

Caterpillar, Inc. Encounters Challenges to Its Ethical Reputation

INTRODUCTION

Caterpillar, Inc. (CAT) is a global manufacturer of construction and mining equipment, machinery, and engines. Best known for its machinery, including its tractors, off-highway trucks, wheel dozers, and backhoe loaders, CAT has more than 500 dealer locations worldwide. In 2014 the company achieved global revenues of more than \$55.2 billion. As a result, CAT faces the challenging tasks of managing a complex network of stakeholders. CAT has made a name for itself not only for quality products but also for its ethical standards and corporate social responsibility (CSR). However, a number of recent issues—including federal probes and conflicts with employees—have tainted Caterpillar’s ethical image. This case will emphasize CAT’s ethical initiatives and CSR efforts, as well as recent challenges to its ethical reputation. We start off by providing a brief background of CAT’s history. We then examine CAT’s ethical progress in areas such as ethical conduct, stakeholder relations, and sustainability. The case will conclude by looking at some current ethical issues and risk areas CAT must address to fortify its ethical reputation.

HISTORY OF CATERPILLAR

Caterpillar Inc. originated during the early 1900s when inventor Benjamin Holt created the first crawler tractor. To sell his tractors, Holt created the Holt Manufacturing Company. The Caterpillar name was coined as part of the brand name. For the first decade of the 19th century, Caterpillar machines were used in construction projects and disaster relief. However, once WWI began, Caterpillar tractors became a part of the battlefield carrying supplies and artillery. In 1925 Holt Manufacturing Co. and its competitor, C.L. Best Gas Tractor, merged to become the Caterpillar Tractor Company. The newly formed company would spend the next 15 years seeing its products used on several important construction projects, including the King Albert Canal in Belgium, the Hoover Dam, the Golden Gate Bridge, and the Grand Coulee Dam. Over the next several decades, Caterpillar Tractor Co. grew to become a multinational corporation. In 1986 the company was renamed Caterpillar Inc. Today, Caterpillar Inc. has customers in more than 180 countries and employs more than 114,000 people globally. Caterpillar is considered to be one of the world’s most valuable brands with a market capitalization of \$49.4 billion.

PRODUCTS

Over the years, Caterpillar has amassed a vast array of products under a number of different brand names. Its most famous brand is the CAT brand. Many of the large-scale machinery for which Caterpillar is known sport the familiar CAT logo with the yellow pyramid covering part of the “A.” CAT products have been used in the agriculture, construction, forestry, demolition, waste, and mining industries, among others. These products sport the yellow and black colors

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that have become associated with the company. Other brands that Caterpillar owns include CAT Financial, Hindustan, Progress Rail, Solar Turbines, and AsiaTrak.

CAT sells more than 300 machines, along with parts, turbines, engines, and electronics. The company also provides a variety of services involving logistics, financing and insurance, and rental services. The breadth of products that CAT offers has made it the leading company in the construction industry. CAT's closest competitor in the agriculture industry is Deere & Co., home of the green and yellow John Deere brand. The company's closest competitor in the construction industry is Japanese company Komatsu Limited, the second largest construction manufacturing company in the world but with higher market share in places like China and Japan.

ACHIEVEMENTS AND GOALS

In addition to its success as a multinational corporation, Caterpillar, Inc. has won many awards for its strong ethical conduct. The company was listed as number 28 in *Fortune* magazine's 2015 "World's Most Admired Companies" and scored eighth in *Women Engineer* magazine's "Top 50 Employers." One reason why CAT has scored so highly likely results from its strong goals and strategies. For instance, CAT outlined a sustainability vision, mission statement, and strategy to express its commitment toward the environment, the economy, and the work force. These three elements are outlined in Table 1.

Table 1: Sustainability Vision, Mission, and Strategy

Vision:

Our vision is a world in which all people's basic needs—such as shelter, clean water, sanitation, food and reliable power—are fulfilled in an environmentally sustainable way and a company that improves the quality of the environment and the communities where we live and work.

Mission:

Our mission is to enable economic growth through infrastructure and energy development, and to provide solutions that support communities and protect the planet.

Strategy

Our strategy is to provide work environments, products, services and solutions that make safe, productive and efficient use of resources as we strive to achieve our vision. We apply innovation and technology to improve the sustainability performance of Caterpillar's products, services, solutions and operations. We believe sustainable progress is made possible by developing better systems that maximize life cycle benefits, while also minimizing the economic, social and environmental costs of ownership, as reflected in our sustainability principles. We will execute our strategy by working to meet our aspirational sustainable development goals.

Source: "Caterpillar 2014 Sustainability Report," Caterpillar, <http://s7d2.scene7.com/is/content/Caterpillar/C10545862> (accessed December 2, 2015).

CAT's mission and strategies emphasize a stakeholder orientation that considers the well-being of all its constituents. However, determining ethical strategies and successfully implementing them are two different things. The following sections will describe how CAT puts its vision and mission into practice through its comprehensive code of conduct and corporate social responsibility initiatives.

CODE OF CONDUCT AND VISION 2020 STRATEGY

CAT implemented its Worldwide Code of Conduct in 1974 to ensure consistent ethical standards among its networks across the world. Many ethical codes require updating to adapt to the constantly changing business environment, and CAT is no exception. The company updated its Worldwide Code of Conduct in 2015. The Vision 2020 Strategy is a set of goals that describe the strategic direction the company wants to undertake. CAT has set forth three strategic goals: achieve superior results, become a global leader, and have the best team—goals that directly involve its stockholders, employees, and customers. As part of its operating principles, CAT plans to become more customer-focused, hold itself more accountable for results, establish a strong dealer network, and more.

CAT has identified four core values that will make its strategic goals a reality: integrity, excellence, teamwork, and commitment. The values also make up the crux of CAT's ethical code. CAT's Worldwide Code of Conduct expands upon these values to address the following ethical issues:

Integrity

- Act honestly and with integrity
- Avoid and manage conflicts and potential conflicts of interest
- Compete fairly
- Ensure accuracy and completeness of financial reports and accounting records
- Communicate openly, honestly, and fairly
- Handle “inside information” appropriately and lawfully
- Refuse to make improper payments

Excellence

- Accept nothing but the best quality in products and services
- Focus on delivering the highest value to customers, always with a sense of urgency
- Establish a work environment that supports excellence
- Select, place, and evaluate employees based on qualifications and performance
- Provide employees with opportunities to develop
- See risk as something to be managed *and* as a potential opportunity
- Take an “enterprise point of view”

Teamwork

- Treat others with respect and do not tolerate intimidation or harassment
- Treat people fairly and prohibit discrimination
- Foster an inclusive environment
- Conduct business worldwide with consistent global standards
- Collaborate with key entities and organizations outside the company
- Build outstanding relationships with dealers and distribution channel members
- View suppliers as business allies

Commitment

- Take personal responsibility
- Protect assets, brands, and other intellectual property

- Safeguard confidential information
- Use electronic communications technology responsibly and professionally
- Respect and recognize personal privacy
- Participate in public matters in an appropriate manner.
- Respect the unique rules that govern doing business with the public sector.

Adapted from Our Values in Action: Caterpillar's Worldwide Code of Conduct, 2015, <http://s7d2.scene7.com/is/content/Caterpillar/C10398712> (accessed December 3, 2015).

CAT's Worldwide Code of Conduct describes its commitment and responsibilities to its customers, employees, suppliers and distributors, and communities. Note that although stockholders are not mentioned specifically in these key points, the code describes how being an ethical company and following these ethical guidelines will increase stockholder value. More information on CAT's Worldwide Code of Conduct can be found at <http://s7d2.scene7.com/is/content/Caterpillar/C10398712>.

CAT'S STAKEHOLDER RELATIONSHIPS

CAT recognizes that its operations will not only affect its stockholders but also its customers and employees. The company has therefore taken steps to create mutually beneficial relationships with these two primary stakeholder groups.

CUSTOMER RELATIONS

CAT tries to meet the needs of its customers through quality products based upon environmental and safety considerations. The company offers many services to customers that go beyond selling, from financing to providing safety information and videos. Above all, CAT views high quality products as one of the most important aspects of a successful customer relationship. Thus, the company strives to create new innovative products as well as improve the quality of its existing ones. Much of this improvement comes through the manufacturing process. CAT has developed the Guiding Principles of the Caterpillar Production System (CPS) to ensure that certain steps are followed in manufacturing, such as reducing waste and stopping to fix defective products before they go further down in the production process. CAT also strives to improve its operations using Six Sigma, a method used to manage process variations that can lead to product defects. By ensuring that its equipment is of high quality, CAT is able to establish good relationships with customers while simultaneously reducing the risk of liabilities from faulty products.

As a manufacturer, many of CAT's direct customers are independent dealers. The company sells its products to dealers, who then sell to end users. There are 178 independent Caterpillar dealers worldwide. Although Caterpillar has frequently praised its dealers, it has become concerned that they may not be making as many sales as they could be. Caterpillar believes that many of its dealers are missing out on between \$9 billion and \$18 billion in sales because they are not using big data effectively, are not communicating with each other, and are not providing a consistent experience for global customers. Caterpillar has therefore launched an initiative called Across the Table asking dealers to come up with a three-year plan to capture lost sales.

Caterpillar is a strong believer that use of customer data will yield insights that will help dealers improve sales. Dealers that cannot meet expected targets could be dropped.

There are also many end users of CAT products that span across industries, from government to mining to railroads. This creates customer relationships that CAT must manage. Since improper use of CAT products can result in injury or even death, CAT has created the website SAFETY.CAT.com to educate consumers about how to use its equipment safely. CAT also releases a newsletter every quarter informing subscribers of news, safety information, and tips. Caterpillar's Customer Dealer & Support was created to provide assistance and support to both customers and dealers of Caterpillar products.

EMPLOYEE RELATIONS

CAT's relationships with its employees have not always run smoothly. For example, in the 1980s and 1990s, CAT imposed cost-cutting devices during times of economic hardship that negatively impacted employees, such as freezing wages and cutting benefits. In response the United Auto Workers (UAW) union led strikes against the company. In the early 1990s, CAT locked out thousands of UAW union employees in response to strikes and threatened to hire replacement workers. Massive strikes occurred once again in 1994 over the firing of UAW workers. In 1998 the company and the UAW agreed upon a six-year contract. The contract gave CAT more power in certain areas but also compelled it to rehire 160 union workers.

Since then CAT has worked to emphasize a commitment toward employees. CAT supports diversity through several employee affinity groups and networks, including its African American Network, Armed Forces Support Network, Chinese Resource Group, Korean Resource Group, Lambda Network, Women's Initiative Network, and Young Professionals of Caterpillar. These groups provide networking, service, and leadership opportunities for members while also educating the entire CAT work force about diversity. CAT's strides in diversity have earned it recognition from different institutions. For instance, it was named as one of the "Top 25 Noteworthy Companies," "Top 10 Companies for Global Diversity," and "Top 10 Companies for Employee Resource Groups" by DiversityInc.

CAT also recognizes its responsibilities to employees regarding safety. Its goal is for every employee to be careful and incident free. To keep track of its progress in working toward zero incidents, CAT compiles data on the number of injuries and time lost due to injuries. This data allows CAT to establish benchmarks and goals for improvement. By acting upon the information it has collected, CAT has been able to decrease injuries at its facilities. Since 2003 CAT's total recordable injury rates have improved by 80 percent.

Despite the great strides Caterpillar has taken in areas such as workplace safety and diversity, the past few years have proven problematic for the firm in terms of employee relations. CAT has taken a hit on global sales, and its employees have felt the negative impact. When labor disputes remain unresolved, employees might choose to engage in a strike in which they refuse to work in the hopes of getting the company to give in to their demands. On May 1, 2012 780 members from the International Association of Machinists and Aerospace Workers Lodge 857 went on strike in Joliet, Illinois. Caterpillar wanted to make cuts to employee benefits and freeze wages. Employees also knew that the CEO of Caterpillar was getting a 60 percent salary increase and

thought it was unfair. After three-and-a-half months, employees returned to work and accepted nearly all of the company's concessions, including a 6-year wage freeze and an increase in employees' portions of their health care.

Also in 2012 Caterpillar experienced trouble at its locomotive plant in London, Ontario, Canada. Caterpillar informed workers that the plant was struggling to compete and would have to be closed unless employees took up to a 50 percent wage cut. Employees were outraged, and a labor dispute followed in which Caterpillar locked employees out of the plant. Called a lockdown, this is management's version of a strike. Eventually, Caterpillar announced it was shutting down the plant in Ontario and moving it to Muncie, Indiana, where wages were not so high. It cost the company \$38 million to shut down the plant.

Companies are never looked at favorably when they shut down plants or have to cut benefits. However, in Caterpillar's case questions arose over whether Caterpillar was taking advantage of employees. Some alleged that the locomotive plant in Ontario was not operating at a loss, and that Caterpillar closed it because it hates unions more than it likes profits. Caterpillar vehemently denies this and claims that it must make these cuts due to market conditions. Indeed, in recent years CEO Douglas Oberhelman claims that Caterpillar has experienced a slump that is unprecedented. Revenues have decreased, and the company announced it would have to cut more than 10,000 jobs by the end of 2016. One way Caterpillar is attempting to handle this is by offering early retirement, an offer that 2,100 employees have accepted.

While the job market sometimes necessitates letting employees go or reducing salaries, companies must always exert caution when making these changes. Layoffs often harm the morale of the remaining employees, and the firm might get a reputation for putting profits over employee well-being. Therefore, although dissatisfied employees could not do much against Caterpillar in 2012 due to high unemployment rates, as the economy recovers employees may become resentful. It is important that Caterpillar try to reestablish relationships with disgruntled employees and consider restoring cut benefits once the company's finances improve.

CAT'S CORPORATE SOCIAL RESPONSIBILITY

Corporate social responsibility (CSR) is defined as an organization's responsibility to maximize its positive impact on its different stakeholders while minimizing its negative impact. As a multinational company, CAT is expected to embark upon corporate social responsibility initiatives by giving back to the communities in which it does business. Rather than being a burden on businesses, these voluntary responsibilities can help them demonstrate their commitment to people, communities, and the environment. CAT has adopted many philanthropic practices to show its dedication to community stakeholders, including its creation of The Caterpillar Foundation, its matching gifts program, and its involvement with the United Way.

THE CATERPILLAR FOUNDATION

The Caterpillar Foundation is the vehicle that the firm uses to direct money, aid, and resources to the public. Founded in 1952, the Caterpillar Foundation has donated over \$300 million

toward such areas as education, the environment and other philanthropic causes. Disaster relief is also a core focus of the Caterpillar Foundation. Following the 2015 Nepal earthquakes, the Caterpillar Foundation provided donations to the American Red Cross for relief efforts to the region. Its dealer, Tractors Nepal Private Limited, worked with customers to provide machinery for rescue operations in the area. The Caterpillar Foundation has also committed resources to disaster relief in Brazil, New Zealand, and Australia.

The Caterpillar Foundation is highly committed to international causes as well. It invests in the United Nations Girl Up campaign with the purpose to address the needs of girls in developing countries. It also partnered with Feeding America to provide 3 million meals to those in need. Many of the Foundation's investments in philanthropic projects occur outside the United States. This demonstrates that CAT is becoming more of a global company headquartered in the United States than a U.S. company with a global presence.

MATCHING GIFTS PROGRAM

The Caterpillar Foundation also has a matching gifts program that is designed to align employee and retiree donors with specific areas of the community. CAT will match up to \$2,000 of each individual's donation to certain charitable causes. Eligible organizations for matching include cultural, environmental, art organizations, and colleges/universities. The matching gifts Program is beneficial to CAT's stakeholders because it gives employees/retirees the ability to leverage CAT's funds in donating to a worthy cause. The stakeholders who receive the donated funds also benefit, as does CAT's reputation.

UNITED WAY

The Foundation is also involved with the United Way, which is a coalition of charitable organizations in the United States. CEUWA (Caterpillar Employees United Way Appeal) is a program in which the firm solicits donations from its employees. In turn, CAT will match these donations and distribute them to the local United Way of the employee's choice. Since CEUWA was created 100 percent of employee contributions have been dispersed to the United Way.

ENVIRONMENTAL STAKEHOLDERS: CAT'S SUSTAINABILITY INITIATIVES

Sustainability has become a core tenet of CAT's corporate strategy, so much so that the company releases an annual Sustainability Report to inform stakeholders about its progress. As the world becomes more concerned about the environment, CAT sees sustainability as a necessary component for its future success. One of CAT's older sustainability programs still in use today is "Certified Rebuild." This program was designed to prevent older machines from being discarded by rebuilding them instead. The program makes financial sense for CAT as it can reuse the parts from its old machines rather than having to buy new components. It is also highly beneficial to the environment; since much of the material from the original machine is reused, CAT estimates that rebuilding the machine uses approximately 50 to 60 percent less energy. Through its Certified Rebuild program, CAT promotes sustainability by reducing waste in the manufacturing process.

Similar to Certified Rebuild are CAT's remanufacturing and reconditioning programs. Caterpillar has remanufactured products for the past 40 years and is estimated to have recycled 500,000 tons of materials. Thus, the life cycle of these components is extended considerably. Between 2013 and 2014 CAT increased sales of remanufactured products by 4 percent and rebuild sales by 1 percent. The company has a goal to increase remanufactured and rebuild business sales 20 percent by 2020.

CAT has reduced waste in other areas as well. Over the years CAT has increased the amount of waste it recycles to 90.6 percent. In India an electric power conservation project at Caterpillar was able to avoid releasing 3,000 metric tons of carbon emissions into the environment through work improvements.

Yet CAT plans to take its sustainability goals even further. For example, by 2020 the firm plans on decreasing water consumption by 50 percent using 2006 as a baseline. It plans to reduce its energy intensity by 50 percent during the same time. Finally, CAT is setting an example of sustainability through its corporate headquarters. This facility is LEED (Leadership in Energy and Environmental Design) Gold certified and has reduced its overall energy consumption and greenhouse gas emissions. CAT is using its headquarters as a benchmark for its other buildings. For instance, in 2014 75 percent of facilities constructed met LEED requirements or comparable green standards.

In addition to being sustainable in its own business practices, CAT aids its customers in being sustainable. Its CAT HYDO Advanced hydraulic oil and CAT Proprietary Fluid Cleaners won the Illinois Governor's Sustainability award for how they increase sustainability and efficiency among CAT customers. For instance because the CAT HYDO Advanced hydraulic oil extends the life of hydraulic systems, it is estimated that this not only saves customers money but also saves 31,870 metric tons. Safety and the reduction of greenhouse gases continue to be two major concerns Caterpillar focuses upon during new-product development.

ETHICAL ISSUES

Despite CAT's achievements, the firm has several ethical issues that it must address. Some of these issues deal more with the nature of the company's products than with anything the company itself has done. However, CAT has experienced some ethical challenges stemming from its own operations as well.

As mentioned earlier, one ethical challenge CAT continues to face involves employee relations, particularly regarding its unionized employees. Strikes and lockouts occurred at Caterpillar facilities in 2012, resulting in a factory closure and employees having to adopt concessions they believed were unfavorable. The compensation awarded to CAT CEO Douglas Oberhelman has also been criticized. CAT has attempted to align the CEO's pay with performance, and in 2014 the CEO's pay fell 33 percent due to poor corporate performance. However, the CEO still took home \$15 million in compensation. Some criticized this move because they felt like Oberhelman should have had a greater pay cut. One major reason is because under Oberhelman's tenure, Caterpillar acquired mining equipment maker Bucyrus International in 2010 due to the belief that mining was going to take off. However, the exact opposite happened, and sales declined. Caterpillar also paid \$886 million to acquire ERA Mining Machinery, parent company for

Chinese firm Siwei, a manufacturer of roof supports for mines. It later discovered that Siwei had inflated revenues, causing Caterpillar to write down \$580 million off its asset. Caterpillar, however, maintains that the amount of the decrease in pay for its CEO was justified and reflected the company's pay-for-performance philosophy.

In the past, CAT has also gotten in trouble for violating environmental laws. In August 2000, the Clean Air Trust named CAT the "Clean Air Villain of the Month." The company had violated the Clean Air Act after it sold defective diesel engines that emitted nearly three times the allowed limit of nitrogen oxides (which creates smog). Other companies were found to have similar defects. It is estimated that in 1998 these defective engines were responsible for emitting pollution comparable to more than 60 million cars. CAT was required to pay over \$128 million in penalties.

To restore its reputation, CAT began releasing more environmentally-friendly products that meet or exceed Environmental Protection Agency standards. In 2004 CAT introduced Advanced Combustion Emissions Reduction Technology (ACERT) engines. These engines exceeded federal emissions guidelines. However, meeting emissions requirements continues to be a challenge for CAT. Because it is a global company, CAT is encountering even more stringent emissions laws in places such as the European Union. These laws, along with new regulations from the U.S. called Tier 4 standards, required CAT to undergo an extensive research and development program to reengineer its non-road products. These reengineered products would have to meet standards calling for almost zero emissions of particulates and nitrogen oxides—the same gases that got CAT in trouble years before. To meet these new requirements, CAT partnered with Tenneco, Inc. to create the Clean Emissions Module (CME). This module will be installed in its ACERT™ engines.

Another ethical issue touched upon earlier is the safety implications of CAT's products. While CAT might not be able to control how its customers use its products, it can limit to whom it sells. Caterpillar has been criticized for the fact that the Israeli Defense Forces (IDF) have used CAT's bulldozers to destroy Palestinian homes, along with other violent acts. In 2003 a young American activist was crushed to death by a Caterpillar tractor operated by the IDF. In spite of the controversy over whether the death was accidental or intentional, the fact that CAT's products are being used in this manner creates an ethical dilemma. Critics argue that CAT's complacency is aiding human rights abuses. CAT claims that its bulldozers were sold to the U.S. government, which then sent them to Israel through the U.S. Foreign Military Sales Program. Critics, however, are not accepting CAT's excuse; rather, they feel CAT should not participate in this program if its bulldozers end up being used for violence. The question over how much responsibility CAT should have over its products is not an easy one to answer.

More recently, the Securities & Exchange Commission (SEC) and the Internal Revenue Service (IRS) launched probes into Caterpillar's accounting and tax management. The SEC is questioning how Caterpillar determined the value of the "goodwill" associated with Bucyrus when Caterpillar acquired it in 2011 for \$8.8 billion. Additionally, Caterpillar is being investigated for strategies it had adopted to reduce its U.S. taxes. During the 1990s Caterpillar was able to significantly reduce its U.S. taxes because it was making replacement parts outside of the United States. The parts were made by outside suppliers, and a Swiss unit would then buy

the parts from the suppliers. This resulted in less taxes that needed to be paid to the United States. Caterpillar maintains that all of its actions were legal, but the IRS is questioning some of the tax policies used by the Swiss unit.

Another government investigation is trying to determine whether Caterpillar's Progress Rail ended up cheating consumers by billing railcar owners for repairs they did not require. Part of this inquiry is also examining whether it improperly discarded parts. Authorities have accused Progress Rail of dumping parts into the ocean so it could carry on the scheme of billing owners for parts they did not need. These are serious accusations that—if true—could have a profound impact on Caterpillar's reputation and result in legal fines.

Finally, the nature of CAT products and its extensive network of suppliers and dealers create a number of risks that CAT must manage to avoid ethical conflicts. Because CAT sells heavy equipment such as tractors and wheel dozers, the chances of injury can be high if safety precautions are not followed. This is likely the reason why CAT provides so many safety resources for its employees and customers. Still, some consumers have used CAT products in ways not anticipated or approved of by the company. This can create liability issues for the company if stakeholders believe that CAT knew or should have known that the product might be used in such a way—even if the product was being improperly used. CAT must be diligent in anticipating foreseeable problems and taking appropriate precautions to protect itself should injuries occur.

CAT also sells its products to independently owned dealers and contracts much of its local parts production to outside parties. Both situations require CAT to exert proper oversight in ensuring that suppliers and dealers are following appropriate compliance procedures. Because quality is such an important part of the CAT brand, the company must carefully monitor its suppliers to ensure that the parts meet its standards. In terms of dealers, one might assume that CAT does not have to worry about oversight as these dealers are independently owned. However, serious misconduct on the part of CAT dealers could jeopardize the brand name. These risks involving third parties become harder to manage as CAT's network of suppliers and dealers grows. CAT must have effective controls in place to monitor these risks and take corrective action when necessary to prevent a misconduct disaster.

CONCLUSION

CAT has made impressive achievements in the corporate social responsibility area. Its shared values, strong stakeholder relationships, and extensive sustainability initiatives have earned it recognition from a variety of sources. CAT's persistence in obtaining a more sustainable future is an important step in light of today's current social concerns. Its inclusion as one of the "World's Most Admired Companies" list demonstrates the admiration stakeholders feel for the firm.

However, CAT has encountered many ethical challenges and will face many more in the future. Employee relations have become strained at some of its global facilities, and a slump in global product sales is forcing CAT to lay off more employees. Additionally, due to the nature of the construction industry, it can be challenging to maintain good environmental practices. CAT also

has the added concern of trying to anticipate how its products will be used and of monitoring its suppliers and dealers. Federal probes are being launched against CAT to investigate misconduct.

One trap that companies tend to fall into is underestimating these types of risks. Since these issues involve stakeholders external to the company, many businesses believe that they are not responsible for their actions. However, without proper oversight, CAT may be considered negligent if stakeholders engage in serious misconduct or injure themselves (or others). Hence, CAT's major challenge beyond its internal operations is to manage the risks that come with selling large products and working with third parties. CAT must be diligent in maintaining proper oversight, ensuring that customers are aware of the safety implications of its products, complying with—and even exceeding—environmental laws, and maintaining solid relationships with employees, customers, and regulators.

QUESTIONS

1. How has Caterpillar's mission and code of conduct influenced how it has handled various ethical issues?
2. What are some of the ethical issues Caterpillar has faced in recent years, and why do you think they occurred at Caterpillar?
3. How should Caterpillar manage employee relationships to avoid ethical issues going forward?

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