



Starbucks Coffee Company

MBA 240

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November 30th, 2023

Introduction

Starbucks Coffee Company (Starbucks) was founded in 1971 in Seattle, Washington, by three businessmen who were inspired by Alfred Peet's coffee shops in Berkeley, California, which specialized in dark-roasted coffee (Seaford et al., 2012). Originally, the company sold only coffee beans, tea, and spices (Goh et al., 2020). An early director of the company, Howard Schultz, had traveled to Italy and wanted to bring the "coffeehouse culture", including espresso drinks, to the US. The Starbucks founders were not keen to change their business model but did support Mr. Schultz in opening Italian-style cafes in the Seattle area. In 1987, the original founders sold their 6 Seattle Starbucks locations to Mr. Schultz, who combined them with his 3 Italian-style cafes under the Starbucks name (Seaford et al., 2012). Since then, the company has grown to over 35,000 locations in 86 markets, with significant growth, even through the COVID-19 pandemic (Meisenzahl, 2022).

Mr. Schultz's original vision of the coffeehouse culture in the US was to turn coffeehouses into a third place: a place that was neither home nor work, where people could get together with friends and share a cup of coffee (Simon, 2009). Part of crafting a typical coffeehouse experience into that third place involved having baristas who connected with the customers, remembering their names and orders, recommending new beverages, and providing unparalleled service (Moon & Quelch, 2003; Pangarkar, 2015). Partners consistently have reported job satisfaction above 80%, as evidenced by the low turnover rate of 65% when compared to the food service industry as a whole (Starbucks, 2022a). The majority of store managers (70%) were once baristas and the majority of district managers (60%) were once store managers, indicating the continued career progression possible for partners with Starbucks (Moon & Quelch, 2003). Mr. Schultz recognized the value of partners in creating the customer experience he envisioned, so when customers were not having the experience, he reinvested in the partners.

When customer satisfaction was down in 2002, Starbucks invested \$40 million back into the company to have more labor available at each store (Moon & Quelch, 2003). During the recession of 2008-2009, Starbucks was in the middle of a significant expansion under its CEO Jim Donald (2005-2008). However, profits were down significantly as people had less discretionary income. In order to save the company, Starbucks brought Mr. Schultz back as CEO. He started by closing over 600 underperforming stores and laying off 1,000 employees who had jobs outside of the stores (Shepherd, 2008). Approximately 70% of partners from underperforming stores were able to transfer to different locations, allowing Mr. Schultz to retain his talented employees while still saving money by closing the stores. Eventually, almost 1,000 stores were closed and 18,400 jobs were eliminated in order to turn the company around (Allison, 2009). Mr. Schultz offered to reduce his \$1.2 million base salary to \$1, but the board decided to lower it to \$10,000 instead. After deductions, he took home \$4 a month, plus his stock benefits (Adamy, 2009). This ability to change Human Resource Management (HRM) practices as a result of changing business strategy has been key to Starbucks' success.

Current Business Strategy

Starbucks' business strategy (and therefore HRM practices) has been evolving since the company's founding, particularly under the influence of Mr. Schultz, who spent three terms as CEO of the company (1986-2000, 2008-2017, 2022-2023 [interim]). The newest strategy overhaul was announced on November 2, 2023, by current CEO Laxman Narasimhan. Mr. Narasimhan described the new Starbucks business strategy using terminology most Starbucks customers will be familiar with: "Triple Shot Reinvention...customized with Two Pumps" (Starbucks, 2023c). The "Triple Shots" are 1) Elevating the Brand; 2) Strengthen and Scale Digital; and 3) Become More Global. The "Two Pumps" are 1) Unlock Efficiency; and 2) Reinvigorate the Partner Culture. In order to successfully implement these ambitious changes, Starbucks must be concerned with HRM practices that support and inspire employees (also called partners) to align themselves with the company's mission and values.

Using HRM to Support Business Strategy

Part of elevating the brand involves having better-run stores. Partners will be supported in this effort through store renovations to have the most modern, functional equipment, and to innovate store formats for each region (e.g., drive-thru only, walk-up only) to best serve customers. These endeavors will ensure partners are able to more efficiently serve their customers which will help alleviate frustration and provide a better partner experience.

Continuing to improve their digital capabilities also provides opportunities for Starbucks partners. As the majority of Starbucks customers use digital technology to order and/or pay for their items and the goal is to increase digital customers to 75 million by 2028 (Starbucks, 2023c), a more efficient and expanded digital system will allow partners more time to focus on preparing orders and connecting with customers. Enhanced technology will also streamline ordering products for stores and even improve beverage and food quality through highly calibrated equipment.

Starbucks has a long history of hiring and supporting a diverse workforce (Starbucks, 2022c). These initiatives will continue to be important as the company aims to open nearly 20,000 stores by 2030. The commitment to not only hiring a diverse workforce but also to providing those partners with industry-leading benefits (Starbucks, 2023d) will be critical for the company's expansion in the US and abroad. Some of these benefits include starting wages nearly double the national minimum wage, increased vacation accrual, free college tuition at Arizona State University, and "partner-centric" scheduling (Hinkin & Tracey, 2010; Starbucks, 2023d).

The "two pumps" of unlocking efficiency and reinvigorating the partner experience both involve reinvesting in stores and partners. The company plans to double partner income by 2025 when compared to 2020 (Starbucks, 2023c) while also allowing partners to accrue vacation time earlier in their tenure (Starbucks, 2023d). This is in addition to the current benefits

partners receive such as free college tuition, paid parental leave, insurance, stocks, and more (Starbucks, 2023a).

Exemplary HRM Practices

As mentioned, Starbucks has developed a new dynamic business strategy that enables them to achieve multiple goals simultaneously. The new business model is an example of their commitment to excellence, which includes a focus on “unlocking efficiency” and “revitalizing the partner culture,” both of which are consistent with their new mission statement: *“With every cup, with every conversation, with every community – we nurture the limitless possibilities of human connection.”* Exemplary HRM areas of focus aligning with unlocking efficiency and the revitalization of the partner culture include talent acquisition, maintaining positive employee relations, offering attractive benefits packages, and fostering a diverse and inclusive work environment across a global community. The reinforcement theory of motivation supports this practice, which suggests that when individual pay incentives and bonuses reflect employee contributions and performance, employees are likely to find the reward system more equitable (Bauer et al., 2020).

Diverse Talent Acquisition and Retention: Starbucks has long been acknowledged as a company that supports hiring and retaining a diverse workforce. Just over half of Starbucks partners in the US identify as racial and/or ethnic minorities, while over 70% identify as female (Starbucks, 2023e). The company has also supported partners with disabilities through affinity networks, opening stores with primarily Deaf partners (Siegel, 2018), offering large print and braille menus for vision-impaired partners and customers (Williams, 2021), and has consistently earned a score of 100 on the Disability Equality Index as one of the top companies for disabled employees (Clem, 2023). Starbucks was among the first companies to extend benefits to same-sex couples in 1988 and began covering genderconfirmation procedures in 2013 (Durbin, 2023a). Finally, the company has committed to hiring thousands of veterans (Howes, 2017) and

refugees (Sanchez Herrera et al., 2021). What is important to note is that diversity itself is not an HRM best practice. What makes diversity work for the company is inclusion, where different partners' strengths are recognized and celebrated (Bauer et al., 2020). Where Starbucks has excelled in its HRM practices is the effort to not only hire a diverse workforce, but to foster an inclusive workplace where all partners have the opportunity to be supported.

Career Development: As mentioned above, Starbucks actively develops and promotes partners for management positions (Moon & Quelch, 2003). Starbucks will also pay upfront for partners to earn a degree from Arizona State University (ASU) through their college achievement program (Nietzel, 2022). Partners can choose a degree that would help them develop a career with Starbucks or any one of the 140 majors offered by ASU Online. This provides motivation for partners to perform to their fullest potential because they can clearly see opportunities for advancement and development (Bauer et al., 2020). This also increases partner capabilities, which is an important part of the CAMS (Capability, Alignment, Motivation, Support) framework for HRM success.

Pay and Benefits: Starbucks is consistently ranked as one of the top companies in the world to work for (Peachman, 2023). This can largely be attributed to the pay structure and benefits available to partners. Pay is a critically important extrinsic motivating factor for hiring and retaining top talent (Bauer et al., 2020). Starbucks starting pay of \$15 per hour is more than double the national minimum wage. The company also provides benefits to partners working more than 20 hours per week including the ASU tuition described above, medical/dental benefits, and paid parental leave (Starbucks, 2023b). All partners, regardless of a number of hours worked, receive free and discounted food and beverages, accumulated sick time, Bean Stock, and the ability to participate in a 401(K). During the beginning of the COVID-19 pandemic, when many businesses were closing in an effort to protect workers and customers and evaluating how to best adjust their practices to re-open, Starbucks committed to paying

partners for 30 days, regardless of whether or not they chose to come to work after a company-wide two-week closure (Taylor, 2020).

Non-Exemplary HRM Practices

While Starbucks is often acknowledged for some of its exemplary HRM practices, it has its challenges. Some of the areas where Starbucks' HRM practices are short of exemplary and could be improved upon consist of the following:

Workload and Stress: Starbucks workers have reported increased workload and stress levels because of understaffing and increased workload demand due to expanding the ability to order across multiple platforms. Workers have stated they are pressured to meet unrealistic performance goals and have complained about compensation not meeting workload demands (Sainato, 2021). This is consistent with the Job Demands-Control Model (JDC) which states "employees experience stress when there are high job demands and little control over their job" (Bauer et al., 2020).

Labor Relations: Employees may unionize for various reasons, such as dissatisfaction with their jobs, unfair working conditions, or feeling disconnected from work (Sainato, 2021). Starbucks has faced numerous labor disputes and lawsuits from its workers over the years, involving complaints associated with low wages, unfair tipping practices, overtime, breaks, and the prevention of unionization (Brody & Chang, 2008; Li, 2022). Per the National Labor Relations Board (NLRB), Starbucks has violated federal labor law in its efforts to stop employee unionization. The NLRB says Starbucks interfered with, retaliated against, and coerced employees seeking to unionize in various ways (Rogers, 2022). On Nov. 16, 2023, unionized workers across multiple nationwide locations staged the largest strike yet in the two-year effort to unionize the company's stores, referred to as the "Red Cup Rebellion," protesting Starbucks' unfair labor practices, on the biggest promotional event of the year (Durbin, 2023b). Starbucks'

own website touts their commitment to following the International Labor Organization's core labor standards, which includes freedom of collective bargaining. Taking a proactive approach when managing employee relations is a crucial component to promoting and ensuring more positive employee-employer relations, which in this area, Starbucks is currently not excelling in (Bauer et al., 2020).

Consistent with HRM Theory

Human Capital Theory: Starbucks displays practices that are seen as consistent with the Human Capital Theory in its HRM. Human Capital Theory assumes that investment in education is necessary to acquire skills and training, which, in turn, will increase individual capital (Blundell et al., 1999). Starbucks has implemented some great practices that align with this theory.

Training and Development: New Starbucks partners are never set up for failure. They start their training with the Barista Basics program (Starbucks, 2022b). New baristas are paired with barista trainers who are considered among the best baristas in their locations. New partners also go through 24 hours of classroom-like training, known as the "Starbucks Experience," where they are educated on Starbucks' culture, values, and mission. They then partake in coffee education, where they spend hours with their trainers understanding the different coffee blends and learning how to describe them to customers (Fowler, 2015; Leinwand & Davidson, 2016). Starbucks deploys an exceptional training experience, which has been shown to promote retention as partners who do not resign within the first 90 days of employment generally stay with the company for three or more years (Moon & Quelch, 2003). This is an important area for Starbucks to excel in because training is a significant expense and the return on investment can take time to be realized. Because Starbucks has such a clear program for training new partners, the company can be confident that partners are being trained to meet the demands of the job. There is a clear alignment between the training program and job design (Bauer et al., 2020).

Employee Benefits: Starbucks provides a large range of benefits for its partners, which include health coverage, Stock, 401(k), paid time off, parental leave, education and student loan management, commuter benefits, and partner assistance (Starbucks, 2023a). Additionally, wages at Starbucks are well above minimum wage in most of the US and highly competitive within the restaurant industry. These benefits were described in more detail above. Providing high pay and good benefits helps to recruit and retain top talent. The consistent re-investment in the partner is a hallmark of successful HRM (Bauer et al., 2020).

Partner-Centric Scheduling: When partners are able to work around personal schedules, it promotes motivation and a sense of support and allows partners to bring their whole selves to work. Starbucks has consistently aimed to ensure that partner scheduling is as satisfactory as possible (Bauer et al., 2020)

Inclusive Leadership Theory: Starbucks is also a proponent of the inclusive leadership theory, this means that its leaders are committed to ensuring all team members are treated equitably, have a sense of belonging and value, and have the resources and support they need to achieve their full potential (Ferdman et al., 2020). Along these lines, Mr. Narasimhan was trained as a barista, just like all new partners, and has committed to working as a barista once a month in an effort to better relate to partners and customers (Lucas, 2023). Starbucks demonstrates inclusive leadership in several aspects of the work environment and customer environment.:

Diverse workforce: Starbucks places an emphasis on creating a diverse workforce. The corporation recruits partners from different backgrounds, ethnicities, genders, ages, and abilities (Bauer et al., 2020; Tikson, 2018). Some of the diversity efforts, including those recruiting and retaining partners of all backgrounds, were described above and the company is transparent about the self-identified racial background and gender of its US-based partners (Starbucks,

2023e). As the majority of store and district managers are promoted from this workforce, this creates the foundation of inclusive leadership (Moon & Quelch, 2003).

Inclusive hiring practices: Starbucks has directly committed to hiring veterans and military spouses (Howes, 2017) and refugees (Gozdan & Sudolska, 2021) as well as supporting the opening of stores staffed entirely by partners who are Deaf or hard of hearing (Siegel, 2018).

Inclusive customer experience: Starbucks places an emphasis on creating an inclusive atmosphere for guests. They have initiated a “third place” concept where stores are meant to be a space where everyone feels comfort and inclusivity, no matter their environment (Peiper, 2022). Some specific efforts along these lines include hiring partners who reflect the diversity of the community. Outreach to marginalized groups such as the Deaf/hard of hearing, blind/visually impaired (Williams, 2021), and LGBTQ (Durbin, 2023a) communities can make customers and partners alike feel welcomed in Starbucks stores.

Inconsistent with HRM Theory

Although Starbucks closely aligns with some HRM theories and practices that make the workplace more positive, there have been instances where they have been inconsistent in following these theories, which resulted in negative partner and customer outcomes.

Anti-Union Efforts: Some employees at Starbucks stores have engaged in unionization efforts which are protected by the NLRB. As far back as 1985, Starbucks partners in stores and warehouses have periodically unionized followed by decertifying the union (Thompson et al., 2013). In 2007, the NLRB found that Starbucks managers in New York City had discriminated against and fired partners who were attempting to unionize (Greenhouse, 2007). Partners in Philadelphia were also terminated for unionizing efforts in 2019 (Scheiber, 2021). In late 2021, a Starbucks location in Buffalo, NY, voted to unionize (Lucas & Rogers, 2021) and in the two

years since, over 300 stores have unionized (Hsu, 2023). Even after findings against the company by the NLRB, Starbucks is still being accused of retaliation against a growing labor movement at its locations across the United States. Some of these tactics include holding “anti-union” listening sessions, denial of benefits and pay increases, and terminations (McNicholas et al., 2023). Union busting can threaten job security, benefits, and fair treatment. This can all be seen as counterproductive to the principles of the Human Capital Theory.

Racial Bias Incidents: Starbucks has often positioned itself as a company at the forefront of social issues, and race relations are no exception. In 2015, in response to growing dialogue about microaggressions and systemic racism in the US, Starbucks launched the #RaceTogether campaign. Partners were required to write the hashtag on customers' cups, however, partners were not generally supportive of the initiative and often faced backlash from customers. Partners did not feel supported by the company and the campaign ended relatively quickly (Novak & Richmond, 2019). On the other hand, partners themselves have also been accused of racism. In one 2018 incident, partners called the police on two Black men who sat in the shop without ordering anything. The men were arrested but later released without charges. Just weeks later, a partner in California was accused of writing a slur for Mexican-Americans on the cup of another customer (Avila et al., 2019). The negative press resulting from these incidents led Starbucks to close for a day for racial-bias training for all partners in the US but also led to the firing of a white regional manager in the Pennsylvania market who was not directly involved in the Philadelphia incident. This manager argued she was fired as a “sacrificial lamb” and was found to have been wrongfully terminated and awarded over \$25 million (Associated Press, 2023). In another, a Black man (who claimed to be the only Black person in the shop) was asked to leave the coffee chain because of “overcrowding,” and COVID restrictions. The Equal Employment Opportunity Commission alleged that Starbucks also engaged in racial bias when considering partner promotions. The company agreed to more tracking and transparency in its

promotion processes (Lucas, 2021). While Starbucks prides itself on being inclusive of all members of the community, both partners and customers and allowing their space to be a “third place” for any community member, it appears that the company has work to do in improving its training and hiring practices.

Pride Controversy: As with taking a strong stance supporting racial and gender diversity, Starbucks has generally been a leader in supporting members of the LGBTQ community, as evidenced by providing benefits to same-sex couples and gender non-conforming partners long before other companies (Durbin, 2023a). During the summer of 2023 however, companies like Anheuser-Busch (producer of Bud Light) and Target faced significant backlash from some conservatives because of these companies’ support of LGBTQ issues through the marketing of Pride merchandise and use of trans spokespeople. Starbucks was accused of giving in to the backlash by ordering stores to remove Pride flags and displays during Pride Month (June 2023) (Durbin, 2023a). Starbucks has denied that this was a company-wide mandate, instead implying that any such direction came from individual store managers. This served to make partners feel unsupported and created confusion about allowable store personalization. Starbucks continues to declare support for the LGTBQ community and promises to provide clearer guidelines around Pride and other affinity group support in the stores (Wiener-Bronner, 2023). In the future, it will remain important for Starbucks to continue to support its LGTBQ partners, and all other partners from marginalized communities, in order to maintain a diverse and inclusive workforce.

No company will be perfect in following HRM theories and practices, however, it is important that they all take the steps to attempt to do good in serving their community and partner population. Hopefully, Starbucks will be able to recognize, and capitalize on its shortcomings and implement training programs to take steps forward rather than backward.

Threats to Maintaining HRM Practices

HRM plays a pivotal role in the success of organizations, and Starbucks is no exception. As a global coffeehouse chain, Starbucks relies heavily on its workforce to deliver exceptional customer experiences. However, like any other company, Starbucks faces various threats that can jeopardize its HRM practices. Maintaining effective HRM practices at Starbucks requires a proactive and adaptive approach. By addressing the topics of labor market, employee turnover, economic factors, technological disruptions, changing demographics, legal and regulatory challenges, cultural and diversity issues, public relations impacts, health and safety concerns, and environmental and social responsibility. Starbucks can navigate the complex landscape of HRM successfully. By continuously evaluating and adjusting its HRM strategies, Starbucks can not only mitigate threats but also create a resilient and engaged workforce that contributes to the company's long-term success.

Labor Market: The competitive landscape in the labor market poses a significant challenge for Starbucks. In the retail and service industry, the demand for skilled and experienced employees is high. Competing companies may attempt to lure talent away from Starbucks by offering more attractive compensation packages, better benefits, or enhanced work-life balance. To counteract this threat, Starbucks must continuously reassess and adjust its compensation and benefits strategies to remain competitive in the talent market.

Employee Turnover: High employee turnover rates can have detrimental effects on organizational performance. Frequent turnover not only incurs substantial recruitment and training costs but also disrupts team dynamics and may lead to lower customer satisfaction. Starbucks' turnover rate is 65% which seems high, though the turnover rate of the entire restaurant industry is significantly higher (Starbucks, 2022a). The causes of turnover can range from inadequate compensation to poor working conditions or a lack of career development opportunities. Starbucks needs to address these root causes by conducting regular employee

feedback sessions, implementing competitive compensation structures, and providing clear paths for career growth.

Economic Factors: Global economic conditions, especially during downturns or recessions, can significantly impact consumer spending and, consequently, Starbucks' revenue as was seen during the Great Recession in 2008 (Adamy, 2009; Allison, 2009). Economic challenges may force the company to implement cost-cutting measures, potentially affecting HRM practices such as employee benefits, training programs, and development opportunities. Starbucks must maintain a flexible approach to HRM during economic uncertainties, ensuring that adjustments made align with the organization's long-term goals and values. In order to avoid inflation and the fall of profitability that causes stress.

Technological Disruptions: Advancements in technology, including automation and artificial intelligence, have the potential to reshape the skills required for certain jobs. Starbucks needs to proactively identify and anticipate these changes, implementing training and upskilling programs to ensure employees remain equipped with the necessary competencies. Embracing technology can enhance operational efficiency, but it requires a strategic HRM approach to manage the workforce's transition into new roles. Improving and expanding the digital capabilities is one of the goals of the new business strategy (Starbucks, 2023c).

Changing Demographics: Demographic shifts, such as an aging workforce or changes in the labor market's composition, demands adaptability in HRM practices. Starbucks must cater to the diverse needs and expectations of different generations in the workforce. This includes designing benefits packages that appeal to a multigenerational workforce and creating a workplace culture that fosters collaboration and understanding among employees of different ages.

Legal and Regulatory: Changes in employment laws and regulations pose a constant threat to HRM practices. Non-compliance can lead to legal issues, fines, and damage to the company's reputation. Starbucks has paid out or been ordered to pay nearly \$150 million following lawsuits regarding issues with overtime pay, tip sharing, and wrongful termination (Associated Press, 2023; Bauer et al., 2020). Starbucks needs a robust legal and compliance team to monitor changes in labor laws globally, ensuring that HRM practices align with the evolving legal landscape. Regular training for HR staff and managers on compliance matters is crucial to mitigate legal risks.

Cultural and Diversity: Starbucks operates in diverse markets with unique cultural nuances. Cultural differences can pose challenges in HRM, affecting employee communication, engagement, and overall satisfaction. Starbucks must adopt and continually support culturally sensitive HR practices, including tailored training programs, diversity and inclusion initiatives, and employee resource groups that foster a sense of belonging among a diverse workforce.

Environmental and Social Responsibility: The increasing emphasis on corporate social responsibility and sustainability presents both opportunities and challenges for Starbucks. HRM practices must align with the company's commitment to ethical sourcing, environmental sustainability, and social responsibility. Initiatives related to diversity and inclusion, employee volunteer programs, and sustainability training can contribute to a positive workplace culture and reinforce Starbucks' brand image.

Starbucks can navigate the complex landscape of HR management successfully. By continuously evaluating and adjusting its HRM strategies, Starbucks can not only mitigate threats but also create a resilient and engaged workforce that contributes to the company's long-term success.

Public opinions about Starbucks can vary, and perceptions may change over time. Starbucks has often been criticized for the relatively high prices of its products compared to alternative coffee options (Yang, 2022). Some consumers perceive Starbucks as an expensive choice, particularly when compared to local coffee shops. This economic criticism has led to a segment of the public viewing Starbucks as a premium, and perhaps, an exclusive brand. That skewed into issues surrounding labor practices, including concerns about wages and working conditions, that have contributed to negative public and partner sentiment. Instances of discussions related to unionization efforts and workers' rights have fueled public debates, impacting the company's image among socially conscious consumers and potential partners (Bitter, 2023).

Starbucks has faced controversies that have negatively impacted its public image. One that stood out was the 2018 incident in Philadelphia, where two black men were arrested at a Starbucks store, sparked accusations of racial profiling (Avila et al., 2019). The company's handling of the situation and subsequent protests played a role in shaping public sentiment, particularly on matters of racial equality and inclusivity. Instances where Starbucks has been accused of cultural appropriation in its product offerings have drawn criticism as well. The introduction of items inspired by specific cultural traditions without proper sensitivity has led to negative reactions, raising questions about the company's understanding of diverse cultural nuances.

The expansion of Starbucks and the proliferation of its stores in various locations have led to criticism from those who argue that the company's growth negatively affects local, independent coffee shops. This raises questions about the impact of corporate giants on smaller businesses and local economies. Starbucks, like many large corporations, has faced scrutiny for its responses, or perceived lack thereof, to various social and political issues (Durbin, 2023a). Failure to take a clear stance on matters of societal importance may contribute to negative

public sentiment, especially in an era where consumers increasingly expect companies to be socially responsible.

In conclusion, Starbucks, despite its global success, has encountered challenges that have led to moments of poor public opinion. Issues related to pricing, labor practices, controversies, and responses to social and environmental concerns have influenced how the public perceives the company. However, it is important to note that public sentiment is dynamic, and companies, including Starbucks, can adapt and evolve to address these concerns. As consumer expectations continue to shift, Starbucks' ability to respond proactively to societal demands will play a crucial role in shaping its public image in the future.

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