancing the supply capacity of enterprises to society [11].

Based on the above research, we find that the existing literatures on corporate ethics mostly focus on successful companies. And there are few studies using negative samples in which ethical issues could lead to corporate failures. This paper will pay attention to the perspective of companies lacking corporate ethics. We take TAKATA Corporation of Japan as the research object. Taking corporate ethics as the main theoretical basis, this paper analyzes the logic used by Takata’s decision-makers, as well as the remedial measures after their products have safety issues. It also concentrates on Takata’s managers and analyzes why they conceal the existence of the products’ safety problem. Through the analysis of this case, the paper puts forward hypothetical suggestions for corporation’s improvement. The results and suggestions from analysis can be extended to other manufacturing enterprises. In nowadays, economic development is getting faster and business managers are facing more competitions and requirements. This paper can provide some references to them.

II. DATA AND METHOD

A. Data

TAKATA, founded in 1933 and headquartered in Tokyo, Japan, made seat belts, airbag systems and other electronic safety products. Before 2015, TAKATA was a leader in the field of automotive safety system, its production of airbags and seat belts accounted for up to 20% of the global market. It means before 2015, one out of five vehicles used a security system supplied by TAKATA. At the same time, many well-known automobile companies such as BMW, Mercedes-Benz, and Honda had long-term and stable cooperation with TAKATA [12]. However, TAKATA filed for bankruptcy in 2017 due to debt problems.

The entire automobile industry discussed the incident of TAKATA’s bankruptcy due to the airbag problem, unanimously agreeing that TAKATA was destroyed by an accident rate of one in a million. To adapt to the development of the entire automotive safety parts industry, companies need to transform one-millionth defect management into zero defect management. As early as May 2004, TAKATA airbags were found to have design flaws, but they failed to attract enough attention. In order to reduce costs, TAKATA used low-cost ammonium nitrate as the detonating material. The structure of this substance is unstable in a high-temperature and high-humidity environment, and it is easy to burn or even explode, causing the metal protective shell to break. In 2009, TAKATA’s airbag problem caused casualties. More and more cases of this kind appeared since then. In 2014, after careful investigation, National Highway Traffic Safety Administration (NHTSA) clearly announced that the TAKATA airbag had caused 11 deaths, but TAKATA refused to recall products because the responsibility for the accident was unclear. In 2015, under pressure, TAKATA publicly admitted for the first time that its airbags were defective and announced the recall of about 34 million problematic airbags in the United States. In March 2016, the hidden dangers of TAKATA airbags were finally confirmed. TAKATA’s move is only to control costs and to pursue profit on the premise of sacrificing product safety [13]. Moreover, TAKATA knew the matter well, but no one came out to admit it.

B. Method and Case Selection

The case study methodology is particularly suitable for this study to analyze the various causes of safety accidents caused by TAKATA’s airbags. There are three reasons for selecting the TAKATA airbag incident as the case of this study. First, this case is a typical negative case. TAKATA’s action to conceal product quality issues is a clear violation of corporate ethics, which provides us with experience in exploring how to comply with corporate ethics and respond correctly in the face of corporate crises. Second, the purpose of this research is to systematically explore the positive effects on the development of the company where the leaders show their leadership and make decisions that conform to the principles of enterprise ethics. At the same time, the process of company development is complex and multi-dimensional, which makes it more suitable to study this problem through qualitative research rather than quantitative methods. Third, academic research on corporate ethics is still limited and it is worth exploring. The case study is suitable for theoretical exploration of management research. The causes of TAKATA’s airbag incident are complex. Case studies are needed to more comprehensively and in-depth grasp the nature of the problem and build a framework with universal explanatory power. Therefore, we choose to use case studies for analysis.

Selecting TAKATA as the object of the case study is based on the following two criteria. The first is that the case is representative. TAKATA is a first-class company engaged in the manufacture of auto parts. After discovering the hidden dangers of airbags, its leadership chooses to conceal rather than solve the problem, which destroys the company’s long-established image and becomes a representative negative case in the industry. So it is essential to choose TAKATA as a case study object to reflect corporate ethics. Second is the consistency between the theoretical goals and practice of corporate ethics. Corporate ethics embodies the company’s business ideas, and it is often used as a spiritual force to guide the company’s actual decision-making and operating activities. TAKATA chooses to use unstable ammonium nitrate to save costs to make airbags, which actually violates the lives of consumers. This behavior ultimately leads to the loss of the market and even bankruptcy, which proves that violating corporate ethics will pay a heavy price, and this proves that there is consistency between moral theory and practice.

III. DISCUSSIONS AND ANALYSES IN TWO DIMENSIONS

The behavioral logic of Takata’s decision-makers and employees in this safety incident is important to be studied. This paper analyzes why Takata’s decision-makers...
collectively conceal and allow the sales of dangerous products. Then the moral disengagement of employees’ responsibilities and collective consciousness will be analyzed. Consequentialism and deontology are two important categories of analyzing problems in ethics. They have opposite concepts in meaning: consequentialism takes the outcome of things as the standard of moral judgment, while deontology values the motivation of moral behavior rather than the consequences of behavior.

The behavioral logic of decision-makers will be discussed from two aspects: consequentialism and deontology. The behavior motivation of employees will be investigated through the perspective of responsibility and rationalization. Responsibility is an important part in our society, supporting the development of civilization. This paper will focus on describing the psychological factors of the diffusion and displacement of responsibility. Rationalization explains why people usually spontaneously justify what they or their group do, even if the things they do is wrong.

A. Analysis from Decision-Maker’s Level

The analysis from decision-maker’s level is divided into two parts. One is based on Consequentialism theory, and another is based on deontology. These two theories are both concentrating on ethical issues but have different standpoints.

1) Consequentialism

Consequence is an important content in normative ethics, and its main feature is that the moral correctness or error of a behavior ultimately depends on the consequences of this behavior [14], [15]. That means, only when the result of a behavior is good or even the best, can it be said that this behavior is morally correct and should be done. Modern utilitarian Jeremy Bentham, John Stuart Mill, and Henry Sidgwick are the main representatives of consequentialism.

Takata successfully uses ammonium nitrate to launch its own gas generator. The products are not only much smaller in size than competitors, but also cheaper. Although ammonium nitrate has a major shortcoming of unstable state, Takata still uses it to develop gas generators because its lower price can create strong competitive conditions. The sales have increased by about 50% in 10 years, and in 2014 it reaches 642.8 billion yen.

According to consequentialism, Takata's decision-makers at that time aim at low cost and high yield of products. That is, they can use relatively inexpensive raw materials to gain huge benefits of the resulting competitive advantage. The goal of a company is to make a profit, but TAKATA totally ignores consumers’ safety, social responsibility, and other moral issues they may suffer during pursuing the goal. Those will bring them an improvement in performance, the company’s praise, and the stability of their work positions. They choose to take the corresponding high risk. But they finally fail, and pay a higher price than the benefits. Other companies in automotive industry, as competitors, are obviously opposed to Takata's approach. Because once Takata successfully sells these cheap gas generators for a long time, the other companies’ competitive advantages will be greatly reduced. Also, consumers are strongly opposed to it because they will probably be confronted with life-threatening.

If Takata has not used ammonium nitrate to optimize the airbags of its automotive products but chosen other solutions that are more reliable or even do not improve anything, Takata could continue to operate at the original sales level. Or it would decline in the face of fierce competition. If its new airbags do not cause so many accidents, it would gain more competitive advantages and profits, then occupy an advantageous position in the automotive industry. But the reality is that the high risk has overwhelmed the company, making it have to pay more to make up for it after gaining a lot of benefits in a short period of time.

2) Deontology

As an important theory in ethics, deontology and consequentialism have completely opposite ways of judging whether behavior is right or wrong. The standard of deontology for judging behavior focuses on the characteristics of the behavior itself or the rules embodied by the behavior. That is, it only focuses on whether people's behavior conforms to the moral rules. It does not care whether the motivation is kind and whether it is out of responsibility and obligation. In modern ethics, Immanuel Kant’s “Foundation of Moral Metaphysics” published in 1785 laid the foundation for deontological ethics. He believes that ethics must be based on rationality to establish the principle of obligation, stipulating what we should or should not do. The deontology involved is not the way or means to achieve results, but the moral qualification to enjoy the results [16]. As far as deontology is concerned, its core is Kant's absolute command. That is, to act under a rule that can become a universal law in people's minds, and we must act responsibly without considering the consequences. From this we can see that deontology is a rule-based ethics.

From the view of responsibility of Kant's deontology, TAKATA's leaders should make decisions that are consistent with their responsibilities and understand that they have a responsibility to provide the public with airbags without problem because these airbags they sell are important parts to protect passenger’s safety. But actually, in the event of a problem, their airbags are likely to endanger the safety of passengers. So, for profit, even if TAKATA finds that the airbags are functionally defective, which may cause injury or even death to passengers, it still hides the problem and continues to sell these airbags. This violates not only objective commercial production standards, but also the moral character of being a human being. In fact, TAKATA's airbags have been defective for at least 10 years. According to dozens of TAKATA internal engineering reports, presentation materials, and e-mail copies, the company’s gas generators produced in the 10 years before 2011 have failed to meet internal safety standards. The problem has existed even four years before the NHTSA investigation.

In addition, Kant's deontology also contains the idea of considering different perspectives. TAKATA leaders who make concealment do not want to buy the product with question, let alone the product that may damage their personal safety. But in order to protect their company's interests, those people choose to stand on the opposite side of consumers. Hiding the truth harms consumers’ right to know. In fact, TAKATA airbags were exposed as early as around 2000, but they did not attract attention at the time. It was not until 2009 that their airbags problem was exposed and
focused publicly by an accident. In this accident an American girl collided with another car while driving and the airbag, which was intended to be a life-saving tool, unfolded. But the girl was cut through the neck artery by a piece of metal ejected from the airbag and died of blood loss. This accident causes problems with the quality of TAKATA's airbags to be focused. The truth cannot be concealed when a series of traffic accidents involving TAKATA's airbags that injure or even kill passengers. Since the vehicles installing defective airbags have been recalled after investigations undertaken in major automobile enterprises, the total number of recalled vehicles has reached 120 million. In other words, a significant proportion of families are injured behind traffic accidents caused by problematic airbags. No one wants harm to come, but it really happened under TAKATA's decision to violate corporate ethics.

B. Analysis from Employee’s Level

The decision-makers take profit as the goal to make decisions at the overall level of the company, which leading to a series of consequences. But from the perspective of individual employees, such a trend still exists. Obviously, every employee has their own goal and code of ethics. But when participating in the company decision, their behaviors are sometimes affected by some factors and turn to default to some unreasonable decisions of the company. We will do the analysis from the perspectives of responsibility and rationalization.

According to the definition in the dictionary, responsibility means “the state or fact of having a duty to deal with something or of having control over someone”. Corporate responsibility can be seen as a collection of legal responsibility, moral responsibility, and cognitive responsibility [17]. That is, the mandatory constraint, ethical constraint, as well as responsibilities for the cultural elements of belief. In the Takata’s case, the company obviously lack ethical considerations, so we mainly concentrate on the moral responsibility. The responsibility can be “transferred” and “spread”. For example, people should not be held accountable for doing questionable things when they are just doing what an authority figure tell them to do. The TAKATA's employees probably believe that decisions are made by superiors, so they do not need to take responsibility for this issue. At that time, the responsibility is transferred to superiors. One employee in a decision-making team could think it is not his or her fault because everyone in the team has responsible for it. The responsibility will be spread to more people. So that everyone's sense of responsibility will be correspondingly weakened. This leads that the vast majority of employees sell dangerous products with acquiescence.

TAKATA is a company from Japan. It is influenced by Japan’s group culture, which makes the employees have a strong sense of group belonging and dedication, and subject to hierarchy [18]. The internal members of the company have strong cohesion and show a high degree of loyalty to their company. And they usually show absolute respect to their high-level leaders. Although these characteristics can improve group efficiency, they also enhance the herd mentality, which may cause problems. The TAKATA’s ethical problem is partially caused by its employees. Due to group consciousness, the employees are committed to maximize the interests of the group where they belong, but they ignore things "outside" the group such as the consumers. On the other hand, the extremely strict hierarchical system and herd mentality also make it difficult for Takata employees to stand up and accuse the wrong decision-making. Because it is very important for them to obey the orders of their superiors. And it is not a good behavior to be unique in the group. About rationalization, it is because Takata's decision makers and related employees are receiving collective pressures. They are aware of the dangers of the products but do not give any warning. They even provide wrong data in the test report to conceal that fact. Moral self-justification makes them ignore their sense of social responsibility and focus only on company interests.

IV. CONCLUSION

From the point of consequentialism, TAKATA do indeed improve its competitive advantage in the short term by low cost and achieve high returns, but it finally fails. From the point of deontology, TAKATA also violates corporate ethics. To get high returns in the short term requires high risks, and to bear the consequences of these risks requires greater costs. Therefore, as a large enough corporation, it is very important to measure the relationship between risk and return and find a balance. In addition, the internal structure of TAKATA is also destined to lead to the spread of responsibility and moral shirk. If the use of high-risk airbags is not prevented, the responsibility is dispersed. If it is prevented, the responsibility and risk need to be borne by one person. Therefore, it is nearly impossible that a person appears to prevent the use of these high-risk airbags.

In order to avoid further harm to the company and motivate the normal operation of the company at the same time, TAKATA should take some measures to make up for the negative impact of airbags. First of all, TAKATA is supposed to recall the wrong airbags. In order to reduce and even eliminate the death rate, TAKATA should make more efforts to recall all the faulty airbags. Methods can be comprehensive and extensive, such as advertising, broadcasting, paper magazines, and even public security forces, which can inform the consumers who have purchased the wrong airbags to return the airbags to the most extent.

Second, because TAKATA's previous behavior violates corporate ethics, the company needs to compensate consumers to rebuild the company's image and facilitate further market expansion. Compensation includes two aspects of spiritual and material. In terms of spiritual compensation, TAKATA should give psychological comfort to the victims and their families in time. The victims and their families suffer mental pain from TAKATA's mistakes, so the company has the responsibility to compensate. In addition to spiritual comfort, TAKATA should also make material compensation to consumers. RS Brown [19] points out that the deaths caused by TAKATA's airbags make many families lose their financial supports. Therefore, the company should give them monetary compensation. Because many families have purchased the wrong airbags and the recall behavior makes them lose the goods they bought with their own property, the company should give them new and effective
airbags as compensation.

Through the research of TAKATA, it is concluded that TAKATA itself is also a hierarchical bureaucracy that subordinates unconditionally obey their superiors. Subordinates cannot bear the risk of resistance. In this case, leadership and supervision must be improved to reduce the probability of problems. First, the leaders’ decision-making should be responsible for not only the immediate interests but also the long-term and potential interests. They should not give up future interests for the immediate interests which may cut off the company’s future. In addition, the intensity of supervision needs to be improved. When problems occur within the corporation, leaders should promptly detect them and make reasonable decisions. When conditions permit, it is better to set up an independent department to supervise.

The discuss in this paper has enriched the research results on the importance of corporate ethics to corporate development in the modern market economy. These research results show that corporate ethics is an indispensable and inescapable part of corporate development, and strengthening corporate ethics is an important reason for promoting the stable and sustainable development of enterprises. This paper analyzes the airbag safety issues of TAKATA from the aspects of consequence, deontology, responsibility, and rationalization, and provides a case for domestic and foreign scholars on corporate ethics research and enriches related theories on corporate ethics research basis. At the same time, this paper emphasizes the importance of the moral construction of enterprises and building the moral and responsibility management system. In addition, this paper takes the airbag incident of TAKATA in Japan as an example and puts forward a series of suggestions on solving measures which provides a reference for the development of internal construction and problem handling of the enterprise.

CONFICT OF INTEREST
The authors declare no conflict of interest

AUTHOR CONTRIBUTIONS
The topic of the paper is decided by all authors through consultation. All authors participated in the data collection work, and reached conclusions through collaborative discussion. Qin Yu finally summarized and revised the manuscript, and Li Mo, Wang Jiayao, Chang Yujin and Li Wei confirmed it. After confirmation by all authors, this version is the final version of the paper.

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