

Building a Unique Total Rewards and HR System For A Unique Company At



Since Starbucks isn't your typical company, this isn't a typical case study. Rather than focusing on a single reward program or even the entire reward system, this case focuses on how the entire total reward and human resources (HR) systems at Starbucks are linked to the business objectives and reinforce the company's strong culture and values. Working in mutual support of the business, the culture, and values, this integrated HR system has helped shape a powerful success story that didn't rely on conventional thinking and trends with respect to the treatment of its workforce.

A Brief History of Starbucks

Starbucks Coffee Company, as we know it today, began in 1987, when Howard Schultz, the current chairman and CEO, acquired the assets from the original founders, whom he had worked with from 1982 to 1985. In 1987, Starbucks had 11 stores. The original business plan, and promise to the investors, was to have 125 stores within five years.

From 1987 to 1992, the company remained private, growing at the astonishing rate of 80% per year to more than 150 stores. In June 1992, the company went public, and it was one of the most successful initial public offerings of the year. Today, Starbucks is the leading retailer, roaster, and brand of specialty coffee in North America. It operates more than 1,800 retail locations in North America, the United Kingdom, and the Pacific Rim and has established joint-venture partnerships with Breyer's (to produce coffee ice cream) and PepsiCo (to produce Frappuccino, a bottled coffee drink). Sales for fiscal year 1997 were \$967 million, an increase of nearly 39% over the previous year, and the company employed more than 25,000 partners (the company's term for employees). The company goal is to have more than 2,000 locations in North America by the year 2000. The company mission is to "establish Starbucks as the premier purveyor of the finest coffee in the world while maintaining our uncompromising principles as we grow."

Starbucks' Culture and Values: The Driver of HR and Reward Systems

Starbucks is a values-driven company, with a firmly established set of principles that are widely shared within the organization. It is also a company that puts its employees first and invests a tremendous amount in them. None of this is by accident.

Source: Wilson, Thomas, B., Rewards That Drive High Performance, Amazon, New York, 1999.

It all stems from the values and beliefs of its CEO. Says Schultz, “I wanted to establish the kind of company that gave people a form of equity (ownership) and comprehensive health insurance, and most importantly, give them self-esteem in the workplace. People feel that Starbucks is a place that gives them self-respect and values the contributions they make, regardless of their education or where they are in the company.” The company believes that if it puts partners first, the result will be exceptional customer service, and by extension, if it has highly satisfied customers, the financial returns will follow.

Reinforcing Culture & Values through HR and Total Rewards

In order to reinforce and help drive the Starbucks culture, leading-edge compensation and benefits programs have been put in place. Full- and part-time partners (who meet eligibility criteria) are offered health, dental, and vision insurance, as well as access to an employee assistance program (EAP), reimbursement accounts, short- and long-term disability, and Working Solutions, Inc. (a resource and referral service) to help manage work and family issues. This is very atypical of the retail industry, which for the most part does not pay the costs associated with providing benefits to part-time employees. Even though the costs of providing these benefits to part-time employees raises the overall cost of benefits at Starbucks, the average cost of providing benefits to an employee, vis-a-vis the competition, is still lower. While this investment is significant, it pays tremendous dividends. The people who receive these benefits greatly appreciate and value them and, as a result, provide customers with better service.

Second, all partners have an opportunity to become owners of the company. The company instituted the Bean Stock (i.e., broadbased) stock option program in 1991 and the Stock Investment Plan (SIP) to purchase stock at a discount in 1995. Part-time employees who maintain a minimum number of hours are again eligible for both programs. The Bean Stock program provides stock options on an annual basis, in an amount up to 14% of base salary, for any partner employed from April 1 to the end of the fiscal year, working at least 500 hours during this period, and employed with the company when the options are distributed in January. As Starbucks stock price has continued to climb, the value of the options provided to employees has been significant; more important, when combined with the education the company offers relative to creating value and profits, it has linked employees to shareholder value.

Reinforcing culture and values is more than just a total rewards issue, however. The total rewards system, while a powerful lever to help drive the business, is but one element that cannot be viewed in isolation from other key human resources levers that have been put in place. These other levers include extensive employee education, an open and highly communicative environment, and a unique program called Mission Review, which is part of a broader program called Partner Snapshot. Partner Snapshot is a comprehensive effort aimed at getting feedback from the company’s partners.

It parallels the Customer Snapshot program aimed at getting customer feedback. Partner Snapshot includes company-wide surveys, Mission Review, and a relatively new telephone-based survey system on key company and partner-related issues.

Mission Review is a formal program that was set up in 1990 to ensure that the company is living up to its mission statement. Every location has comment cards addressed to the Mission Review team that employees use when they see decisions and outcomes that do not support the mission statement. Relevant managers have two weeks to respond to the employee and the issue. Additionally, a cross-organizational team meets to review employee concerns, seek solutions, and provide a report at the open forums. Not only does this keep the mission statement alive and well; it reinforces the openness of the culture.

All partners hired to work in a retail position receive a minimum of 24 hours of training during their first month with the company. This training includes an orientation to the company, customer service skills, and the technical skills necessary to work in the stores. An extensive management-training program also exists, focusing on leadership skills, customer service, diversity, and career development.

Open communication is also part of the norm at Starbucks. Open forums, held several times a year, update partners on happenings within the company, explain the financials, and allow partners to ask questions of senior management and provide input to them as well. Additionally, a regular employee newsletter is published that also discusses developments within the company, along with a column on benefits and ownership programs.

The Evolution of HR and Total Rewards at Starbucks

One other thing that has been learned and focused on at Starbucks is that as the company has moved through various stages of its life cycle, the HR and total reward systems have had to evolve as well. For example, in the late 1980s, Starbucks was a regional company with a single product focus. Its HR organization was primarily made up of administrators—smart, people-oriented partners with bright ideas, but who at the same time were characterized as being highly reactive and caught up in manual processing, with a significant amount of the work directed by consultants. Compensation and benefits during this period (it had yet to evolve into a total rewards function) were characterized by part-time coverage of the basics and the implementation of the 401(k) plan.

In the early 1990s, Starbucks became a truly national company with multiple product lines. Human resources became a project manager, moving from administration to HR management, delivering products and tools that supported the business. Certain services began to be outsourced that were not core competencies of the organization.

Further automation of HR functions continued. Compensation and benefits was characterized by a move to total rewards that included additional health benefits,

maturation of healthcare delivery to managed care, coverage for same-sex partners, and an employee assistance program.

As Starbucks moves into the late 1990s, it will become increasingly international in scope and business focus. Simultaneously, HR has positioned itself to be a business leader: a technology based organization that is integrated with the business units, providing business consulting and strategic management. Numerous vendor partnerships have been established that have increased the strength and quality of total pay offerings and will allow an integrated national and international HR focus that remains connected to the strategy of the business.

The Results to Date

Have the results of this integrated HR and total reward system that strongly reinforces the culture and values of the organization been worth the investment? It certainly appears that it has. The company was named one of the Fortune 100 “Best Companies to Work For.” The financial growth of the company has been exceptional, with revenues of nearly \$1 billion in fiscal year 1997. The stock price has increased more than 30 times its original price, including two stock splits. Employee turnover, especially within the stores, is dramatically below the retail industry norms, running at an annual rate of one-half to one-third that of the industry norm. Results of the employee satisfaction survey indicate that partners tremendously enjoy working for Starbucks and feel terrific about the leadership of the company. The external firm that conducts the employee survey said that the results at Starbucks were literally “off the charts” when compared with most other firms.

Can they quantitatively correlate these results of the HR and total reward system efforts? Not likely. However, there is a strong feeling by senior executives, managers, HR, and employees that these programs have certainly contributed a great deal to the growth and development of the company and its employees.

What the Future Holds

As the company continues to expand its stores both nationally and internationally and the employee population continues to rapidly grow, several challenges are posed on the HR and reward systems front. How can the company continue to reinforce and live its strong culture and value system as it gets more diverse, spread out, and bigger? As Starbucks grows larger, how can it maintain a small company feel? How do programs such as Bean Stock, which have been extremely successful, maintain their vibrancy and stay aligned with the changes in the business and the needs of employees?

Providing solutions to these questions in ways that continue to reinforce the company’s culture and values and demonstrate commitment to putting employees first, is where HR and total rewards at Starbucks will be focusing today and into the near future. If the future is anything like the past, stay tuned for some exciting and unique developments.

Source: Wilson, Thomas, B., Rewards That Drive High Performance, Amazon, New York, 1999.

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