

EXECUTIVE SUMMARY

Howard Shultz's leadership has caused Starbucks to become the most successful coffee company in the world. Through a commitment to employee satisfaction, environmental awareness and innovative products, Starbucks continues its dominance of the industry. Shultz empowers the workforce through the implementation of various leadership tactics.

Updating Information on Starbucks

Since 2007 Starbucks has been a lucrative company for all investors. Shultz leads Starbucks by aiding improvement in technology to improve efficiency and consumers appreciation. Starbucks has won several awards that highlight the company's diligent workforce and global awareness.

Implementing Leadership Theories

Shultz led Starbucks using a transformational leadership model. By inspiring employees, idealizing influence, individualizing consideration and promoting intellectual stimulation, Shultz gets the most out of his workforce. Shultz appeals to employee's beliefs needs and values while creating trust, commitment and loyalty throughout the corporation.

Focusing on Howard Shultz's Characteristics

Indirectly, Shultz uses his hard-working background in daily operations. He creates a loyal workforce by proving his worth to Starbucks employees through leading by example. Thus, the numerous awards Starbucks has won illustrate Shultz's knowledge of the industry, care for his co-workers and drive to improve society.

Categorizing the Work Climate at Starbucks

Starbucks maintains a positive work climate in numerous stores throughout the world. Employees are motivated to perform consistently as Shultz strives for perfection. By putting employees first, Shultz has gained their trust and created a cohesive workforce that maintains each employees identity.

Analyzing Additional Issues facing Starbucks and Shultz

Starbucks like other successful companies have areas of improvement. Shultz was forced from the start of his tenure to act decisively and firmly in his approach to growing Starbucks when investors approached him. Following Shultz stepping down in 2000, Starbucks experienced a period of declining sales. When Shultz returned in 2008, he brought Starbucks back to its core value of customer-focused service to return the company's success.

Updated Information for Starbucks

The Harvard Business case, “Howard Shultz: Building Starbucks Community” (George, Mclean 2006), outlines the steps management uses to build Starbucks to the success it has today. Shultz advanced through Starbucks leadership positions to become the company’s chairman in 2000. However, Shultz took back the position of chief executive officer in 2008 and will continue to lead Starbucks into the future in this position.

Since 2007 Starbucks has achieved success in various statistical categories. Annual revenue has jumped from \$9.4 billion to \$11.7 billion in 2011, increasing by an average of \$1 billion per year, except for 2009 (Statisticbrain, 1). The number of stores has also grown, increasing from 15,011 in 2007 to 17,003 in 2011. A clear indication that Starbucks has grown exponentially in profitability in the past five years is the stock price being valued at \$47.50 at the end of 2011 after valuations were \$35.60 in 2007.

While it is clear through statistical evidence that Starbucks is a pioneer in the coffee industry, Shultz has bigger aspirations. According to a 2011 Forbes Magazine article, Howard Shultz hopes to “transform the role that businesses play in society” (Forbes, 1). The aim is to change the way corporations run themselves by taking on responsibilities such as improving “citizens’ education, health care, safety and overall daily life, plus future prospects” (Forbes, 1). Starbucks is making this goal a reality by partnering with non-profit and training organizations that don’t directly benefit their business. Starbucks is also partnering with Opportunity Finance in order to improve financing for small businesses, “with the aim of creating jobs” (Forbes, 1). Shultz is

emphatic in his proposals to act as a guiding model for those people with means to improve the global workplace opportunities by stepping up and taking tangible actions.

Starbucks now allows customers to choose from over 30 different types of coffee, smoothies and other drinks (Starbucks, FAQ). Seeing that not all Starbucks customers have the time to come to stores, Starbucks has added home-brewing equipment and already ground coffee for consumers to make their own morning drinks. Starbucks has also developed and implemented several new technologies to entice customers to buy from them. These technologies include an iPhone application, loyalty programs through Viggie and mobile payment options (Starbucks, FAQ). While Starbucks clearly outnumbers all other coffee shops in the world, they continue to strive for a higher market share through innovative products and offerings.

With tremendous success come awards for forward thinking and achievement. In 2010 Starbucks was honored with “Most Ethical Company in Europe” and “Best Branded Coffee Shop Chain in Europe” awards. Starbucks also won the “Number 1 Most Popular Refreshment Chain” in 2009 and 2010 (Starbucks). From 2002 to 2010 Starbucks was included in Fortune Magazines “100 Best Companies to Work For” and in 2010 won the Luxist Readers Choice Award for “Best Coffeehouse”(Starbucks). 2011 was the 40th anniversary for Starbucks and the company looks to continue to add to its already impressive awards (Starbucks).

Howard Shultz Leadership Theories and Starbucks Work Climate

Schultz proves that success has no boundaries when using transformational leadership. His individual and organizational characteristics, such as his life experiences and traits, shape his behavior as a leader. Inspirational motivation, idealized influence,

individualized consideration, and intellectual stimulation fuel Schultz's behavior as a transformational leader. He brings success to the workplace through fostering higher levels of trust, commitment, and loyalty. Schultz's ability to appeal to his followers' beliefs, needs, and values has brought Starbucks to where it is today. However, Schultz is not solely responsible for Starbucks' success. In Schultz's view, the best way to lead a corporation is through "sharing the stage, the leadership, the responsibility, the spotlight, and the victory." Schultz continues to build premium relationships with those who surround him.

The four traits of a transformational leader are inspirational motivation, idealized influence, individualized consideration, and intellectual stimulation. To create inspirational motivation one must provide an optimistic and enthusiastic view of the future. Schultz always has an ambitious business plan and positive outlook on the future. Ever since his first interaction with Starbucks, he has had high aspirations. Schultz displays trust and hope for the future by setting high goals and benchmarks. Schultz's attitude about the future stimulates his employees to be diligent and efficient. In addition, a transformational leader sets the tone by being an idealized influence; one who sacrifices, provides an example, and has high morals. Schultz puts in extreme amounts of effort in his work and hopes that his employees will do the same. Schultz demonstrates solid morals, most likely from his life experiences, through valuing, respecting, and hiring employees no matter their background. Individualized consideration is an important behavior for a transformational leader. By providing support and empowerment to his employees, Schultz builds trust and commitment to the environment. He has instituted leadership conferences for store managers, which allows leaders of the

company around the world to be authors of expansion, and began meetings in which employees could have a voice. Last, Schultz intellectually stimulates his employees by sparking their ability to be creative, innovative, and outspoken. Schultz knows he would not be where he is today if not for the commitment of his fellow employees to refine and shape the Starbucks' name. As the world and markets change, it is important for a company like Starbucks to continue to innovate and reach beyond limits. These four behaviors mold Schultz into a successful leader.

Schultz is able to be an effective leader due to his surrounding environment. As a leader, he has installed a hiring process to weed out those with incompatible values and morals. He surrounds himself with the right kind of people and structure for success. Even the leader himself has a mentor in Warren Bennis (a distinguished professor of business administration and a founding chairman of The Leadership Institute), who taught him a valuable lesson to lead more effectively: "Demonstrating your values, emotions, and sensitivities empowers others." Individuals respect and admire Schultz because he possesses the traits that differentiate a leader from a follower; honesty, forward looking, inspiring, and competence. Schultz's leadership drives Starbucks' performance, efficiency, and high ethical standards.

Howard Schultz's individual differences and personality traits contribute to his success. His proactive personality drove him to actively campaign to join Starbucks, move to Seattle, and fight for his passions. Without many of his traits, there would be no Starbucks today. Schultz demonstrates intelligence, resilience, humility, and self-awareness in many instances during his time at Starbucks. His beliefs and traits create the values and culture of the company. However, Schultz believes his success is due to his

external locus of control. The hardships of his childhood environment have been the driving force for his success.

As a child, Schultz knew he had to plan for his own future to get out of the Bayview Housing District in Brooklyn, New York. To best describe this environment, Schultz talks about never seeing a college girlfriend again after informing her father of his residence. In Bayview, Howard's father worked multiple blue-collar jobs and had a difficult time supporting a family, gaining respect, and avoiding failure. It is Schultz's fear of that failure and the face of that self-defeat that has driven him to success. Schultz says, "If he had been successful, I wouldn't have the drive I have now." Schultz's childhood environment helped bring him to success and later set an example for fellow business leaders. Due to the diversity and poverty in the housing projects, Schultz exemplifies his morals through his business practices of non-discrimination and healthcare for all. Schultz's drive and will was strengthened through his hardships.

Schultz demonstrates intelligence, resilience, humility, and self-awareness through his business practices. Schultz displays his intelligence by making difficult decisions. For example he passed up certain growth opportunities and increase in capital in order to stay focused and ensure the company was ready to expand. His intelligence is also seen through his risk taking personality, which led him to unconventional business ventures such as a real estate strategy, the selling of store played CDs, and the marketing of a children's movie. Next, resilience is a necessary characteristic for overcoming everyday obstacles. Schultz especially needed his resilience at the beginning of his career when he saw his first business venture, Il Giornale, fail to turn a profit in its first three years. After that, one of his original investors proposed to purchase Starbucks on his

terms. In doing so, the investor threatened to eliminate the values and culture Schultz had a passion for. Schultz's humility is also a large part of his character. At his level of success, most individuals get cocky and more self-centered. However, Schultz acknowledges the contributions of others and the good fortune he has received along the way. Other individuals skills and perspectives were crucial in Schultz's problem solving and Starbucks' expansion. Schultz believes success is best when it's shared and that most of the success results from betting on surrounding individuals. Schultz's self-awareness ties all of his traits and skills together. Schultz continues to live in the present but often worries of the future and remembers the past. His inner values and perspectives drive the powerful mission statement of Starbucks. Schultz is aware of his own limitations and therefore he is always asking questions, accepting challenges, and continuing to learn.

Starbucks has a positive work climate that encourages and sustains employee motivation and high performance. To create this positive work climate, Howard Schultz puts the employees above all. Starbucks broke barriers when they were the first corporation to provide access to health coverage for all qualified employees, including part time employees. The work climate at Starbucks allows for employees to have an identity and act in character while abiding by the company values. The combination of a market and clan culture brings success and a unique experience to the work environment. Starbucks contains the competency, productivity, efficiency, and profitability of a market culture through its clan culture traits of participation, communication, empowerment, development, and morale. Starbucks was able to reach their high success level because of their homemade culture. Also, Starbucks is able to accomplish the top goal of a company by making espoused values equal to enacted values.

Starbucks values their employees in a notable fashion. As stated previously and because of Schultz's childhood, all employees are eligible for health coverage. Starbucks does not discriminate, allowing all education levels, skin colors, and backgrounds, when it comes to health coverage or the hiring process. Furthermore, generous employee benefits, training programs, and possible employee stock ownerships show the evidence of Starbucks dedication to its employees. In return, the employees "pour energy and attention into the values and cultures of the stores, reasoning that satisfied and happy baristas make for satisfied customers." Schultz encourages employees to have positive interactions with their customers to show Starbucks value for openness and customer satisfaction. The employees have unknowingly created an observable artifact in the creation of a Starbucks language. This is just another example of how Schultz ensures that the employees are social individuals, not just numbers.

The Starbucks store creates a unique work climate. Every Starbucks store is similar in presence by replicating a Milanese espresso bars. The customer experience of the classy, comforting look, the aromas and music, the possibility of encountering a friend, and the employee-customer relationships make Starbucks like no other. Starbucks makes the customer experience key to their brand name and future success. Schultz hopes for Starbucks to be the "third place between home and the office." Starbucks has become an informal gathering place for students, professors, colleagues, and friends. This distinctive feel and work climate is the result of strong organizational values, culture, and memory. Starbucks is able to do all of this for its employees and customers will retain "first class quality, highly knowledgeable supply-chain relationships, and efficient retail execution."

Additional Issues and Suggestions for Starbucks

Clearly Howard Schultz has all the qualities of an effective leader and is an invaluable resource to the success of Starbucks. He envisioned a coffeehouse with an inviting and stimulating environment that embodied the romance of coffee, an essential element that signified the company's passion for its product. Schultz created an environment that continually rewards and satisfies customers through the company's dedication to quality products and consistent service. Schultz's plan from the beginning was to hire people who enjoy what they do and see work as an extension of themselves (3). Starbucks' commitment to quality service is clear because every employee receives at least 24 hours training in the first 2-4 weeks, and Starbucks sends a star team of experienced managers from existing stores to help open new locations. Management drills every new employee in The Star Skills, which are the main guidelines for on the job interpersonal relations. These guidelines include maintaining and enhancing self-esteem, listening to and acknowledging co-workers, and asking for help (3). These guidelines provide a supportive and encouraging environment for an employee, which causes employees to be committed to their job, and translates into happy customers.

Schultz's recipe for success was the driving force of Starbucks enormous expansion, from 1,000 to 15,000 stores worldwide between 1998 and 2008. Starbucks had an added competitive advantage because the company spent very little on advertising and instead relied on word-of mouth and the appeal of its storefronts. The company was growing so rapidly that industry analysts predicted it would become the Nike or Coca-Cola of specialty coffee (3). However this forecast and vast expansion led Starbucks astray from its founding values. In 2005, Jim Donald took over for Orin Smith as Starbucks CEO, who had been serving since Howard Schultz stepped down in 2000.

Starbucks began adding US stores too quickly and focused too much attention on speeding up lines and reducing costs rather than keeping customers happy. Starbucks prides itself on providing exceptional service in a unique atmosphere, which allows them to extra mark-up the company's coffee. This rapid expansion stripped these differentiating elements away however, and drove customers to lower cost competitors like McDonalds and Dunkin Dounuts. Between 2005 and 2008, Starbucks lost 29 percent of its stock price, which forced management to make a change (4). To remedy the situation, management brought back Howard Schultz.

In retuning to his role as CEO, Schultz's first move was writing a memo that detailed a plan to bring Starbucks back to its original values. In his memo he stated "in the past ten years Starbucks had to make a series of decisions that, in retrospect, have lead to the watering down of the Starbucks experience, and what some would call the commoditization of our brand." He continued to say that although Starbucks had to streamline its design to meet rising demand, stores no longer have the soul of the past and reflect a chain of stores instead of giving off the warm feeling of a neighborhood store. Schultz also explained some critics even called the stores sterile, cookie cutter, and no longer representative of the passion Starbucks feels about coffee (1). One example of this commoditization was a shift to new automatic espresso machines, which was intended to cut down line waiting time. Instead, the height of machines, which are now in thousands of, stores block customers from seeing their drink being made. This obstruction of view doesn't allow for an intimate connection with the barista, and takes away from the overall inviting customer experience Schultz built the company on. Schultz was quoted in 2008 saying "although the expansion was necessary it lead to bureaucracy. We will now shift

our emphasis back onto customer-facing initiatives” part of which is “re-igniting emotional attachment with customers” (2). By getting back to the core values of customer-focused service, Schultz was able to bring Starbucks back to life. He slowed expansion after taking over in 2008, closing underperforming stores and diverting resources back to forming committed employees who provided customers with a unique neighborhood coffee house feel. This shift of focus and resources is the perfect testament to Schultz as an effective manager. Schultz was not brought away from core values like devoting resources to create trained employees and bringing customers satisfying experiences, even in the face of gigantic possible expansion and profit. Sticking to his basic pillars of success, Schultz will continue to ensure Starbucks stays at the forefront of specialty coffee.

Schultz’s greatest challenge came when one of the original investors from Il Gionerale proposed to buy the original Starbucks Company as opposed to Schultz’s combining the two companies into Starbucks Corporation. Schultz needed to use his talents as a leader in order to overcome this challenge. Most importantly, he had to be decisive.

Shultz’s only option was to reject this investor’s offer. He knew that if the investor were to take control of Starbucks the investor would then take control of Schultz’s career. Shultz had put too much work and love into the company to allow this takeover to occur. Starbucks was his vision. So, he needed to stop the sale. He knew that he could not accept anything but terms that would allow his vision to become a reality

Furthermore, Schultz knew that he needed help to challenge this investor. He enlisted the help of Bill Gates Sr., a very influential man in Seattle. Schultz had the humility to understand that he needed help, another crucial quality of a leader.

Another leadership quality that was crucial to overcoming this obstacle was perseverance. After Schultz refused to take his terms the investor told him, “If you don’t take this deal, you’ll never work in this town again. You’ll never raise another dollar. You’ll be dog meat.” Schultz did not budge.

Through decisiveness, humility, and perseverance Howard Schultz was able to overcome this challenge and many others throughout his career. These are three more qualities that make Schultz a great businessman and leader.

References

1. "'The Commoditization of the Starbucks Experience'" *Value Investing*. Guru Focus, 24 Apr. 2012. Web. 25 Apr. 2012. <<http://www.gurufocus.com/news/172735/the-commoditization-of-the-starbucks-experience>>.
 2. Staff, Msnbc.com. "Starbucks Chairman Schultz Returning as CEO." *Msnbc.com*. Msnbc Digital Network, 08 Jan. 2008. Web. 25 Apr. 2012. <http://www.msnbc.msn.com/id/22544023/ns/business-us_business/t/starbucks-chairman-schultz-returning-ceo/>.
 3. Thompson, Arthur A., and John E. Gamble. "Starbucks Corporation." *Starbucks Case Study*. McGraw Hill. Web. 25 Apr. 2012. <<http://www.mhhe.com/business/management/thompson/11e/case/starbucks-2.html>>.
 4. Creduer, Mary Jane. "Starbucks Replaces Chief Donald with Chairman Schultz." *Bloomberg*. Ed. Michael Nol. 7 Jan. 2008. Web. 25 Apr. 2012. <<http://www.bloomberg.com/apps/news?pid=newsarchive&sid=anu6m7WHHwgI&refer=us> >. Kerry A. Dolan. "Starbucks' Howard Schultz Wants To Redefine The Role of Business In Society." October 17, 2011 <http://www.forbes.com/sites/kerryadolan/2011/10/17/starbucks-howard-schultz-wants-to-redefine-the-role-of-business-in-society/>
- Staff, Statsitcbrain.com. "Starbucks Company Statistics" January, 15, 2012. <http://www.statisticbrain.com/starbucks-company-statistics/>
- Starbucks, Staff. "Starbucks Site." <http://www.starbucks.com/>