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Change Critique

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Organizational Change

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Introduction

Change is a leader-led process. Change in any organization is a continuous process and the whole change initiative should be embedded across all levels of the organization. It is, therefore, imperative that leaders become effective change agents. Vision and Perseverance are key characteristics for an effective change agent. By becoming effective change agents, leaders can change the structure, process, people, focus, attitude and physical setting in any organization (Class Presentation, Dool, 2017). There are clearly a variety of pressures (both internal and external) on leaders to make changes in an organization. They come from many directions: the environment, the discovery of deviations from standards, new desires and visions of the future or the fundamental nature of organizations themselves (Palmer, Dunford, & Akin, 2009). The result of the change is often supposed to be, paradoxically, stability. Leaders are called upon to stabilize the unstable and destabilize the rigid, adapt to the present and anticipate the future, improve what is and invent what is to be, lead a renaissance while preserving the tradition, the possibilities for which are grounded in the belief that progress is possible and that leaders can make a difference (Palmer, Dunford, & Akin, 2009).

For an effective organizational change, leaders need to make a deep analysis of the organizational situation, consider the organizational resources and resistance, and strategize to identify and refine the process accordingly (Class Presentation, Dool, 2017). For any change situation to sustain, it is ideal that leaders adapt the 'learning organization' change model, where an organization continuously develops the capacity to adapt and change. The organization is recognized as a system of interrelationships, where there is open communication, a shared vision, employees collaborate together for great good and feedback follows a bi-directional, double-loop

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learning trend (Class Presentation, Dool, 2017). Given that change is a multi-dimensional process and that change agents (i.e. the leaders) should understand the need and embrace change in a positive manner, they are also often critiqued when the change initiative fails. The brutal fact that 70% of all change initiatives fail, it exerts a heavy toll, both human and economic. (Harvard Business Review, 2011). The organization that I have chosen to evaluate the change effectiveness, is the global coffee chain maker – Starbucks and in particular the company CEO – Howard Schultz.

Background and Starbucks Leadership

In 1982, Howard Schultz joined Starbucks as the Head of Marketing and Retail Business. Schultz wanted to extend Starbucks reach by adding espresso bars in its stores and the idea was rejected by Starbucks owners. Inspired by Italy's coffee culture, Schultz left Starbucks in 1984 to start his own line of espresso bars, called II Giornale but three years later in 1987, Schultz acquired Starbucks for \$3.8 million and became CEO of the company. However, in 2000, he resigned as Starbucks' CEO. Orin Smith joined Starbucks in 1990, when the company had 45 stores in the U.S. and Canada, with revenues of \$35 million. During his five years as chief executive officer (2000-2005), Starbucks increased store count from 2,498 with annual total net revenues of \$1.7 billion at fiscal year-end 1999 to nearly 9,000 locations (Starbucks Financial Release, 2005). Smith believed in aligning self-interest to social responsibility as the most powerful way to sustaining a company's success. Jim Donald had been Starbucks' CEO since 2005 (following Smith's retirement in 2005), when he was promoted from president of the company's North American division. Under his leadership, the number of Starbucks stores grew by about 5,000 to around 15,000, and in 2007 revenue increased 21% to \$9.4 billion. But that same year, the stock price dropped by a whopping 42%. (Yahoo Finance, 2015). In February 2007, Schultz warned former CEO, Jim Donald and other executives that automatic espresso machines, bagged coffee and "cookie cutter" store designs

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had led to a sterility at the chain that had invited competition from fast-food companies and others (New York Times, 2008). In 2008, Schultz replaced CEO Jim Donald as part of a plan to turnaround the struggling chain of coffee houses. Additionally, he returned because he felt the coffee chain was drifting from its core values (NBC News, 2008). In 2008, when Starbucks was struggling financially, Schultz temporarily closed 7,100 US stores 3 1/2 hours in order to retrain baristas on how to make the perfect espresso. Over the next two years, he led Starbucks' massive turnaround. Today, the company is valued at \$77 billion. When Schultz returned in 2008 as the CEO, he unveiled a 'Transformation Agenda' that included seven 'Big Moves' (Forbes, 2014):

- Be the undisputed coffee authority;
- Engage and inspire our partners (Starbucks' term for employees);
- Ignite the emotional attachment with our customers;
- Expand our global presence—while making each store the heart of a local neighborhood;
- Be a leader in ethical sourcing and environmental impact;
- Creative innovation growth platforms worthy of our coffee;
- Deliver a sustainable economic model

Since his return, Schultz has led a transformation of the company, bringing the company to sustainable, profitable growth with a renewed focus on Starbucks coffee heritage, innovation and the customer experience. He shook up the senior management and also galvanized leaders both inside and outside the company to take action to help local communities. He invited customers to write to him directly, created customer awards program, replaced all of its outdated cash registers/computers (to reduce wait-in-line hours) and rolled out new design for all the stores. His focus was to realign the Starbucks organization to better support the customer. In fact, Schultz studied other corporate turnarounds in order to pull off his own (Business Insider, 2011).

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Additionally, Schultz spearheaded efforts to create small business jobs through Create Jobs for USA, launched an initiative to hire more U.S. military veterans and their spouses, and opened up new educational opportunities for Starbucks partners to finish school through the Starbucks College Achievement Plan, thereby implementing great employee retention policies (Starbucks Newsroom, 2015)

Evaluating Change Effectiveness

Undoubtedly, change is a complex process and the complexity lies in bringing the system and people together. In my opinion, Starbucks faced environmental pressures for change, in particular hypercompetitive business pressures. Because of hypercompetitive business environments, organizations are confronted with global changes in consumer preferences, industry boundaries, social values and demographics (Palmer, Dunford, & Akin, 2009). Organizations are forced to deliver goods and services more quickly, more customized and more flexibly. An effective change agent understands the needs for change and embraces change in a positive manner. The change agent communicates the vision for change by engaging and facilitating others to work collaboratively to achieve real change and seeking out opportunities to effect change to improve organizational performance. Moreover, an effective change agent develops self and others to respond effectively to change and communicating change clearly to all those around them (Class Presentation, Dool, 2017). In my opinion, Howard Schultz is an effective change leader, because he realized the forces for change, recognized and defined the problem, initiated problem solving processes, implemented the changes required and measured and evaluated the changes. He also sought advice from outside consultants/process experts for ideas on how to revive the company and sustain the innovations. He reached out to the store managers, recognizing them as essential to the transformation process. From the start, Schultz sent the clear, unwavering message that

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Starbucks' transformation would represent a return to its roots and an uncompromising commitment to core values, such as health care benefits for any partners working at least 20 hours a week. (Forbes 2011). The major innovations that took place in Starbucks, can be interpreted as 'Second-Order, Discontinuous Change'. This particular type of change is transformational, radical and fundamentally alters the organization at its core. Second-order change entails not developing but transforming the nature of the organization (Palmer, Dunford, & Akin, 2009). Starbucks embraced second-order, transformational changes to produce a fundamental reorientation of the organization, so that it can cope with the highly competitive changes in the business environment. Resonating with Kotter to some extent, according to Schultz, the key to business success includes (Investopedia, 2016):

- A clear vision, a reason for being
- Realizing that success is best when shared
- Creating a culture where everyone involved realizes that they are a part of something bigger than themselves
- Treating people with great respect
- Exceeding expectations of your people so they exceed the expectations of customers

Although Starbucks' financials did not look so bad in 2007, Schultz established a sense of urgency to transform the company, when he realized that the company was losing its ability to be true to its values and its plummeting numbers. As an effective change leader, Schultz confronted reality, articulated the vision and demonstrated faith in the change process. Another effective change strategy deployed by Schultz were the implementation of Theory E and O change strategies. Theory E change strategies involve heavy use of economic incentives, drastic layoffs, downsizing and restructuring (Harvard Business Review, 2011). Whereas, in Theory O – the soft

approach to change, the goal is to develop corporate culture and human capability through organizational learning – the process of changing, obtaining feedback, reflecting and making further changes (Harvard Business Review, 2011). Although Schultz was concerned about the numbers, he embraced the paradox between economic value and organizational capability. He invested in people, hired new technology officer to improve the brand's overall social media presence, reorganized supply chain operations - getting products to stores more efficiently and improving inventory (In 2008, only three out of every 10 orders were delivered perfectly to stores. In 2011, the numbers rose to nine out of 10 orders). He did set direction from the top, but he encouraged participation from the bottom up by introducing town hall meetings and bringing in partners from different locations to company conferences. Not only did he focus on streamlining the hardware of the organization – the structures and systems, he also built up the software of the organization – the culture, behavior and attitudes of the partners. To differentiate the brand, Schultz reinvigorated the store 'experience' and criticized use of new coffee machines that blocked a customer's view of the barista, resulting in a less theatrical, dramatic and 'intimate' coffee experience (Ad Age, 2008). Schultz also revamped the reward system and in 2009, he increased partners' salaries according to merit (Business Insider, 2011). As a change leader, Schultz's did not just follow leadership from a directing approach. He was adaptive in his approach and navigated his role through coaching and being supportive. As a change agent, Schultz exhibited his passion for driving the change, for the rest of the organization to buy-in and contribute to the change initiatives.

Recommendations

While Howard Schultz is stepping down as the CEO in early 2017, he will still remain at the company as executive chairman, focusing on the company's involvement in social causes and

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on growing Starbucks Reserve, the company's new super premium brand and chain of high-end stores. He will be succeeded by his close friend Kevin Johnson, the company's current president and a longtime Starbucks board member. Johnson is a technology expert and has earlier served in corporations such as Microsoft and Juniper Networks as CEO. Starbucks has always credited the rewards program and app for helping consistently increase sales in the U.S. Starbucks' digital and technology prowess has put it ahead of its peers, allowing it to serve more customers faster. Same-store sales rose 5 percent in the Americas region in last quarter and mobile payments accounted for about 25 percent of U.S. transactions during last quarter as well (Bloomberg, 2016). According to Schultz, such technology adaptions will become increasingly critical for brick-and-mortar retail businesses to thrive as shopping habits change (NPR, 2016). Given that the new CEO is a technology veteran, his focus will be on building Starbucks' mobile payments systems and executing the company's global strategy.

Other than downsizing as a form of organizational restructuring, implementation of new technology is also a common change likely to be faced by leaders. Introducing technological change into an organization has been the focus of change management initiatives for many years. There is an ardent need to pay attention to the social aspects of implementing new technologies such as the way they can disrupt informal social patterns within organizations (Palmer, Dunford, & Akin, 2009). Given that technology is on the rise and companies deploy a variety of new technologies, it is critical that leaders work in collaboration with IT teams to develop a contingency plan in place, should the new infrastructure disrupt the day-to-day operations. Although Johnson has served as the Starbucks board member since 2009, as the new CEO, he should invest in spending time communicating with the partners and their emotions to manage the transition. He should evaluate the current cultural assumptions. Since Schultz has been associated with Starbucks

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for a very long time, it will definitely be emotional for partners to see a visionary leader no longer serving as their CEO. This is where Johnson will have to step up and assure to manage people's emotions through the transition phase. Given that in most circumstances, new CEOs fail to understand the historical context of success or failure with change efforts, Johnson can prove himself to be an effective change agent, if he acknowledges and honors Starbuck's legacy. For someone who has worked in an organization for many years and if the new CEO does not take into consideration the historical successes or failures of that organization, employees will feel distressed and disgruntled. Since Johnson is the new CEO, he might want to initiate new change efforts. While doing that, it will be extremely critical for him to listen, observe, keep asking why, fight back, actively seek feedback, challenge the existing beliefs and most importantly see if the change fits the organizational culture. It will equally important for him to communicate the changes to the partners to gauge their comfort level and make them feel at ease, as any kind of change can be an emotional journey. Moreover, while implementing any change strategy, he should ignite the passion of others by creating an answer to 'What's in it for me?', as this question will often be asked across all levels of the organization. As a leader, you should be prepared to answer that at every level for any employee. Leaders should have interactions from an organizational as well as individual point of view. The way in which Schultz created an urgency and disturbed the comfortable, Johnson should adapt a similar approach and prepare to lead the change by (Class Presentation, Dool, 2017):

- Creating organizational vision, commitment and capacity
- Assessing the current situation
- Designing the desired state
- Analyzing the impact

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- Planning and organizing for implementation
- Implementing the change
- Celebrating and integrating the new state

Given that change is non-linear and any set plan of action can take a different route, depending on the situation, it is recommended that Johnson also prepares for ‘Implementation Dip’ during any change initiate process. The importance of communication cannot be understated during any change process and in fact, leaders should communicate more and more, repeat the same message consistently using different mediums and get in to understand people’s current state of perceptions.

While Schultz brought transformational, big-bold changes to turn around the organization, as deemed appropriate for that situational crisis, Johnson should focus on bringing first-order, incremental, continuous change and embed them into the organization’s DNA. This category of change may involve adjustments in systems, processes or structures, but it does not involve fundamental change in strategy, core values or corporate identity. First-order changes maintain and develop the organization – they are changes designed, almost paradoxically, to support organizational continuity and order (Palmer, Dunford, & Akin, 2009). Another effective change strategy for Johnson would be to generate ‘Short-Term Wins’ (key performance indicators). Short-term wins can be measured, tracked, helps fine-tune, refine and build momentum towards the ultimate future big change. By generating short-term wins, Johnson will be able to evaluate who are the champions (early adopters to change), serious resisters (hardcore and passive, can’ts and won’ts) and general populace (in the middle, who waits for proof to see if the intended change is bearing any outcome) and engage with each category accordingly.

Insights from the New Change Agent's Experience

Upon announcing Johnson's role as the new CEO, he has been often asked what he plans to do differently in his new role, once filled by a visionary leader who earned his reputation building an iconic brand. According to Johnson, he will not try to Schultz, rather he will be authentic in his new role and use his own leadership instincts. Moreover, he will capitalize on his strong technology experience to develop Starbuck's in-store and digital customer experiences globally (CNBC, 2016). As an effective change agent, you need to have a personality which showcases consistency, authenticity and the belief in yourself that you have in it you to drive the change. Johnson's leadership skills has been applauded by his former colleagues, who has recognized him as a 'superstar leader'. Johnson's business philosophy of four Cs — courage, conviction, connections and communication — led him to success and stewardship in his former roles (USA Today, 2016). Sticking to your message is key and Johnson has been reiterating that his focus will be to elevate the digital experience of Starbucks brand. Johnson has also assured that he and Schultz share common values - a love for the company, and a commitment to always do the right thing for our partners, our shareholders, the customers and communities we serve.

Given Johnson's previous leadership experience, everyone is hopeful about his capabilities to keep Starbuck's legacy intact and bring about meaningful transformations. However, we are yet to see and learn about his success stories.

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