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# Corporate Responsibility and Ethics

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## Executive Summary

The concept of corporate social responsibility (CSR) is not a new concept as it has been advocated for many decades. Today's global marketplace is ever challenging where companies are striving to consider the most effective business strategies so to improve financial benefits and gain sustainability. Along with the increase in demand for CSR, companies have shifted their focus on engaging CSR practices as effective strategy to gain profits and improve reputation. Moreover, CSR has been widely accepted as the most effective strategy to gain competitive advantage and reduce costs. This study aims to highlight the importance of CSR and its role in achieving competitive advantage as well as improves financial outcomes. Starbucks has been considered as a company to understand CSR initiatives taken by the company and its impact on company's financial performance.

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## **1. Introduction**

### **1.1. Purpose of the Report**

This report is aimed to demonstrate theoretical understanding of corporate social responsibility (CSR) supported with academic literatures. In addition, it analyses arguments for and against CSR. In order to evidently relate the concept of CSR with practical understanding, this report has investigated how Starbucks has integrated CSR with their business.

### **1.2. Scope of the Report**

Discussion and analysis of the report can be considered significant for academic learning point of view that can help readers to improve their understanding with CSR and be able to identify the impact of corporate responsibility on organizational sustainability.

### **1.3. Limitations of the Report**

There are ambiguous responses available in literatures that create limitations to understand the effectiveness of CSR. In addition, accessibility to know exact impact of CSR practices on Starbucks financial performance was a challenge.

### **1.4. About Starbucks**

Starbuck Coffee was founded in 1971 in Seattle's Pike Place Market with its very first store in the US. Howard Schultz has joined the company in 1981. However, he travelled to Italy in 1983 where he was fascinated with Italian coffee bars. Consequently, he left Starbucks to open his own Il Giornale coffeehouses. Later in march, 1987, owners at Starbuck decided to sell the company. With this news, Howard came back to Seattle again to purchase Starbucks in 1987 with the help of local investors. Since then, he is the present president and CEO at Starbucks. Today, company has over 15,000 stores with its global presence in 50 countries (Company

Website). Starbucks has gained its recognition of premium coffee making brand offering specialty coffee to world's consumers. Business Ethics and Compliance program at Starbucks has been a key element in the success of the company supporting to achieve Starbucks Mission and ensuring to protect culture, society and environment.

## **2. Theoretical Understanding of CSR**

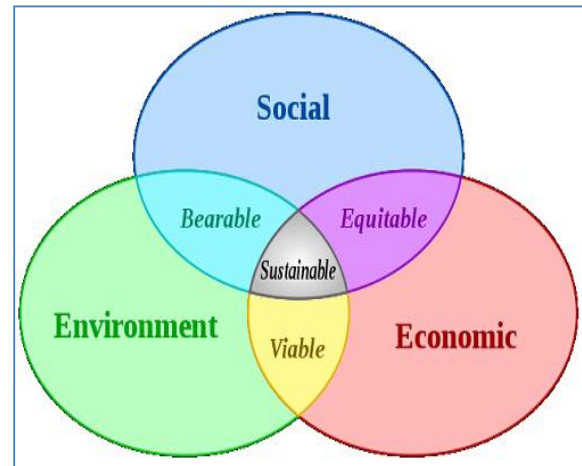
### **2.1. Understanding CSR**

CSR can be defined commonly as the way of linking corporate operations with societal values when the global marketplace is witnessing rapid change (Sharma et al, 2009). Calderon (2011) has stated corporate social responsibility as corporate approach of getting engaged with the society establishing corporate culture and social consciousness. Successfully implementation of CSR within corporate objectives requires ethical behavior as a prerequisite. According to Visser (2005), CSR consists of corporate sustainability, business ethics, stakeholder management, corporate citizenship, environmental management and corporate social performance.

Reinhardt et al (2008) have regarded CSR as sacrificing firm's profits for social wellness. It was implicitly stated that firms aiming to implement CSR practices develops an environment to become environment friendly and employee friendly using business ethics so to attain ultimate objective of satisfying stakeholders (Bénabou & Tirole, 2009).

## 2.2. Measuring CSR

As CSR differs from primary operations of the company, it is very challenging to measure the effectiveness of the CSR. Economic, social and environmental impact of CSR must be measured to find out CSR efficiency following Triple Bottom Line approach (Slapper & Hall, 2011). ‘Key Performance Indicators (KPIs)’ are most widely used to measure the CSR impact on environment and society. Another important tool to measure CSR



is ‘Reputation Index’ as it considers rating the firms on the basis of their social concerns and impact on environment from their business operations (Mellahi, 2013). Third significant tool widely adopted by the researchers and fundamental analysts is ‘Content Analysis’ to measure CSR effectiveness. It requires analyzing annual reports to find out how effectively CSR has been referred within the business operations.

## 2.3. Vigeo as CSR Ranking Agency

Along with the rising focus on CSR as strategic advantage among corporations, demand for CSR ranking agencies have double folded. These agencies collect relevant data and perform analysis to measure effectiveness of CSR on firm’s profitability and social reputation. Vigeo Rating is one of the leading rating agencies with expertise in responsible performance. Agency measures CSR performance and help identifying challenges in different areas of corporate social responsibility. Corporations, financial consultants, UN PRI signatories, academicians and NGO’s are the major users of research reports generated by Vigeo (Vigeo Website).

### **3. State the business case for CSR**

Business case for CSR is concerned for identifying tangible benefits that a business gain from engaging CSR activities in its operations (Vogel, 2005). There are four significant arguments that state the business case for CSR:

#### **3.1. Gaining competitive advantage**

CSR activities enable organizations to gain competitive advantage and it can be regarded in the context of differentiation strategy. In today's highly competitive global marketplace, firms are struggling to sustain in the market. Focusing on CSR practices helps organizations to differentiate with others and therefore attract customers for their strategies towards social and environmental benefits. Competitive advantage was cited in a Fortune Survey-2003 as significant justification for CSR to be used as a differentiator (Tonello, 2011). Organizations seek CSR as an opportunity to improve their sustainability focusing on CSR practices strategically in resource allocation. It further ensures meeting out demands and expectations of stakeholders to provide benefits to the firm. Employee engagement, environmental stewardship, good governance and employee relations are considered CSR practices that firms strategically adopt to gain competitive advantage.

#### **3.2. Managing reputation and Legitimacy**

IT has been argued that ability of a firm is always enhanced through CSR activities to be considered as legitimate among its customers, stakeholders and employees. According to the study by Center for Corporate Citizenship of Boston College in 2010, it was found that 66% of business executives have consider CSR as an important strategic tool that results in developing

reputation and thus help to increase profitability in the long run (Tonello, 2011). With strong reputation, firms gain global value. CSR practices that help managing reputation and legitimacy include transparency in business practices, corporate disclosures, following global business ethics and standard of conduct.

### **3.3. Reducing costs and managing risks**

CSR practices are used as a method to minimize firm's inefficient capital expenditures. In addition, there are arguments that CSR activities improve firm's ability to manage risks. As per the study by PriceWaterHouseCoopers in 2003, 73% of respondents that companies have strategically adopted CSR practices for cost savings. Implementing green technology for energy conservation, waste management, enhanced governance etc are considered good examples for CSR practices that help reducing costs (Tonello, 2011).

### **3.4. Employee satisfaction and investor relations**

Different researchers have found that people want to work in a company that has better value and sustainable approaches in their business operations. People consider fair employer or firms focusing on CSR practices for employee satisfaction as their best option to work for. CSR practices focused on employee satisfaction ensure that company will have employee turnover ratio. In addition, CSR practices are considered one of the important factors for investors in assessing the firm more secure for investments.



#### **4. State the business case against CSR**

There are various arguments against CSR that states corporation's purpose can only be maximizing shareholder's wealth not fulfilling any responsibility to society as a whole (Khan et al, 2012). Few critics believe that benefits to society from CSR can only be distributing profits to charitable donations or any other socially action only if the management finds is fit as per the business objectives.

Another argument against CSR targets the concept of CSR where it is considered weak. Greenwashing can be referred as an example where organizations spent more on advertising for being green rather than spending significantly for environment friendly CSR practices. It has been criticized that CSR practices only help firms to establish good reputation without any actual benefit to the society or the environment.

According to Wall Street Journal Report (2010), the idea of CSR is considered irrelevant when there is a relation between private benefits of companies and public interests. Dr. Karnanai has clearly drawn attention that when company's profits and social welfare are adversely related, CSR practices will be least effective as company would be more concerned for making financial benefits to satisfy shareholders rather than focusing on social interests (Karnani, 2010).

## **5. Activities of Starbucks as Leading CSR Company**

### **5.1. Company's initiatives in CSR**

#### **Ethical Sourcing**

Starbucks have successfully adopted various CSR practices in its business operations. As company is largely focused on sourcing best coffee beans from the world, it follows ethical practices in buying from farmers at fair price and helps them further to grow coffee beans. This practice of ethical sourcing expresses Starbuck's responsibility for environment as well as farmers.

#### **Environmental stewardship**

Starbucks has another CSR initiative of environment stewardship that is aimed to fulfill company's mission to maintain environment through best possible use of recycling, green building and waste management.

#### **Community involvement**

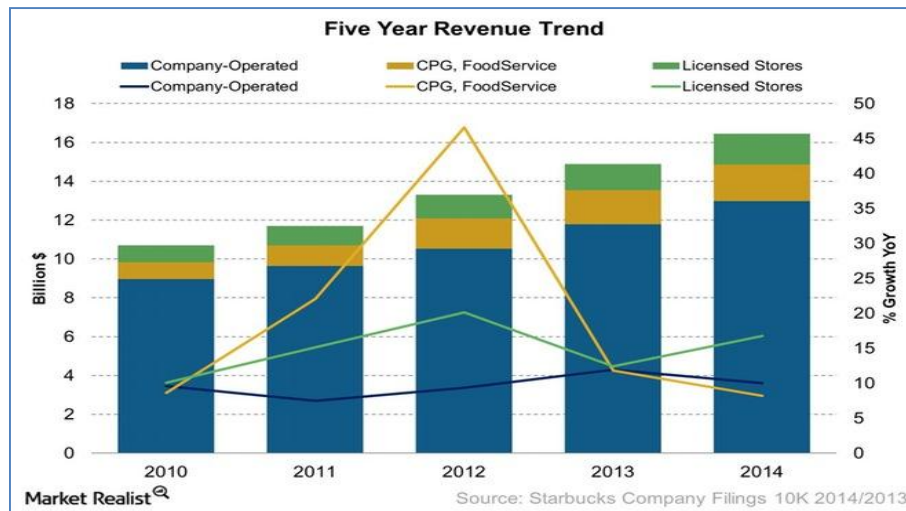
Another CSR practice at Starbucks is supporting people to be considered part of a good community. Company supports various communities through youth action, community service, Ethos Water Fund, Starbucks foundation, Starbucks RED etc.

### **5.2. Starbucks CSR Recognition by Reputation Institute**

Starbucks has been recognized by Reputation Institute where its 2015 U.S. CSR RepTrak Score is 74.51 (Reputation Institute, 2015). This score has been derived by the RepTrak® System measuring Starbucks ability to meet out demand and expectations of its stakeholder. This rating has been done considering 7 key dimensions of reputation; Product or service, Workplace, Citizenship, Innovation, Governance, Leadership and Financial outcomes.

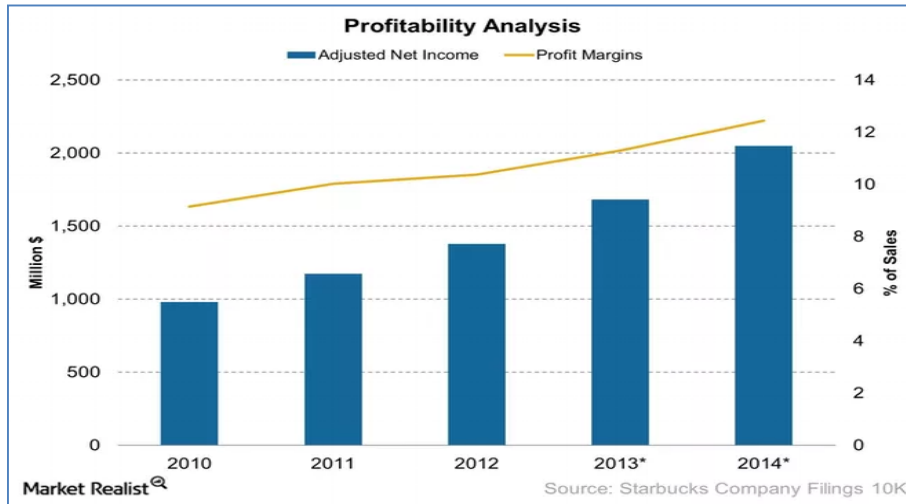
### 5.3. Company's 5-year sales, net profit and share price trends

Figure 1: Five Year Revenue Trend of Starbucks



From the graph above, it can be seen that company's revenue is increasing every year exhibiting strong financial position of the company. In 2014, revenue from company operated restaurants was accounted for 79% of total revenue for the company whereas revenue from CPG, foodservice, and others was only 11%. There were 10,653 licensed stores of Starbucks as of 2014 whose revenue was accounted for 10% of the total revenue in 2014 (Market Realist, 2016).

**Figure 2: Profitability for Starbucks**



Above charts explains clearly that company's net profit is experiencing an upward trend since 2010. Profit margin for Starbucks has also increased from the period of last five years. Company's net income was \$2.05 billion at the end of year 2014 with net profit margin at 12.4% (Market Realist, 2016). Strong brand image and superior quality of coffee have supported to increase the global demand for the Starbucks results in better financial position of the company.

**Figure 3: Market Price of Starbucks for 5 Years**



Increasing revenue and rising net profit margin since 2010 have helped to gain market price of the company. It can be seen as stronger shareholder's value for the company. In 2012, market price of Starbucks was around \$20 that has gone up significantly every year. Current market price as of today is \$54.65 that is more than 200% from the level it was 4 years before. Stronger position of the company, increasing shareholder's wealth and focus on CSR initiatives have been major factors behind the rising share price of Starbucks.

CSR practices have helped Starbucks to experience good financial position over the period of last 5 years. Company's CSR approach to minimize waste and adopting recycling process were important in reducing costs. Technology innovation and Wi-Fi services at restaurant have created demand for visiting Starbucks coffee shop mostly by young customers and professionals. It has boosted the sales of coffee products at restaurant level that can be witnessed in the chart above where revenue from restaurants accounts for 79%. In addition, CSR practices to motivate and engage employees have been crucial that resulted in high retention ratio. It created a better loyalty level among its employees.

## **6. Conclusion**

In today's global marketplace, ways of doing business and performing operations have dramatically changed over past couple of decades. Corporations are striving to perform without compromising its impact on society and environment. Business objectives are now developed exhibiting corporation's responsibility for society and environment. Focusing on CSR practices a firm can experience better financial position, good reputation and enhanced shareholder's wealth. It was seen how Starbucks have initiated CSR practices in its business operations to that

in turn resulted in establishing good relationship with suppliers and developing brand image as a socially responsible company. CSR policies at Starbucks have led the firm to experience growth in its financial position over the last 5 years with net profit margin rising every year.

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