The Four Horsemen of JcPenney

INTEGRATING THEORY IN A CASE STUDY THROUGH IDENTIFYING AND ANALYZING A COMMERCIAL ORGANIZATION

Ryan Timothy Jacobs

University of North Carolina, Wilmington

CASE STUDY

"*We are going to rethink every aspect of our business, boldly pursue change, and create long-term shareholder value, as we become America's favorite store*." ~ Ron Johnson (Epoch Times, 2012)

The purpose of the following article is to analyze, and identify the strategies and organizational behavior during the sixteen month period that former CEO Ron Johnson, and a group of colleagues were at the helm of JcPenney. Within sixteen months, JcPenney went through an astonishing amount of changes, which caused conflict for employees and customers. This conflict was due a desire to transform the company in every aspect of the JcPenney infrastructure. It came at a time that prevalent shareholders, investors and owners questioned then CEO, Myron "Mike" Ullman III as to his ability to do his job based on medical issues. Additionally, revenues had dropped from 19.9 billion in 2006 to 17.2 billion in 2011. Ullman's deal with Ralph Lauren had also failed because JcPenney could not use the Ralph Lauren name or Polo logo.[1]

Steven Roth, of Vornado Realty, with 2.8 billion dollars in revenues highly influenced Ullman to embrace changes in JcPenney starting in 2010. Meeting with Roth and Bill Ackman, head of hedge fund Square Capital, Ullman fully embraced their endeavors to bring about innovation to JcPenney. Ullman suffered additional injuries in a crash accident shortly after meeting with Roth and Ackman.

[1] Reingold, Jennifer. "How to Fail In Business While Really, Really Trying." *Fortune*, April 7, 2014.

Due to Ullman's increased health issues, a successful executive from Apple, as well as Target named Ron Johnson, was decided to take his place as CEO of JcPenney. Johnson had been known for his success in revamping companies, and the sheer mention of Steve Job's protégé increased stocks by 17 percent.[2]

Change or Transformation?

“Transformation is a process, not an event”

~ John P. Kotter, Leading Change

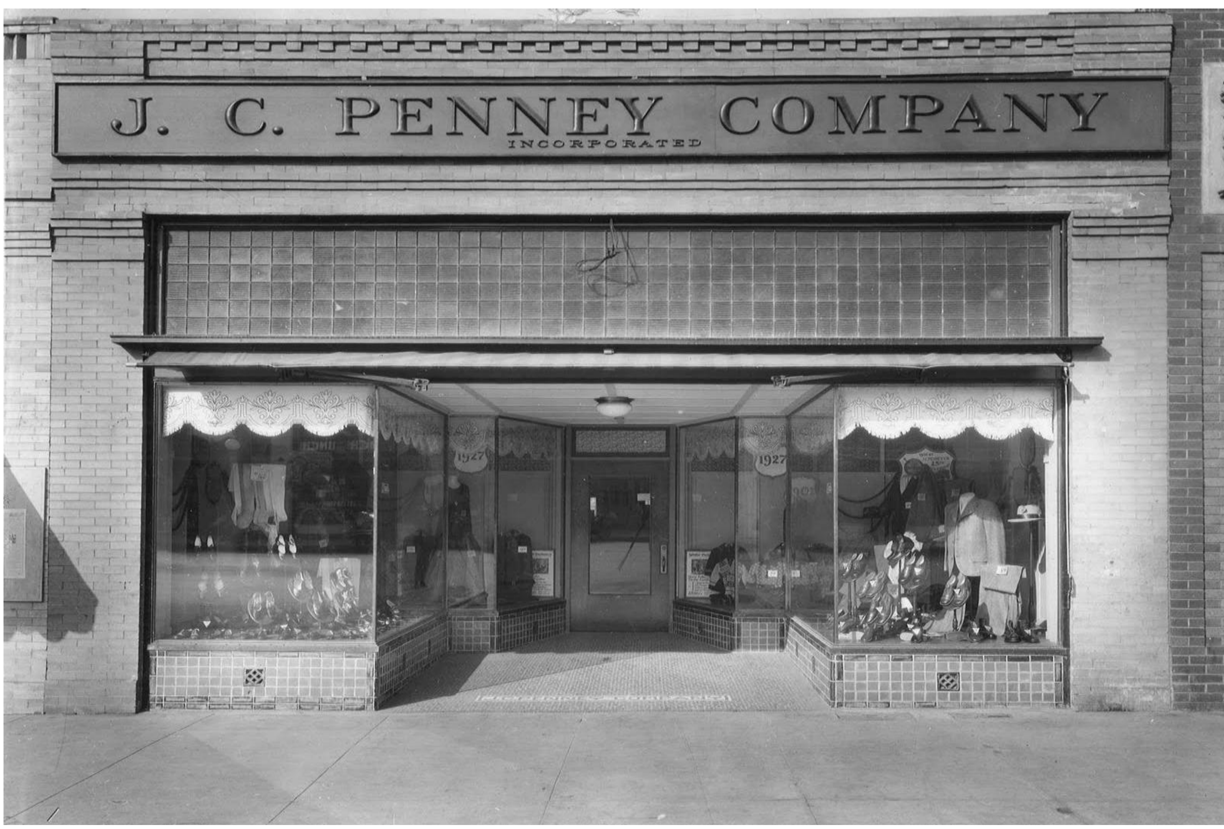
Johnson's plan, solely based on the theme of "Change", as Barack Obama had also used during his first election to presidency, quickly underwent transforming JcPenney from the bottom up. As suggested by Aaron Blake, author of an article entitled *President Obama; A Man of Many Slogans*, "Where Obama’s slogans seem to differ from those used in past campaigns is that they are all big-idea, broad themes and seem to be phrases that could easily be transferred to the top of the campaign’s fundraising mailers and on banners behind the candidate at rallies."[3] It is comparable to Johnson's technique; under this particular slogan with the intention to resonate with the employees at JcPenney, it sent a rather powerful message of his vision. Consequently,

[2] Reingold, Jennifer. "How to Fail In Business While Really, Really Trying." *Fortune*, April 7, 2014.

[3] Blake, Aaron. "President Obama: A Man of Many Slogans." Washington Post. http://www.washingtonpost.com/blogs/the-fix/post/president-obama-a-man-of-many-slogans/2012/07/10/gJQAf8UlaW_blog.html (accessed June 30, 2014).

with a slogan so vague, which leaves it open to interpretation; expectations were not met, and harsh criticism followed both Mr. Obama and Mr. Johnson.

In order to get rid of what he considered a messy look, Johnson also planned to renovate the stores, and make JcPenney more amicable to younger customers. With clearance racks out the door, and price promotions non-existent, JcPenney began to draw in the youth of America, but began to confuse their older, loyal customers. This annihilation of older customers by creating new customers, was one of the biggest problems with Johnson's plan. The upscale, youth oriented change that Johnson envisioned would ultimately be his demise as the CEO of JcPenney.



[4]

Figure 1: Mr. Penney, The Mountains & Main Street

[4] Pleasant Family Shopping. (2011, November 21). *: November 2011*. Retrieved July 6, 2014, from http://pleasantfamilyshopping.blogspot.com/2011_11_01_archive.html

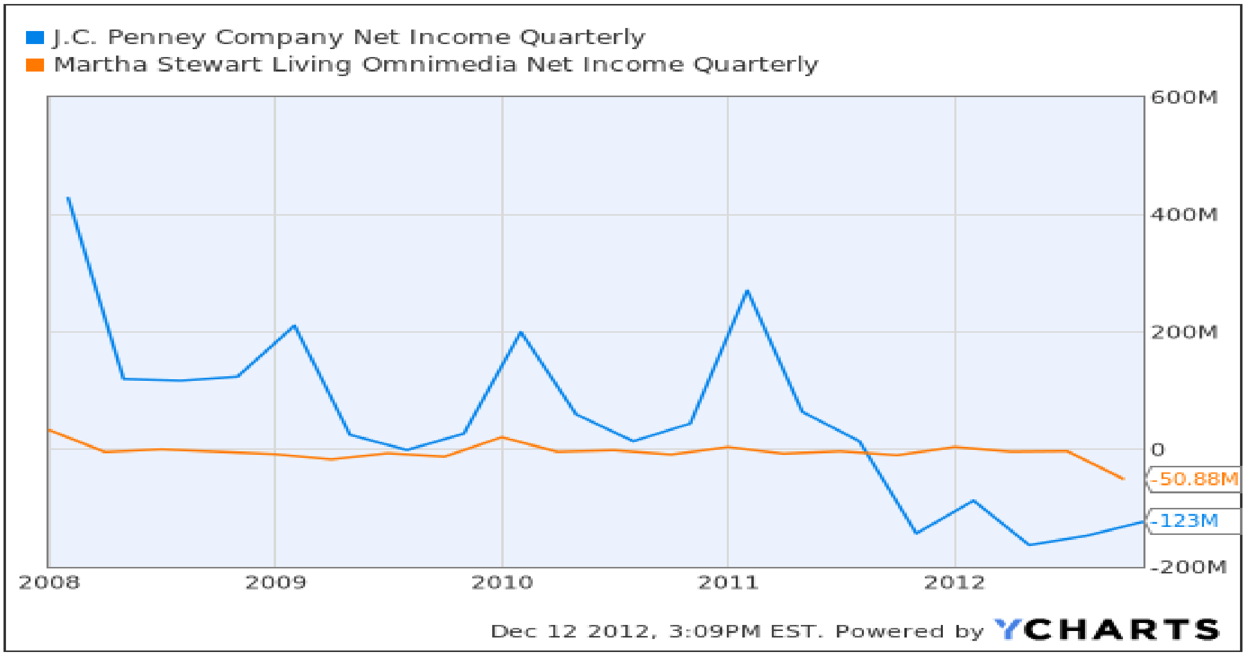
Accordingly, JcPenney, founded in 1902, was to completely forget their traditional policies, design, and marketing strategies. First went the promotional pricing, which was up to 590 in 2011 alone.[5] They were to rid the company of the concept of clearance racks, the mess of signage, and the "department store" layout as well. Johnson's plan consisted of designing JcPenney with a boutique style blueprint. He wanted to have different boutiques from companies JcPenney did business with, as opposed to collections, such as Martha Stewart products. This concept of classification instead of collection was the approach Johnson took for the overall layout he wanted to convert the stores into.

As Amy Merrick explained in her article on Forbes' website, entitled *Worse Than Expected: How Apple Guy is Turning JC Penney Into a Museum of Tired Brands*, "JC Penney also is banking on Martha Stewart (MSO), whose company is closing magazines and laying off employees. Stewart—whose housewares failed to fix Kmart (SHLD) last decade—is tied up in litigation with Macy's over whether she can sell her products at JC Penney at all. One thing she and Johnson have in common, according to this New York Times article on Stewart is that both executives are pulling in huge compensation while their companies reel from financial losses"(*see Graph 1 below*).[6]

[5] Reingold, Jennifer. "How to Fail In Business While Really, Really Trying." *Fortune*, April 7, 2014.

[6] Merrick, A. (2012, December 21). Worse Than Expected: How Apple Guy is Turning JC Penney Into a Museum of Tired Brands. *Forbes*. Retrieved July 6, 2014, from http://www.forbes.com/sites/ycharts/2012/12/21/worse-than-expected-how-apple-guy-is-turning-jc-penney-into-a-museum-of-tired-brands/

[7]



Graph 1: JCP Net Income Quarterly data by YCharts

What About The Board Of Directors?

"*I think not testing was a mistake*,"

~ Colleen Barrett, the Southwest Airlines President Emeritus and a J.C. Penney Board Member)

As Howard Shultz, the billionaire CEO and founder of Starbucks suggested live on CNBC, according to Joseph Guinto's article Who Wrecked J.C. Penney, "This is the truth. This is not fiction. Bill Ackman was the primary engineer and architect of recruiting Ron Johnson to the

[7] Merrick, A. (2012, December 21). Worse Than Expected: How Apple Guy is Turning JC Penney Into a Museum of Tired Brands. *Forbes*. Retrieved July 6, 2014, from http://www.forbes.com/sites/ycharts/2012/12/21/worse-than-expected-how-apple-guy-is-turning-jc-penney-into-a-museum-of-tired-brands/

company. He and Ron Johnson co-authored a strategy that has fractured the company and ruined the lives of thousands of J.C. Penney employees. ... Bill Ackman has the blood on his hands for being the architect and the recruiter of Ron Johnson and then the co-author of the strategy."[8] Ackman, a hedge-fund investor who was a member of the board for JcPenney has been highly criticized for being the mastermind behind Mike Ullman's coming and going, as well as Johnson's recruitment. Ackman himself tells a different story. On an episode of Charlie Rose's talk show, Ackman retorted by stating, "Frankly, I'm not the only guy on the board who believed in Ron Johnson. The board was very supportive of bringing in Ron Johnson as CEO of the company." He also claimed, "I don't control J.C. Penney," he added. "I am one member of a board of 11 directors."[9] As Guinto refers to the board of directors, at the time of JcPenney's undoing, in "a power vacuum at the top of the company(1)". As mentioned above, it was not only Ackman who desired Johnson to become CEO. Even the CEO at the time, Ullman was impressed with Johnson and wanted him to take his place. Also, with the vast amount of tenured board members, and the ambitious businessman Steven Roth had been a part of serious discussions pertaining to the Johnson-era JcPenney. Guinto explains:

- If you want to find out just what Ron Johnson did too fast and too quick, or, for that matter, if you'd like to know about any of the 10 CEOs in J.C. Penney's history, the guy you call is Ed Fox. He's an associate professor of marketing at SMU. He also holds this title: "The W.R. & Judy Howell Director of the J.C. Penney Center for Retail Excellence." So what does Fox think went wrong under Johnson? Perhaps surprisingly, he thinks Johnson—and, by extension, Ackman and the rest of the board—got the vision

[8] Joseph, G. (2013, November). Who Wrecked J.C. Penney?. - *D Magazine*. Retrieved July 6, 2014, from http://www.dmagazine.com/publications/d-ceo/2013/november/who-wrecked-jc-penney
[9] Joseph, G. (2013, November). Who Wrecked J.C. Penney?. - *D Magazine*. Retrieved July 6, 2014, from http://www.dmagazine.com/publications/d-ceo/2013/november/who-wrecked-jc-penney

thing right. “I was personally not of the opinion that the vision had been discredited,” Fox says. “I just think their implementation strategy was flawed. So I don’t think his vision ever got a fair hearing. And I’m quite certain that now it never will."[10]

Still there was one thing that the board of directors did question Johnson about; how fast he was revamping the stores appearance. It is noted that he considered what they had to say by slowing the progression of replacing the clearance racks, and a few other minor details, but Johnson still went along with the overall plan. Members of the Board of Directors believe that the faulty plan was due to how quick things changed, and the fact that they did not test the plan prior to implementation. Other sources say that the members of the board claimed they should of gotten rid of Johnson faster. It is difficult to clearly identify which were bigger problems than others, but it is very clear that the Board of Directors do not share a consensus.

INTEGRATING THEORY & PRACTICE

A predominant theory regarding the strategic choices that CEOs make is described in Sucheta Nadkarni and Pol Herrmann's article *CEO Personality, Strategic Flexibility, and Firm Performance: The Case of the Indian Business Process Outsourcing Industry*. The authors provide a three-stage filtering process. These three stages include the field of vision, selective perception, and interpretation. As Nadkarni states, although "internally focused CEOs develop

[10] Joseph, G. (2013, November). Who Wrecked J.C. Penney?. - *D Magazine*. Retrieved July 6, 2014, from http://www.dmagazine.com/publications/d-ceo/2013/november/who-wrecked-jc-penney

broader fields of vision than externally focused CEOs(1053),"[11] other psychological attributes can negatively impact a decisions makers ability to manage efficiently. Johnson's lack of investigation, or failure to acknowledge the risk propensity of his plan implementation caused many of the errors in his management of JcPenney. "Research has suggested that top managers selectively perceive only a fraction of the stimuli within their fields of vision (Starbuck & Milliken, 1988). Which stimuli CEOs attend to and which they ignore is tied to their psychological attributes (Finkelstein & Hambrick, 1996)."[12] Johnson rather focused on the rewards, and he turned a blind eye on valuable information that long-term employees of JcPenney could of provided. Retaining employees that know the customers, and the companies culture can provide valuable insight. Johnson may have been well positioned as someone to come in and suggest ideas, but the way that he went about dismantling a company that had been founded over a century earlier was too arrogant.

Johnson's need to control, or self righteousness got in the way of JcPenney's friendly employee-customer relationship, and, as illustrated above, it caused too many problems for Johnson to continue as CEO. As JcPenney's transited after Johnson left, the company utilized his concepts and applied them more so in correlation to JcPenney's traditional infrastructure.

In the first year of Johnson's plan, JcPenney lost one billion dollars.[13] The lack of any focus on what JcPenney had been prior to Johnson's takeover was significant in the quick rise and fall of Johnson as CEO of JcPenney. Another key element in Johnson's plan was the

[11] Nadkarni, Suheta. "Ceo Personality, Strategic Flexibility, And Firm Performance: The Case Of The Indian Business Process Outsourcing Industry.." *Academy of Management Journal* 53: 1050-1073.

[12] Nadkarni, Suheta. "Ceo Personality, Strategic Flexibility, And Firm Performance: The Case Of The Indian Business Process Outsourcing Industry.." *Academy of Management Journal* 53: 1050-1073.

[13] Reingold, Jennifer. "How to Fail In Business While Really, Really Trying." *Fortune*, April 7, 2014.

transformation happened far too fast to succeed. Within three months, the new look was unveiled, and the new pricing strategy followed within a weeks' time.

Still, what enveloped all of these elements the worst was Johnson's inability to listen to those who were experienced, both employees and customers. For example, Johnson's six "P"s: product, place, presentation, price, promotion, and personality, as "Adrianne Shapira, then a Goldman Sachs analyst, said, "One 'p' that seems to be missing is people(Reingold,4)."[14] The neglect that Johnson had for criticism on both sides of the fence illustrates his sheer arrogance. Reingold's article describes how employees who gave advice, were perceived as skeptics by Johnson, and were fired shortly thereafter. Throughout Johnson's time as CEO, due to a variety of issues, twenty thousand employees lost their jobs. This included very knowledgeable, and well respected employees who were very much aware of what kept JcPenney afloat; emphasizing the need to please their loyal customer base, prior to the change that Johnson had quickly, and forcibly brought about.

As Merrick also mentioned in her article, " Johnson has been talking up the new store format, but better to visit and have a look for oneself. “Their stuff is pretty decent,” said Ibis Faulkner, one of the few customers in the store, looking doubtfully at the floral-print blouse she was holding. Like many shoppers, she’s spending less time at JC Penney since it took away coupons. “That’s an incentive for people to come and shop.” Instead, she visits competitors Carson’s (BONT), Lord & Taylor and Macy’s (M), all offering generous holiday discounts."[15]

[14] Reingold, Jennifer. "How to Fail In Business While Really, Really Trying." *Fortune*, April 7, 2014.

[15] Merrick, A. (2012, December 21). Worse Than Expected: How Apple Guy is Turning JC Penney Into a Museum of Tired Brands. *Forbes*. Retrieved July 6, 2014, from http://www.forbes.com/sites/ycharts/2012/12/21/worse-than-expected-how-apple-guy-is-turning-jc-penney-into-a-museum-of-tired-brands/

In addition, Johnson brought three executives into the mold. Michael Francis (Target), Mike Kramer, and Dan Walker (Apple) were brought to the top of JcPenney's think tank. Kramer was hired as COO, and Walker was given they title of "Chief Talent Officer". Replacing what Johnson considered as naysayers with his esteemed colleagues, Johnson isolated himself from anyone who dared question his plan. Such a drastic move most assuredly decreased employee morale, as Johnson alienated aspects of the very foundation of JcPenney. In addition, the three new JcPenney executives also were given a total of twenty four million as a signing bonus, as well as millions of stock options. Not to mention the expenditures on promotion, parties, endorsements, and products to replace the typical Penney's stores which were highly unnecessary, and assisted JcPenney in plummeting monetarily.

More specifically, Matt Townsend's article J.C. Penney Spent $170 Million to Install Johnson Team, on the Bloomberg View website states:

- Ron Johnson’s tenure at J.C. Penney Co. (JCP) will long be associated with a 25 percent sales plunge. Lost amid the criticism since his departure last month is the $170 million it cost to install Johnson and his top three executives. The sum covers cash payments and restricted stock offerings to the four executives and outgoing Chief Executive Officer Myron Ullman -- and doesn’t include salary or incentive pay, according to public filings. Now after less than a year and a half, former Chief Executive Officer Johnson and his trio are gone, and some are being paid on the way out too. Upon his April 17 exit, Chief Operating Officer Michael Kramer pocketed $2.1 million(1).[16]

[16] Townsend, M. (2013, May 3). J.C. Penney Spent $170 Million to Install Johnson Team. *Bloomberg.com*. Retrieved July 4, 2014, from http://www.bloomberg.com/news/2013-05-03/j-c-penney-spent-170-million-to-install-johnson-team.html

Figure 2: May 3 (Bloomberg) Michael Francis[17]

Akin was the opening party on January 25th, and 26th in New York City on 2012. Announcing the birth of "JCP', what Johnson considered a cooler name for the company, Johnson celebrities from companies that JcPenney had recently moved to create boutiques within the stores came to present the changes. Included in the party were such people as Martha Stewart (who, at the same time, was part of a highly publicized civil court case with Macy's for her involvement with JcPenney), the Olsen twins, Cindy Crawford, Calvin Klein, and Mickey Drexler. Altogether, their presence, and the new business arrangements, could not of came very cheap at all.

Yet Still, as mentioned in Business Insider, "Senior management thought that the headquarters in Plano had become "overstaffed and underproductive" and something had to be

[17] Townsend, M. (2013, May 3). J.C. Penney Spent $170 Million to Install Johnson Team. *Bloomberg.com*. Retrieved July 4, 2014, from http://www.bloomberg.com/news/2013-05-03/j-c-penney-spent-170-million-to-install-johnson-team.html

done about it. Kramer shared an example: There were 4,800 employees at the HQ in January 2012, and in one month they had watched five million YouTube videos during work hours. He said that 35 percent of bandwidth at HQ was used for "loafing off."[18] Needless to say, there was room for improvement.

Furthermore, in Johnson's approach, he acted as a manager, as opposed to a leader. He took what was much more a democratic style of business and turned it into a tyranny. Being a star student of Steve Jobs, Johnson followed suit in his weaknesses. Similarly, these weaknesses influenced Johnson's new employees from Apple and Target as well. In an August 2012 issue of Wired Magazine, author Ben Austen's article entitled Am I Steve Jobs? explains, "entrepreneurs .. have recoiled from the total picture of the man (Jobs) - not just his treatment of employees but the dictorial, uncompromising way that he approached life. Issacson's biography is full of stories of Jobs as an unpleasant individual-the fits he would throw over the most picayune-seeming details, like the type of flowers in his hotel room or the way an aging Whole Foods barista made his smoothie(76)."[19] Ignoring the circumstances that all four were faced with during the year and a half that Johnson ran JcPenney, Reingold illustrates how most were more concerned with the food at meetings, and the decor in their offices.

Johnson also invoked JcPenney's prior customer base to question the way that they enjoyed shopping, and because he had done so in such a short period of time, the confusion caused the customers to shop elsewhere. His lack of team building; and most significantly, employee morale was most negatively impacted by his lavishing of his new employees, and customers. As Reingold explains JcPenney's attempt to form a mixed marriage of the old and the

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[18] Bhasin, Kim. "JCPenney COO: 'I Hated The JCPenney Culture, It Was Pathetic'." Business Insider. http://www.businessinsider.com/jcpenney-coo-michael-kramer-culture-2013-2 (accessed June 30, 2014).
[19] Austen, Ben. "Am I Steve Jobs?." *Wired*, August 1, 2012.

new customers, it did indeed constitute oil and water.[20] "Out with the old, and in with the new!" was met with wicked backlash from all of the people Johnson ostracized, which were the very people he needed to succeed. Reingold suggests that no one gave Johnson their opinion that it may be best to slow down the transformation, or at least to test the concept before implementing it, but it appears that several had, but with no avail.

The four horsemen at the helm of JcPenney during this short period in history also worked very independently. The controversy over the commercials with same-sex parents illustrates how each of the four worked independently, which caused a great deal of friction. Hiring Ellen DeGeneres on as the new voice of JcPenney was not at all a bad idea, but again, without the consideration of JcPenney's traditional values, and loyal customer base; bringing DeGeneres into the mold, albeit advantageous, was also controversial at a time when JcPenney's was not at a point to do such.

Furthermore, Francis planned his marketing campaign in reaction to the hiring of DeGeneres, and although the ads were protested by a considerable amount of customers, he continued to do so without the consent of Johnson. As soon as Johnson could react, he simply fired Francis and took on the responsibilities himself. A foolish move to make as CEO of the one of the biggest department store companies in the United States.

As Keren Nafte, a professor at the University of North Carolina, Wilmington (as well as a leading executive coach, facilitator, and corporate trainer) with over 30 years experience in the field of management, organizational design and leadership[21] mentions several important differences that must be considered whilst analyzing the four horsemen of JcPenney. Firstly,

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[20] Reingold, Jennifer. "How to Fail In Business While Really, Really Trying." *Fortune*, April 7, 2014.
[21] About (Keren Nafte). (2014, July 6). . Retrieved January 1, 2013, from http://www.belesprit.org/keren.php

time orientation plays a part in the sixteen month plan envisioned by Johnson. In Nafte's Conflict Management and Resolution course on International Organizational Behavior, he explains how collectively in the United States, time orientation, or the "degree to which we are short/long-term focused"[22] is much shorter than such countries as Japan, or South Korea; therefore Johnson's statement regarding his vision for JcPenney pertaining to the next 100 years[23] was a faulty claim. In the U.S. people usually want to see quick results, and when they do not, they are quick to point blame and someone typically suffers the consequences.

Also, Nafte illustrates that the U.S. has a high level of "Power Distance" (organizations hierarchic, unequal distribution.. power), and a low level of "Collectivism" (degree to which individuals subordinated individual preferences to the collective will). Thus, in countries that are more individualistic, (they) tend to downplay power differences.[24] This is important to note in regards to the entire infrastructure of JcPenney (the Board of Directors, CEOs, and employees). Lastly, Nafte describes culture in his International Organizational Behavior course. JcPenney had (and still has) a distinct culture; as mentioned above, since 1902. A subculture of shoppers that cannot be ignored, for they are the very essence of JcPenney.

In conclusion, it is significant to point out that the most rational plan at the time would have been to integrate the traditional JcPenney with the new ideas that Johnson brought to the table. As Johnson stated that he was thinking down the road, it seems that he was already too far down the road, and left the company behind. In regards to Johnson's CEO personality and strategic flexibility, Johnson's openness to experience can be best expressed by Nadkarni as a "need for change and risk taking (that) can promote behaviors that may disrupt the existing

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[22] Nafte, K. (Director) (2014, June 8). International Organizational Behavior. *CMR-543*. Lecture conducted from , Wilmington.
[23] Reingold, Jennifer. "How to Fail In Business While Really, Really Trying." *Fortune*, April 7, 2014.
[24] Nafte, K. (Director) (2014, June 8). International Organizational Behavior. *CMR-543*. Lecture conducted from , Wilmington.

product and resource advantages of stable firms (Nadkarni & Narayanan, 2007).[25] Although Johnson's openness is imperative to promote adaptation, he was not participating in adapting to JcPenney whatsoever.

JcPenney was not failing before Johnson's employment as CEO. The company needed new visions, and perhaps some direction for its future, but it did not require the change that Johnson conceived when he was offered the job. Although this advice is in hindsight, which makes it much more accessible to provide conflict management, and resolution for this organization; unless a company is in predicament, such as bankruptcy (i.e. "the multidecade decline and, finally bankruptcy of General Motors"[26]), or on the brink of such devastation, it is very necessary for intervention, as well as company brainstorming. In regards to intervention and company brainstorming, bringing someone from another company or educated to mediate in order to find solution is key.

[25] Nadkarni, Suheta. "CEO Personality, Strategic Flexibility, And Firm Performance: The Case Of The Indian Business Process Outsourcing Industry.." *Academy of Management Journal* 53: 1050-1073.
[26] Reingold, Jennifer. "How to Fail In Business While Really, Really Trying." *Fortune*, April 7, 2014.