

# Proponents' Review of Starbucks Labor Assessment

January 25, 2024

This review relates to the December 13, 2023 *Abridged Report to the Starbucks Board of Directors Concerning Starbucks' Adherence to Freedom of Association and Collective Bargaining Commitments in its Global Human Rights Policy* (the "Abridged Report" or "Report") by independent Assessor Thomas M. Mackall (the "Assessor") and our continuing effort to convey our expectations regarding Starbucks and workers' rights. The Abridged Report was issued in response to a successful 2023 shareholder proposal<sup>1</sup> put forward by proponents, the New York City Retirement Systems,<sup>2</sup> Trillium Asset Management, PIRC, and the Shareholder Association for Research and Education (SHARE), (collectively, the "Proponents" or "we"), which called on the company's Board of Directors to commission and oversee an independent, third party assessment of Starbucks' adherence to its stated commitment to workers' freedom of association and collective bargaining rights, as contained in the International (ILO) Core Labor Standards and explicitly referenced in the company's Global Human Rights Statement ("GHR").

As Proponents of the proposal and representatives of long-term Starbucks shareholders, we seek the company's value-creation and sustained success. Starbucks has a long history at the leading edge of healthy human capital management, supplier responsibility, and environmental sustainability. It has built its reputation and its business on a noble and future-focused vision. Starbucks promises employees – which it refers to as partners – "a bridge to a better future," and in the company's parlance, they are "investing in the well-being of those" they connect with, including Starbucks partners.<sup>3</sup> We believe that the company's financial prosperity rests in large measure on the well-being of its workers and the company's respect for workers' fundamental rights, including when they choose to organize a union.

Therefore, it is troubling that the Assessor did not appropriately obtain worker input or analyze what may matter most, the *actual* experience of workers interested in joining a union who were affected by Starbucks' approach to workers' fundamental rights. This is, in and of itself, a lapse in board oversight. Beyond that, the board has not publicly acknowledged the most salient takeaways from the Abridged Report: clear failures in corporate governance, executive management, and risk management. The Abridged Report does not absolve Starbucks of wrongdoing – in fact, it raises significant questions of conduct and accountability. We outline our view of these matters below.

## There is no Evidence in the Abridged Report that the Assessor Sought or Obtained Meaningful Input from Workers

During our multiple engagements with the company, the Proponents clearly communicated to Starbucks that worker input was a threshold matter, a fundamental expectation, and necessary for a credible assessment. Such input could have been provided to the Assessor without running afoul of pending litigation or other worker protections. We also provided recommendations on the shape of such worker participation, including the need for confidential and voluntary input, along with multiple suggestions on how to provide it. Proponents stressed that meaningful, timely, and effective disclosure to all stakeholders of the Assessor's identity was imperative, especially so that there would be sufficient time for inbound feedback. (**See Appendix A below for discussion of Proponents recent engagement history and recommendations to Starbucks on this topic.**) It appears these recommendations went unheeded.

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<sup>1</sup> <https://archive.trilliuminvest.com/shareholder-proposal/starbucks-corp-workers-rights-commitment-2023/>

<sup>2</sup> The New York City Retirement Systems are comprised of the New York City Board of Education Retirement System, New York City Employees' Retirement System, New York City Fire Pension Fund, New York City Police Pension Fund, and the New York City Teachers' Retirement System

<sup>3</sup> <https://stories.starbucks.com/stories/2023/whats-next-starbucks-unveils-long-term-growth-strategy-for-a-limitless-future/>; <https://www.starbucks.com/responsibility/people/>

While the Assessor may not have been prevented by the board from speaking to workers, there is also no evidence that the Assessor spoke to a meaningful number of workers (or for that matter, *any* workers) interested in joining a union.<sup>4</sup> The identity of the Assessor was never made public prior to publication of his report, and *we do not know whether Starbucks workers were even aware of the assessment, let alone informed on how they could voluntarily and confidentially contact the Assessor to provide feedback.*

## The Assessor Relied on an Unduly Narrow Interpretation of International Standards

Freedom of association and collective bargaining are the subject of U.S. law **and** Starbucks' policy commitments to core international labor and human rights standards. We believe the Assessor relied on an unduly narrow interpretation of international standards, tying them to compliance with U.S. law.<sup>5</sup> Compliance with U.S. law, while obviously required, does not necessarily satisfy Starbucks' GHRS obligations, which may go beyond what is legally required.

An example of this problem is found in the Assessor's analysis of "captive audience" meetings. In a footnote, the analysis of "captive audience" meetings is entirely limited to U.S. law. The Assessor does not look to any international standards on the topic. In doing so, he only sees these meetings as a challenge to Starbucks' communications with its partners while adapting to the approach of the NLRB General Counsel, whom he believes may be elevating such complaints to a sympathetic Board.

Regardless of the status of captive audience meetings under U.S. law, they clearly constitute interference under international norms. Nothing in U.S. labor law prevents Starbucks from complying with the international norms it has committed to uphold.

## Investors Remain Concerned About the Company's Commitments and Implementation

We are troubled by the ambiguity in how the company and the Assessor view and discuss the future of Starbucks' Global Human Rights Statement. It is unclear what the Abridged Report and the subsequent Board Letter intend, but given the critical importance of this point, this ambiguity is of great concern.

The letter to fellow shareholders from independent Chair Melody Hobson and independent Director and Chair of the Nominating and Corporate Governance Committee, Jørgen Vig Knudstorp, which accompanied the publicly released version of the Report (the "Board Letter"), highlighted the opportunity to "strengthen" Starbucks' Global Human Rights Statement and referenced the assessment's view that there are things the company can and should do to "improve its stated commitments and adherence to these important principles."<sup>6</sup> The Assessor, however, also recommended that the company "revise" its Global Human Rights Statement.<sup>7</sup>

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<sup>4</sup> The assessment was conducted from July through September 2023 and according to the Assessor, "consisted primarily of reviews of a wide array of public and non-public documents, as well as interviews and ongoing inquiries of Starbucks personnel. Starbucks both identified relevant materials and persons and provided access to information and persons upon request." Abridged Report, page 1.

<sup>5</sup> Abridged Report, page 2.

<sup>6</sup> <https://stories.starbucks.com/press/2023/starbucks-reaffirms-its-commitment-to-the-principles-of-freedom-of-association-and-right-to-collective-bargaining/>

<sup>7</sup> Abridged Report, page 6.

The Assessor's view that Starbucks' obligations are merely tied to the precise boundaries of compliance with U.S. law,<sup>8</sup> and the Assessor's recommendation to revise the GHRS, followed by the Board Letter, leave open the possibility that moving forward, Starbucks may weaken or otherwise attenuate these important policy commitments. It is unclear to investors as to what "improving" its stated commitments means to Starbucks, especially when the Assessor's narrow view of Starbucks' current commitments has gone unchallenged by the board. In fact, the Board Letter reference to strengthening the GHRS is stated in the context of providing a "clear basis for compliance." This focus on compliance raises questions and exacerbates the concern.

Changing the GHRS to restate the company's obligation to comply with the law would mean weakening the company's commitments to international standards that it has already publicly pledged to follow. Similarly, taking the position that implementing the GHRS in the U.S. merely means complying with U.S. law, would also mean weakening the company's commitment to international standards.

It is our firm belief that the company must have a commitment to uphold international standards and the required policies and practices to implement them. We believe the company's current stated commitment to fundamental international standards, as part of its GHRS, is the correct one:

...we commit to respect the principles of the: UN Guiding Principles on Business and Human Rights; UN Global Compact; OECD Guidelines for Multinational Enterprises; International Bill of Rights; ILO Core Labor Standards; Women's Empowerment Principles; Children's Rights and Business Principles, and Framework Principles on Human Rights and the Environment.<sup>9</sup>

Among other things, the GHRS commits the company to the UN Guiding Principles on Business and Human Rights, and OECD Guidelines for Multinational Enterprises, as well as core international labor standards that recognize workers' fundamental rights to freedom of association free from interference as well as collective bargaining. Simply put, under these international human rights and labor standards, workers should be free to exercise their rights with respect for basic human rights in a "climate free of violence, pressure, fear and threats of any kind."<sup>10</sup>

It is important to underscore that where national and local law is silent or differs from international human rights standards, Starbucks should follow the higher standards, aligned with its commitments to the United Nations Guiding Principles on Business and Human Rights and the OECD Guidelines for Multinational Enterprises. Even where local laws conflict, Starbucks should seek ways to honor the principles of these internationally recognized human rights standards.<sup>11</sup> We believe a meaningful change in Starbucks' approach to workers' rights to freedom of association is required. The company should strengthen its implementation to ensure that it complies with both U.S. law **and** its policy commitments to international labor standards so that Starbucks workers can exercise their rights under Starbucks' *current* policy.

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<sup>8</sup> Abridged Report, page 2.

<sup>9</sup> <https://stories.starbucks.com/press/2020/global-human-rights-statement/>

<sup>10</sup> ILO, *Freedom of Association: Digest of decisions and principles of the Freedom of Association Committee of the Governing Body of the ILO*, Fifth (revised) edition (2006), paragraph 35.

<sup>11</sup> "Where the domestic context renders it impossible to meet this responsibility fully, business enterprises are expected to respect the principles of internationally recognized human rights to the greatest extent possible in the circumstances, and to be able to demonstrate their efforts in this regard."

[https://www.ohchr.org/sites/default/files/documents/publications/guidingprinciplesbusinesshr\\_en.pdf](https://www.ohchr.org/sites/default/files/documents/publications/guidingprinciplesbusinesshr_en.pdf)

"...[i]n countries where domestic laws and regulations conflict with the principles and standards of the Guidelines, enterprises should seek ways to honour such principles and standards to the fullest extent which does not place them in violation of domestic law." <https://www.oecd-ilibrary.org/docserver/81f92357-en.pdf?expires=1706048544&id=id&accname=guest&checksum=C45159941F0846203908D375BF0043A2>

## The Assessment did not Absolve Starbucks of Wrongdoing

To begin, it is important to state that we believe the Board Letter casts the Board and management's conduct in a more positive light than warranted by the Abridged Report.

In the first instance, as discussed above, the assessment failed to meet a threshold requirement, meaningful worker input from those Starbucks workers interested in joining a union. The failure to acknowledge the lack of worker input or otherwise ensure that the assessment was credibly conducted raises questions about board oversight of the issue.

Even without this essential input, the Abridged Report points to significant corporate governance failures. The company's 10-K published in 2021 identified unionization activity as a risk factor warranting disclosures. Specifically, it stated "our responses to any union organizing efforts could negatively impact how our brand is perceived and have adverse effects on our business, including on our financial results."<sup>12</sup> Given the importance of this issue, we see a serious board governance failure evidenced in the Assessor's conclusion that "Starbucks was **not prepared** for the emergence of union organizing activity beginning in late 2021."<sup>13</sup>

In addition, the Assessor describes circumstances where there was an "absence of strong and clear governance" at the company and that Starbucks' GHRs was not a material consideration in Starbucks' response to the organizing activity that emerged in late 2021.<sup>14</sup> Moreover, "[a]lthough some persons within Starbucks in the early stages of the organizing activity were aware of the GHRs and the language it contains, **it appears that no one understood that the GHRs commitments to freedom of association and collective bargaining might impose obligations other than complying with state or federal labor laws.**" (Emphasis added.)<sup>15</sup>

Thus, Starbucks made commitments to internationally recognized fundamental workers' rights, which it apparently did not take into consideration as it moved to frustrate union activity – as one NLRB judge put it, "egregious and widespread misconduct demonstrate[ed] a general disregard for the employees' fundamental rights."<sup>16</sup> The board's failure to take the company's policy commitment to fundamental workers' rights into consideration as it provided oversight of management's response to labor activity is a failure of board oversight. Moreover, even if Starbucks only sought to comply with U.S. law, rather than the international labor standards contained in its policy, Starbucks unquestionably fell well short of the mark.

As the Assessor recognized, from October 2022 to the Abridged Report date, Administrative Law Judges ("ALJs") issued more than 35 decisions arising out of the post-August 2021 organizing activity. In September 2023, an ALJ issued a decision finding "discriminatory and retaliatory intent" by Starbucks.<sup>17</sup> In addition, the Assessor stated that: "ALJs have found that store-level managers or supervisors have stepped out of bounds in many instances" and even though they are not final determinations and are subject to further review, the Assessor asserted that "ALJs' credibility determinations are subject to substantial deference."<sup>18</sup>

We believe that the board's oversight of the company's approach to labor organizing created, as covered in the Abridged Report, financial, operational, reputational, legal, and compliance risks for Starbucks. **(See also Appendix B below for relevant statements in the Abridged Report about Starbucks adherence to its policy commitments.)**

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<sup>12</sup> <https://d18rn0p25nwr6d.cloudfront.net/CIK-0000829224/d2de114a-49d6-4994-8675-8454e5dd2289.pdf>

<sup>13</sup> Abridged Report Abridged Report page 12.

<sup>14</sup> Abridged Report, pages 2, 3, 7 and 13

<sup>15</sup> Abridged Report, page 7.

<sup>16</sup> <https://www.nytimes.com/2023/03/01/business/economy/starbucks-union-buffalo-ruling.html>

<sup>17</sup> Abridged Report pages 15 and 16

<sup>18</sup> Abridged Report, pages 5 and 18. In addition, according to the Assessor Administrative Law Judges (ALJ) "make detailed findings of fact based upon robust presentations of evidence, including witness testimony that the ALJ has an opportunity to hear and assess for credibility and probative value. The ALJ decisions have provided access to testimony or findings based upon testimony from dozens of Starbucks personnel at the unit level." Abridged Report, page 1.

## The Assessment did not Examine Starbucks' Strategy in its Approach to Union Activity

The Board Letter places undue emphasis on the Assessor's statement that Starbucks does not have an "anti-union playbook." The Assessor's point is limited: there were no written materials expressly calling for a violation of U.S. law. The Assessor seemingly describes Starbucks' responses to the events of 2021 and 2022 using Hanlon's Razor – never attribute to malice what can be better explained by a lack of awareness or knowledge.

Whether or not such a "playbook" exists, it is clear that the company used aggressive tactics in its approach to union activity. Nonetheless, the Abridged Report does not analyze the goal or the effect of Starbucks' strategy on workers as it impacted the company's adherence to its GHRs commitments. The company's strategy, including its use of a prominent union-avoidance law firm of Littler Mendelson, also casts doubt on this characterization.

Professor Lance Compa, Senior Lecturer Emeritus at Cornell University's School of Industrial and Labor Relations, and Deborah Greenfield, former Deputy Director General for Policy at the ILO, have written extensively on corporate union-avoidance and international law. On December 18, 2023, Professor Compa and Ms. Greenfield released a memo, copied to the Board of Directors and provided to the Proponents, analyzing the Abridged Report. Professor Compa and Ms. Greenfield began their analysis by highlighting that Starbucks hired the law firm Littler Mendelson as its labor counsel "to guide and execute its anti-union campaign."<sup>19</sup> Bloomberg News' description of Littler is notable:

[a]mong a small contingent of national law firms that focus exclusively on advising companies in labor and employment matters. Founded in 1942 in the Bay Area, the firm touts its 'union avoidance' skills on its website and has built a reputation as a firm of choice for big employers on labor matters.<sup>20</sup>

Starbucks' approach to challenging union elections, and the role it appears to have played in delaying constructive collective bargaining are typical of firms with a strong union-avoidance practice – a strategy, if not a formal "playbook." Bloomberg described Starbucks' approach to NLRB litigation as "pugilistic."<sup>21</sup> In his recent article in the *New Republic*, Steven Greenhouse, Senior Fellow at the Century Foundation, reported extensively on how Starbucks has worked to delay and slow walk collective bargaining in an apparent effort to frustrate union members and undermine support for unions. Greenhouse describes Starbucks movement and approach to collective bargaining as one of "spectacular slowness."<sup>22</sup>

These facts and circumstances call into question the wisdom of not interviewing Littler, which could have been interviewed as part of the assessment without impinging upon attorney client privilege. As noted in the Abridged Report, the Assessor: "has not included any consultation or discussion with Starbucks' labor counsel representing Starbucks in National Labor Relations Board ("NLRB") and federal court litigation regarding the matters at hand." Without a fuller analysis by the Assessor, the possibility remains that Starbucks' board and management were more aware of the standards and rules governing the company's behavior than described in the assessment.

In any event, we believe that Starbucks made decisions to take an approach to union organizing that presented increases in potential litigation, regulatory, and reputational risk to the company.

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<sup>19</sup> Memo: "Analysis of Report to Starbucks Board", Lance Compa and Deborah Greenfield, December 18, 2023.

<sup>20</sup> Littler Cashes in on Starbucks' Sprawling Anti-Union Campaign," Bloomberg News (June 28, 2023), at <https://news.bloomberglaw.com/daily-labor-report/littler-cashes-in-on-starbucks-sprawling-anti-union-campaign>. See also Dave Jamieson, "Starbucks is Desperately Trying to Slow Down a Union Campaign that's Caught on Fire," HuffPost (Feb. 4, 2022), at [https://www.huffpost.com/entry/starbucks-union-campaign-legal-strategy\\_n\\_61fc4a2ce4b06abdc42d615b](https://www.huffpost.com/entry/starbucks-union-campaign-legal-strategy_n_61fc4a2ce4b06abdc42d615b).

<sup>21</sup> <https://news.bloomberglaw.com/daily-labor-report/littler-cashes-in-on-starbucks-sprawling-anti-union-campaign>

<sup>22</sup> [Steven Greenhouse, "How U.S. Corporations Crash with U.S. Unions," New Republic \(December 18, 2023\)](https://www.newrepublic.com/article/economy/starbucks-union-campaign)

## There are Some Hopeful Signs, Although Good Faith Collective Bargaining is Required

The Abridged Report clearly recommends that Starbucks change its approach to bargaining with organized workers, noting that: “[a]fter nearly two years since the first elections...Starbucks does not have any collective bargaining agreement in place in the U.S.”<sup>23</sup> On this point, the Abridged Report recommends that Starbucks “redouble its efforts” and states that: “[t]his issue will not resolve without Starbucks’ engaging constructively with the union.”<sup>24</sup>

We hope that the company enters 2024 with a genuine intention to turn the page and fully embrace its GHRs commitments. We are eager to see a shift in Starbucks’ approach to its management and board oversight of fundamental workers’ rights.

There are hints of such a change in the December 8, 2023 letter from Sara Kelly, Starbucks EVP and Chief People Officer, to Lynne Fox, International President Workers United, an affiliate of SEIU, expressing a desire to meet with workers. However, ***we believe action, not merely an expression of intent, is needed.*** According to the Board Letter, management has begun to address opportunities identified by the Abridged Report, including elevating actions to embrace a constructive relationship with Workers United. Actual collective bargaining in good faith is required, along with a concrete Starbucks timeline to encourage and drive progress.

## Starbucks Should Set the Tone from the Top

We will be watching closely to see where the board and management set Starbucks’ risk appetite when it comes to worker rights. These questions about leadership and what sort of culture Starbucks builds and maintains are important in determining what will happen in the future.

As even the Abridged Report recognizes, it starts with the “tone from the top.” The Assessor writes: “[w]ith new leadership, Starbucks has an opportunity to set a tone that refreshes and reinforces a commitment to applicable law but goes beyond that to continuing to reinforce the value of participating in elections and providing reassurance of Starbucks’ commitment to respect the legitimacy of chosen representatives, while working to reach agreements expeditiously.”<sup>25</sup>

The Abridged Report discusses the difficulties associated with understanding what is permissible activity and what is prohibited. According to the Assessor: “even well-intentioned managers operating in a delicate environment can have difficulty navigating the nuanced boundaries between that which is lawful and appropriate and that which is not.”<sup>26</sup> However, the International Labor Organization provides examples and guidance on acts that constitute interference of worker’s fundamental internationally recognized rights to freedom of association and collective bargaining.<sup>27</sup>

Going forward, we urge the board to state clearly and unequivocally its risk tolerance for the company on this matter. In addition, we encourage the board to reconsider whether the employment of a legal advisor that specializes in union avoidance can be considered consistent with its commitment to employees’ free exercise of fundamental rights at work.

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<sup>23</sup> Abridged Report, page 19

<sup>24</sup> Abridged Report, page 20

<sup>25</sup> Abridged Report, page 5

<sup>26</sup> Abridged Report, page 5

<sup>27</sup> ILO, Compendium of Decisions of the Committee on Freedom of Association, Section 13 “Protection against discrimination,” Section 14, “Protection against acts of interference” at [https://www.ilo.org/global/standards/subjects-covered-by-international-labour-standards/freedom-of-association/WCMS\\_632659/lang--en/index.htm](https://www.ilo.org/global/standards/subjects-covered-by-international-labour-standards/freedom-of-association/WCMS_632659/lang--en/index.htm)

## Board Oversight

The content of the Abridged Report raises two important corporate governance questions: (1) how the current board should be held accountable for such significant governance failures; and (2) is the board, as currently constituted, the right board to implement the needed reforms? Five of the current board members were on the board as worker organizing emerged and will have an average tenure of eight years by the 2024 annual meeting.

As we have previously expressed to the company, we expect the board's independent members to oversee Starbucks' labor practices, as well as its adherence to its own policy, a concern we believe is widely shared by other Starbucks' shareholders. It is unsettling that the Abridged Report found that Starbucks' policy was not a material consideration in the company's response to worker organizing activity. We look to the directors we elect to oversee management in this undertaking; we also will hold directors to account when appropriate.

In November, the company stated its intention to create the new board Environmental, Partner and Community Impact (EPCI) Committee, to be chaired by Independent Director Beth Ford. A Committee Charter was approved by the Board on December 13, 2023, and published a committee charter in early January 2024, and we understand the committee will oversee adherence to the GHRS and implementation of recommendations made in the assessment. The Audit & Compliance Committee, as well as the Compensation & Management Development Committee, appear to have responsibilities that overlap with the EPCI Committee, although neither committee charter has been updated and the delineation of responsibilities is unclear. Until we can assess the impact EPCI on and relationship to the three other board committees, we reserve judgement.

On January 9, the company announced it is adding three new members to its Board, Neal Mohan, Daniel Servitje, and G. Michael Sievert. Mr. Servitje, who is also CEO of Grupo Bimbo, has been appointed to the EPCI committee.<sup>28</sup> Based on the Starbucks' preliminary proxy, we see no evidence that the board is prioritizing director experience in workers' rights. We note the announcement comes shortly after a group of Starbucks investors nominated three serious and credible candidates to the board who have human capital management and workers' rights expertise. Quoted in the New York Times, Kai Liekefett, a partner at Sidley Austin, the shareholders have "hired very sophisticated advisers" for a proxy fight.<sup>29</sup>

We believe there is a pressing need for improved corporate governance at Starbucks, and we look to the board to publicly acknowledge this and take the appropriate steps to address it. The board must, in our opinion, set the tone from the top and take necessary action to ensure that corporate governance practices are remedied at Starbucks. To date, however, the board has not publicly addressed its responsibility for corporate governance failures and what steps it will take to hold itself accountable.

In addition, based on our assessment of the situation, the board should ensure that Starbucks follows U.S. law *and* international core labor standards, resets its approach to workers' fundamental rights, and takes a leadership role in labor relations.

We will look to the board to aim high, and for Starbucks to become a leader among U.S. companies in labor relations and pursue a collaborative approach with its workers. We note with interest that Microsoft, which is led by Starbucks' board member Satya Nadella, has taken such a leadership role in labor relations and entered into a broad labor neutrality agreement with the relevant unions, so that Microsoft will remain neutral in efforts by its workers to unionize.

According to the Board Letter, Starbucks is guided by its "Mission, Values and Promises — including...[its] promises to offer a bridge to a better future for partners and to generate enduring returns for shareholders." As investors, we will be following the board's actions, the company's approach, and the results.

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<sup>28</sup> We also note with concern that the three newest directors are men, leaving the company with just 27% women on the Board. This is a step in the wrong direction with respect to gender diversity on board.

<sup>29</sup> <https://www.nytimes.com/2024/01/05/business/starbucks-union-workers-boycott.html>

## Appendix A: Proponents Recent Engagement History and Recommendations to Starbucks

The Proponents' engagement with Starbucks on this topic began in late 2021,<sup>30</sup> when investors representing over \$1.3 trillion in assets sent a letter to then-CEO Kevin Johnson expressing their concerns about Starbucks' response to workers' unionization efforts. Investors urged the company to accept the results of the December 2021 election and proceed expeditiously and in good faith according to the results. This letter was followed by a meeting with then-CEO Johnson in February 2022.<sup>31</sup>

Seeing little change in behavior, in March 2022, investors sent another public letter<sup>32</sup> to the Independent Chair of the Board of Directors, Melody Hobson, and then-CEO Johnson, this time from a group of investors representing over \$3.4 trillion in assets. Investors sought to engage with the company about their concerns that the company's approach to worker organizing was a departure from international norms and standards and the resulting reputational risks to Starbucks. Chair Hobson referenced the letter in public, but without further substantive engagement.<sup>33</sup> In the absence of a productive dialogue, the Proponents filed a shareholder proposal with the company in September 2022 seeking an assessment of the company's adherence to its stated commitment to international labor standards and norms.<sup>34</sup>

Proponents were still concerned about Starbucks' conduct in February 2023 and through SEC filings in support of our shareholder proposal publicly expressed concerns that Starbucks reported conduct – and its apparent misalignment with its public commitments to freedom of association and collective bargaining rights – could create potential reputational, legal and operational risks for the company and impact its long-term value.<sup>35</sup>

At the company's March 2023 annual meeting, a majority of shareholders (52%) voted in support of the proposal, after which the company agreed to meet with the Proponents to discuss the matter. Following a May 2023 meeting between the company and Proponents, we sent a public letter<sup>36</sup> to CEO Laxman Narasimhan and Chair Hobson restating investor expectations, identifying key areas of concern (including worker input), and making several requests, including a meeting with the Assessor (which was never granted).

Among other things, the letter emphasized investors' expectation that Starbucks adhere to U.S. law as well as recognized international human rights standards that respect the rights to freedom of association and collective bargaining, without interference. The letter highlighted that Starbucks has committed to the ILO's Core Labor standards, which includes freedom of association and collective bargaining. Proponents also pointed out that the company has aligned itself with the United Nations Guiding Principles on Business and Human Rights and the OECD Guidelines for Multinational Enterprises, which hold that where national or local law is silent or differs from international human rights standards, Starbucks will follow the higher standards. We emphasized that, among other things, this means that Starbucks may not make any direct or indirect threats, create an atmosphere of intimidation or fear, or retaliate against employees exercising their rights to freedom of association.

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<sup>30</sup> Many of the Proponents have engaged Starbucks for years and, in some cases, decades, on a variety of environmental, social, and governance topic.

<sup>31</sup> [https://assets-global.website-files.com/5ecd0982c9d00e2865ce6691/61d46b912440beaf7539701d\\_Investors%20Starbucks%20Buffalo%20Unionization%20Letter%2012.2021\\_Web\\_Doc.pdf](https://assets-global.website-files.com/5ecd0982c9d00e2865ce6691/61d46b912440beaf7539701d_Investors%20Starbucks%20Buffalo%20Unionization%20Letter%2012.2021_Web_Doc.pdf)

<sup>32</sup> <https://www.trilliuminvest.com/documents/sbux-investor-letter-march-15-2022-public>

<sup>33</sup> <https://www.cnn.com/2022/03/16/cnn-exclusive-cnn-transcript-ariel-investments-president-co-ceo-and-independent-starbucks-board-of-directors-chair-melody-hobson-speaks-with-cnns-squawk-box-today.html>

<sup>34</sup> <https://archive.trilliuminvest.com/shareholder-proposal/starbucks-corp-workers-rights-commitment-2023/>

<sup>35</sup> <https://www.sec.gov/Archives/edgar/data/884541/000121465923002861/r216231px14a6g.htm>

<sup>36</sup> <https://comptroller.nyc.gov/wp-content/uploads/2023/06/Investor-letter-to-Starbucks-6-8-23.pdf>



In addition, in a non-public August 2023 letter, Proponents expressed our belief that the Assessor should conduct an in-depth review of Starbucks policies and practices, encompassing, among other things, Starbucks' policies, processes, rules, and procedures as well as their implementation; formal and informal internal communications, training, incentives, and discipline; company and store management guidance and perceptions; publicly reported activities; formal complaints; and, most importantly, worker input.

We also stressed that internal and external stakeholder input would be critical. We emphasized the need to publicize the name of the Assessor so that there would be sufficient time for inbound feedback; timely, meaningful, and effective disclosure to all stakeholders of the Assessor's identity would also be an imperative. Specifically, we stated: "It is important that Starbucks workers and managers learn of the assessment, with sufficient notice, so that they may meaningfully participate. Assurance of voluntary, confidential participation without fear of reprisal without retaliation is essential...multiple methods for voluntary input should be offered to workers and managers. These methods could take the form of an anonymous hotline, consolidated communication through union representatives, or the ability for individuals to contact the Assessor directly."

Despite all of these efforts, many of these recommendations went unheeded.

## Appendix B: Statements from Abridged Report

- **“Starbucks’ GHRS has not been a material consideration in Starbucks’ response to the organizing activity that emerged in late 2021.”** (Emphasis added.)<sup>37</sup>
- **“[T]he exhaustive review of written materials, communications, and training materials failed to disclose any reference or linkage to the GHRS.”** (Emphasis added.)<sup>38</sup>
- Starbucks was **not prepared** for the emergence of union organizing activity beginning in late 2021. (Emphasis added.)<sup>39</sup>
- **“[P]eople had no understanding of who specifically was calling the shots.”** (Emphasis added.)<sup>40</sup>
- **“The company moved decisively to address the operational issues which some characterized as the worst they had encountered in the company –but without clear governance concerning the special challenges of aggressively seeking to fix significant operational deficiencies within a compliance framework created by the presence of the union to which operators were not in any way accustomed.”** (Emphasis added.)<sup>41</sup>
- **“In the absence of strong and clear governance regarding compliance with new and unique boundaries limiting discretion, the risk of stepping over those boundaries can be subordinated to the risk of failing to move quickly to accomplish desired changes, particularly where there is an acute focus on fixing major problems. In Buffalo, accomplishing operational changes may have taken priority over careful respect for rights and limitations that were not fully understood by teams unaccustomed to operating in that kind of constrained environment.”** (Emphasis added.)<sup>42</sup>
- **“Although some persons within Starbucks in the early stages of the organizing activity were aware of the GHRS and the language it contains, it appears that no one understood that the GHRS commitments to freedom of association and collective bargaining might impose obligations other than complying with state or federal labor laws. Persons more directly involved with responses to the organizing activity appear to have had limited to no awareness of the GHRS and, therefore, did not understand that its provisions might apply in any way to employees’ organizing activities and Starbucks’ responses to them.”** (Emphasis added.)<sup>43</sup>
- **“Basic fundamentals – such as consistent on-the-ground presence and support, properly bespoke training, effective coordination of activities, and development throughout the ranks of a full appreciation of guardrails and rules of engagement – were not as developed as they needed to be.** The consequences of this were significant. **Stronger governance could have mitigated the missteps.”** (Emphasis added.)<sup>44</sup>
- Starbucks **“had no trained and dedicated labor relations team.”** (Emphasis added.)<sup>45</sup>

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<sup>37</sup> Abridged Report, pages 2 and 7.

<sup>38</sup> Abridged Report, page 7.

<sup>39</sup> Abridged Report, pages 12.

<sup>40</sup> Abridged Report, page 13.

<sup>41</sup> Abridged Report, pages 3 and 13.

<sup>42</sup> Abridged Report, page 13

<sup>43</sup> Abridged Report, page 7.

<sup>44</sup> Abridged Report, page 13.

<sup>45</sup> Abridged Report, page 12.