

Case Application (Leading) Continuing Case

Leading at Starbucks

Once people are hired or brought into organizations, managers must oversee and coordinate their work so that organizational goals can be pursued and achieved. This is the leading function of management. And it's an important one! However, it also can be quite challenging. Managing people successfully means understanding their attitudes, behaviors, personalities, individual and team work efforts, motivation, conflicts, and so forth. That's not an easy thing to do. In fact, understanding how people behave and why they do the things they do is downright difficult at times. Starbucks has worked hard to create a workplace environment in which employees (partners) are encouraged to and want to put forth their best efforts. Howard Schultz says he believes that people everywhere have the same desire—to be respected, valued, and appreciated.

Starbucks—Focus on Individuals

Even with some 235,000 full- and part-time partners around the world, one thing that's been important to Howard Schultz from day one is the relationship he has with employees. Schultz is an ardent proponent of a people-first approach and recognizes that the success of Starbucks is due to its partners (employees). And one way Starbucks demonstrates the concern it has for the relationship with its partners is through an attitude survey that gives partners an opportunity to voice their opinions about their experiences. It also measures overall satisfaction and engagement—the degree to which partners are connected to the company. It's been an effective way for Starbucks to show that it cares about what its employees think.

For example, a partner view survey was conducted in early 2010 with partners in the United States and Canada and in the international regional support centers in Europe/Middle East/Africa, Asia Pacific and Latin America, at Starbucks Coffee Trading Company in Switzerland, at Starbucks Coffee Agronomy Company in Costa Rica, and at the coffee roasting facility in Amsterdam. At the end of the survey, Howard Schultz thanked partners for taking the survey. He also acknowledged that the previous year and a half had been difficult (it was the time of Schultz transitioning back into the CEO position) and that partners had been asked to do a lot during that time. The tough and emotional decisions to be made and the company's financial crisis weren't easy for any of them—from the top to the bottom of the organization. But Schultz also

reiterated that his number-one commitment was to the company's partners and reinventing the partner experience at Starbucks. Although results aren't publicly available, it's likely that managers heard the good and the bad stuff that partners experienced and were feeling. It was a good barometer for gauging employee attitudes after a difficult time of transition and transformation for the company. Earlier partner surveys have provided relevant and important clues to employee attitudes. For instance, in a survey from 2005, well over half (64 percent) of partners responded to the survey—much higher than the number of respondents to the previous survey in 2003, in which the partner response rate was only 46 percent. Responses to questions about partner satisfaction and partner engagement were extremely positive: 87 percent of partners said they were satisfied or very satisfied, and 73 percent said they were engaged with the company. (The numbers in 2003 were 82 percent satisfied and 73 percent engaged.) In addition, partners specifically said they “Know what is expected of them at work; believe someone at work cares about them; and work for managers who promote work/life balance.” In a 2015 survey, partners ranked themselves as most happy compared to workers in other U.S. retail firms. It shouldn't be a surprise that partners tend to stay with the company. Some reports estimate that Starbucks' turnover rate is 120 percent less than the industry average. But partners also identified some areas where they felt improvements were needed. These included “Celebrate successes more; provide more effective coaching and feedback; and improve communication with partners.” And Starbucks' managers try to address any concerns raised in these surveys or concerns expressed in other ways. In another review published by Glassdoor.com, Starbucks employees gave the company 3.8 stars out of 5 and 91 percent approved of CEO Howard Schultz.

Every organization needs employees who will be able to do their jobs efficiently and effectively. Starbucks states that it wants employees who are “adaptable, self-motivated, passionate, creative team players.” As you can see, this “ideal” Starbucks partner should have individual strengths and should be able to work as part of a team. In the retail store setting, especially, individuals must work together as a team to provide the experience that customers expect when they walk into a Starbucks. If that doesn't happen, the company's ability to pursue its mission and goals is likely to be affected.

Communication at Starbucks

Keeping organizational communication flowing in all directions is important to Starbucks. And that commitment starts at the top. Howard Schultz tries to visit at least 30 to 40 stores a week. Not only does this give him an upfront view of what's happening out in the field, it gives partners a chance to talk with the top guy in the company. The CEO also likes to “get out in the field” by visiting the stores and roasting facilities. For instance, Starbucks China established the Partner Family Forum to recognize the special role families play and highlighted Starbucks' commitment

to its partners. During one meeting Schultz stated, “I am so incredibly proud of what you (company partners) have accomplished. And I promise you (the parents of Starbucks partners) we will grow this company the right way. I am a true believer in the future of China because of the humanity and the heart and the conscience of the Chinese people.” Despite these efforts by the top executives, partners have indicated on past employee surveys that communication needed improvement. Managers listened and made some changes.

An initial endeavor was the creation of an internal video newsletter that conveyed information to partners about company news and announcements. Another change was the implementation of an internal communication audit that asks randomly selected partners for feedback on how to make company communication more effective. In addition, partners can voice concerns about actions or decisions where they believe the company is not operating in a manner consistent with the guiding principles to the Mission Review team, a group formed in 1991 and consisting of company managers and partners. The concept worked so well in North America that many of Starbucks’ international units have provided similar communication forums to their partners.

Starbucks—Motivating Employees

A story from Howard Schultz’s childhood provides some clues into what has shaped his philosophy about how to treat people. Schultz’s father worked hard at various blue-collar jobs. However, when he didn’t work, he didn’t get paid. When his father broke his ankle when Howard was seven years old, the family “had no income, no health insurance, no worker’s compensation, nothing to fall back on.” The image of his father with his leg in a cast unable to work left a lasting impression on the young Schultz. Many years later, when his father died of lung cancer, “he had no savings, no pension, and more important, he had never attained fulfillment and dignity from work he found meaningful.” The sad realities of the types of work environments his father endured had a powerful effect on Howard, and he vowed that if he were “ever in a position where I could make a difference, I wouldn’t leave people behind.” And those personal experiences have shaped the way that Starbucks cares for its partners—the relationships and commitments the company has with each and every employee. In fact, during the recent economic recession, Schultz was contacted by an institutional shareholder about trimming the health insurance for part-time employees. Schultz’s reply? There’s no way that benefit at Starbucks is being cut.

One of the best reflections of how Starbucks treats its eligible part- and full-time partners is its Total Pay package, which includes competitive base pay, bonuses, a comprehensive health plan, paid time-off plans, stock grants, a generous retirement savings program, and partner perks (which includes a pound of coffee each week). In 2015, Starbucks launched the College

Achievement Program that will pay for most employees to earn an online bachelor's degree from Arizona State University. Although specific benefits differ between regions and countries, all Starbucks international partners share the "Total Pay" philosophy. For instance, in Malaysia and Thailand, partners are provided extensive training opportunities to further their careers in addition to health insurance, paid vacation, sick leave, and other benefits. In Turkey, the "Total Pay" package for Starbucks' partners includes transportation subsidies and access to a company doctor who provides free treatment. And, in China, partners receive a monthly housing allowance to help them overcome the financial challenges of starting their careers.

Partner (employee) recognition is important to Starbucks. The company has several formal recognition programs in place that partners can use as tools to encourage, reward, and inspire one another. These programs range from formal company awards to informal special acknowledgments given by coworkers. One tool—developed in response to suggestions on the partner survey—is an on-the-spot recognition card that celebrates partner and team successes.

To assist partners who are facing particularly difficult circumstances (such as natural disaster, fire, illness), the company has a CUP (Caring Unites Partners) fund that provides financial support. After Hurricanes Katrina and Rita in 2005, more than 300 partners from the Gulf Coast region received more than \$225,000 in assistance from the CUP fund. In China, Starbucks has set aside RMB1 million (about \$152,000 in today's currency exchange) for the Starbucks China CUP fund to be used to provide financial assistance to partners in times of significant or immediate needs. This is the type of caring and compassion that Howard Schultz vowed to provide after seeing his father not able to work and have an income because of a broken ankle. In 2015, Starbucks was named one of the top 10 "Best Workplaces in Canada" for the fifth consecutive year. In 2013, Starbucks again was named one of Fortune magazine's 100 Best Companies to Work For (in the United States)—the fifteenth time since 1998 that Starbucks has received this recognition. Although being recognized as a great company to work for is commendable, Starbucks has seen its ranking drop. In 2008, it was ranked number 7; in 2009, number 24; in 2010, number 93; and in 2011, number 98. However, in 2012 its ranking rose to number 73, but it fell to number 94 in 2013 and did not make the list in 2014, 2015, or 2016. Like many companies, Starbucks had to make some tough strategic decisions during one of the toughest economic periods faced recently. Despite the challenges, it's a testament to Starbucks' treatment of its partners that it made the top 100 list for 15 years straight. However, there may be some underlying employee issues to address after failing to be cited as one of the 100 Best Companies to Work For in the most recent survey.

Starbucks—Fostering Leadership

Not surprisingly, Howard Schultz has some definite views about leading and leadership. He says being a great leader involves finding a balance between celebrating what's made a company successful in the past and knowing when to not continue following the status quo. He also said being a great leader means identifying a path your organization needs to follow and then creating enough confidence in your people so they follow that path and don't "veer off course because it's an easier route to go." He also said leaders, particularly of growing companies, need to stay true to those values and principles that have guided how their business is done and not let those values be compromised by ambitions of growth.

Since 1982, Howard Schultz has led Starbucks in a way that has allowed the company to successfully grow and meet and exceed its goals and to do so ethically and responsibly. From the creation of the company's Guiding Principles to the various innovative strategic initiatives, Schultz has never veered from his belief about what Starbucks, the company, could be and should be. In 2011, Fortune named Howard Schultz the Businessperson of the Year.

Unlike many companies, Starbucks and Howard Schultz have taken their leadership succession responsibilities seriously. In 2000 when Schultz was still CEO, he decided to move into the chairman's position. His replacement, Orin Smith (president and chief operating officer of Starbucks Coffee U.S.), had been "groomed" to take over the CEO position. Smith made it a top priority to plan his own succession. First, he established an exit date—in 2005 at age 62. Then he monitored the leadership skills development of his top executives. Two years into the job, Smith recognized that the internal candidates most likely to replace him would still be too "unseasoned" to assume the CEO position by his stated exit date. At that point, the decision was made to look externally for a promising successor. That's when Jim Donald was hired from Pathmark, a regional grocery chain, where he was chairman, president, and CEO. For three years, Donald was immersed in Starbucks' business as president of the largest division, the North American unit, before assuming the CEO position in 2005, as planned. As described in earlier parts, in early 2008, Jim Donald stepped down from the CEO position, and Howard Schultz once again assumed the position. At that time, Schultz realized his job was to step up as a leader to transform and revitalize Starbucks.

Starbucks also recognizes the importance of having individuals with excellent leadership skills throughout the company. In addition to the leadership development training for upper-level managers, Starbucks offers a program called Learning to Lead for hourly employees (baristas) to develop leadership skills. This training program also covers store operations and effective management practices. In addition, Starbucks offers to managers at all organizational levels

additional training courses on coaching and providing feedback to help managers improve their people skills.

Discussion Questions

P5-1. Do the overwhelmingly positive results from the 2005 partner survey surprise you? Why or why not? Do you think giving employees an opportunity to express their opinions in something like an attitude survey is beneficial? Why or why not?

P5-2. How might the results of the partner survey affect the way a local store manager does his or her job? How about a district manager? How about the president of global development? Do you think there are differences in the impact of employee surveys on how managers at different organizational levels lead? Why or why not?

P5-3. As Starbucks continues to expand globally, what factors might affect partner responses on a partner view survey? What are the implications for managers?

P5-4. Look at the description of the types of people Starbucks seeks. What individual behavior issues might arise in managing these types of people? (Think in terms of attitudes, personality, etc.) What work team issues might arise? (Think in terms of what makes teams successful. Hint: Can a person be self-motivated and passionate and be a good team player?)

P5-5. Discuss the “ideal” Starbucks employee in terms of the various personality trait theories.

P5-6. Describe in your own words the workplace environment Starbucks has tried to create. What impact might such an environment have on motivating employees?

P5-7. Using the Job Characteristics Model, redesign a part-time hourly worker’s job to be more motivating. Do the same with a store manager’s job.

P5-8. Does Starbucks “care” too much for its partners? Can a company ever treat its employees too well? Why or why not?

P5-9. Howard Schultz says, “We all want the same thing as people—to be respected and valued as employees and appreciated as customers.” Does the company respect and value its partners (employees)? Explain. What do you think this implies for its employee relationships?

P5-10. Former CEO Jim Donald once said, “Spending money to put people first is smart money.” Do you agree or disagree? Why?

P5-11. If you were an executive, would you be concerned about the drastic drop in ranking on the list of best companies to work for and not being ranked in the most current list? Why or why not? What actions might you take?

P5-12. Describe Howard Schultz’s leadership style. Would his approach be appropriate in other types of organizations? Why or why not?

P5-13. Do you agree that leadership succession planning is important? Why or why not?

P5-14. What is Starbucks doing “right” with respect to the leading function? Are they doing anything “wrong?” Explain.

P5-15. Which of the company’s principles (see website) influence the leading function of management? Explain how the one(s) you chose would affect how Starbucks’ managers deal with (a) individual behavior issues, (b) communication issues, (c) motivational techniques, and (d) leadership styles or approaches.

Notes for the Part 5 Continuing Case

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