Buzz, Bang, and Fizz:

How great startups wobble to mediocrity, passion helps, but not as much as passion plus know-how

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How great startups wobble to mediocrity

Buzz, bang and fizz is the trajectory of too many companies. We experience their loss as "I used to go there," "I used to drive one," or, perhaps, "I didn't know they were still around!" Since I have never met a leader hell-bent on building a mediocre or failed company, I have long wondered why this is the fate of so many "hot" companies.

One explanation is that their leaders confuse the good fortune of being in the right place at the right time with the hard work of building an enterprise that flourishes. Enterprise building is more about standards, value creation, and durability than it is about size. The objective is to be worthy of growth, regardless of whether growth is an objective.

A friend of mine recently shared a classic example of this confusion. In his role as a member of a company's Board of Directors, he challenged its executive team's enthusiasm for acquiring a smaller company. The CEO and CFO told the board that they were excited about the acquisition, mentioning that the target company was very well led. They also mentioned that the object of their affections had never made money. After listening to the CEO and CFO's rosy scenario, my friend asked them what they would do differently that would somehow make a well-led but unprofitable company profitable.

The challenge he raised was as old as leadership itself: knowing the difference between hubris and savvy. Hubris works in mysterious ways. It can cause leaders to create business models based on clearly wrong assumptions, forget about culture building, and see a customer base that simply does not exist. One of its sure-fire symptoms is the tendency of the CEO and those close to her to dismiss naysayers as not being “on the bus.” In our economic system, success ultimately boils down to a company’s ability to make money. And while that is not the only thing, there are many leaders who believe that it is or that, at the very least, it is the great enabler of all other results. That’s arguably true, but when it comes to the “how to” of sustained ability to make money, success is more nuanced than that and boils up to: earning a reputation for human goodness, flawless execution, and being best-in-class. Achieving this trifecta of success is what it takes for a company to be worthy of growth and is a tangible symbol of excellence.

Excellence

Excellence is obviously a good thing, but achieving goodness + execution + first-choice present a daunting challenge. If it didn’t, the authors of **Built to Last** and **Good to Great** would have found far more than 29 companies (out of the 5,000 they studied) that met their standards for being visionary (eleven) or having made the move from good to great (eighteen). Chance alone would lead you to expect a better outcome than that and makes me wonder not about the path to success, but if there is a compelling path to mediocrity. What we know for sure is that excellence is the path least traveled; perhaps because it’s hard to see in the bright glare of fast growth. By this I mean that having a good idea upon which to build a company is not the same as making it worthy of growth. A good idea carries with it the potential of a company being worthy of growth; however, it is largely silent when it comes to the methods of excellence. So if excellence is the nirvana of enterprise success, why is it to rare?

Should've - Could've is not a strategy

On February 26, 1966, legendary restaurateur Norman Brinker opened his first restaurant. He named it Steak and Ale after the raucous banquet scene in the popular movie Tom Jones as it perfectly captured the wide open excitement and good fun Norman wanted his new restaurant to be known for. It was a good idea and superb timing as the emerging casual dining segment of the restaurant industry rode the wave of growth in two-income families and the popularity of restaurants as places to meet, mix, and be seen. Norman and his team focused on four core ideals: (1) distinctive quality, (2) a small well-executed menu, (3) a lively bar, and (4) irreverent but attentive service. On the back of these basics, the rapidly growing chain was soon known as a great place to eat and the place to be. Success seemed all but inevitable

And then the wheels came off

A few short years later, Steak and Ale was losing some of its steam. New entrants to the fast growing market were part of the problem as was selling the company to Pillsbury in 1976. The latter marked a shift from being a restaurant company to being an asset in Pillsbury's enterprise portfolio and a leadership mash-up of Burger King and Bennigan's. In 1982, the "asset" was spun off as part of the Steak and Ale Restaurant Corp. By the mid-1980's, the chain had grown to include 280 restaurants nationwide. In 1988, Metromedia purchased the company to make it part of a restaurant portfolio that included the low-end Bonanza and Ponderosa brands. It is hard to say when the Steak and Ale brand peaked, but from a proof of concept perspective, I would say it was in the early 1970's. From there, it was a decent into mediocrity and, finally, death on July 29, 2008 when the chain filed for Chapter 7 bankruptcy protection. Steak and Ale was simply the first in a long list of companies that started with a bang and ended with a whimper. Some company insiders attributed the wobble to the loss of key leaders such as George Beal and Carl Hays. George left in 1975 to create Houston's Restaurant (Hillstone Restaurant Group). Carl was another key player who had been a mentor to many of the company's leaders as well as the company's first VP of Operations and a cornerstone of the company's culture. His departure in 1980 was felt throughout the company. Others blamed the loss in momentum on the acquisition of the company by Pillsbury. The general consensus was that the company had lost its entrepreneurial spirit and sense of hospitality. The new owners pushed for efficiencies and many felt that Pillsbury managed Steak and Ale as a commodities company. Still, others argued that the company was simply feeling the normal effects of more and better competition. While all of these explanations have merit, none addressed the fundamental problem: the company had lost its mojo and was not moving forward. Instead, it was on a downward trajectory; having lost its worthiness of growth.

Eroding a competitive key

In my experience, every business has at least one competitive key. This is something that makes excellence possible. One of the keys in most industries is something I call stable quality management at the unit level. These are managers who stay and build the business within the local market. Few of the Steak and Ale's leaders seemed to recognize that customer loyalty starts locally and is earned one guest at a time. Due to this blind spot, the leadership team instituted some practices that precluded the development and strengthening of its competitive key.

One of the more harmful ones was playing musical chairs with General Managers (GMs). GMs were moved from restaurant to restaurant, sometimes to open a new restaurant and at other times to placate a GM who was unhappy managing a low volume restaurant. This practice of moving managers inevitably resulted in a spike in hourly employee turnover as well as a dip in sales in the GM's former restaurant. While the "promoted" GMs may have been happy, the practice of musical-management shifted the company's focus away from local execution to opening new restaurants. In the foggy way that these kinds of things often happen, growth had supplanted enterprise building as the team's priority. The practice of musical chairs management coupled with the necessity of hiring managers from the outside to staff the company's fast growth made it impossible for a customer-centric culture of excellence and self-accountability to take seed.

Energy and hubris are not leadership

While many factors contributed to the company's demise, an inexperienced leadership team has to be counted as one of the biggies. None of its leaders, including Norman, had scaled a company, let alone one in fast-growth mode and with as many moving parts as a full-service restaurant has. Many of the leaders had never even worked in the restaurant industry prior to Steak and Ale. It is not surprising, then, that mistakes were made. Looking back, one of the big ones was not ensuring that the leadership team was on the same page with respect to the company's basics, values, and direction

In addition, the team suffered from that insidious disease endemic to many fast-growth companies; namely, hubris. The press clippings and hype about the company created a sense of invulnerability within the team. Like rock stars, some of the company's leaders mistook being a hot concept and the company de jour for staying power. Thus, when a competitor such as Houston's entered the market and beat Steak and Ale at its own game, it was easy to dismiss it as a copycat — and a lame one at that. The team turned a blind eye to competitors that, by any standard, were beating Steak and Ale at the game – casual dining – it had invented.

Growth is the enemy of excellence

As Jim Collins has noted, “good is the enemy of great” – and Steak and Ale was certainly good – very good. Consumers loved the concept even when it was unevenly executed. Despite growing competition, Steak and Ale was opening new restaurants at, what was at the time, a blistering pace. Through the sharp lens of hindsight and the pain of a few recessions, it’s easy to see how growth lulled the leadership team into believing that they and the company could not be had.

Sales growth masked a multitude of sins, including bad management practices, lack of accountability, over staffing, and dilution of a strong culture. When there is fast growth, companies tend to excuse mediocrity, confuse excitement with success, and pay scant attention to their most important competitive key: a strong and viable culture of performance proved restaurant performance.

Growth brings the need for new people and more layers of management. In the case of Steak and Ale, growth brought the need for Area Supervisors responsible for multiple restaurants. Unfortunately, this new layer of management did not necessarily result in improved restaurant performance. The absence of a coherent business model, identified competitive keys, management musical chairs, and the presence of newly promoted Area Supervisors who were focused on opening new restaurants to the detriment of building a local following in each restaurant. Doing so, made it virtually impossible to accurately assess the business potential of the existing restaurant or the leadership potential of their managers. Very soon, being an Area Supervisor rather than the leader of a restaurant became the pot of gold that GMs sought.

Weakening a culture

The ramifications of these changes and the shift in focus were profound: the real business of the company — great food, drink, and hospitality — was lost in the shuffle as its culture took on the aura of “me” over “we.” In effect, the company’s leaders had taken their eyes off what had made the company worthy of growth in the first place — and its four business basics quickly slipped away

Small decision, big consequence

In terms of the basics, 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 in-house from raw ingredients. A scratch kitchen was integral to two of the company’s basics: distinctive quality and a small, well-executed menu.

In a push to cut costs, the company’s leaders decided to outsource some of the scratch-work that had previously been done daily in each restaurant’s kitchen. It will come as no surprise to anyone who has worked in any craft based job, that the kitchen employees felt demeaned by the move. They assumed that management no longer trusted them to get it right. In addition, they concluded that the company was lowering its standards, which was exactly the opposite of what the leaders thought they were doing by outsourcing. This sense of diminished quality soon spread to the service employees in the dining room. Very soon, employees lost confidence that “our Steak and Ale” was the best restaurant in town, and the sense that they were special for being part of it.

As employees lost their enthusiasm, employee turnover increased dramatically and the restaurants lost the mojo of strong connections between customers and long-term employees. It didn't help that formidable competitors recognized this shift in Steak and Ale's culture and easily wooed away some of the company's best managers and hourly employees. The company had reached the tipping point from what "could have been" and toward mediocrity. "Should've-Could've" was reality. By the early 1980s, the final push away from excellence was in place as the original leadership team had largely been replaced by outsiders ignorant of what had made the company worthy of growth or, worse, thought those basics irrelevant.

Leaving a mark

Steak and Ale's new leaders introduced changes without much thought about whether they were needed, appropriate, or understood by employees and customers. What they did was to introduce change for change's sake when what was needed was to re-energize the company. One new leader, in particular, put a high flame under the company's stewing mediocrity when he demanded that costs be reduced even further. He did it by reducing product quality and increasing the pressure on restaurant managers to "make their numbers." This change in particular 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 intelligence, cultural understanding, and soul 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 in many companies that start with a bang and grow like crazy only to tip themselves into mediocrity. I call this phenomenon "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." This process of wobble is shown in Figure 1.

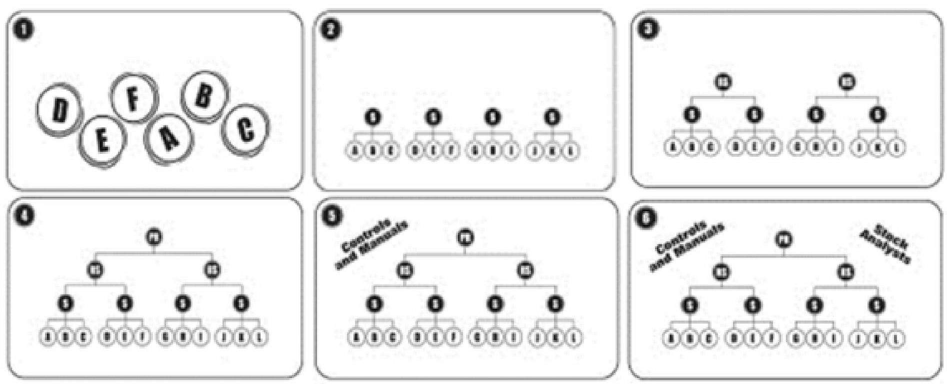


Figure 1 Wobbling to Mediocrity

As it was with Steak and Ale's first restaurant, the first unit opens (A) and it's a homerun as it embodies the founder's considerable personality, drive, and charisma. After all, the unit (a store, a restaurant) is the founder — down to the smallest detail of execution and touching the customer. Emboldened by success, the founder does the logical thing and opens a second unit (B). Overnight, "taking care of business" becomes a personal sprint between the two units — 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 unit — and the first two units (A and B) begin to wobble ever so slightly.

It isn't that good people aren't being hired so much as the founder's inexperience and busy schedule prevent him from giving them the kind of attention and acculturation a fragile startup demands. Very often, the new hires have the energy and initiative a founder loves to see, but there is no way they can read the founder's mind or internalize his passion without experiencing it first-hand. So they do what comes naturally to them: they do the best that they can do. It's not that their decisions are bad; just that they vary from the basics of the founder just enough to intensify the wobble.

But as was the case with Steak and Ale, the company is carried forward on the back of a good business idea; indeed, the idea is so good that it overpowers the wobble to fuel additional growth. As growth accelerates, it isn't a trickle of new units that are being opened, but the flood shown in **Box 1** as C, D, E, and F in quick succession. The founder can't possibly stay on top of all of the openings. Like so many other founders, he does his best by working harder than ever to provide leadership. And while each of the units is close enough to the original to be successful, they are not close enough to prevent additional wobble or discourage competition.

By the opening of the sixth unit, the founder can't spend much time in any one of them, and is scrambling to keep the wheels on and staff explosive growth. At the same time that the excitement of growth is intensifying, 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 can see that he needs help —now! So he does what countless entrepreneurs do: he plunges ahead. More units are built and the first layer of "multiunit" managers — called Area Supervisors (S) — is added to manage something, but that something is unclear. This is **Box 2.**

Caught up in the day-to-day and incredible pace of fast growth, the founder can't understand that the real challenge he faces is not growing the company, but developing the critical elements of the company — namely, its business basics and culture. He hopes that the added supervision will stabilize operations — and to an extent it does, but at the cost of clouding his view of the business.

The founder is quickly losing touch with the day-to-day operation of his "baby" and surprised by what he sees and learns when he has the time to look and listen.

What he does not realize is 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 that sales volume and newness obscure. Since the founder can no longer control virtually every decision, some of the mistakes inevitably move the company away from its basics and contaminate its still-forming culture. Once this happens, there is only one way to get a company back on track: hit the pause button by stopping the opening of new units. (In my thirty-plus years of experience, I have seen this happen only once in a fast-growth company.)

But the founder doesn't push the pause button; instead, he adds more Area Supervisors. By this time, the pace of growth is at its peak as new units are opened and new people join the company, excited by the opportunity to get in on the action. But something else is happening: the "newbies" have substantially more variability in their quality and experience than anyone realizes. Equally important, company size and the founder's natural desire to take a breath dictate that the newbies will not be exposed to the founder's values in a meaningful way

This reality is bad news as it further dilutes the company's culture and contaminates the company's collective intelligence with thinking that may be the antithesis of the founder's ideals. In effect, what is happening is that many new cultures are being introduced and dilute a fragile culture that has yet to take root. However, good stuff sells so the company continues to open new units. By this time, wobble is like a slowly spinning top careening wildly about its axis.

The disorder is now apparent to virtually anyone who is intimate with the company's early days, including its regular customers. Rather than spinning tightly and moving forward, the business is swinging in increasingly larger circles and wandering steadily away from what made it worthy of growth in the first place. Typically, the company's leaders don't attribute the wobble to the loss of focus and lack of accountability. They cannot see that people are not on the same page; instead, they ascribed the spin to "a communication problem," at the same time that employees are saying: "We have a leadership problem."

While both perspectives have merit, the most frequently chosen solution does not: add yet another level of managers. This is the birth of the "Regional Manager (RS)" shown in **Box 3**. Their job is to supervise the supervisors who supervise the managers who supervise the employees who take care of the customers. The founder is further from customers than ever, and the wobble intensifies and the customer experience becomes more unpredictable. Excuses are made and programs are tried —and the company continues to wobble.

At this point, even the most committed employees have shifted their attention from customer-caring to boss-caring. As the employees shift their focus, they lose spirit as their pride in being part of something special and good is drained away. It's about this time that the founder decides that he needs a President (PR); particularly, one who "knows the industry" and is savvy in the ways of growth. He hopes that a highly experienced executive from the outside – preferable an admired company – will whip things into shape and hold people accountable so that he can devote more time to infusing the business with his passion and values – and take a breather.

So, an experienced leader is hired but, very often, not the right one. In addition, by going outside of the existing team he has dashed the expectations of some of his key people — and a few of them leave. The company is now well into **Box 4** and in danger of losing its mojo, and the founder is several levels removed from the day-to-day details of the business.

Now that he has time to breathe, he too can smell the stench of mediocrity beginning to permeate “his” company. The company lacks direction and a culture that supports its success. In response, the company’s leaders conclude that the direction of the company needs to be codified — **Box 5** – except that its 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.”

This is actually a good idea, but difficult to pull off as the “new” policies, procedures, and manuals are suspiciously like the ones the company’s leaders left behind at their previous companies. So instead of helping, they are more likely to institutionalize the company’s movement away from what made it worthy of growth and toward what other companies are doing. Best practices have risen up to take another victim. The momentum of the company is still upward, but no longer forward. Very often, this is the time when the founder cashes in by taking the company public or selling it. Often, they are simply tired of trying to race ahead, only to run in place.

Under this scenario, shown in **Box 6**, money pours in, but with “ropes” attached. At the end of each rope is the company’s newest layer of supervisors. These supervisors have many monikers: stock analysts, “activist” investors, and venture capitalists. For an entrepreneurial company, these “supervisors” are the worst of the worst if for no other reason than they cannot be ignored, even when their demands for results weaken the company. Nonetheless, they pride themselves on their ability to ask tough questions even though they may have never worked in the industry, and certainly not for the company. By trying to predict the unpredictable, the company’s insiders set themselves up for criticism and the likelihood of forced short-terming of the company. And the wheels have come off of what could have been a great company.

Lessons learned

This story of enterprise wobble and decline is tragic and common, but entirely avoidable. No matter how painful the experience of wobble may be, it’s rich with lessons for leaders interested in the science and art of enterprise building. As a first cut, the lessons are the importance of a clear vision, the skills of culture building, articulated business basics, and passion for maintaining the relevance and resonance of a company to each of its stakeholders.

Vision

The insight that Norman Brinker had with respect to the emerging market for casual dining was brilliant. However, business insight is no substitute for understanding how to leverage it into sustainable growth. Insight is insight and vision is vision, and both are needed in order to build a company that is worthy of growth and stays that way. The best leaders create an inspiring vision of their company’s future that answers 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, business basics, competitive keys, and metrics. In my many years of experience, I have never seen these questions answered by a tagline, claim to fame, or one page statement of principles. Vision, in the sense that I am using the term, is a detailed operating manifesto for the company that answers each of the five questions for each of the company’s stakeholders.

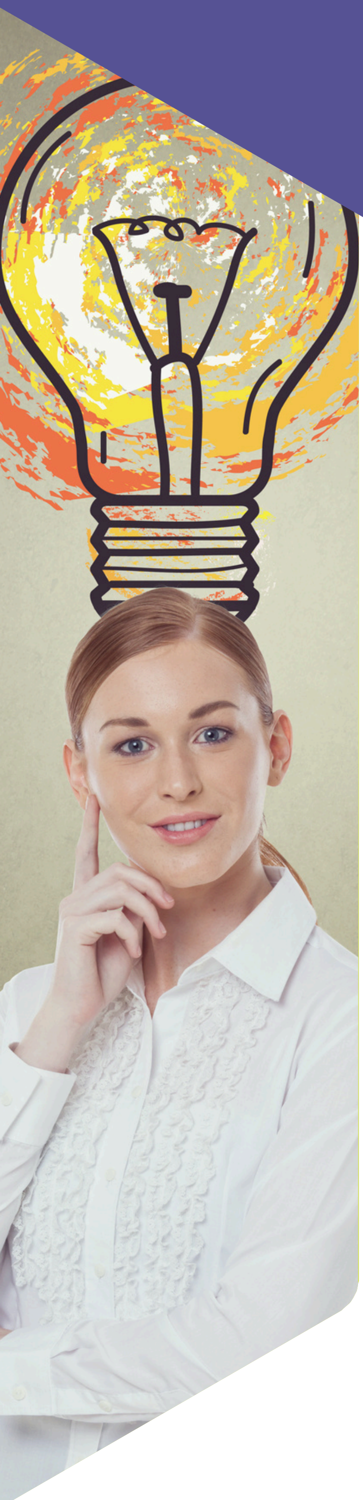
Culture building

Arguably, the single most important responsibility of a company's leaders is to create a culture that supports the company's success. Culture building is the process of creating leverage for the driving force behind a company; namely, its founder(s') and leaders' beliefs about success and how it is achieved. The process is as much about having enterprise members understanding the "whys" of "the way we do things around here" as it is understanding the "whats" of "the things we do around here."

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 quality, people, fiscal responsibility, and standards. While these labels make the importance of business basics obvious, they are not competitive keys in the sense that stable quality management is. Rather, they are the fundamentals – the blocking and tackling of effective execution – of success that leaders teach to employees at all levels. They are a critical adjunct to making sure that the company's employees, managers, and leaders are on the same right page.

Leadership teams appreciate the need to be on the same page, but many of them underestimate what it takes 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 must not be defined differently within the same company. To allow otherwise is to allow sloppy direction and enable wobble.



Final thoughts

The lessons taught by the story of Steak and Ale are the lessons taught thousands of times each year by the countless companies that “should’ve-could’ve” 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 (an early mentor to Steak and Ale’s leaders) suggest that leaders “start with the end in mind.”6 Defining success is certainly a major aspect of this habit, but one that leaders often leave unattended and/or 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 are the values of its leaders. Unfortunately, leaders are often not in touch with their values and, therefore, cannot communicate them to the company’s stakeholders or ensure that they permeate everything that the company does and stands for. This is no small detail of success as virtually all scholars of the enterprise building process agree that leader values are the lowest, as well as the highest, common denominator of a company’s success — and most leaders have gotten that message.

However, few leaders appear to understand the process of putting their values front-and-center vis-à-vis their company’s vision, strategy, and results. 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 achieve it. In this sense, the power of entrepreneurship contains the seeds of its destruction.

By that I mean many entrepreneurs “Fire! Ready? Aim.” In the best of circumstances, this tendency eventually leads to the insight that there is a lot to the process of building an enterprise such as answering the most basic question of free enterprise:

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

This question gets at the essence of competitive differentiation. “Compelling” taps into what is “addictive” about the customer’s experience, while “differentiating” taps into whether the company will hold an exclusive on that experience. Very often, founders are pleased with their answer to this question, but a weak answer to this follow-up question just as often gives them pause.

How will we turn our good idea into a company that achieves excellence while remaining worthy of the loyalty of our most valued customers?

That is, how do we become compelling and differentiating to all stakeholders? How leaders answer this question spells the difference between those who start companies from those who build them into a competitive powerhouse for the ages.

About Corvirtus

Corvirtus provides a range of innovative, science-based measurements and services that tie a company's culture and core values to talent processes. Corvirtus solutions have enabled hundreds of companies to strengthen and scale their corporate cultures, and to identify, develop and retain those employees with the characteristics and capabilities essential for business success and customer satisfaction. For more information, visit www.corvirtus.com or schedule a demo by using this link:

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