

Making the Case for CROSS-INDUSTRY HIRING *in the Restaurant Business*

by Bob Damon, Peri Hansen and Chris Von Der Ahe

Since Ray Kroc opened the first McDonald's franchise in 1955, the restaurant industry has transitioned from a landscape dominated by mom-and-pops into a sophisticated global enterprise. But in some important ways, management development has not kept pace. In particular, the identification and recruitment of top executive talent often remains a hit-or-miss affair, with a frequent inability or unwillingness to look outside the industry.

Historically, top managers in the restaurant industry came up through the ranks. There is nothing wrong with that, as McDonald's remarkable history demonstrates. In fact, many highly successful restaurants are presently led

by industry veterans, including Bob Nugent at Jack in the Box, Doug Brooks at Brinker International and Rick Federico of P.F. Chang's China Bistro.

As these examples illustrate, the restaurant industry clearly has a pool of exemplary executive talent – but it is not as deep as it needs to be. While some large restaurant companies have created company cultures based predominantly on promoting from within, many simply are not big enough to have a deep bench, or they lack the resources to offer sufficient professional development programs to groom executives for leadership. As they begin to scale, the gaps are often glaring.

Additionally, while the industry has traditionally done an excellent job training operations executives, other functional areas such as marketing, information technology (IT), human resources (HR) and finance have not always received the same level of attention. “A problem arises when operations knowledge overshadows the need to develop traditional management skills,” says Jeff Cava, executive vice president of human resources at Wendy’s. “Familiarity with HR, strategic skills, advanced financial analysis, marketing, IT and so on are not in the forefront of day-to-day operations. When we promote only from within, we limit our access to these skill sets.”

As business conditions become more complex, so do human capital requirements – which means that hiring from within may not always be the most prudent approach. Consequently, many companies are considering – or have already begun – recruiting experienced executives from outside their own ranks.

AN INDUSTRY STILL MATURING

In today’s increasingly competitive business environment, organizations must continually confront the challenge of reinventing themselves

in order to stave off competition. Restaurant companies are no exception, although they do face some unique and added challenges due to the evolving and entrepreneurial nature of the industry.

...while the industry has traditionally done an excellent job training operations executives, other functional areas such as marketing, IT, HR and finance have not always received the same level of attention.

First, mom-and-pop operations have largely been replaced by multi-unit operators and sophisticated franchisees who often manage several distinct concepts. Additionally, the industry is witnessing a dramatic upsurge in private equity investment. An increased number of publicly-traded and private-equity backed restaurant companies translates into heightened expectations by a host of diverse stakeholders, including investors, employees, management and the public – each of whom demonstrates little tolerance for poor financial performance. Generally speaking,

publicly-traded companies must grow in order to build shareholder value, prompting restaurant companies to steadily acquire and/or invest in new concepts. Many are now realizing they need to bring aboard executives with strong outside experience in order to achieve their growth goals.

Second, the industry is in a period of rapid change with the emergence of the “fast casual” segment. Corner Bakery Café, Panera Bread and a host of

other new market entrants have forced traditional restaurant companies to enhance the variety and, in some cases, the quality of their offerings – in essence, competing more like specialty retailers. Restaurant companies seeking to maintain their competitive edge must place a high degree of value on knowing the customer; responding to market and taste trends; providing exceptional service; creating an atmosphere that makes dining fun and memorable; and building loyalty by encouraging customers to return on a regular basis and spread the word about their experiences. Heightened attention to these kinds of details means that restaurants need to think about dining the way that Nordstrom and The Gap think about retailing – and have the right management team in place to execute the strategy.

Third, restaurant founders have historically maintained a prominent role in – if not control of – the boardroom, even after they give up the corner office. This level of commitment sets the restaurant business apart from many other industries and is, no doubt, a large factor in its ongoing success. However, a number of restaurant companies have admittedly suffered, at times, from what is known as “Founder’s Syndrome,” a situation in which the founder’s heavy involvement leads to frequent direction changes or similar work routine disruptions. An increasing number of companies are finding that recruiting a strong, outside executive who is not beholden to the restaurant’s founder or mired in the “that’s the way we’ve always done it” mentality can help to offset this circumstance.

Lastly, there is a competitive convergence occurring within the quick-serve restaurant (QSR) industry, both in the traditional QSR and fast casual segments. With this convergence comes a shortened half-life for competitive advantage through operational or product innovation. This competitive context is much like what fast-moving consumer packaged goods (CPG) companies began to experience in the mid 1990s. According to Wendy’s Cava, “More than ever, we need individuals with exceptional experience and competencies, enabling market positioning and messaging, reduced cycle times and advanced organizational design with respect to organizing around core processes for competitive advantage.”

Each of these external market factors has a discernable impact on executive demand and illustrates the increasing need to recruit talent from outside the industry. Introducing new leadership can often be the catalyst for much-needed change throughout the organization, laying the groundwork for new ideas and fostering enhanced growth opportunities.

WHY LOOK OUTSIDE?

Outside executives can bring a strategic mindset, unique skills, a fresh perspective, vision and innovation, and can invigorate the entire management team. That said, the transition is seldom seamless, as Korn/Ferry’s own research has indicated. New hires into the restaurant industry will need to learn the intricacies of the



business, and a well-executed assimilation process is necessary (see sidebar).

Another important factor to consider is cultural fit. “The demanding, high-speed nature of the restaurant industry requires executives who are flexible and able to adjust to life outside a traditional corporate setting,” says Stanley Liu, vice president of human resources at Panda Restaurant Group (the parent company of Panda Express, Panda Inn and Hibachi-San).

To succeed, cross-industry hires must possess a number of diverse, specific characteristics, including:

- Ability to interact at all levels, including back-of-the-house employees
- Excellent relationship builder
- Superb communication skills and a great listener
- Passion for food, customer service and the team
- Ability to drive change while respecting the past

Making

FOUR STEPS TO A SUCCESS

Along with death and taxes, there is another great certainty in life: Executives fail. In fact, about 40 percent of CEOs get the boot or resign after 18 months on the job, according to a recent article in *Harvard Business Review*. That’s a very expensive statistic. Additionally, the Saratoga Institute reports that every employee who walks out the door costs up to 150 percent of their annual salary to replace, a figure that is even higher for executive-level employees. And that estimate barely touches on the more important costs – opportunities lost or not taken. Given that many executives are hired to replace individuals who are underperforming, these opportunity costs are incalculable – and potentially devastating. This fact explains why companies instinctively prefer to hire from within, or from their direct competitors: Hiring an outsider is inherently riskier.

There is no “sure thing” when it comes to new hires. But if you have taken the leap and decided to recruit from outside the restaurant ranks, there are ways to dramatically increase your new executive’s chances of success.

1. Clarify expectations: There are two dimensions to this. In general terms, if you have taken the leap and hired from outside the restaurant industry, there must be a reason. So let the new person know what it is. Explain the thinking behind your decision, as this helps the new person get a sense of the company’s priorities and which strengths will be most important. Work with the new hire to develop a set of goals and define what needs to be done first. By doing this, an organization not only communicates exactly what it wants, but can also get a sense of where gaps may exist in an executive’s toolkit. Finally, be sure that the new executive knows your language –industries have their own metrics and you cannot assume the new person knows them.

It Work:



A C C E S S F U L T R A N S I T I O N

2. Inoculate against culture shock: By definition, outsiders will not know where the metaphorical “bodies” are buried. So tell them. It is important to know if Division A is a problem – and that it is run by the nephew of the major shareholder – or that labor relations have been dodgy but can expect to improve with the imminent retirement of certain individuals. A company is a tribe of sorts, and it is best to clue a new person in on its rituals and taboos. Among the specific items that should be communicated: who the key people are (including those who operate beneath the radar); corporate values (is there anything distinctive?); demands on management (is it okay to ask executives to work Sundays?); and morale (be honest). The point is to try to minimize the number of unpleasant surprises.

3. Identify gaps and fill them: A rookie to the restaurant industry is unlikely to have the range of skills and experiences of someone who has been in it for decades. That is a fact of life that needs to be dealt with before the first day on the job. This means defining what the new hire knows and can do, and then either hiring or assigning people to complement those skills. If, for example, Company X needs a financial turnaround, then it makes sense to ensure that there is a strong person in charge of operations. If a new HR manager’s first priority is to increase the quality of management training, then make sure there is someone on deck who excels in lower-level recruitment.

4. Provide regular feedback: In a sense, this completes the previous three steps. What should you be talking about? Address topics like assimilation, progress toward established goals, time management and perceptions of colleagues and subordinates. It is not easy to ask for feedback, particularly for a new hire in a new organization in a new industry. So it is better to schedule it in advance, and to insist on it.

In Korn/Ferry’s experience, the most logical industries for restaurant companies to target are consumer products and specialty retail. In fact, Korn/Ferry research shows that more than 70 percent of executives entering the restaurant business for the first time originate from one of these two industries. Though the environment in which restaurants operate may be unfamiliar to outside hires, the hallmarks of success remain constant: high-quality products, excellent customer service and competitive pricing.

The demand for outside leadership only occasionally surfaces at the president and CEO level. Burger King’s CEO, Greg Brenneman, spent his career at Bain & Company and Continental Airlines before joining the quick-serve giant in 2004 to face the enormous challenge of a turnaround. It is in the areas where skills transfer most readily – such as marketing, IT, HR and finance – that the trend to hire from outside the industry is most prominent.

Marketing: Kraft, Procter & Gamble, General Mills, Nestle and other large CPG companies invest heavily in the hiring and development of top marketing executives – something that cannot be said of all restaurant companies. This is why almost a quarter (24 percent) of new restaurant CMOs are industry outsiders.

A common concern of hiring managers is that CPG executives may not be able to keep up with the lightning-fast pace of restaurants. Feedback in the restaurant industry is almost instantaneous, as compared to the CPG industry, where it is often more difficult to determine the effectiveness of marketing programs. Steve Davis is an excellent example of an executive who has successfully made the transition. He had an eight-year marketing career with Kraft before being recruited to Pizza Hut in 1993. Davis held both operations and marketing roles at Pizza Hut before being named President and COO of Long John Silver's in 2002.

Information Technology: IT executives frequently migrate to restaurant companies from other industries. While they certainly have a learning curve with respect to the management and development of point-of-sale systems and the need for tools that can provide timely information,

a smooth transition is actually quite achievable, especially for executives with retail backgrounds who are comfortable with multi-unit operations. “Multi-location experience is both beneficial and transferable,” says Panda Restaurant Group’s Liu.

Human Resources: More than a quarter of new vice presidents of HR (26 percent) are from outside

the industry, according to Korn/Ferry research. One outstanding example is Wendy’s Cava, who previously worked at Nike. The restaurant industry can benefit greatly from cross-industry HR talent, particularly if they recruit from organizations where HR is a true business partner, such as Pepsi-Cola and Kraft.

Finance: Operationally-oriented financial executives who also have strong treasury backgrounds most easily make the cross-industry transition. Naturally, they will have to learn the industry and the key metrics that drive it – but this not

difficult for a bright, capable financial executive. In fact, Korn/Ferry research shows that nearly half (44 percent) of new CFOs are industry outsiders. Thomas Conforti successfully leveraged his deep finance experience in a variety of diverse industries, including entertainment, financial services, e-commerce and homebuilding, for his first restaurant industry role at IHOP Corp., which he joined in 2002 as CFO.

...restaurant companies that are willing to step outside their comfort zone, tap into the best practices of other industries and hire outside talent will have the best shot at long-term success.

THE POWER OF CHANGE

The bottom line is simple: The restaurant business needs to broaden its concept of leadership to include individuals with diverse backgrounds. In terms of building competitive advantage, more than anything it is the strength of the management team that is likely to elevate certain concepts above others.

Restaurant companies that are willing to step outside their comfort zone, tap into the best practices of other industries and hire outside talent will have the best shot at long-term success.

Bob Damon is President, North America for Korn/Ferry International, based in Los Angeles. He has more than 20 years of experience in executive searches for CEO, COO, president, board director and general management positions.

Peri Hansen and Chris Von Der Ahe are Senior Client Partners in the Global Consumer Markets of Korn/Ferry International, based in Los Angeles. Additionally, both are leading members of the firm's Foodservice sub-specialty, where they advise clients on recruitment and a variety of other human capital issues.

About Korn/Ferry International

Korn/Ferry International, with 70 offices in 35 countries, is the premier provider of executive search, outsourced recruiting and leadership development solutions. Based in Los Angeles, the firm partners with clients worldwide to deliver unparalleled senior-level search, management assessment, coaching and development and recruitment outsourcing services through its Futurestep subsidiary.

For more information, visit the Korn/Ferry International Web site at www.kornferry.com or the Futurestep Web site at www.futurestep.com.