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Corporate Social Responsibility: A Comparison Analysis*

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Abstract

Purpose - The purpose of this paper is to evaluate two multinational companies that seem to have reconciled the two mandates of CSR and profit maximization while becoming multibillion dollar companies and examine their organizational culture and practices and their management and leadership in order to determine the controlling factors, if any, that have elicited their success while renowned for their CSR policies.

Research design, data, and methodology - This is a case study, an analytical approach, which focuses on exploring and analyzing the CSR policies of Starbucks and IKEA.

Results - IKEA and Starbucks considered their position in the global business environment and their social responsibilities as crucial and did more than a cursory lip service to the issues. In fact, they both took the more difficult long-term approach and tried to resolve the root causes for the environmental and social issues in their supply chain. Ultimately though, it is the ethical leadership of the top management that sets the tone for the organizational culture and its CSR.

Conclusion - IKEA and Starbucks are "living proof" that a company can be successful while treating its employees and the community of suppliers and associates with respect and dignity and while making this world a better place.

Keywords: Starbucks, Corporate Social Responsibility, IKEA, Leadership

JEL Classifications: J50, L10, M10.

1. Introduction

Corporate social responsibility ("CSR") is a concept that has been seen as contradictory to a business' traditional primary obligation of maximizing profit and is a notion that has been deemed by corporations as imposition of non-economic burdens that are not related to any return in revenue (Hahn & Kim, 2016). The idea of CSR, however, has been gaining widespread recognition (Erwin, 2011), and

growing pressures from practical realities of complex relationship between corporations and its larger sociopolitical, cultural, economic and natural environments within which it operates have forced the companies to become unavoidably accountable to its various stake holders.

Progression of public interest for corporations to demonstrate a commitment to CSR and social good, beyond profit maximization and requirements of the law, has pressured businesses to reconcile the two mandates and has generated the slogan, "doing well by doing good" (Stormer, 2003), an "enlightened self-interest" concept that tries to objectively rationalize corporate social investment in CSR (Keim, 1978) by implying that CSR can be achieved in terms of economic performance in "acting in socially responsible ways in order to further one's own ends" (Stormer, 2003). In other words, corporations still embrace its purpose of making profits, but they do so in a way that

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other parties also win (Marques, 2008). Post-Enron and financial crisis era has brought significance to values and ethics and rejection of the notion that corporations' sole bottom line is to make profit (McLaughlin, 2005).

This comparison study evaluates two multinational companies that seem to have reconciled the two mandates of CSR and profit maximization while becoming multibillion dollar companies and examines their organizational culture and practices and their management and leadership in order to determine the controlling factors, if any, that have elicited their success while being renowned for their CSR policies.

2. IKEA and Starbucks

IKEA and Starbucks are multibillion dollar multinational companies acclaimed for their CSR policies. IKEA has been characterized as "one of the global front-runners within work on CSR" (Morsing & Roepstorff, 2015); while Starbucks has been listed "as the no. 1 company that contemporary MBAs want to work for, because they consider it a company with 'conscience'" (Marques, 2008, p. 251). Considered the world's largest furniture retailer (Hahn, 2015), IKEA has 328 stores, operations in 43 countries, and 155,000 "co-worker" employees as of 2015 (IKEA Group FY 15 Yearly Summary). Starbucks operates 23,000 stores in 71 countries and employs 238,000 "partners", Starbucks' term for its employees (Schultz, 2016).

Both IKEA and Starbucks have been named in the list for "World's Most Ethical Companies Honorees" by Ethisphere Institute, a research based international think-tank that focuses on defining and advancing ethical standards for business practices (Hahn, 2015). Ethisphere evaluates companies based on "ethics and compliance programs, corporate citizenship and responsibility, culture of ethics, governance, and leadership, innovation and reputation" and considers a "company's history of litigation, reputation, and ethical track record. Industry, size, geographic location, and other factors, are all taken into considerations" (Strauss, 2016). For the 10 years of Ethisphere's existence, IKEA was named for four consecutive years until 2010, while Starbucks was named every year for the past 10 years (Ethisphere, 2016).

IKEA is based in Almhult, Sweden and is a part of IKEA Group of Companies owned by Stichting INGKA Foundation whose funds it receives can only be used by either reinvesting in the IKEA Group or donating for charitable purposes (IKEA Group FY 15 Yearly Summary). Founded by Ingvar Kamprad when he was 17, IKEA entered the furniture business in 1947 and opened its first IKEA store in 1953 (Hahn, 2015). Due to publicized criticisms such as the use of child labor, it is not until the end of 1990s that IKEA seems to have realized the need to develop its CSR policies, especially with regard to environmental and social

conditions of its suppliers (Id.). Instead of empty quick solutions for publicity purposes, IKEA and Ingvar Kamprad, its founder, involved many employees to engage in extensive internal process to develop "IWAY", its code of conduct, to do "good business while being a good business", recognizing that it "has an impact on people and the planet, in particular people's working conditions, as well as the environment, both locally and globally" (IWAY Standard).

By devoting resources and effort for environmental and human rights issues, IKEA has thus systematically integrated its CSR policies into its management philosophy and business operations to take proactive steps to actually remedy the problems, and its long-term relationship strategy with its suppliers and continuous development of CSR policies have helped "to develop quality, service, price, as well as environmental and social responsibility together with its suppliers while helping them to create optimal conditions in producing the goods efficiently" (Hahn, 2015, p.49). Instead of putting a band aid on the environmental and social problems it encountered doing business globally, IKEA has proactively worked and devoted its time and funds to eradicate the root causes of harmful environmental and social issues. "It actually goes out and investigates what the causes to the problems are" and "works to raise the standard of living and provide a total environment" to resolve the cause of the problem (Id.). In fact, in addition to the funds spent on environmental initiatives, IKEA Foundation in 2014 alone has donated €104 million in an effort to move children from child labor into classrooms (Id.). According to IKEA, its "vision to create a better everyday life for many people goes beyond home furnishings" to better the lives of the supplier and their communities (IKEA Group FY15 Yearly Summary).

Starbucks is a U.S. based company headquartered in Seattle, Washington. As one of the most admired companies in the world (Fortune, 2016), "Starbucks is often presented as a model company for positive corporate activity" (Hahn & Kim, 2016). With the mission statement: "To inspire and nurture the human spirit — one person, one cup and one neighborhood at a time" (Starbucks Company Profile, 2016), Starbucks has embraced and ingrained its CSR objectives into its management, employees, and operations of the business itself from the beginning when Starbucks became Starbucks Corporation in 1987 (Starbucks Company Timeline). Almost immediately in 1988, Starbucks offered comprehensive health coverages to its full-time and part-time employee partners and their family members, including domestic partners (Id.). In doing so, Starbucks set a precedent as the first company in the U.S. to offer full healthcare coverage to part-time employee partners (Gallow, 2013).

In addition to this practice, which is still not widely implemented in current corporate culture, Starbucks became the first company in the U.S to extend equity options (Id.),

known within the company as “Bean Stocks”, to its part-time employee partners so that they can share in the success of the business (Schultz, 2016). Benefit for its partners does not stop there. In addition to many other benefits not mentioned here, Starbucks has also instituted tuition reimbursement program for its full-time and part-time partners for online college degree program at Arizona State University. While other companies also have tuition reimbursement programs, Starbucks College Achievement Plan is far different and distinguishable from other companies’ because it will reimburse its partners for a bachelor’s degree even if they major in a subject that will not benefit the company (Holt, 2015).

With regard to its suppliers, Starbucks in 2000 implemented fair trade practices and sold fair trade certified coffee in its stores, an astounding decision because it meant that it would pay above the market price for its coffee. While it may not make sense for other businesses, for Starbucks, it was a long-term commitment to endeavor and work with its coffee suppliers in its determination to provide a better quality of life for them and their workers. Starbucks’ commitment is also seen in their donations of millions of dollars for over a decade to CARE, a nonprofit international organization providing community development and relief in coffee origin countries (Hahn & Kim, 2016).

3. Leadership

IKEA’s founder Ingvar Kamprad was born in Smaland, Sweden. Growing up on a farm called Elmtaryd near Agunnaryd, Kamprad began working from age 5, selling matches for profit. He founded IKEA at age 17 with the reward money given by his father for doing well in school despite his dyslexia. The name IKEA was created by first taking Kamprad’s initials (I.K.) then first letters of Elmtaryd and Agunnaryd (Hahn, 2015). Although one of the wealthiest people in the world, “Kamprad is known by his peers to be incredibly frugal. He reportedly prefers to fly economy, stay in cheap hotels, and has driven the same Volvo for two decades” (Loudenback, 2015). To borrow Kamprad’s own words, “I’m a bit tight with money, but so what? I look at the money I’m about to spend on myself and ask myself if IKEA’s customers can afford it... I could regularly travel first class, but having money in abundance doesn’t seem like a good reason to waste it. If there is such a thing as good leadership, it is to give a good example. I have to do so for all the IKEA employees” (Ingvar Kamprad Quotes).

Yet, while being thrifty on himself, he has “shown great charity,” with IKEA having “a tradition of outreach and philanthropy, and sponsorship of UNICEF and other similar organizations” (Darling, 2007). As mentioned above, Kamprad set up a corporate structure that has a retail franchise arm and a charitable arm – the IKEA Group of

companies, the retail arm, which is owned by Stichting INGKA Foundation, the charitable arm, whose funds can only be reinvested in the IKEA Group or donated for charitable purposes. However, the tax evasion allegations against Kamprad and IKEA has damaged their reputation, “Kamprad unpopularly moved IKEA headquarters from Sweden to Copenhagen, Denmark, in 1973 to avoid unfavorable business taxes for his growing company. He also moved himself and his family to Switzerland to protest Sweden’s increasing taxes. But the corporation is now based in the Netherlands, and Kamprad has since returned to Sweden” (Loudenback, 2015, p.1). “IKEA is once again under the microscope for corporation tax avoidance...[It] has been accused of avoiding more than €1 billion in taxes over the past six years by Ministers of the European Parliament” (Shen, 2016).

Howard Schultz is the president, chairman, and CEO of Starbucks. From the beginning, he is said to have “had a passion to build a company that treats people with dignity and respect,” considering himself “to be in the business of people, not coffee” (Hahn & Kim, 2016). Schultz is deemed a “remarkable and unusual businessman ... who pays close attention to his company’s moral and ethical responsibilities...” (Glaser, 2006). Starbucks’ Mission statement, “To inspire and nurture the human spirit – one person, one cup and one neighborhood at a time” (Starbucks Company Profile, 2016), demonstrates Schultz’s business philosophy and how it is ingrained in Starbucks’ corporate culture and standard of business conduct. In fact, according to Schultz, “It was not the calling of coffee, but the calling to try building a company that my father never got a chance to work for ... When we began Starbucks what I wanted to try to do was to create a set of values, guiding principles, and culture” (Gallow, 2013).

Schultz’s principles and values arise out of his childhood. When Schultz was a young boy growing up in the projects, his father, who struggled with a series of blue-collar jobs, fell and broke his leg while working as a driver of a diaper service truck. Difficulties encountered by him and his family as a result of having no health insurance or worker’s comp, left a long impression on Schultz (Glaser, 2006 may 15). Without a high school degree, his father had to work two or three jobs to provide for his family, and he died of lung cancer having no savings and no pension. “He was a beaten man... He had tried to fit into the system, but the system had crushed him. With low self-esteem, he had never been able to climb out of the hole and improve his life... More important he had never attained fulfillment and dignity from work he found meaningful” (Schultz & Yang, 1997, p. 4).

Schultz sees Starbucks as a living legacy to his father (Id.) and considers his proudest accomplishment at Starbucks to be “the relationship of trust and confidence we’ve built with the people who work at the company. That’s not just an empty phrase, as it is at so many

companies. We've built it into such ground-breaking programs as a comprehensive health-care program, even for part-timers, and stock options that provide ownership for everyone." (Id., p. 6). This philosophy extends into how Starbucks treats its suppliers, as Starbucks seeks to better the communities it touches, "one neighborhood at a time".

4. Discussion

As the above sample analysis demonstrates, two companies are quite different in terms of their business practices and leadership styles. In terms of CSR, one began its CSR program almost from the inception of his company; while for the other, it took negative publicized incidents to direct its attention to the necessity of the CSR program. But both considered their position in the global business environment and their social responsibilities as crucial and did more than a cursory lip service to the issues. In fact, they both took the more difficult long-term approach and tried to resolve the root causes for the environmental and social issues in their supply chain. Ultimately though, it is the ethical leadership of the top management that sets the tone for the organizational culture and its CSR (Hahn & Kim, 2016).

Achieving organizational excellence requires leadership, "a person who inspires ... sufficient competence to influence a group of individuals to become willing participants in the fulfillment of innovational goals" by being centered on correct value-driven principles and executes those priorities with

integrity (Darling, 2007). Kamprad sought to lead by example. While not perfect and made many mistakes, Kamprad considered his employees and customers, even in his personal decisions. Schultz sought to show that a "company can grow big without losing the passion and personality that built it, but only if it's driven not by profits but by values and by people" (Schultz & Yang, 1997, p. 8). In fact, for Schultz, the most difficult time for Starbucks with plummeting sales and sinking stock was when Schultz was serving as just a Chairman, not CEO, and Starbucks "had lost our way...The pursuit of profit became our reason for being and that's not the reason that Starbucks is in business" (Gallow, 2013). In fact, when Schultz took over the position of CEO again and brought the company back to its beginning values, Starbucks saw "record revenue, record profits, and a record stock price" (Id.).

In conclusion, both IKEA and Starbucks have demonstrated that sharing success with the employees and the community and taking care of the environmental and the social issues locally and abroad, should "not be viewed as an added cost that cuts into profits, but as a powerful energizer that can grow the enterprise into something far greater than one leader could envision (Schultz & Yang, 1997). Both IKEA and Starbucks seem to have proven that a company can be benevolent and conscientious while growing and becoming more profitable. They are "living proof" that a company can be successful while treating its employees and the community of suppliers and associates with respect and dignity and while making this world a better place.

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