

A Study on the Adaptability of Starbucks' Organizational Management about Chinese Operation

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Abstract: The transnational catering industry is facing a significant challenge. To improve the quality of their services and their competitiveness, it is now of the utmost importance for transnational organizations to consider how to increase the leadership effectiveness by implementing the theory of organizational behavior. In this article, Starbucks serves as a case study to analyze such issues present in the transnational catering industry. The Starbucks globalization process, and the sinicization process, in particular, present a number of opportunities and threats that would be analyzed using the SWOT framework. In addition, this study would explore how Starbucks' issues in China can be resolved using organizational behavior theory and four strategies, including "strengthening corporate culture", "building a learning team", "implementing incentive mechanism", "identifying individual differences among employees". In conclusion, the findings of this study can be illuminating for business leaders and transnational corporations develop more effective organizational models appropriate to the context and conditions of the modern business world.

Keywords: Starbucks, organizational behavior, risk, coffee industry, SWOT analysis.

1. Introduction

The market for coffee consumption in China is only 70 billion yuan at the moment, while the market for coffee consumption worldwide is worth 12 trillion yuan. China consumes only 5 cups of coffee per capital, whereas the global average is 240 cups per capital. It is evident that the Chinese coffee market is untapped and underdeveloped, which bodes well for coffee's enormous potential as a staple in country's beverage market. In recent years, despite the fact that China is the origin of tea culture, the rapid development of the Chinese economy, the rise in national income, and the globalization of market communication have led to an increase in the number of Chinese coffee lovers [1]. The international coffee organization reports that annual coffee sales in China increased by 16% from 2009 to 2019 which is eight times the global average increase [2]. According to the additional data, 13 coffee-related financing events, took place in the first half of 2021, concerning Manner Coffee, Seesaw, M Stand, and other new coffee brands that were beginning to partake in the force market competition. Numerous tea brands have entered the market to compete. Starbucks appears to have lost favor- with consumers who frequent online celebrity coffee stores. Starbucks' financial report for the third quarter of its fiscal year 2021 indicated that the Chinese markets' expansion has slowed. In this quarter, Starbucks China's revenue was \$910 million, an 45% year on

year. However, the per-customer price fell 9% year on year, and the same store sales increased 19% year on year, both of which were below expectation. Starbucks released its financial report for the first quarter of the fiscal year 2022 on February 1, 2022 (Beijing time). The financial report revealed that total revenue was \$8.05 billion, representing a 19.3% year-on-year growth; earnings per share were \$0.7, but fell short of many analysts' expectations. Specifically, in terms of store sales performance, Starbucks' performance in the US market was excellent, whereas the Chinese market experienced a decline in sales.

Before entering the Chinese market, Starbucks was a renowned coffee restaurant chain that sold beverages and was founded in 1971 in Seattle. Starbucks sells various pastries and western desserts, in addition to coffee beverages, coffee machines, coffee beans, coffee cups, and other ancillary products [1]. Starbucks is the world's leading professional coffee roaster and retailer. It was successfully listed in June 1992, which had a significant impact on Starbucks' global expansion and promotion of its brand. Considering its wealth of experiences generalize from the brand's long history, Starbucks was expected to perform well when it localized in the highly competitive Chinese market. However, the company ran into a number of difficulties. This paper will use organizational behavior to address these issues.

2. Introduction of Starbucks

2.1. Brief Introduction to Starbucks

To date, Starbucks has more than 32000 locations spread out across 82 countries. In 1998, when Starbucks opened its first location in Taiwan, China, the company's entry into China had just begun. In year 1998, Beijing became home to Starbucks' very first store to open on the Chinese mainland market. Starbucks has more than 6000 locations across more than 230 cities in mainland China, which has enabled it to establish itself as the market leader after 20 years of expansion in China [3]. The expansion of Starbucks has also been discussed in numerous periodicals and reports. In-depth analyzes of Starbucks can be found in publications such as Fortune and Forbes.

2.2. Business Model of Starbucks in China

Starbucks began its international operations fairly early on and deployed three types of company organization structures globally: joint venture, licensing agreement, and sole proprietorship. It employed investment and partnership strategies that were adaptable to changing global market circumstances. Starbucks entered China via a licensing and joint venture strategy. In China, Starbucks has pursued a fairly conservative approach. Initially, Starbucks established collaborative partnerships with Chinese businesses that had a significant presence in economically developed countries. Starbucks exclusively purchased shares using its brand and technology and expanded its position as the company matured. Starbucks implements this equity risk management primarily to reduce risk.

In 1999, Starbucks collaborated with a Beijing-authorized company to establish its first Chinese mainland location. Starbucks collaborated with a Shanghai-authorized company to enter the Shanghai market in 2000. Starbucks entered the Guangzhou and Shenzhen markets in 2002 in collaboration with businesses in South China; and has established its own direct sales stores in second and third-tier cities such as Qingdao, Dalian, Shenyang, and Chongqing since 2005. Starbucks Group increased its stake in its Shanghai government-authorized joint venture from 5% to 50% in July 2003. After Starbucks and Meixin Company co-founded a Starbucks store in Chengdu in September 2006, the company's authorized equity in Guangzhou increased to 51%. The brand also acquired 90% of Beijing Authorized Company's shares through an equity acquisition in October 2006 and reclaimed the management rights for the Beijing and Tianjin region. At present,

Starbucks has completely abandoned its authorized operation in China and initiated an expansion of direct sales.

Table 1: SWOT of Starbucks.

External Environment	External Opportunity	External Threat
	1. Opportunity in light of the current context 2. China's coffee market has huge potential	1. Competition intensifies 2. Imbalance of regional development 3. Impact of COVID-19 4. The impact of the financial crisis
Internal Environment	Internal Strengths	Internal Weaknesses
	1. Brand advantages 2. Coffee technological advantages 3. Store Location advantage	1. Experience fades, service level drops 2. Unsustainable business model

2.3. Business Pain Points of Starbucks and Starbuck's Business Prospects in China

From this table 1, the business pain points of Starbucks can be intuitively analyzed from external and internal perspectives- using this table. From external threats and discover that the first issue is rising competition, which relates to the current state of the Chinese coffee industry.

Current Coffee Market Situation in China The International Coffee Organization anticipated that the growth rate would remain between 11% and 15% over the next few years, and that market size could surpass 44 billion yuan by 2022. [4, 5] All of these data indicate that China will become one of the world's most promising coffee markets [1]. Nonetheless, this scenario resulted in a congregation of competition to leverage the potential of the Chinese coffee market. In China, various coffee brands have begun to emerge. Such as the Chinese local brand Luckin Coffee and the globalizing brand Costa. In China, the coffee industry market competition is becoming increasingly intense.

Business Pain Points of Starbucks Starbucks is confronted with three types of external threats. The first factor is rising competition. Currently, the coffee business is extremely intense, with the exception of the two brands named above. Market share will also be taken by grocery shops, fast food joints, and specialty coffee makers that engage in predatory pricing and imitation to get a foothold in the business. The second concern is regional development imbalance. The disparity in regional growth has given rise to the disparity in people's incomes, which poses a threat to Starbucks' uniform pricing structure and its administration, operations, and strategy. The third one is influenced by COVID-19. Two years have passed since the outbreak of COVID-19 at the end of 2019. Nevertheless, the deleterious impact on the economy persists, particularly in the catering industry. The catering industry ranked second among the ten most severely affected industries, according to statistics [6]. According to the data, catering revenue in 2020 will be 16.8% lower than in 2019. Affected by the COVID-19, large quantities of food are hoarded or even discarded, and the catering industry must also contend with rising rent, water, and electricity costs. Due to a variety of factors, the catering industry's profits plummeted and it faced a massive survival crisis [6]. Starbucks is in a similar situation. The final external threat is a financial storm that will deal Starbucks a heavy blow. The research indicates that countries with more Starbucks locations are more likely to experience a financial crisis. Starbucks locations are frequently situated near financial centers and new business districts. Starbucks' market research and analysis indicate that

the majority of its customers are young people, particularly white-collar elites. Many Starbucks stores have therefore suffered from a lack of customers and eventually closed their doors as a result of the economic downturn.

Internally, Starbucks is facing two challenges. First, Starbucks experienced issues with its service. As Starbucks expands, in order to obtain economies of scale and achieve its financial objectives, it reduces its costs progressively. Nonetheless, Starbucks utilizes a flow process to complete its service process, and inadequate staff training has led to a decline in service quality. In addition, the final internal threat is a business model that is unsustainable. Starbucks' product line consists primarily of coffee. Occasionally, a novel business concept is created but is rejected by the public. The annual decline in sales of certain new coffees indicates that consumers have grown tired of these products [7]. Conversely, when people consider Starbucks, they will only contact coffee and not catering. This indicates that Starbucks must devote more resources to product development.

3. The Problem Starbucks Encountered While “Sinicizing”

3.1. Sluggish Product Update Causes a Loss of Competitiveness

China has a larger coffee market and more competitors than other countries. The abundance of options in China and the increased rate of updating allow fashionable urbanites to have more options. Alternatives to coffee in China include tea and other functional beverages (including beverages containing caffeine), such as Red Bull, daily refill, Uni-President, and other brands. Starbucks faces competition not only from other coffee brands, but also from instant coffee, which accounts for a significant portion of the coffee market. As was mentioned above, the internal industry competition is extremely fierce, and there is also competition from companies outside of the industry, such as fast-food outlets McDonald's [5]. Standard pot coffee is served in McDonald's and other fast food establishments. McDonald's coffee seems to lack a distinct brand identity. McDonald's coffee has become more popular as a result of its other popular items like hamburgers, yet it has still managed to alienate some customers who prefer Starbucks [5]. This necessitates an update to Starbucks' business model in order to increase its industrial competitiveness. Consequently, Starbucks' sales decreased due to the slow rate of product update. Frappuccinos, for instance, typically have a limited product life cycle and seasonality. Frappuccinos have always accounted for 15% of summer sales, but recent declines in sales compared to the same time period indicate that people are bored with it [7]. This data indicates that Starbucks has lost its competitiveness in the Chinese market as a result of its slow product updates. Starbucks faces the challenge of too-slow product updates, which leads to a decline in consumer loyalty [8]. Starbucks' product R&D department did not respond quickly enough to market demand in order to develop new products. The primary reason is that all Starbucks employees are unaware of the importance of learning and advancing in the modern era.

3.2. Capital Chain Problem Caused by Expansion

In China, Starbucks follows a strict policy of only opening shops in high-cost, high-traffic urban areas [1]. Each new store requires a substantial amount of investment capital. With such a policy in place, a shop opening rate that is too rapid would certainly disrupt the capital chain, thereby impacting the company's financial decisions. In addition, since China's economy has grown in recent years, the rental price of commercial real estate has risen steadily, resulting in a capital chain challenge for Starbucks. In recent years, in response to its fast growth, Starbucks has implemented a series of cost-cutting initiatives. The placement of shops and the training of employees have deteriorated [7]. Starbucks' service quality is deteriorating in the opinions of an increasing number of consumers, and its original corporate culture is rapidly eroding. Starbucks' performance and

brand did not increase concurrently with its fast and scaled growth, which risked its healthy development.

3.3. Inadequate Efficiency of Internal Organization Management

There are many shops in China that need effective administration, a difficulty for any business. In addition, the business strategy of Starbucks in China has shifted from authorization to direct marketing. Starbucks has consolidated the Chinese market by buying out its outlets gradually. Although it has successfully consolidated operating and management rights throughout the majority of China's regions, Starbucks currently does not own equity in all of its Chinese locations [9]. Consequently, Starbucks must make more efforts to coordinate and integrate management in light of its diverse partners in numerous locations. This is a major setback for Starbucks' administration in China and will negatively impact the company's internal operations.

3.4. Issues of Checks and Balances of Rights

The structure of corporate governance is imperfect and does not have adequate checks and balances on the use of power. The expansion of Starbucks' executive agencies across the nation parallels the expansion of its stores. The headquarters delegate complete control to the branch since they have sufficient faith in the branch company, and therefore branch manager is in charge of the outlets operations [9]. This process resulted in a gradual increase in the branch company's rights, which culminated in the regional head holding all regulatory rights. Starbucks' system of decentralization has reduced mutual containment and fostered the emergence of autocracy [10].

3.5. High Turnover Rate

Starbucks' employee turnover rate is 20% since employees are dissatisfied with the company's internal system at two points. First, employees are highly dissatisfied with the promotion system. Many workers on social networking platforms or studies say that Starbucks has lengthy promotion periods and minimal prospects for advancement [10, 11]. In general, it takes one year to reach the position of the manager on duty. Due to the limited number of individuals, advancement to the post of district manager or above is extremely complicated. The working years, number of employees, number of vacant jobs, and other limits for cross-department promotion result in merely around 20% of individuals achieving the qualification each year. Consequently, the survey reveals that the majority of employees join Starbucks as they regard the company as a springboard for their careers [11]. Starbucks did not establish a reasonable relationship between salary level and work intensity when designing salaries, which is the second point. The daily work schedule for Starbucks employees is 9 hours with a break of 1 hour and 20 minutes. The shift arrangement is fixed, as are the responsibilities of employees during the morning, afternoon, and evening hours. Generally speaking, the morning shift has less work than the evening shift because there are fewer customers. The workload of employees during the afternoon and evening shifts is greater than that of employees during the morning shift. Some employees require more early shifts for a variety of reasons, resulting in an unreasonable practice of scheduling [10]. Even if all Starbucks locations in a given area are open at the same times, the workload for staff will vary from one site to the next owing to factors like customer traffic patterns and demographics. Specifically, the daily workload of workers at outlets with high traffic volume is significantly higher, despite the fact that their incomes remain the same in stores located in low traffic areas. In this respect, workers believe that external injustice heightens their inclination to leave their current position.

4. Application and Suggestions Based on Organizational Behavior Theory

4.1. Develop Unique Corporate Culture

To enhance employees' sense of belonging to the enterprise, it is necessary for the enterprise to establish a distinct corporate culture and employees' identities [12], according to individual psychology and behavior theory. In the process of Starbucks' localization in China, the branch and store management are solely responsible for the internal organization management and the balance of rights between the branch and the headquarters. While individual performance is not tied to the success of the brand. Therefore, Starbucks should adopt a "partner" organizational culture, which entails a shift from a leadership-centric to an employee-centric corporate culture in response to these issues. Likewise, employees should be cognizant of the significance of "customer first". In this one-of-a-kind corporate culture environment, Starbucks employees can experience equality and a sense of importance, thereby fostering work enthusiasm, initiative, and creative strategies. It ensures not only the efficacy of employees' efforts but also their consistency. This organizational culture has the potential to enhance employees' sense of identity and belonging at Starbucks. Therefore, Starbucks must utilize the theory of organizational behavior to develop its own unique organizational culture in order to address the decline in employee service quality as well as issues pertaining to checks and balances [13].

4.2. Establish a "Learning" Team

Based on the humanistic management theory in organizational behavior, businesses focus on the "self-management" behavior characteristics of employees [14]. Starbucks must enhance the cognitive ability of all of its employees and cultivate a greater number of exceptional managers and innovators. Starbucks must establish a learning staff team as a component of the training process in order to increase the overall staff's awareness of "keeping up with the times, constantly learning and improving their own working methods and innovative ideas." Starbucks needs to ensure that its employees have the awareness, ability, and behavior of learning and progress to distinguish themselves in the market competition, allowing it to improve its R&D strength and service quality and outplay the fierce market competition.

4.3. Strengthen the Effect of Incentive Mechanism

On the basis of the incentive theory in organizational behavior, organizations should utilize the incentive theory in their management processes [12, 14]. Starbucks needs to consider the objective and subjective needs of its employees and provide them with a variety of incentives to enhance their work enthusiasm and attitude [10]. As an illustration, the current state of service quality at Starbucks stores has led to consumer complaints. This is due to a lack of basic training and incentives for employees, which causes a decline in employee motivation and inconsistent work standards [10]. Starbucks can establish incentive funds for its store management, require store management to conduct basic training, and implement a reasonable reward and punishment system for each basic employee, thereby enhancing the service quality and work attitude of its employees. Similarly, salary and benefits are one of the factors that influence the retention of retail employees, particularly front-line employees. As a corollary, their compensation should be proportional to their expertise and workload, and employees can be fully recognized and incentivized to have more freedom and opportunities for advancement. The reward system is implemented to demonstrate to employees that doing more work yields greater compensation, as opposed to performing varying workloads for the same salary. This decision can motivate the individual. Starbucks must also adopt

the practices of Chinese local businesses, such as recognizing and rewarding exceptional employees every month and quarter with corresponding bonuses.

The leader's behavior has an incentive effect, which connects the subordinate's contentment with effective work performance [10]. As a crucial component of pre-employment training, Starbucks should deploy prominent senior executives (district managers and higher) to engage with these new hires at a predetermined time. Interactive discussions with new hires should also be held to help them understand the company's expectations and level of care for them, which in turn should boost their motivation [14]. Consequently, interactive induction training is not only one of the most successful and well-liked training techniques, but it can also encourage team building and the speedy integration of recruits into the business in order to increase job productivity.

4.4. Realize Individual Differences in Work

Starbucks must also recognize that individual disparities might influence work behavior. Therefore, Starbucks should develop particular selection criteria and test plans at the beginning of the recruiting process, and then employ a universally applicable approach to finish the recruitment in order to increase the efficiency of the recruiting process. This strategy may equip Starbucks with the capabilities necessary for long-term growth and start offering more relevant employment opportunities.

Starbucks may assist new hires in identifying and formulating individualized career aspirations during the initial phase of their orientation training. Employees can gain a better understanding of the enterprise's status quo and the relationship between their development at Starbucks and their own [10]. Through this plan, employees will be able to understand their position within the organization, future development targets, and Starbucks's promotion system. Consequently, employees can take deliberate and calculated actions predicated on their own characteristics and circumstances [12]. In addition, the combination of career planning and the actual gap between employees will assist businesses in formulating practical training plans, making the training process more targeted, and to some extent enhancing the efficacy of incentive measures. Ultimately, this would promote the harmonious growth of individuals and organizations [10]. Correspondingly, this measure enables employees to understand their own advancement opportunities at Starbucks and provides businesses with a deeper understanding of employees' skill sets and expectations. Through these actions, Starbucks can better develop training content, retain employees, and reduce costs associated with employee turnover.

5. Conclusions

In conclusion, while Starbucks is known for its excellence in many domains, the brand's internal organizational management does have several flaws. To increase its competitiveness, Starbucks needs to strengthen its corporate culture, recognize the unique contributions of each employee, and implement a variety of incentive mechanisms into its organizational management. In addition, both the quality of its products and the level of service it provides should be enhanced to satisfy the requirements of its target customers in the Chinese consumer market. Concerning the catering industry, the challenges that Starbucks encountered during its localization process in China are challenges that many other catering businesses are experiencing or will confront in the future. It is a type of microcosm of the issues that plague the majority of catering companies which should be adequately addressed.

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