

CASE STUDY

Transformational leadership of Howard Schultz, CEO of Starbucks Corporation⁷⁸

Starbucks Corporation remains widely regarded as the world's most successful specialty coffee company and coffeehouse chain. The company rapidly ascended from its founding in 1971 to international recognition. As a result of Starbucks' extraordinary growth and competitive success, it now holds more than 24,000 retail stores in at least 70 countries. In that process, Starbucks distinguished itself as a unique company with a strong people-focused organizational culture. Over the years, Starbucks largely achieved its competitive advantage and its marketplace dominance through the vision and transformational leadership of Howard Schultz, Starbucks' chief executive officer and board chairman.⁷⁹

Schultz shares a poignant personal story about how his father suffered an on-the-job injury and consequently lost his employment. The incident so impacted Schultz when he was young that he determined that if he were ever responsible for employees, he would make sure to protect their welfare and preserve their human dignity. Today, Starbucks under Schultz's leadership has become well-known for strategically leveraging positive human resource policies and benefits – even to the point of shaping human capital into a competitive advantage, and also for demonstrating ethical, sustainable corporate practices. Such a profound and enduring impact on Starbucks clearly affirms the fundamentally ethical grounding of Schultz's approach to leadership.

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Over the initial decades of growth, Starbucks' shareholders and employees consistently prospered. By the early 1990s, Schultz and the executive team of Starbucks met the challenge of transforming the company from an entrepreneurial startup into a professionally managed corporation operating and expanding across North America and even internationally.⁸⁰

In 2007, Starbucks began confronting the most difficult economic and organizational challenges it had ever faced. Global competitive forces and economic pressures had begun to drag the company's pace of growth. As the company's sales and profits started slipping, its overall financial health declined. To save the company, Schultz and other senior executives had to diagnose the underlying causes of the organizational problems and figure out how to respond. The solutions could only come through difficult choices. Starbucks cut the positions of 1,000 employees ('partners' in the company's vocabulary).⁸¹ Schultz faced the daunting leadership challenge of motivating and ultimately transforming the organization and its people.

Schultz recognized that Starbucks baristas – the partners at the point of direct contact with customers – had lost much of their inspiration and capacity for achieving Starbucks' vision of creating a distinctive Italian-style coffeehouse experience and a welcoming community space. Schultz also saw the need for better training of baristas in espresso-making skills. The situation called for significant organizational change that would refocus on the vision and set people back onto the course that originally had guided Starbucks to success. Schultz persuaded the executives and board members of Starbucks to take a surprisingly bold step – closing all Starbucks stores at the same time to immerse its baristas in an intensive, one-time retraining event. Schultz believed that through careful planning and coordination the company could develop baristas' technical skills to new levels, but also renew and elevate their vision for creating what Schultz calls an authentic 'Starbucks experience.'⁸² The renewal succeeded. Starbucks and its people achieved the transformation that laid an even broader foundation for Starbucks' rapid growth and international expansion in the following decade.⁸³

Starbucks recently experienced a highly visible problem as a company that serves the public. In early 2018, a Starbucks manager called police into a store in Philadelphia, which culminated in arrests of two black men, a videotape that went viral on social media, and significant accusations of racial bias.⁸⁴ Howard Schultz, in his current role as executive chairman, said he felt 'personally accountable' to see that Starbucks addresses the issues. Schultz proposed closing Starbucks' stores for special human resource training for 175,000 members of its workforce as part of the company's efforts to remedy bias in the future and to ensure respectful treatment of all customers.⁸⁵

Five component analysis

We can probe more deeply into the ethical aspects of the Starbucks' case and Howard Schultz's actions as a leader by examining those elements among the five components that most

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Figure 15.3 The Five Components of Leadership Model applied to Howard Schultz and the Starbucks Corporation case study



closely relate to transformational leadership. In other words, we can specifically look at the components that appear to strongly shape and drive the actions of transformational leaders. Based on our understanding of transformational leaders, we can reasonably expect that an authentic transformational leader will likely focus on and act consistently with a particular set of priorities. Considering the kinds of priorities that best characterize a transformational leader, we can examine each of the five components of leadership.

Schultz stated that when he joined Starbucks he immediately immersed himself in building the enterprise and surprised even the people at Starbucks with how 'impassioned' he became about coffee and the business.⁸⁶ Schultz transparently acknowledged a personal process of leadership development in which he periodically had to reexamine and refocus his priorities as a leader. He became quite purposeful in his role and development.⁸⁷ Looking back over the years of Starbucks' growth, Schultz wrote that he had to change as a leader and that he had to reinvent himself at least three times. The nature of his leadership started from his role as a 'dreamer,' moved to an entrepreneur, grew into a professional manager, and emerged as a visionary leader.⁸⁸ As we will see in the next component of analysis, much of Schultz's motivation as a leader grew out of not only a desire to achieve financial success and to build a great company, but emerged out of a genuine concern for the long-term welfare and growth of the people within Starbucks.

Applying another of the five components in this analysis of Howard Schultz's leadership, we can observe in this case study that a transformational leader's relationship with followers may be well-grounded in ethical values emphasizing justice and fairness. According to Schultz, one of the most valuable lessons he learned was this: 'There is no more precious commodity than the relationship of trust and confidence a company has

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with its employees.⁸⁹ As he wrote, ‘Treat people like family, and they will be loyal and give their all. Stand by people, and they will stand by you.’⁹⁰ This people-oriented philosophy encompassed not only Starbucks employees (partners) but also the company’s customers. In Schultz’s view, people – employees and customers – ultimately determine Starbucks’ success.⁹¹

When Starbucks faced the financial crisis triggered by a global economic recession and cut the positions of 1,000 employees, Schultz made a decision that appeared to give priority to achieving organizational goals. This seemed to contradict the corporate values that focused on the welfare of people. After the personnel cuts were completed, many of those who remained questioned whether the company and its people could ever rebuild the organizational trust and recapture the vision on which Starbucks formerly had achieved such success. But Schultz listened to the criticisms, allowed himself to be held accountable to those values, and personally addressed the people of Starbucks in open meetings. He acknowledged a failure to anticipate and mitigate the harm to people, but also reaffirmed in tangible ways Starbucks’ commitment to and relationship with employees.⁹² For example, Starbucks became one of the first major corporations in the United States to provide health insurance to part-time employees and vested ownership interests to employees as ‘partners’ in the business enterprise.

Considering the numerous ways in which Schultz actively invests in the people of Starbucks, and recalling the life-changing impact his father’s injury and consequent loss of dignity had on Schultz as a boy, we see in Schultz an authentic motivation to assume responsibility for the welfare of the people within his sphere of leadership influence. But beyond just fair treatment and human respect of employees, Schultz has purposefully and consistently sought through Starbucks to improve their lives by creating innovative policies for employees to benefit directly from their efforts that contribute to Starbucks’ financial success and by providing training opportunities and career advancement to develop their capabilities as individuals. As an example of the latter, Schultz’s memoirs of Starbucks identifies and describes how numerous employees over the years received internal promotions and met the challenges that allowed them to achieve managerial and executive positions within Starbucks. Schultz expressed this developmental priority of Starbucks as ‘people growth,’⁹³ thus capturing succinctly his development ethic as a transformational leader.

Schultz as an entrepreneur was highly motivated toward the goal of building a great commercial enterprise – perhaps at times even personally driven, according to how he described himself. From the beginning, he had envisioned building a great company and leveraged every opportunity to grow the enterprise by increasing the number of stores and expanding its reach with new products in new markets. Yet in this ambitious entrepreneurial effort, he still proved his effectiveness as a transformational leader insofar as this approach to leadership helped him to build and continue to grow a highly profitable corporation that rose quickly to dominate the North American coffee industry. From the beginning, Schultz proved to be results-oriented. He focused on launching a successful enterprise

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and a great company, building it through discipline and innovation into a nationally recognized brand image, and expanding the number of its sales outlets as rapidly and widely as possible.⁹⁴ Schultz's intense drive toward successful achievement, however, remains consistent with transformational leadership's distinguishing elements.

When things are going well in business, Schultz observed, the tendency is to fall into complacency because there is little motivation for change. But Starbucks, like most companies, operates in an industry that rapidly evolves as competition intensifies. Certainly, when a company begins to slip, or even fail, it's far easier to understand the necessity of change – the need for self-renewal. For a company to remain healthy, profitable, and sustainable, it cannot rely on just maintaining the status quo. It is always vulnerable to external forces and must continually reinvent itself to meet the demands of a competitive environment.⁹⁵ Thus as Schultz's leadership effectiveness suggests, a transformational approach to leadership seemed to work well in that environment where Starbucks as a business enterprise had to continually reinvent itself to remain competitive and viable, and be able at the same time to remain true to the original core values it still embraced.

Early in launching his business enterprises, Howard Schultz demonstrated a strong sense of the importance of culture. First, he saw the Italian coffee bar culture as a social model for what did not yet exist but could fit well within American society by providing a 'third place' beyond home and work.⁹⁶ As he established and grew his company, Schultz recognized the need to infuse it with a distinctive organizational culture based on clear values. Indeed, during Starbucks' crisis in 2007 and 2008, the firmly established core values and corporate culture became the reference point Schultz used in guiding the company's renewal and return to success. As Schultz stated, 'Whatever your culture, your values, your guiding principles, you have to take steps to inculcate them in the organization early in its life so that they can guide every decision, every hire, every strategic objective you set.'⁹⁷ The sense of personal accountability Schultz expressed in response to the 2018 incident of apparent racial bias by a Starbucks store manager, plus his subsequent proposal to close Starbucks stores for a day of human resource training to focus on values of respect for all customers, remain consistent with a long-term commitment to reinforce the organizational culture and social responsibility Schultz sought to instill from the outset.

Considering each of the five components, and applying them to the facts of this case of Schultz's leadership at Starbucks, we can readily see how the transformational leadership priorities emerged, impacted Schultz's effectiveness as CEO and as chairman, and reflected ethical leadership values and behaviors in achieving positive change for Starbucks and its people. Taking into account the elements and dynamics applied in the case study and analyzed against the framework of the Five Components Model, we are prepared to offer an answer to the key question with which we launched this chapter.