SIXTH EDITION

ORGANIZATIONAL BEHAVIOR

SCHERMERHORN
HUNT
OSBORN

OB Workbook Supplement

to accompany

ORGANIZATIONAL BEHAVIOR

SIXTH EDITION

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Preface

The OB Workbook Supplement to accompany Organizational Behavior 6E by Schermerhorn, Hunt, and Osborn was designed to supplement the cases and experiential exercises that appear in the text. There are 22 cases and 38 exercises, with topics ranging from Starbuck's Coffee to Negotiating Contracts for the National Hockey League. You will note that the cases do not have questions and answers; this was done intentionally to allow students to determine for themselves the issues and applications and to provide maximum flexibility for the OB classroom.

We are confident that this *Workbook Supplement* will be another valuable tool to help today's students become the leaders of tomorrow's organizations.

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CASE 1

Mutually Uncommitted

By Sally Power, University of St. Thomas, Minneapolis

With the old social contract between companies and workers dead and buried, what are our options for rebuilding the employee-employer relationship?

Three years ago, Clarence Wilsen was abruptly laid off from his job as an analyst at a major West Coast financial services firm. The forty-five year-old took on low-paying day jobs and went to night school to brush up on his skills. After a year and a half, he found a job at another financial services company. Finally, he figured, his annual income would by year's end be back to where it had been in 1992.

That was before he learned last month that his unit will be "re-engineered," resulting in layoffs totaling 10 percent of its workforce, by September 30. "That's where I'm at," he says. "My job is in jeopardy—again." (Wilsen is an alias: Given his desire to keep his job, his identity was altered for this story.)

Wilsen's plight is just one example of a story that's become all too common in corporate America. The workforce is churning as wave upon wave of people are being let go due to corporate restructuring. Newspapers carry stories about layoffs weekly. Seventy-five percent of those polled in a 1994 *New York Times* survey reported they personally knew of someone who had lost his or her job in the last few years. And the American Management Association's annual downsizing survey found almost half of the companies polled in 1994 reported they laid off on average about 9 percent of their workforce in the past twelve months.

Most of us who are still employed work more, and worry more. Gone is the old social contract between employers and employees. And in its place is a system in which employees are loyal to themselves, rather than to a company, and in which employers view long-time employees as expensive burdens instead of valuable assets. Both sides have, for good reason, become mutually uncommitted.

The question is, how can businesses best manage employees in this new era? Continuing, as some businesses are, to tap and then toss away employees as if they were disposable raw materials, clashes with employees' needs for income stability, health care insurance, and overall security. In such an environment, anything, even the reinvigoration of the union movement, becomes a reasonable possibility.

Indeed, the parallels between today's labor situation and that of the 1920s are striking, according to Peter Rachleff, an associate professor specializing in labor history at Macalester College in St. Paul, Minnesota. The 1920s were a decade of technological change; racial, ethnic, and gender recomposition of the workforce; structural economic shifts; and employer and government anti-unionism that had severely depleted the union rolls. Financially, most businesses were doing well. Some companies even began providing benefits such as pensions and vacation time. With the Depression, however, those benefits were dropped and employee wages and security greatly decreased.

Then in the 1930s the argument was made that higher wages for workers were good for the American economy because turning workers into successful consumers would help American business. The argument prevailed, and so did the unions. From a membership of barely two million in 1932, the rolls exploded to ten million by 1938.

Business faces a similar situation today. Net earnings for the S&P 500 companies rose 40 percent overall in 1994—the fourth year of double digit increases. Other financial indicators are up as well, and have been for a number of years. Yet employees are feeling more and more insecure about their jobs and their futures.

As the twentieth century draws to a close, will workers find they must organize to respond collectively to companies that shortchange them in their business decisions? Is "mutually uncommitted" the phrase that will describe employee relations in the twenty-first century? Or can employers and employees work together to forge a new employment contract?

Faced with global competition, increasingly sophisticated automation, a compressed business cycle, and demands from shareholders to increase profits, business leaders say they must downsize and move to a more contingent workforce. Layoffs that reached a high of two thousand a day in the first quarter of 1994 continue. Forty-four percent of some 203 *Fortune* 500 chief executives polled last year said they expected to employ more contingent workers in the next five years.

"The attitude of management is, 'We'll get rid of them, cut costs, and hire them back if we need to'," says a disgruntled Wilsen. But as wrenching as this sounds, within the traditional business model, it makes sense. That model, born during the industrial revolution, sees employees as a cost just as computers or other capital equipment are. When costs can be cut, they should be. It's a well known formula for beating the competition: the work-harder-for-less, low-wage strategy.

While this is difficult for some employees, it's also hard on some of those executives who make the decisions. As Graef Crystal, a noted executive compensation expert, describes it, "Almost every executive-compensation package is oriented toward maximizing the shareholders' position. It often puts the CEO in a very awkward position, where he is being rewarded for others' misery."

But if these times are difficult for executives, they're excruciating for the hundreds of thousands of employees laid off in recent years. To them, the demise of the social contract between employee and employer has meant a demise of their way of life. Many have reacted to the change with fear, anger, and defensiveness: "You want to be uncommitted to me, I'll be uncommitted to you." If the company owes them no more than a paycheck, they owe the company no more than an eight-hour day.

To overcome this hostility and indifference, both employees and employers must change. Employees need to see their lack of job permanence more as an opportunity and less as a threat. They need to continue developing their skills, marketing themselves, and taking more responsibility for their own welfare. And they need to commit themselves to go the extra mile to help their current organizations to achieve their goals.

But employers also have to do more, mainly by addressing some of the most pressing issues on workers' minds today, including health care coverage, having a life outside the office, and the threat of being replaced by "contingent workers."

No plan for building a stronger, more respectful relationship between business and its workers will work, however, if employers don't walk their talk. The most glaring misstep by top management today is with respect to CEO pay.

Regardless of the extra effort and sacrifice they are asking of employees—many of whom will be lucky to see a pay raise of 3 percent or more this year—most CEOs are taking good care of themselves. Last year CEO salaries and bonuses advanced 11.4 percent over 1993 levels, according to a William C. Mercer study. Because of a sluggish market, CEOs did not exercise their stock options as much last year. But "mega grants," a type of compensation that involves gifts of stock ranging in value from one- to three-times an executive's annual cash compensation—increased. Thus the CEO compensation packages continued to expand in value at a significant rate.

Advocates of generous CEO compensation often hold that high pay is acceptable because corporations like buying "stars," and just like top athletes, CEOs should not be begrudged their stupendous compensation. "But wait a minute," says Ron Bosrock, a managing director at

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Source: This originally appeared in *Business Ethics*, September-October 1995.

Arthur Andersen International and a member of this year's Stakeholder Dialogues panel. "Aren't managers today taught that their work is to coach?" Taking the analogy further, he points out, coaches of sport teams hardly ever make more than their star players.

	1979-83	1987-91
Blue collar workers laid off	18.6%	14.1%
White collar workers laid off	7.3%	8.9%

Source: *The State of Working In America, 1974-1994,* By the Economic Policy Institute, Washington, D.C.

Some companies are making headway on this issue. Delta Airline's CEO and Chairman Ronald Allen, after announcing the elimination of fifteen thousand jobs, told his board in 1994 that he wanted to forego any pay raise or bonus for a second straight year. Gerald Grinstein, CEO of Burlington Northern, Inc., also took a pay cut in 1992 when things were hard for the railroad. He was quoted in the *Wall Street Journal* saying, "They're tough times, and I share the belief that these difficulties have to be" shared in the executive suite.

Meanwhile, employees continue to worry more about whether they'll be able to continue taking care of their families, especially on the health care front. While it used to be a given that family health care and pensions would be available to all working Americans, our current system is shifting into reverse. A study by James Medoff, a Harvard economist, showed that in 1988, 38 percent of all new jobs offered health benefits, down from 43 percent in 1979. Only 15 percent offered pension benefits in 1988 vs. 23 percent in 1979.

Lynn Martin, chair of the Council on the Advancement of Women for the accounting firm Deloitte & Touche, says one idea is to make health care insurance and pensions more portable, allowing employees to take them along as they switch employers. Devising such portable plans would prove a daunting task. But businesses might take a leadership role here—they have the experts who can deal with the complexity of this issue, and the clout to make it happen. It was, after all, businesses that first created workers compensation benefit plans in the early 1900s.

Even when there is ample insurance coverage, using it is another issue. Taking time off of work to take care of sick children is still viewed by many companies as unacceptable behavior, according to Felice Schwartz, this year's lead panelist for the Stakeholder Dialogues. Schwartz has for more than thirty years championed the notion that corporations need to recognize the needs and strengths of women who work and also have children. The same applies to men, she says.

Another source of workplace insecurity is the apparent growth in the number of contingent workers. They now come in all varieties, from clerical workers to engineers to top managers; but most of them come with few benefits, no pensions, and reduced protections from exploitation or discrimination because they are not working full-time for their employers. And, there's a growing number of older, seasoned employees coming back to work part-time or full-time who don't look to their job as the sole source of income, but rather as a part-time activity that provides a second source of revenue. These employees have experience and proven talents, but also come with their own pensions and health care benefits from previous jobs.

It's hard to say just how many contingent workers there are. Temporary employees, who make up a major chunk of the contingent workforce, increased by an estimated 240 percent during the past ten years, according to the Bureau of Labor Statistics. Meanwhile, there's the previously mentioned poll of *Fortune* 500 CEOs that indicates even more contingent worker hiring in the future.

This month the Labor Department should be releasing its first-ever survey of contingent workers, according to Tom Nardone, an economist at the U.S. Bureau of Labor Statistics. This should provide a good starting point for looking at the costs and benefits of the contingent workforce.

While management touts them for the flexibility and lower costs they carry, others suggest that contingent workers, as more than an occasional occurrence in a company's workforce, introduce a class system among workers and encourage divisiveness and fear.

Think about it from the full-time employee's point of view: You constantly adjust to changes big and small in your work place, keeping your skills sharp and learning new ones. You recognize you may not be working this job for long, and you are constantly thinking about how you can market yourself. Furthermore, you're concerned with the potential financial risk to your family changing jobs might present. Your employer wants you to perform at your best. Wouldn't you be more likely to be able to give that extra effort if:

- You knew a contingent worker wasn't possibly going to replace you;
- Your family's health care and your pension would not cease if your job was lost;
- You were given all the information the company had about work changes and the skills that are and will be needed;
- You were being aided in developing your skills;
- Your wages were at least adequate;
- And you felt mutual respect between management and employees was the norm.

"How can an enterprise build capabilities, forge empowered teams, develop a deep understanding of its customers, and—most important—create a sense of community or common purpose unless it has a relationship with its employees based on mutual trust and caring?" asked Betsy Collard and Robert and Judith Waterman in a *Harvard Business Review* article they wrote last year. "And how can an enterprise build such a relationship unless it commits something to employees and employees commit something to it?"

Thankfully, a growing number of companies are thinking about employee concerns. Instead of reacting with the same mechanistic response of the traditional business model, a few have started programs in "career-resilience" to tap their workforce as a source of renewable energy.

To the extent a company uses an employee's skills and knowledge but doesn't encourage growth or learning, "you are using them up," says Collard, program director and organizational consultant at the Career Action Center in Palo Alto, California. "We need to shift from looking at employees as a cost factor in manufacturing terms to thinking of them as investments based on intellectual capacity."

Raychem Corp. has been a pioneer in this area. Its career resilience program includes a

A Mutual Understanding
Ways Employers and Employees Can Better Work Together

Employers	Employees
Commit to providing employees with respect and basic security	Recognize and learn how to succeed with the increased insecurity in the workforce
Identify new skills and knowledge needed in the workplace	Constantly work on improving your skills
Advocate portable health care and pension benefits	Take on more responsibility for your own long-term security
Create new jobs and pay more people a living wage	Focus on achieving the organization's goals and giving extra effort when needed

process that pushes managers to specify exactly what "working harder" means and how it will be measured, as well as what new skills will be needed by employees in the future. It also has set up a continuous feedback system and a career center staffed by independent counselors from Collard's Career Action Center.

"We didn't come at it from the perspective of how can we save our people or how can we be more of an advocate for our people," says Steve Balogh, vice president of human resources at Raychem. "We were much more driven by the business side—what is the win/win situation for our employees and our business divisions."

These career-resilience programs focus on helping employees in two areas: periodically assessing their skills, interests, values, and temperaments so they can identify the work for which they are best suited; and benchmarking their skills on a regular basis.

In order to be effective, the programs require that the employers share much more of their management-related information, allowing all employees to better understand how they can fit in with the constant changes that take place within a business. Employers also show support, with time and resources, for employee learning and job changes.

Such ideas are a major change from the older, mechanistic paradigm because they recognize a need to treat human resources differently from other resources. They are more than a cost; they are people who created the entity which we know as the workplace. And they are people who need to have trusting, respectful relationships in order to do their best work.

This fall, Honeywell and twelve other corporate and nonprofit sponsors began a series of public discussions in the Twin Cities on these issues and more in a program entitled, "Rethinking Work in America." The programs came after a year of planning. "The hope is to be able to look at some new things that are going on—new practices, new arrangements—and encourage some of these companies who are participating in the forum to try them on an experimental basis," says Geri Joseph, former ambassador to the Netherlands and a member of the Honeywell board of directors until her retirement last year. She and Pat Hoven, the company's vice president for community and local government affairs, created the initiative.

"They all saw it as a critical issue," Hoven says of the sponsors. "The nature of work for their companies, their employees, and everybody is changing. It's not business as usual. They want to understand the problem."

Here's hoping that attitude spreads.

CASE 2

Interview: Howard Schultz

By Mary Scott

His dad was beaten down by the system. Today, the CEO of Starbucks runs a thriving business built upon making every worker feel respected.

When the Chicago-based U.S./Guatemala Labor Education project sought to publicize the near-slavery conditions on Guatemala's coffee plantations, it didn't go after such coffee giants such as Folger's or Maxwell House. Rather, the nonprofit advocacy group aimed its missives at Seattle-based Starbucks Coffee Company, the fast-growing specialty company that is fueling the coffee bar craze.

With more than five hundred company-owned stores throughout the country, Starbucks projects as a progressive business, touting its "Bean Stock" employee ownership plan, full medical and dental benefits—available to even part-time workers, and its annual six-figure donations to non-profit organization CARE.

Yet, according to the U.S./Guatemala Labor Education Project, workers toil in inhumane conditions in Guatemala to earn two cents a pound picking beans, while Starbucks sell the same beans for up to $8 a pound. Using that juxtaposition and others, the group last year targeted Starbucks in its campaign to improve working conditions for foreign coffee bean pickers.

Part of Starbucks' strength and influence is manifested in its partnerships. Its stores feature the book *Starbucks Passion for Coffee,* the first in a series written with Sunset Books; and an exclusive jazz CD produced with Capitol Records, the first of a four-part series. And Starbucks New Venture Company, a wholly-owned subsidiary, has entered into a joint venture with Pepsi-Cola to develop ready-to-drink coffee-based beverages. The first, Mazagran, is being test-marketed in the Los Angeles area.

Suddenly, the upbeat yet tranquil scene of Starbucks coffee shops turned controversial. Activists started passing out anti-Starbucks leaflets to customers entering its stores. At headquarters, hundreds of impassioned letters began pouring in from customers and investors wanting action.

Starbucks management was soon being asked to adopt a "code of conduct" that would encourage Third World employers to ban child labor and to provide workers with increased wages, improved working conditions, and at least minimal health care.

At first, management balked, noting that the Seattle-based company's annual $100,000 plus donations to the relief agency CARE for programs in coffee growing regions was more than any other coffee company did to help people in such regions. By early 1995, however, it started writing a code that was released last month.

In doing so, Starbucks followed the leads of Levi Strauss & Co. in the clothing industry, and Reebok International Ltd. in the footwear industry, in establishing guidelines for its suppliers. It also broke the ice on an issue previously ignored by its peers.

The majority of specialty coffee firms previously had not considered working conditions in coffee-producing countries a top ethical priority. "Purchasing products without regard to their effect upon local environments" was ranked the thirteenth most significant ethical blunder, behind situations including, "Roasting beans with no formal training," and, "Fixing prices with competitors," according to a January 1995 survey of members conducted by the Specialty Coffee Association in Long Beach, California.

"Starbucks has gone a long way to deal with a very new situation," says Eric Hahn, the Starbucks Campaign Coordinator for the U.S./Guatemala Labor Education Project. "There's nothing else like this code of conduct in the coffee or agricultural industries."

Yet, pushing beyond the norm has been standard fare at Starbucks. The company has been in a constant state of growth since CEO Howard Schultz and a group of investors purchased it in 1987. From eleven Seattle stores and fewer than one hundred employees, it has since exploded into an empire serving nearly three million cups of coffee per week in six hundred stores around the country.

"Starbucks has created an incredibly powerful brand name in a relatively short period of time," says Michael Moe, a growth stock analyst for Lehman Brothers, a Manhattan securities brokerage firm. "It's now a half billion dollar company, and growing at rates hardly any company could match. I consider them the finest emerging growth company in America."

According to Moe, Starbucks' rapid growth did not come at the expense of its decidedly progressive corporate culture. "They're a bunch of idealistic people who believe Starbucks is their vehicle to contribute to society and accomplish a broader mission," he says.

And they realize that the only way to get anywhere is by treating employees well. In fact, Starbucks is widely considered the first large retailer to deviate from the age-old edict that "the customer always comes first." At Starbucks, the employee comes first, Schultz says.

The result: great benefits for workers and security for the employer—Starbucks' annual employee turnover rate is less than 50 percent. The industry norm is more like 400 percent a year. Less turnover means reduced training time and costs. And better benefits hasn't hurt the company any. Since 1989, Starbucks has reported a compounded annual revenue growth rate of 80 percent. Profit margins have improved each quarter since, as well.

And there's the other factor to consider: the enthusiastic, happy-to-be-working employees keep customers coming back for more. Same store sales in the 47 weeks ending August 27 were up 10 percent compared with earlier sales. Most retailers would celebrate reaching just 5 percent in such a category.

Starbucks' robust growth has left a bitter aftertaste in the mouths of some, who see it as nothing more than a chain store business dressed in glitzy, neighborhood-shop facades.

Three years ago in the San Francisco suburb of Mill Valley, locals accused outsider Starbucks of trying to bump off their local coffee house. Specifically, they claimed Starbucks offered the landlord of the Mill Valley Coffee Roaster double the rent—and a $50,000 one-time fee for an electrical upgrade—to take over the lease. Mill Valley Coffee eventually matched the offer and remained in its original space.

"The real estate part of our business is very, very competitive," Schultz admits. "But we've never acted in anything but an utmost ethical manner." Still, this was one of the well publicized times Starbucks left people feeling jittery. "It was a very aggressive technique, which resulted in a lot of negative publicity for Starbucks. They were depicted as the evil empire," says Matt Patsky, an analyst and senior vice president at Adams, Harkness & Hill in Boston. "But the real estate value for anything that can house a coffee shop has skyrocketed due to the explosion of this category."

Much of the anger toward Starbucks, says Patsky, is the general public's aversion to chain stores versus independents. For example, in Minneapolis' upscale Linden Hills neighborhood, residents and local businesses effectively blocked Starbucks from opening a store in its small downtown area. "We don't want our dry cleaner and our children's consignment clothing shop to be run out of business by the increasingly high rents trendy national chains can pay," says Debby Magnuson, chair of the Linden Hills council. "We also didn't want the traffic and we already have three coffee shops. How much coffee do we need?"

Source: This originally appeared in *Business Ethics*, November-December 1995.

Schultz, however, says he's only interested in going into areas where people want a Starbucks. If residents disagree with him, he sees it not as widespread public animosity against the firm, but rather one more reason to work even harder. "He's highly competitive and loves the game, and wants to win," says Howard Behar, president of the company's international division. "At the same time, he's a great boss. He's not afraid to bring strong people in, and he allows all of us to do our job as we see best."

For example, each Starbucks store is given the authority to work with a variety of local community groups, donating products for events and fund-raising. In Seattle, one store provides $50,000 a year to the Zion Preparatory Academy, an inner-city school that works to build self-esteem and leadership with its students.

Another sign of success is how comparable businesses view Starbucks as a role model. "We spend a lot of time talking about Starbucks' success internally," says Steve Finn, president and CEO of Brueger's Corporation, a Burlington, Vermont-based bagel franchise company with locations throughout the country. "We compete with them, primarily for real estate, and have found them in all cases to be worthy competitors acting ethically. I'm impressed with the passion they bring to their business."

Yet still, in many communities from San Francisco to New York, Starbucks creates good and bad feelings. Howard Schultz recently took some time out to talk with *Business Ethics* about these and other issues.

Starbucks is known for its strong employee relations. Why such an effort in this area?

When we started the business we asked ourselves, "how can we build a company that is sustainable, that will withstand the pressures of growth." We recognized we had to build trust and confidence with customers and shareholders. But first and foremost, we had to build this trust with employees. As a result, we created unique benefits and mechanisms so the growth of the company would be extremely meaningful to all three constituencies. This is why we created the only employee stock ownership plan that offers stock ownership to all employees, including part-timers.

Also, I grew up in a lower middle-class family in federally subsidized housing in Brooklyn. My Dad was a blue collar worker who had worked many jobs, ranging from taxi driving to factory work. He was not valued as a worker; the system he was a part of beat him down and he became a bitter person who lost his self esteem. That image was firmly imprinted on me. I felt strongly that if I was in the position to affect a change in the workplace, I would, making sure everyone felt valued, respected, and part of the winning result.

But what good does it do a business to treat its employees well?

A lot of employers have forgotten the vital importance of who represents them to the customer every day. The great and sustaining companies are the ones embracing employees. I took my family to Disneyland at the height of the Easter season last year. It was a mob scene. But the effort by employees to ensure every child and parent had a wonderful time was so apparent, at one point I turned to my wife and said, "can you feel the common thread of commitment here?"

How have you been able to maintain the practice of your core principles while growing sales at a compounded annual rate of 60 percent during the past five years?

The greatest strengths of our early years came from being in an intimate, small group. As we've grown we've had to redefine what intimacy is. We developed a system of delegating and realigning, so we all had more responsibility with less tasks. It's a situation that continues to challenge the company. Today we have twelve thousand employees. The greatest challenge we face is maintaining our uniqueness and "specialty-ness," while reaching a level of ubiquity.

Many view fast-growing Starbucks as an evil empire. It's almost as if popular perception sees growth at Starbucks' present pace as inherently bad.

Growth is not the driving force. Rather, it's the passion for quality and respect. Growth is the manifestation of a strong level of success. Along the way, it would have been easy to say yes to so many opportunities which would have allowed us to grow all the faster. But we've taken the most difficult possible route to growth. We buy our own beans, roast our own beans, open and operate our own stores. We give a piece of the company to every employee, comprehensive benefits, training, and career advancement opportunities. We could have done it a different way and had higher earnings. But at the end of the day I wouldn't have had the kind of company we feel is built to last with the commitment to quality for the product and relationships we have today.

When you enter markets, you often set up in neighborhoods already well-served by local coffee companies. What do you say to the growing perception of Starbucks being a big, chain store-like outsider out to hurt the local player?

Starbucks coexists with a number of local players and has done a good job to enhance the specialty market. As far as I see, Starbucks is an anomaly to categorization of chain stores. The level of execution, and the commitment to quality, is unprecedented. We're also very involved in the communities where we do business. For instance, we donate to groups relevant to the local community.

You believe the benevolent side of the business is not something the press wants to report. Why do you think that's the case?

Generally speaking, when small companies become large, there is a dilution to quality, passion, and values. But in my view, our size and scale has enabled Starbucks to enhance the qualities that gave us the ability to grow the company—the gestalt of the business.

The press usually wants to talk about the size, the scale, and the growth level or stock price. Those are not relevant. What is relevant is the quality and integrity of the company's foundation, and how our people interact with customers.

What's unique about Starbucks' growth?

The level of growth has been sustained with a passion for coffee quality that borders on fanaticism. We only have company-owned stores, which is not consistent with many retail operations. Pride about our standard of freshness is why we don't franchise, opting to take on the significant cost and more arduous task of opening company-owned stores only. It would be too difficult for six-hundred-plus franchise stores to adhere to our levels of control of freshness, training, and quality of coffee.

While you speak of a responsibility to shareholders, as well as other constituents, your board of directors is made up of five white men, all of whom seem to have a vested interest in the company—they're major customers, suppliers, or debt holders. How is this responsibly serving your constituents?

We've recognized for quite a while that change is needed, and I will say that we are far from perfect. We've had a search on for more than a year with one of the most pedigreed search firms in the country. It's been taken seriously with diligence and pride. We just don't want Band-aid solutions, and we don't want to make mistakes.

We have been searching for two more outside board members and have found one thus far. The new members will be added at the end of the calendar year, and will both represent diversity. It's difficult because we are looking for board members who understand our mission and are available. It takes a long time to find the right people who understand our value system.

Starbucks has entered partnerships with some key companies, including Barnes & Noble and most recently, PepsiCo. How significant are these, and how do you determine what companies you work with?

You are the company you keep. We're very sensitive about what companies we conduct business with. Starbucks looks for alliances with other businesses which share a commitment to quality and focus on exceeding customers' expectations. But our associations with other companies don't dilute our integrity.

Our first alliance, with Nordstrums, has been great. Crate and Barrel in Chicago is testing having a Starbucks within its stores. We have a relationship with Barnes &

Noble and ITT Sheraton. And we've just launched a joint venture with Pepsi, which will bring Starbucks in a bottle to a much greater distribution. Both companies (Pepsi and Starbucks) brought important factors to the partnership. Pepsi has the core competency with distributors we didn't have.

Starbucks' Code of Conduct

In addition to upholding guidelines such as "we aspire to purchase coffee from people who share our commitment to treating employees with respect and dignity," the company has developed more concrete, measureable goals. They include a strategic plan for implementation of a "coffee mission" for each country in which it does business.

In fiscal 1996, Starbucks' focus will be on Guatemala, where it hopes to develop with Anacafe (the Guatemalan coffee producer organization) a set of industry standards. Starbucks also plans to work with other specialty coffee companies to identify actions that can improve the lives of coffee workers there.

Which companies have you looked to as role models in building Starbucks?

A number of business models served different purposes. The first company to recognize the relevance of building social values culturally which served as a model is Ben & Jerry's Homemade Inc. In terms of building a large company whose brand and product maintained relevancy and integrity, I looked to Nike.

Coffee Facts

- Coffee is the second largest internationally traded item.
- Coffee is the world's second cheapest beverage.
- In the early 1960s, 75 percent of American adults drank three or more cups of coffee per day.
- In 1995, less than 47 percent of American adults drink an average 1.5 cups of coffee per day.
- There are currently 4,500 coffee houses nationwide.
- The number is expected to double within five years.

Source: Specialty Coffee Association

Why have coffee shops like Starbucks become so popular?

There's been such a fracturing of American values as evidenced by a strong level of mediocrity in terms of service. There's a growing list of factors which reduce trust in institutions whether it's government, business or baseball. As a result we have a unique opportunity because coffee is a part of our personal habits. We drink it every day. As such, our stores are extensions of our homes, the third place after home and work where people gather to socialize, or enjoy quiet moments for themselves.

CASE 3

Rus Wane Equipment: Joint Venture in Russia

By Stanislav V. Shekshnia, Paris, France and Sheila M. Puffer, Northeastern University College of Business Administration, Boston.

"John, yesterday Lev presented me with a candidate for the human resource manager's position. Tomorrow he is going to ask the board to appoint Sasha Neresyan. What do you think?" Ronald Chapman, Wane Machines, Inc.'s country manager for Russia, was querying John Swift, deputy general manager of Rus Wane Equipment, as they discussed Wane's Russian joint venture on the eve of its third anniversary in November 1993.

The question came as quite a surprise to John, who had virtually given up hope that the human resource manager would be filled and would never have considered 30-year-old Sasha as a candidate for the job. Not that Sasha lacked desirable qualities as an employee. He had joined Rus Wane in June 1992 as a customs clearance officer and had subsequently earned a very good reputation in the company by skillfully negotiating with bureaucratic and often corrupt Russian government officials who could turn importing of crucial goods and components into a nightmare for the joint venture. Before joining Rus Wane, Sasha had retired from the Army with the rank of captain, having worked in the Middle East using his background as a military translator. His excellent communications skills and fluency in English had helped him build good relations with many local and all expatriate Rus Wane employees.

But being a good customs clearance officer, John thought, hardly makes one a qualified human resource professional. As Ron paused, John wondered aloud: "Will Sasha be respected by senior Rus Wane managers, even though he is at least twenty years younger than they are? And what does he know about HR practices?" John did not have the answers to these questions, but he knew Sasha was a smart and hard-working young man. What really bothered John was the fact that Sasha had been brought to Rus Wane by the general manager, Lev Novikov, who had been a long-time patient and friend of Dr. Neresyan, Sasha's father. This hiring proposal was the latest episode contributing to the strained relations between the Russian general manager of the joint venture and his American deputy general manager.

The U. S. Partner, Wane Machines, Inc.

During its 150 years of operation, Wane Machines, Inc. had grown from a one-person, one-invention workshop in New York City into a multibillion-dollar multinational corporation with manufacturing, sales, and service operations in dozens of countries. Wane had always remained in one industry, engaging in the manufacture, installation, and maintenance of large-scale heating and cooling equipment for office and apartment buildings. In the late 1890s, Wane began its international expansion by setting up operations in Europe. From the outset, its strategy had been to be recognized as a local company in every market it entered, and to establish long-term relationships with customers by providing a complete package of services, including product maintenance, repair, and upgrading. Following this strategy consistently for nearly a hundred years, Wane Machines became a global market leader with a network of more than 50 companies operating in 160 countries.

Wane Machines had four regional divisions: domestic (the United States and Canada), Europe, Latin America, and Asia. In the 1980s domestic operations lost its sales leadership to the European division, as the market for new construction in the United States dropped precipitously during the severe economic recession. After a decade of spectacular growth, the European market also declined sharply in the early 1990s a the United Kingdom,