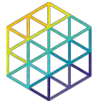

ENTERPRISE BUILDING: REMAINING WORTHY OF GROWTH

"Excellence is a habit." (Aristotle)

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Have you ever wondered why starting and growing a company seems to get harder with success? Have you ever asked yourself, "Why, when I should be celebrating and enjoying the fruits of my labor, do I feel so stretched and frazzled?" or "Why am I not having fun and feeling the excitement that drove me when we started?" There are probably countless entrepreneurs who have asked these questions over the years.

Some would attribute these feelings to the consequences of entrepreneurship and "paying the dues" of success. While it takes a lot of hard work to build anything meaningful, why should it temper the passion and enthusiasm that you felt when you first started out? Can you avoid feeling weighed down by your own success? Good news! The answer is - "Yes." A predictable cycle can be broken as the following stories demonstrate.

THE BEGINNING

Why do companies that start with buzz so often end in fizzle? Their decline is typically marked by, "I used to go there," "I used to drive one," or, perhaps, "I didn't know they were still around!" Consumers pay little attention to the passing of these once promising companies because the next hot concept is just around the corner. Since it is hard to imagine a company's leaders being hell-bent on building a mediocre company, the explanation has to lie with how well they understand the process of navigating the challenges inherent in healthy growth.

Many leaders mistake fast growth for enterprise building; defining it in terms of speed, size, and revenue – seasoned with hubris. Enterprise building on the other hand is marked by excellence, value, and, humility. The former is about achieving scale, while the latter is about remaining worthy of growth. The challenge for a company that generates "buzz" is not to grow, but rather to build. As growth sets in, it is easy for leaders to confuse the novelty of initial success with the savvy required to continue on a growth trajectory.

A friend recently shared an example of this kind of confusion. In his role as a member of a company's Board of Directors, he challenged the wisdom of acquiring a smaller company. The company's CEO and CFO told the board that they were excited about the acquisition because the company was very well led. In the course of their presentation, they mentioned that the object of their affections had never made a dime. After listening to the two enthusiasts, my friend asked them what they would bring to the table that would make a well-led, yet unprofitable, company profitable. Had they acquired the company, they might have grown in the short-term. However, without understanding whether or how they could capitalize on strengths and leverage the synergy of the combined companies, they would have done nothing to build an enduring enterprise.

Hubris is a strange disease with well-known symptoms: business models based on myth, not paying attention to the basics of success, delusions of customers coming out of the walls, and the dismissal of naysayers as not being onboard. While hubris can be a source of immense self-confidence, it never works as a strategy.

> There is no substitute for the passion, knowledge, skill, and experience necessary to build an enterprise that stays worthy of growth.

GROWTH WORTHINESS

Making money is not the objective of enterprise building, but its result. The objective is: *Building a company that earns a reputation for goodness, flawless execution, and being best-in-class.* The three elements — *goodness, execution,* and *achievement* — are core to a company's growth worthiness and foundational to the attainment of excellence.

EXCELLENCE

If achieving excellence was easy, the authors of the business classics Built to Last[1] and Good to Great[2] would have found far more than 29 out of the 5,000 companies studied that met their standards for being visionary (11) or having made the move from good to great (18). Many entrepreneurs start a company and work hard to grow it, only to see it slip into mediocrity or failure. What happened to the potential that made growth possible? There is something that happens between the dreams of an entrepreneur and the hangover of mediocrity that must be understood in order to answer this question. Rarely does an entrepreneur recognize that the hallmark of entrepreneurship contains the seeds of failure. A "fire, ready, aim" approach is part of the DNA of many entrepreneurs. If they are fortunate enough to recognize that there is much more to the process of enterprise building than growth, then they may seek the answer to a rarely answered question:

> What can we do that is compelling and differentiating to our most valued customers?

This question addresses the essence of competitiveness. Compelling taps into what is "addictive" about the customer's experience, while differentiating addresses whether the company will have an exclusive hold on the experience. Very often, founders are pleased with their answer to this question, but just as often, the second question gives them pause:

> How do we turn a good idea into a company that stays worthy of growth?

How leaders answer this question spells the difference between those who start companies from those who build them into competitive powerhouses. One of the few company founders who successfully answered this question in the restaurant industry is George Biel, founder of Houston's (later, Hillstone Restaurant Group) in 1976.

"SHOULDA, COULDA, WOULDA"

On February 26, 1966, legendary restaurateur Norman Brinker opened his first Steak and Ale restaurant — naming it after the raucous banquet scene in the movie *Tom Jones.* The scene perfectly captured the wide open excitement and fun that Norman wanted his new restaurant to be known for. He had a good idea and great timing as the emerging casual dining segment of the restaurant industry rode a wave of growth fueled by an increasing number of two-income families and the rising popularity of restaurants as places to meet and mix. Norman and his team focused on four basic ideals: (1) distinctive quality, (2) a small, well-executed menu, (3) a lively bar scene, and (4) irreverent but attentive service[3]. The rapidly growing chain

[1] Collins, J.C. and Porras, J.I. Built to Last: Successful Habits of Visionary Companies. New York, New York, Harper Business, 1994.
[2] Collins, J.C. Good to Great: Why Some Companies Make the Leap . . . and Others Don't. New York, New York, Harper Business, 2001.
[3] These are my interpretation of the company's basics as they were never explicitly stated by the company's leaders.

was soon known as fun, cool, "in," and a great place to eat and *the* place to be with friends and family. Success seemed inevitable.

AND THEN THE WHEELS CAME OFF

Only five years later, Steak and Ale began losing steam. No doubt, a growing competitor base was partially to blame, as was its sale to Pillsbury in 1976. It moved rapidly from being a restaurant company to being an asset in an investment portfolio of a company best known for its commodities, expertise, and deep pockets. But good ideas are stubborn, and by the mid-1980's, the chain had grown to 280 restaurants nationwide. In 1988, Metromedia purchased the chain and operated it along with its Bonanza and Ponderosa brands. It is hard to say when the company actually peaked, but from a proof of concept perspective, it was likely in the late 1960's, and, unfortunately, the good idea ended on July 29, 2008 when the chain filed for Chapter 7 bankruptcy protection — 42 years after it was founded.

With the benefit of hindsight, some company insiders attributed the "wobble" that eventually led to Steak and Ale's demise to the loss of key leaders such as George Biel and Carl Hays. George left in 1975 to create Houston's Restaurant. Carl had been a mentor to many of Steak and Ale's leaders, its first Vice President of Operations, and a cornerstone of the company's culture, and his departure in 1980 was felt throughout the company. Some blamed the loss of momentum on the acquisition by Pillsbury, which pushed for efficiencies, seemed to treat Steak and Ale as just another commodities company, and robbed the company of its entrepreneurial spirit and restaurateurship. Others argued that the company was simply feeling the inevitable effects of increased competition. While all of these explanations have merit, none addressed the fundamental problem: the company did not move forward — it was on a downward trajectory and losing what made it worthy of growth, even while it grew.

THERE ARE NO SUBSTITUTES FOR EXPERIENCE

Inexperience has to be counted as one of the factors contributing to the demise of Steak and Ale. None of the leaders, including Norman, had grown a company, let alone one in a fast-growth mode with as many moving parts as a full-service restaurant. Thus, it is not surprising that mistakes were made, one of the biggest being not getting the leadership team on the same page with respect to the company's basic ideals and core idea.

Positive press and buzz created a sense of invincibility. Like rock stars, some of the company's leaders mistook being the hot company du jour for staying power. Thus, when a competitor emerged and began to beat Steak and Ale at its own game, it was easy to dismiss it as a copycat — and a lame one at that. But even more copycats entered the market and beat Steak and Ale at the casual dining game that it had invented, further increasing the threat...

ERODING A COMPETITIVE KEY

Every business has at least one competitive key. The power of a key is that it unlocks excellence. One of the typical keys in the restaurant and retail industries is *stable quality management at the unit level*, defined as managers who stay and build the business within a local market. Since few of Steak and Ale's leaders seemed to recognize that brand loyalty starts locally and is earned one customer experience at a time, the company lost this important competitive key.

It started playing musical chairs with General Managers (GMs) who were moved from restaurant to restaurant, sometimes to open a new restaurant and at other times to placate a GM who was unhappy with a low volume restaurant. This practice inevitably resulted in a spike in hourly employee turnover and a dip in sales at the transferred GM's former restaurant, significantly disrupting business.

While the "promoted" GMs may have been happy, the practice effectively shifted the company's focus away from local execution to opening new restaurants. In an almost unnoticeable way that these kinds of things happen, growth had supplanted enterprise building as the priority. The musical chairs approach, coupled with the necessity to hire managers from the outside to support the company's fast growth, made it impossible for a customer-centric culture of excellence and accountability to take hold.

GROWTH VS. EXCELLENCE

As Jim Collins said, "good is the enemy of great" – and Steak and Ale was certainly good – very good. Consumers loved the concept even when it was inconsistently executed. Despite growing competition, Steak and Ale grew sales and opened new restaurants at a blistering pace. Through the sharp lens of hindsight, it is easy to see how growth lulled the leadership team into believing that the company was bullet-proof.

Sales growth can result in a multitude of sins, including bad management practices, lack of accountability, and overstaffing. When there is fast growth, companies tend to overstaff and excuse mediocrity in a way that creates significant burdens when growth slows. In the case of Steak and Ale, growth also necessitated the introduction of Area Supervisors responsible for multiple restaurants, a new layer of management that did not necessarily result in improved performance. The absence of a coherent executable business model, management instability in the restaurants, and inexperienced Area Supervisors focused on opening new restaurants rather than attending to the quality of operations in existing restaurants, clouded the company's view of its growth worthiness.

CULTURE MATTERS!

Culture is much more than "the way we do things around here." It is shared values and beliefs about success and how it is achieved. Opening fast versus opening well represents a difference in beliefs that creates a different result. The shift in focus within Steak and Ale represented a subtle but profound shift in beliefs and the loss of the companies three basics — great food, drink, and hospitality — and competitive key. The culture took on a "me" over "we" aura. In effect, the company's leaders had taken their eyes off of what made the company worthy of growth in the first place — and success and worthiness of growth quickly slipped away.

SMALL DECISION, BIG CONSEQUENCE

As an example, a seemingly small decision turned out to be catastrophic. Steak and Ale had started with a defining characteristic of a first-rate restaurant: a "scratch kitchen;" that is, all food items such as salad dressings, sauces, and soups were prepared fresh in-house from raw ingredients. This was integral to two of the company's basics: distinctive quality and a small, well-executed menu. However, in an effort to cut costs, the company's leaders decided to outsource some of the food preparation that had previously been done daily in each restaurant's kitchen.

It will come as no surprise to anyone who has worked in a craft-based job, that the kitchen employees felt demeaned by the move, assuming that management no longer trusted them to get it right. They concluded that the company was lowering its standards, the opposite of what the leaders intended. This sense of diminished quality soon spread to the service employees in the dining room and employees soon lost confidence that "our Steak and Ale" was the best restaurant in town, and the sense that being part of it made them special.

As employees' enthusiasm waned, turnover increased dramatically and the restaurants lost the strong connections between regular customers and long-term employees – an extremely important competitive driver. These problems were exacerbated when formidable competitors such as Houston's entered the market and wooed away some of Steak and Ale's best managers and hourly employees. The company had reached the tipping point toward mediocrity. By the early 1980s, the original leadership team had largely been replaced by outsiders who were ignorant of what had originally made the company worthy of growth, further increasing the excellence gap.

LEAVING A MARK

Steak and Ale's new leaders introduced changes without much thought about whether they were needed, appropriate, or understood by employees or customers. They introduced change when what was needed was passion, enthusiasm, and energy. One new leader in particular unknowingly ratcheted up the company's mediocrity from a simmer to a boil when he demanded that already lowered costs be reduced even further, reducing product quality and increasing the pressure on restaurant managers to "make their numbers." This was a major jolt to the culture as it diverted the restaurant managers' attention from pleasing their customers to pleasing their bosses. Not surprisingly, the company's remaining talented managers began leaving in droves, taking much of the company's history, intelligence, soul, cultural understanding, and spirit with them. The company quickly became just another mediocre choice among the many choices available to consumers and employees.

"WOBBLE"

What happened to Steak and Ale is what happens to many companies that start with a bang and grow like crazy only to falter under the weight of the growth and tip themselves into mediocrity. We refer to this phenomenon as "wobble" and see it happening all too frequently. The founder of one fast growth company described it this way: "When I go into one of our stores, things are not quite right. They're not bad, but, on the other hand, customers don't seem to be having as good a time as I want them to have . . . It's as though the more opportunity we have, the worse we get." He was describing *wobble*.

The typical story goes like this… The first restaurant opens and it is a home run. It embodies the founder's considerable personality, charisma, and dreams. After all, it is everything the founder envisioned down to the smallest detail. Emboldened by success, the founder does the logical thing and opens a second restaurant. Suddenly, "taking care of business" becomes a sprint between the two locations — cutting by half the time he has to devote to either of them. Despite his best efforts, customers are not getting the personal attention that he provided when there was only one restaurant — and the two begin to wobble ever so slightly…

The founder's inexperience and busy schedule prevent him from giving the good people who they hire the kind of personal attention and familiarization with his beliefs and values that a growing startup demands. Often, the new hires have the energy and initiative that the founder wants, but they cannot read the founder's mind or internalize his passion without experiencing it firsthand. So they do what comes naturally to them: they do their best. It's not that their decisions are bad; just that they vary enough from the ones that the founder would want made – and the wobble increases…

As was the case with Steak and Ale, the company is propelled forward by the founder's original business idea. Indeed, the idea is so good that it masks the wobble and fuels additional growth – not just a trickle of new restaurants, but a flood. The founder can't possibly stay on top of all of the openings and does his best by working harder to provide leadership and direction. And while each of the restaurants is close enough to the original to be successful, they are not close enough to prevent the amplifying effects of wobble…

By the opening of the third location, the founder can no longer spend much time in any restaurant and is scrambling to staff for the explosive growth and just keep the wheels from coming off. But as the growth continues to accelerate and excitement builds, the wobble is worsening. While the founder is too busy or inexperienced to see that the company is losing some of what made it worthy of growth, he knows that he needs help — NOW. So he does what countless other entrepreneurs have always done: he forges ahead. More restaurants are opened and new "multi-unit" managers are added to oversee them…

Caught up in the incredibly fast pace of growth,

> The founder does not understand that the real challenge that he faces is *not* growing the company, but rather developing the critical business basics *and* culture needed to build the enterprise.

He assumes that the added supervision will stabilize operations and, to an extent it does, but at the cost of diluting and clouding his view of the business. The founder is quickly losing touch with the day-to-day care of his "baby".

He does not realize that the mix of added leaders and the blistering pace of growth are causing the company to go in too many directions at once. Serious mistakes are made, but sales volume hides the consequences. Since the founder no longer controls every decision, some of the mistakes inevitably move the company further away from its basics and begin to contaminate its still forming culture. There is only one way to get a company faced with this situation back on track: Hit the pause button by stopping the opening of new locations, something that almost never happens in a fast growth company…

So the founder doesn't push the pause button; instead, he adds more managers. By this time, growth is at its peak as new restaurants are opened and people join the company, excited by the opportunity to get in on the action. But something else is happening: The quality and experience of the "newbies" varies much more than anyone realizes. Equally important, the company's size effectively ensures that the new team members will not be exposed to the founder's values in any meaningful way…

This further dilutes the company's culture and injects thinking that may be the antithesis of the founder's ideals. In effect, many new cultures are being introduced to a culture that has yet to fully take root. By this time, wobble is beginning to slowly spin out of control. The resulting disorder is now apparent to virtually anyone who experienced the company's early days, including its regular customers. Rather than moving

purposefully forward, the company is swinging in increasingly larger circles and wandering steadily away from what originally made it worthy of growth…

Typically, the company leaders don't attribute the wobble to a loss of focus and lack of clear direction; instead, they blame it on the failings of the management structure. Leaders will say, "We have a communication problem," while employees will say, "We have a leadership problem." The typical reaction is to add yet another management level, the "Regional Manager," whose job it is to supervise the supervisors who supervise the managers who supervise the employees who take care of the customers. The founder is even further from customers than ever before and more wobble enters the picture…

At this point, even the most committed employees have shifted their attention from caring about the customer to caring about their boss. As their focus shifts, they lose much of the pride of being part of something good. The founder is now several levels removed from the day-to-day details of the business and, now that he has some room to breathe, he too can smell the mediocrity beginning to permeate "his" company, one that still lacks direction and a culture that supports enterprise success…

In a predictably reactive response to the continued growth, the company's leaders conclude that the direction of the company needs to be formalized. But what they do not realize is that the direction is not clearly understood, or understood in the same way, by the members of the leadership team. "We need to get this puppy under control — set policy, develop manuals, and make sure that everyone is trained and accountable." While not a bad idea, doing so without being on the same page has an unintended consequence…

Instead of helping, the new structure institutionalizes the movement away from what made the company worthy of growth to begin with and toward what other companies are doing – both good and bad. The momentum of the company is still upward, but no longer forward and, often times, this is when founders will take a company public or sell it. The money is pouring in, but with "ropes" attached, and they are simply tired of running in place…

If an IPO is in the cards, the company's newest layer of management is added: stock analysts, "activist" investors, or venture capitalists. For an entrepreneurial company, these new "supervisors" are the worst of the worst if for no other reason than they cannot be ignored, even when their demands or direction weaken the company. They pride themselves on asking tough questions even though they may have never worked in the industry or for the company. The company's remaining leaders set themselves up for scrutiny and criticism that forces their attention towards shorter term goals…and the wheels come off of what could have been a long-term growth-worthy company.

THE MORAL OF THE STORY

Why are we telling a story that, by all measures, seems negative and sad, and most definitely not inspiring? Where's the, "they lived happily ever after?" The good news answer is that the ending described for Steak and Ale is entirely avoidable. The company's story is rich with lessons for leaders interested in enterprise building and establishing a lasting legacy. These lessons emphasize the importance of vision, culture-building, business basics, and passion for keeping a company fresh and moving forward, not simply up.

VISION

Norman Brinker's insight regarding the emerging market for casual dining was brilliant. However, business insight is no substitute for understanding how to leverage an idea into tangible and sustainable growth. Insight is insight and vision is vision, and both are needed in order to *build* a company worthy of growth. The best leaders create an inspiring vision of their company's future that answers the five fundamental questions that all stakeholders (e.g., customers, employees, suppliers, investors) ask:

1. Where are we going?
2. What will it be like when we get there?
3. How will we get there?
4. Can you (the leaders) get us there?
5. What's in it for me?

A company's vision answers these questions in terms of its values, beliefs about success, promises to each stakeholder, basics, competitive keys, and metrics of success.

It also helps to address three universal human needs: mastery, autonomy, and purpose. A comprehensive vision tells what must be mastered, identifies the guideposts that enables autonomy, and draws people to it with a shared sense of purpose. Knowing how to meet these needs is an important part of the culture building process.

Arguably, the single most important responsibility of a company's leaders is to create a culture that supports the company's success and draws people to it. Culture building is the process of creating leverage for the driving force behind a company; namely, its founder(s') and/or leaders' values and vision. The process is as much about ensuring that enterprise members understand the "whys" of "the way we do things around here" as the "whats" and "hows" of performance.

GETTING ON THE SAME *RIGHT* PAGE

"Back to basics" is something you hear a lot from the leaders of troubled companies. Unfortunately, when these leaders search for the basics, they often discover that they have been lost. Business basics are the cornerstone of a company's success and tend to center on people, operations, brand health and strength, and fiscal responsibility. While these labels make the importance of business basics obvious, they are not competitive keys. Competitive keys such as *stable quality management* are what make the basics work. Basics are the fundamentals of success – the blocking and tackling of effective execution – that leaders teach to employees at all levels and a critical adjunct to making sure that the company's employees, managers, and leaders are on the same right page.

Leaders often underestimate what it takes to get there and how critical it is to maintaining the relevance and resonance of the company to its customers and other stakeholders. Getting on the same *right* page is as mundane as having shared "company textbook" definitions of the company's vocabulary, including words such as success, values, vision, strategy, brand, and business model. While these terms can be defined differently in different companies, they cannot be defined differently within the same company. To allow otherwise, is to ensure sloppy direction, wobble, and an unhealthy culture.

FINAL THOUGHTS

The lessons taught by the experience of Steak and Ale are the lessons taught year in and year out by the countless companies that coulda-shoulda been wildly successful. The lessons are few, but vital to maintaining a company's worthiness of growth. In his famous book – The Seven Habits of Highly Effective People – Steven Covey suggest that leaders "start with the end in mind."[4] Defining success is certainly a major aspect of this habit, but one that leaders often leave unattended and unsupported.

When it comes right down to the essence of leadership, the only thing that a company's leaders can ensure that the company's stakeholders experience is their values and beliefs about success and how it is achieved. However, leaders are often out of touch with these things and, therefore, cannot communicate or ensure that they permeate all aspects of the company.

Virtually all scholars of the enterprise building process agree that leader values are the lowest common denominator of a company's success — and most leaders have gotten that message. But judging from seventy-five percent failure rate of new ventures, the "how" of values is elusive. What the example of Steak and Ale Restaurants teaches us is that being passionate about the success of a company is not the same as knowing how to keep it worthy of growth – and growing.

[4] Covey, Steven. The Seven Habits of Highly Effective People. New York, New York, Simon and Shuster, 1989.

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