

# Ethical vision and practices of starbucks



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## **Introduction**

Ethics is a very significant area for society and business. Ethics can be seen as morality as well. According to Crane and Matten business ethics is the right or wrong by morality in relation to business activities. Sometimes to maintain ethics, law interrupts to practices it; such as; UK's pre-Civil war slavery laws. Therefore, ethical issues are really depends on the morality of current situation. Sometimes managers face the conflict between right versus right rather than wrong versus right. In that case, they try to satisfy the most powerful stakeholders in this category.

Starbucks is a major company in retail food industry. Health and safety of customers and workers is a major factor of ethical factors. Its reputation is majorly depends on the health and safety of customers. Health and safety is the legal requirement of the government as well. It has suppliers from many countries as well. To co-operate human rights organizations, they are monitoring the human rights of the suppliers' workers and their own workers as well. In here we will have a close look at the ethical issues of Starbucks.

Ethical vision and practices of Starbucks

Quality of products

From the beginning of Starbucks, the management believed that, better quality is not only good for the customers, but also good the long term prospect of business. Starbucks says that better quality is also good for farmers and good farming is good for the planet as well (Starbucks website). Starbucks is also helping farmers to grow quality and environment friendly

coffee. In 2004 Starbucks had opened Farmer Support Centre to give expert help to maintain coffee quality and good pricing.

#### FairTrade certificate holder

The organization, FairTrade ensures reasonable prices of products and fair wages and environment of workers. In most of the developing countries, the suppliers try to take the advantage of the need of workers or farmers.

FairTrade monitor the activities of suppliers and give certificate to those suppliers who are doing business in ethical way. Currently, Starbucks is collecting 70% of their raw materials by certified FairTrade suppliers and by 2015 they will achieve to have 100% of their suppliers to have FairTrade certificates.

#### Using recycled cups

By 2015, Starbucks is aiming to use 100% of its cups to reusable. They are now aiming to control their waste as well. They are aiming most of the waste to be recycled.

#### Using more green energy

Change of climate is affecting coffee farming a lot. By taking in to account of climate change, Starbucks is researching more to farming coffee by using less resource from nature. They also use more and more environmental friendly or greener source of energy. By this year, are aiming to certified by 'green' for the support of using natural energy. By the help of Conservation international Starbucks is protecting the rainforest around the coffee farm as well.

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### Inspiring all for good environment

Starbucks is not acting for good environment but also inspiring their customers, employees, and supplier to take a good care of the environment. They suggest their customers to reuse their mugs as much as possible. The employees are recommended use less electrical energy at the store as well. The employees therefore try to use freezer, lights and thermostat less.

### Community service

Starbucks is gathering their customers, local people and management to help the local community. By 2015 they hope to give 1 million hours to work for the community services. By Literacy Trust and The Prince's Trust, Starbucks is helping thousands of children around the community to get literate and ensure better future in their life. Starbucks is also inspiring young entrepreneurs to solve the challenge of their local surroundings.

### Loans to poor farmers

For some of the farmers, coffee farming becomes expensive. To grow best quality coffee or tea, Starbucks is giving affordable loans to farmers. They are expecting to give loan maximum \$15 million each year to help the farmers.

### Serving healthy food

Starbucks is ignoring high fat food and inspiring the customers to eat. They have reduced the number of pastries in the store and ensure no food is more than 500 calories. They have ignored the artificial ingredients from food as

well. Starbucks also recommend the customers and their employees to have a balances life style.

#### Support to employees

Not only full time employees, but also part time employees are getting health care benefits from Starbucks. Starbucks see employees as their partner. For wellness of their partner, they introduced thrive program, which will help the employees to lose weight, stop smoking, and other fitness events.

#### Keep the customers informed

Starbucks has added the calories of food information in their food menu. Each day thousands of customers enter in to the Starbucks website to get the food nutrition information. For this reason they have now introduced calories meter to measure the energy of food they consumed. Stanford University have recently done extensive research on tagging the food nutrition information and changes of food choices. They have found that, customers now can choose foods without being confused about the effect of the food.

#### Green surroundings

Starbucks's most of the store is environment friendly as well. Most of the furniture is made by wood or recycled materials. USGBC is giving certificate to Starbucks for the green environment. A continuous check is done to all those green stores to makes sure it ensures customers and employers health

and safety. The Following procedures are done to ensure the green environment:

Saving energy by letting the air-condition's temperature 75'c rather than 72'c

Preserving water via taps to purified jugs instead of continuous flow of water.

Using low power valves in the whole store

Setting recyclable tiles in floor

Attempt to minimize the use of light

Using paints with less harmful chemicals

Using wood built products.

Ethics and corporate governments

In corporate governance, the management not only have to satisfy the shareholders, but also have to satisfy other stakeholders. The financial objective of a company is to maximize shareholders wealth; i. e. maximize profit. To maintain ethics, it is sometimes very expensive and attracts only a segment of customers. Even sometimes some group ask question like, whether maximizing profit is ethical or not. For example, profit maximizing of a cigarette company may not be ethical for the health concern of the product.

To comprehend the power and relationship stakeholders Mendelow did a lot of wide study on it. He defined influence by function of power and influence.

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Influence = Power x Interest

He described from the equation that, the influence acts as the mixture of power and interest of stakeholders. For example, if a stakeholder has less power, but bigger interest still they can influence company strategies.

## **Interest**

Low

High

Low

Minimal Effort

Keep informed

## **Power**

High

Keep satisfied

Key players

Figure: Business approach for stakeholders.

We can say the most important stakeholders are 'key players', which have great interest and power as well. After that, we can say that the group with high power and low interest seems to be the second most important group. The organization should just keep them satisfied may be by fulfilling minimum requirements only. The third stakeholder group we can identify is

with minimum power and maximum interest. The organization should give all the related information to those stakeholders, and why or how the organization is running to maintain issues.

We can say that, except the minimal effort group stakeholders, the organization should really take care of those 3 groups, although it's not more ethical issue than business issue. Now the biggest problem is; all of the groups may not have same objective.

#### Public interest versus company interest

If a company is fully transparent to public, it may not keep secret about the strategies of its business. But it is really difficult to understand the motive of managers of conveying information or keeping secrets. Keeping valuable information secret from the competitor is also important. The managers often face dilemma about conveying information, although the professionalism would be to acting in the public interest.

#### Public interest versus human rights

Practicing human rights is truly ethical. Human rights mostly indicate the interest of public as well. Therefore, maintaining human rights would be seen as working for public. However, human right is really an issue of relativity. For example, excluding the blind job applicants for typing job may not be unethical or against human rights.

#### Government interest versus company interest



This is the most common type of conflict between shareholders. Tax system of any country is the most arguable factor in business ethics. Businesses always look for opportunities to give minimum tax for maximizing profit. On the other hand, tax is for social welfare of the people of the country. But, some countries even don't impose tax such as United Arab Emirates. Some countries like UK are largely dependent on the tax collection, so they have to impose huge tax to businesses.

### Threat of ethics

Self-interest threat: This occurs when the manager is really eager to show his / her performance to the management. In that case, the manager forgets about ethics and worried about individual achievements. According to the code of ethics, the auditor should not have any interest towards the success and failure of the company.

Self-review threat: Self-review threat happens when the company review its own job and find no mistakes in it. In that case external auditor should be appointed and the external auditors should make their own judgement by using their own knowledge. Self-review threat happens when the company give same job again and against to the same departments and in some cases, same employees as well.

Intimidation threat: Intimidation happens if the company or the stakeholder is very powerful and no command on each other. This is the most common form of threat. This kind of threat can happen with the company and supplier or the supplier and their worker or the employee and the company. This is the most difficult threat to overcome as well. In such case, the workers or

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employees should make unions. The individual group can also report to local administration authority to solve the problem.

### Controlling ethics in business

Only very good corporate governance practice can ensure ethics in business. The board of directors in the business should be independent to work for the interest of all stakeholders. To do this, most of the board of directors should be independent. Independent directors should recommend the auditor who will ensure whether the company is working for greater interest or not. The audit firm should be external from the company and should not have any sort of relation with the company. The external auditor should have good track record, better understanding of the company and have to have knowledge about local rules and regulations. The external auditor should report to the chairman or audit committee run by independent directors rather than CEO of the company. The auditor should always report to those significant issues which may change the decision making of the stakeholders. The government should impose rules to companies to gain trust from the public by getting opinions from external entities or auditors.

### Consequences of unethical behaviour

If it is found that, the company is practicing unethical behaviour, the company's future become uncertain. Firstly, the company will lose the trust of public and put their reputation at stake. The business will become unstable if they lose the trust of public. Secondly, anyone may not want to support that organization when it is in danger. They may not find any investors as their long term sustainability is uncertain. Finally, the worse

thing can happen with that company is that, it may have to close the business forever. The impact of unethical behaviour may not only affect that company, but also affect the whole industry as well. The public or government may want to know whether its competitors are doing similar practice or not. The management of that company may face public persecution as well. External auditors are also called at that situation to test the reliability of their audit report.

Focus of ethics on customers, quality of product and market share

Ethics and business profit most of the time has inverse relationship (Bowie 1998). Maintaining ethics in the company is always expensive. The company can sometimes impose the extra cost of maintaining ethics on customers by increasing price of the product. Some customers only look for the cheapest product and have no concern over the ethical issue or the reach quality of the product. For the recent recession most of the customers are now switching to value product rather than quality product. Ethics can work as reputation of the company, if their ethical activities are really focused for the public. In that case, ethics can work as a competitive advantage of the company. When the customer is not sure about the quality of the product, they tend to evaluate the reputation of the company and then take decision. That feeling of reputation and quality depends on five different aspects (Parasuraman, Zeithaml and Berry, 1988).

The promises the company made to the customers.

Whether the company is persuasive towards the satisfaction of the customers.

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Whether the company is capable of making the commitments.

Whether the company see the customer satisfaction as their opportunity.

Whether the company see tangible results for giving best customer satisfaction.

Benefit and challenges of planning to control companies

Willis (2006) said that, we should have a target and plan for the following reason:

Planning saves time: Planning saves time and sometimes waste time as well. By planning or step by step process, we don't need to think after the decision making. But, taking the decision whether the company should go for the plan or not takes a lot of time. Therefore, we need to go for the instinct rather than taking time for the decision to do the right thing at the right time.

Planning is the framework of decision making: By planning we can be ready for what will happen when we do something and if we do something, what can go wrong. By that way we view from the top that, where we are. If we take the all the decision at the beginning, there is less chance that the project will give no result. If we work by our instinct rather than not thinking about the consequence of our action, sometimes we have to fall in the position where we should not be there.

Planning is needed for resource management: We should always have it in advance what we need to have in future. This will save time and ensure the

availability of the resource. To have the resource raising fund is important as well. To raise fund, we have to do budgeting and look for the best possible source of fund to collect the money in a least cost.

Planning helps to achieve goal towards vision of the company: Planning is like watching the company from the top. By planning a good monitoring is possible and we can always understand where we are.

Planning helps to set priorities and critical time of the project: In planning there should be a lot of different stages and some stages depend on each other to complete. Therefore, by planning, lag time can be reduced to minimum and we can understand the time frame of the each stage. By planning, we can also understand we stage are in critical position and which stage is in flexible position to implement.