

The Third Place on a Third Rail Issue:

An Analysis of Starbucks' Race Together Initiative

2016 Arthur W. Page Society Case Study Competition



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Abstract

When Starbucks launched its Race Together initiative in the spring of 2015 in response to racial issues in the United States, it was met with backlash. The public was confused why a company would address this sensitive social issue. Many considered the initiative a failure. However, Starbucks doubled down and expanded its commitment to the issue. This case study examines how Starbucks attempted to alleviate racial unrest through a broad platform. Although the initial launch was not well received, Starbucks' determination in addressing racial tensions demonstrates its belief in using its resources and scale to influence social change.

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Overview

Following the race related tragedies in Ferguson, Mo. and New York City, Howard Schultz, CEO of Starbucks, was deeply saddened by the racial tensions in the United States. He felt his company needed to address the issue and refused to be a silent bystander. Schultz invited Starbucks employees (referred to as partners) to participate in open forums across the nation where they could come together and discuss race issues in the United States. Schultz attended forums in several cities and met with nearly 2,000 partners (Solomon, 2015). The response from the forums was overwhelmingly positive. Partners described the meetings as emotionally charged events where they discussed ideas for change. Schultz wanted to share this positive experience with the public. On March 16, 2015 Starbucks released a memo to employees encouraging them to engage customers in a conversation about race by writing the words “Race Together” on their coffee cups.

The initiative was well-intentioned but when Race Together was introduced to customers it was poorly received. Most people did not want to discuss a topic as complex as race while they rushed to get their morning coffee. The public thought race was an inappropriate topic for a company to address and the idea was harshly mocked. People took to social media to express their disappointment with Starbucks and when the writing on the cups stopped a week later, most people thought the initiative had quietly shut down.

However, this was not the case. Starbucks had an entire platform in place to address the issue and was still determined to speak out on race relations. Starbucks’ commitment to the initiative, despite the initial backlash, showed the company had strong corporate values and was dedicated to living and activating its corporate character. The company was determined to position itself as a meaningful voice on social issues and to pioneer a new era of corporate activism. In doing so, Starbucks brought an important question to light: Can a corporation influence social change? The following case analyzes whether or not a company like Starbucks can help drive societal change through its actions and communication efforts.

Company Background

History of Starbucks

Starbucks is an American coffee company based in Seattle, Washington. It has more than 23,000 stores in 70 countries, making it the largest coffeehouse company in the world (Starbucks, 2015).

Founded in 1971, Starbucks originally served as a coffee bean roaster and retailer. The company's owners at the time were three partners who met while attending the University of San Francisco.

In 1987, the three owners sold the Starbucks chain to Howard Schultz. Schultz was born in Brooklyn in 1953 and later moved with his family to the Bayview Housing projects in the Canarsie neighborhood of Brooklyn. Both of his parents worked low-paying jobs and the family experienced many financial problems. A natural athlete, Schultz earned a scholarship to the University of Northern Michigan where he graduated with a bachelor's degree in communication. As CEO of Starbucks, Schultz frequently references his humble beginnings and how he uses his past experiences to shape the way he manages the company.

Schultz always had a vision for Starbucks to be more than a coffee chain. While on a trip to Milan, Schultz became transfixed by the coffee culture in Europe and set out to bring the experience back to America. It was on this trip that Schultz decided Starbucks should sell drinks in their stores and not just beans. Schultz later reflected on this trip saying, "I saw something. Not only the romance of coffee, but a sense of community. And the connection that people had to coffee – the place and one another." Schultz believed Starbucks could grow to become more than a chain, but the "third place" between work and home where people could socialize or unwind (Starbucks, 2015). After taking Starbucks from a small chain in Seattle to a global company, Schultz retired as the company's CEO in 2000.

Return of the Coffee King

During Schultz's eight-year hiatus from the company, Starbucks' financial performance slowed as companies like McDonald's and Dunkin Donuts expanded within the coffee category. Observing the downward spiral of his former company, Schultz returned in 2008 because he believed Starbucks had drifted away from his original vision and he feared for the company's future (MSNBC Staff, 2008). Schultz vowed to focus on global expansion and a restructuring of the company's management system. Additionally, Schultz wanted to prevent growth from affecting the company's culture and ensure that Starbucks continued operating as if it were a small company and a part of the community. In his book "Onward," Schultz describes his return to the company and how Starbucks achieved profitability and sustainability without sacrificing humanity during a tough economic period.

Since Schultz's return, Starbucks has made itself known as a company that addresses social issues head on. The corporation has become vocal on a variety of issues from gun control to gay marriage (Harwell, 2015). These are not topics major companies typically feel comfortable tackling, but Starbucks aspires to build human relationships and act ethically, even when it may be easier and more popular to stay silent.

Corporate Character Mission

The Arthur W. Page Society describes corporate character as the unique identity that distinguishes a company and the characteristics that define its very nature of existence. This identity begins with an enterprise's purpose and values, but it is lived out through a company's strategic business and operating plans (Arthur W. Page Society, 2012). The first step in developing corporate character is to clearly define a company's beliefs. Starbucks has a clear mission statement and values visible on its website and stated below.

Mission

“To inspire and nurture the human spirit – one person, one cup and one neighborhood at a time.”

Values

“With our partners, our coffee and our customers at our core, we live these values: Creating a culture of warmth and belonging, where everyone is welcome. Acting with courage, challenging the status quo and finding new ways to grow our company and each other. Being present, connecting with transparency, dignity and respect. Delivering our very best in all we do, holding ourselves accountable for results. We are performance driven, through the lens of humanity. These core beliefs are the cornerstone of Starbucks and used as a clear metric for all business practices across the company.”

Corporate Reputation

Companies must develop a strong corporate character if they want to build strong brands and corporate reputations that create trusting relationships with stakeholders. Corporate reputation refers to the collective judgments of a corporation based on assessments of financial, social and environmental impacts attributed to the company over a long period of time (Arthur W. Page Society, 2012).

Starbucks has built a bank of trust with its stakeholders resulting in a strong corporate reputation. The 2015 Harris Poll Reputation Quotient study ranks Starbucks as the 31st most reputable U.S. company among the most visible U.S. companies (Harris Poll, 2015). Additionally, Starbucks ranks fifth on the Fortune list of World's Most Admired Companies for 2015 and is ranked first within its industry. Starbucks also ranks first on Fortune's list for social responsibility, which is considered a key attribute of the company's reputation (Fortune, 2015). Finally, the Reputation Institute shows Starbucks ranked fourth

in the RepTrak ‘governance’ division, which assesses stakeholder perceptions of a company as ethical, fair and transparent (Global RepTrak, 2015).

World’s Most Admired Companies 2015 – Starbucks Rankings

Nine Key Attributes of Reputation	Rank
Innovation	1
People management	1
Use of corporate assets	1
Social responsibility	1
Quality of management	1
Financial soundness	1
Long-term investment value	1
Quality of products / services	1
Global competitiveness	2

Source: *Fortune*, 2015

Timeline of Major Corporate Reputation Events

The following timeline highlights the company’s biggest achievements that led to the development and sustainment of this reputation since Schultz’s return in 2008.

- **2008** – Howard Schultz returns as chief executive officer and begins the transformation of Starbucks
 - A new mission statement develops: *“To inspire and nurture the human spirit – one person, one cup and one neighborhood at a time.”*
 - Launches My Starbucks Idea, Starbucks’ first online community.
 - Starbucks joins Twitter and Facebook.
- **2009** – Launches My Starbucks Rewards® loyalty program and Starbucks Card mobile payment.
- **2010** – Starbucks expands digital offerings for customers with free unlimited Wi-Fi, Starbucks Digital Network.
- **2011** – Launches first annual Global Month of Service to celebrate the company’s 40th anniversary.
 - Opens first Community Stores in Harlem and Crenshaw neighborhoods.
 - Launches “Create Jobs for USA” to encourage small-business growth.
- **2012** – Acquires La Boulange® bakery brand to elevate core food offerings.
- **2013** – Strengthens ethical sourcing efforts with coffee farming research and development center in Costa Rica.

- Schultz reinforces company's commitment to marriage equality
 - "Come Together" petition urges U.S. elected leaders to reopen the government.
- **2014** – Launches Starbucks College Achievement Plan with Arizona State University to offer qualifying Starbucks U.S. partners the opportunity to complete a college degree through ASU's online degree program.
 - Announces commitment to hiring 10,000 veterans and Starbucks' military spouses by 2018.
- **2015** – Launches "Race Together" initiative.
 - Commits to hiring 10,000 opportunity youth by 2018.
 - Announces plans to open a store in Ferguson, Missouri as part of an accelerated program to open stores in 15 diverse urban communities across the U.S.
 - Expands Starbucks College Achievement Plan to offer full tuition coverage for all four years of an undergraduate degree for qualifying U.S. Starbucks partners and commits to 25,000 partners graduating by 2025.

Corporate Social Responsibility

Companies are motivated to become socially responsible because their stakeholders expect the company to understand and address the relevant social and community issues related to core values and beliefs. Corporate social responsibility (CSR) is defined as the voluntary actions that a corporation puts in place as it pursues its mission and fulfills obligations to stakeholders, employees, communities and the environment (Ragas & Culp, 2014). Starbucks defines its CSR efforts as giving back to communities and the environment, treating people with respect and dignity, and serving the world's best coffee (Starbucks, 2015).

Schultz asserts that his company is performance-driven through the lens of humanity and makes every business decision from a socially conscious perspective (Schultz, 2015). Starbucks differs from some corporations because it speaks out on social issues, even when those issues do not directly affect it as a company. By confronting issues like gun control, gay marriage and, most recently, race, Starbucks is starting a movement that goes beyond traditional CSR. It is actively advocating for social change.

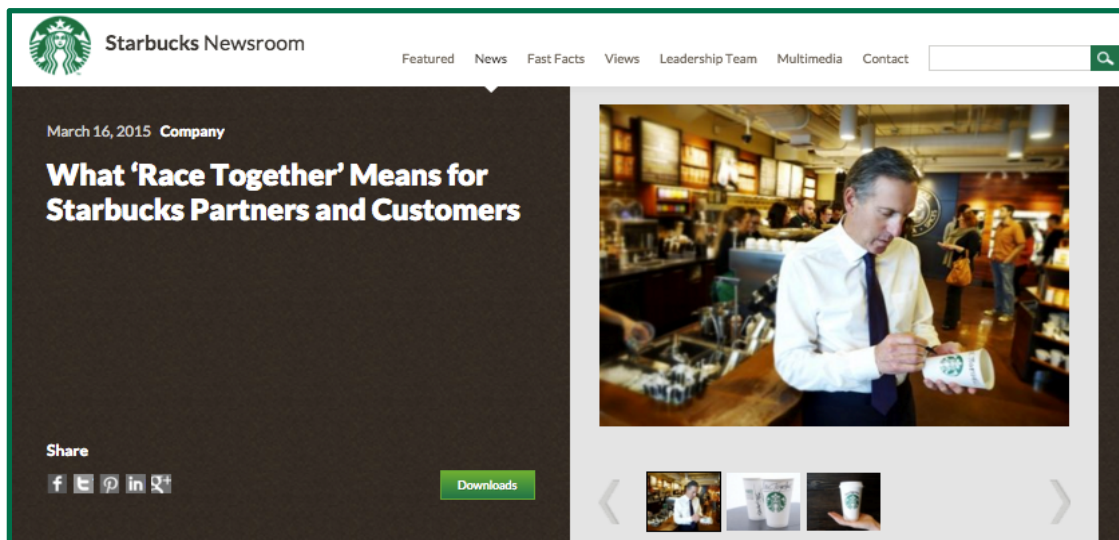
The Case for Race

Race Together Initiative

As CEO of Starbucks, Howard Schultz has made himself known not only as a successful entrepreneur, but as a successful social activist as well. He has brought meaning to the relatively new concept of CEO activism by "weighing in on contentious issues without any obvious pretense of raising profits" (Chatterji and Toffel, 2015). Notably, Starbucks does not speak out on issues or financially

support causes solely based on an anticipated response from the public, but it reacts to causes based on the corporate values the company already has in place.

Speaking out on race aligns with Starbucks' corporate values. Racial tensions have become an inflammatory issue in the United States surrounding incidents such as the death of Michael Brown in Ferguson, Mo. and the death of Eric Garner in New York City. Schultz was prepared to have his company address these issues directly. In a Starbucks memo sent on March 16, 2015, Schultz was quoted as saying, "We at Starbucks should be willing to talk about these issues in America. Not to point fingers or to place blame, and not because we have answers, but because staying silent is not who we are." (Starbucks, 2015)



It began with one voice

As racially-charged tragedies unfolded in communities across the country, the chairman and ceo of Starbucks didn't remain a silent bystander. Howard Schultz voiced his concerns with partners (employees) in the company's Seattle headquarters and started a discussion about race in America.

Despite raw emotion around racial unrest from Ferguson, Missouri to New York City to Oakland, "we at Starbucks should be willing to talk about these issues in America," Schultz said. "Not to point fingers or to place blame, and not because we have answers, but because staying silent is not who we are."

Partners were not silent. For more than an hour, at an all-hands meeting at the Starbucks Support Center, partners representing various ages, races and ethnicities passed a microphone and shared personal stories.

"The current state of racism in our country is almost like humidity at times. You can't see it, but you feel it," said one partner.

Starbucks customers are invited to join the discussion

Baristas in cities where the forums were held said they wanted to do something tangible to encourage greater understanding, empathy and compassion toward one another. Given their willingness to discuss race relations, many partners wanted to begin conversations with their customers too. Partners in New York, Chicago, St. Louis, Oakland and Los Angeles have voluntarily begun writing "Race Together" on Starbucks cups. Partners in all Starbucks stores in the U.S. will join them today. Partners in Starbucks® stores may also engage customers in conversation through Race Together stickers available in select stores, and a special USA Today newspaper section arriving in stores later this week.

In addition, full-page ads in The New York Times and USA Today support the Race Together initiative, which will be further outlined during Starbucks 2015 Annual Meeting of Shareholders in Seattle on Wednesday.

Race Together is not a solution, Schultz acknowledged, "but it is an opportunity to begin to re-examine how we can create a more empathetic and inclusive society – one conversation at a time."

Source: Starbucks, Inc. 2015

This memo also announced the Starbucks Race Together initiative. Starbucks launched the initiative by inviting its partners to engage in open discussions about race by writing "Race Together" on customer's cups. The memo ended with another quote from Schultz which acknowledged that the initiative is not a solution "but it is an opportunity to begin to reexamine how we can create a more empathetic and inclusive society – one conversation at a time." (Starbucks, 2015)

Public Response

Despite its best intentions, the Race Together initiative was met with harsh criticism and mockery from the public. Starbucks failed to anticipate the backlash it would endure from engaging a topic as sensitive as race. People soon took to social media to express their disapproval. The extensive negative comments drove Corey duBrowa, Starbucks SVP of Global Communications, to temporarily suspend his Twitter account in fear of personal threats.

A sampling of negative tweets about Race Together follows:



April @ReignOfApril [Follow](#)

Not sure what @Starbucks was thinking. I don't have time to explain 400 years of oppression to you & still make my train.
[#RaceTogether](#)

6:59 AM - 17 Mar 2015

647 retweets 667 likes

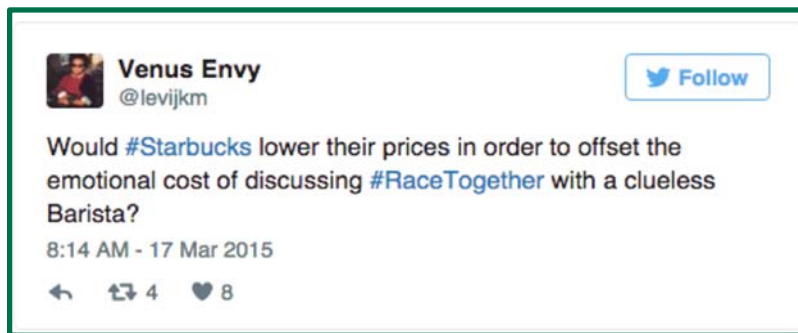



 @Mikelsaac [Follow](#)

yesterday: talk about Love at McDonalds
today: talk about race at starbucks
tmrw: psychoanalysis from guy who makes blizzards at dairy queen

10:45 PM - 16 Mar 2015

40 retweets 62 likes



 **Venus Envy** @levijkm [Follow](#)

Would [#Starbucks](#) lower their prices in order to offset the emotional cost of discussing [#RaceTogether](#) with a clueless Barista?

8:14 AM - 17 Mar 2015

4 retweets 8 likes



 **Jamil Smith** @JamilSmith [Follow](#)

The only folks happy about Starbucks baristas discussing race with customers are the suits who run it. Feel-good liberalism at its worst.

11:14 PM - 16 Mar 2015

370 RETWEETS 354 FAVORITES

The Twitter storm was fierce but blew over quickly because the timeframe for the initiative was short. Many believed the campaign had been cut short because of the public's reaction. However, Starbucks maintains that writing "Race Together" on cups lasted for its intended run date, March 16 to March 22, 2015, and only played a small role in the overall Race Together initiative (Ziv, 2015). The act of writing on cups was meant to serve as a jumping off point in the conversation, and Starbucks claimed it already had a larger plan in place to address the racial divide. Schultz made this clear in an interview with CNBC stating:

"Writing on the cup is a diminutive piece of this issue and it's not going to last long. It was a catalyst to start this. What's going to last long is our company saying that we believe that there is a serious problem in America. We are in almost every community in America, and can we use our stores and our national footprint for good?"

(Schultz, 2015)

Media Response

The media response was equally as critical and labeled the initiative as poorly executed. However, journalists at national publications knew Schultz well enough to question whether this move held more significance than a short-sighted PR stunt. Several publications tried to analyze Starbucks' motive for confronting an issue as complex as race. They helped explain what much of the general public did not realize, that writing on cups was the tip of the iceberg on a much larger initiative. *The Wall Street Journal* published an article titled, "Why Starbucks Takes on Social Issues" that examined why Schultz would continue pushing the race discussion despite the backlash. Many other publications, such as *TIME*, *Huffington Post* and *Fast Company*, lauded the overall initiative and praised Schultz's tenacity in combating an issue many other corporations feared to address. Kimberly Cooper of the *Huffington Post* recognized the larger platform behind the campaign stating, "While Starbucks may have stopped writing 'Race Together' on their drinks, the #RaceTogether initiative is far from over and the ball is in our court to answer their call to action." (Cooper, 2015; Carr, 2015; Yoffie and Cusumano, 2015)

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Why Starbucks Takes On Social Issues
Despite backlash, CEO vows to continue some aspects of company's race relations campaign

Starbucks CEO Howard Schultz vows to continue tackling social issues, despite mixed results. WSJ's Jason Dean reports. Photo: AP

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Source: *The Wall Street Journal*, 2015

Business Impact

Harsh criticism of the Race Together initiative did not affect Starbucks' sales or stock market performance. In fact, the company's stock price has risen by 20% since 2014 and saw a 4% jump in April 2015, a month after the March 2015 launch of the Race Together Initiative, reaching a record high during its fiscal second quarter. Paul La Monica from *CNN Money* observes, "Schultz may continue to alienate some people with comments about politics and race. But it doesn't matter for the bottom line. Coffee junkies want their caffeine fix. And so does Wall Street." (La Monica, 2015) Schultz also maintains that performing for his shareholders is top priority, "You have to understand, I spend 90% of my day on Starbucks business - I'm not spending my entire life on the issues of racial inequality, I have a company to run here." (Carr, 2015)

Nonetheless, the safest stance for the bottom line when it comes to social issues such as race is to remain silent. Schultz seems determined to use Starbucks' scale for good, and if he can do so while remaining profitable, he is helping Starbucks redefine the way for-profit public companies can impact social issues.



Source: Yahoo! Finance, 2015

The New American Dream

With Schultz’s guidance, Starbucks is attempting to redefine the way the private sector reacts to social issues. Race Together may have stumbled in its initial execution but its commitment to the issue seemingly reflects the company’s corporate values and belief that the “American Dream should be available to every person in this country, not just a select few” (Starbucks, 2015). Despite the initial negative rollout of Race Together, Schultz doubled down and defended his efforts by further outlining Starbucks’ plans to address the issue of race.

In a series of memos after the initial Race Together announcement, Starbucks attempted to support the initiative with action by: 1) announcing plans to co-produce content addressing racial issues with *USA Today*, 2) holding open forums across the country to encourage dialogue with police and community leaders, 3) opening stores in 15 diverse urban communities across the country including Ferguson, Mo. and, 4) hiring 10,000 Opportunity Youth, 16 to 24-year-olds who face systemic barriers to jobs and education by 2018 (Starbucks, 2015). By this time, they also plan to engage with a minimum of 100,000 Opportunity Youth. To help reach this goal, Starbucks partnered with different organizations like the Schultz Family Foundation and YouthBuild USA. Together they created a program called Customer Service Excellence Training to help train these young people and find them careers in retail and customer service. *The Wall Street Journal* reports that other major corporations such as Walmart, Microsoft, Lyft, JPMorgan Chase, Taco Bell, Pizza Hut, Macy’s and Alaska Air Group have also pledged to hire 100,000 Opportunity Youth (Kieler, 2015).

Starbucks' well-defined corporate character and track record of giving back to its communities is evidence against the idea that Race Together was a public relations stunt jumping on a topical issue. Starbucks is distinguishing itself as a corporation that becomes meaningfully involved in relevant social issues. The company appears to follow its commitments even when the conversation becomes controversial. With this in mind, it is consistent for Starbucks to speak out on race. As argued by Phillip Haid of *Fast Company*, Starbucks is evolving beyond "the outdated view that charities 'do good' and companies make money" (Haid, 2015).

Business Performance

Overview of Earnings

Starbucks is a company that continually executes its mission and values. It has found many ways to get involved with its public and impact society. The company has been able to remain profitable and continue "growing the beans" while involving itself on societal issues. Starbucks' initiatives and market strategies are some of the main reasons for its success. As discussed earlier in the case, during Starbucks' Race Together campaign, the stock increased in value by 4% on April 2015 despite criticism from the public and media.

Starbucks Stock Performance (2006-2015)



Source: Yahoo! Finance, 2015

Starbucks' stock rose slightly from Schultz's departure in 2000 and reached a plateau in 2006 before a significant drop over the next year and a half until Schultz's return as CEO in 2008. With Schultz' leadership the company has remained successful with only minor declines in its stock price from which it has recovered quickly.

Starbucks Stock Price Increase (2010 – 2015)



Source: Yahoo! Finance, 2015

Starbucks has taken corporate and financial risks with its CSR initiatives and public relations strategies since its inception. For the past five years, the risks it has taken are working in its favor. The

Starbucks Rewards® loyalty program (2009), the Starbucks Digital Network (2010), its Global Month of Service celebration (2011), its farming research in Costa Rica (2013), and the launch of Starbucks’ College Achievement Plan (2014), have contributed to Starbucks’ business performance and boosted the value of Starbucks stocks for the past five years.

Starbucks Stock Price Performance (May 2015 – November 2015)



Source: Yahoo! Finance, 2015

The negative publicity generated by the Race Together initiative has not hurt Starbucks’ stock prices. Despite a minor drop in stock prices in August of 2015, the company has consistently reported positive change. Although Starbucks did not implement Race Together in order to increase revenue, it and other CSR initiatives have helped the company strengthen bonds with stakeholders and increase shareholder value.

A Look Ahead

Some future challenges Starbucks might face could involve an inability to raise prices if coffee bean rates continue to rise and lost revenue against other specialty coffee retailers. Nevertheless, Starbucks anticipates challenges and has a reputation of success in solving tough problems. Starbucks’ strategies often involve risks but the company finds success because of its long-term plans and orientation.

“I believe life is a series of near misses. A lot of what we ascribe to luck is not luck at all. It’s seizing the day and accepting responsibility for your future. It’s seeing what other people don’t see and pursuing that vision.”

(Schultz, 2015)

Starbucks' success seems tied to the CSR efforts and corporate communications strategies they practice. As stated by Starbucks SVP of Global Communications, Corey duBrowa, "These financial and stock market gains do not seem to have come at the expense of other stakeholders. Starbucks has maintained a strong reputation." (Ragas & Culp, 2014) If Starbucks keeps true to its corporate character, it is poised to be a brand that creates shared value for its stakeholders and outperforms its competitors. Starbucks will likely continue to *manage for tomorrow* when it comes to its reputation.

The Future of Corporate Social Responsibility

The Race Continues

As Schultz promised, Starbucks has not retreated from Race Together. The corporation has followed through on its commitment to use its resources to reduce racial tensions in the United States. On November 19, 2015 the company broke ground for its new location in Ferguson, Mo. The company also partnered with Natalie DuBose of Natalie's Cakes and More. DuBose, whose bakery shop was burned and vandalized during the protests in Ferguson, will sell her desserts at the new Starbucks in Ferguson and 11 other locations. The Ferguson store is set to open in the spring of 2016, and locations in Milwaukee, Phoenix, Chicago and New York will open within the next year (Stewart, 2015).

Corporate Social Activism

Starbucks has emerged as a pioneer in a new era of corporate social activism but it is not alone in its belief that corporations can influence social change. Other companies have similarly used their scale for good in attempts to address societal issues. One recent success story is Salesforce, a cloud computing company that announced on March 26, 2015 it would cease all company events in Indiana after the state passed the Religious Freedom Restoration Act, an act that allowed individuals and corporations to legally refuse to do business with same sex couples. (Hesseldahl, 2015). Salesforce CEO Marc Benioff was quoted as saying, "We've made significant investments in Indiana. We run major marketing events and conferences there. We're a major source of income and revenue to the state of Indiana, but we simply cannot support this kind of legislation." (Benioff, 2015)

Other corporations such as Eli Lilly, Levi Strauss, NASCAR, the Indianapolis Motor Speedway and the Indiana Pacers followed suit to speak out against the law. As businesses became the most compelling opponents of the Religious Freedom Restoration Act, legislators gave in and created necessary revisions to the law. The reaction also caused Georgia and Arkansas to rethink similar laws (Bort, 2015).

Corporation social activism is a novel concept and companies are just beginning to recognize their ability to influence societal issues through living their corporate character. While it is still a risk for companies to take a stance on controversial “third rail issues,” the potential for businesses to enact change is significant. If progressive companies like Starbucks continue to speak out on issues based on the beliefs of their company even when the issue is not directly tied to financial gain, there could be a major shift in the way the private sector operates in society.

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