



Scaling culture change: Cafe Rio's winning ingredient for growth



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the culture-shaping firm

HEIDRICK & STRUGGLES

The head of HR at Cafe Rio Mexican Grill describes how the company baked the best of its small business culture into a scalable model that is proving vital for the company's success.

When small companies grow rapidly, the culture that initially positioned the business for success can get lost in a sea of new people, processes, geographic expansion, aggressive growth targets, and a multitude of changes needed to achieve scale. New leaders can clash with veteran team members over how things should be done. The culture can become a boat anchor, slowing the company's progress and pulling people in the wrong direction. But when senior leaders make a conscious decision to keep the best of the cultural elements that brought the company success in the first place, great things can happen.

Cafe Rio opened its doors in 1997 in St. George, Utah, serving fresh, made-from-scratch recipes inspired by traditional cooking techniques of Northern Mexico's Rio Grande, southern Texas, and New Mexico. In 2004, the company was purchased by a private equity group, and the leadership team embarked on an aggressive growth strategy. In 2011, Dave Gagnon, former Burger King Corporation senior vice president of North America company operations and training, took over as CEO and COO. He brought in Andy Hooper, who had led a culture-shaping initiative at Burger King, to serve as chief people officer.

Since Hooper joined the team, the chain has grown from 44 locations in 2011 to more than 90 restaurants today, with a current workforce of more than 3,500 employees. Restaurant workers still squeeze limes, scoop avocados, grate



About Andy Hooper

Andy Hooper has served at Cafe Rio Mexican Grill as chief people officer since 2011. He leads a team of HR and training experts who ensure Cafe Rio has the best talent and culture to meet growth and performance needs of the business. Hooper joined Cafe Rio after nearly a decade in HR and organizational development leadership roles at Burger King, where he led the company's cultural transformation.

cheese, and roll thousands of tortillas a day by hand. Sauces, dressings, and desserts are all still made daily. There aren't any microwaves or freezers in any of its locations. Nothing is premade or processed.

In a quick-service restaurant industry that isn't known for making employees a top priority, the executive team at Cafe Rio

has been at the forefront of strategically shaping a culture for a future that adapts the company's proud history to the realities of scale. And the recipe is working. Over the past few years, Cafe Rio has won numerous awards, including being named by Sandelman and Associates as the number one Mexican restaurant chain in the United States for customer satisfaction for seven consecutive years.

John McKay, a partner at Senn Delaney, a Heidrick & Struggles company, recently sat down with Hooper to discuss the company's experience of culture shaping, as well as to gather insights from Hooper's work on the culture transformation at Burger King. The following is an edited version of that conversation.

Q: What led to the culture-shaping effort at Burger King?

Andy Hooper: For a long time, Burger King was a portfolio company that was effectively a cash generator for other M&A transactions. The CEO post was often a rotational assignment for high-potential leaders from other businesses. Shortly after I joined in the fall of 2003, the company was sold to a private equity company, and Burger King was for the first time in a long time its own company again.

The leadership team decided right away to focus on shaping the company's culture. I was skeptical of the idea that we could change the experience that these franchisees had had for the past 50 years, but I've always been interested in organizational psychology—in what makes people tick—so I found it a fascinating challenge and immediately volunteered to be involved. For the remainder of my career at Burger King, I was directly involved in leading the culture-shaping process, identifying the internal trainers, and serving as a master coach.

Q: Was Burger King's culture-shaping a total reboot?

Andy Hooper: The process actually maintained the company's guiding principles and its value statement—which sent a message to franchisees that this was different than the other leadership changes that they had experienced. They were used to a leader coming in, undoing everything, and moving on. Many franchisees were fatigued by the turnover; all they had to do was wait out the leadership and then they wouldn't be



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responsible for acting on mandates or brand requirements. And of course that was terribly damaging for the brand.

Customers were having very different experiences with each location across the country and the world. So while we had to be clear that this culture-shaping process wasn't just a flavor of the week, we also knew that we had to maintain some of the organization's fundamental values, which employees view as much a part of the brand identity as they do the Whopper sandwich.

Q: What impact did the culture process have on the relationship with the franchisees, and ultimately on results overall?

Andy Hooper: After kicking off the culture-shaping process in 2004, we began to see quarter after quarter of comparable sales growth.

We had significant numbers of franchise relationships that were up for renewal, and many had been looking to liquidate. Instead, they were energized about this new brand culture, and they stayed on. Some even transitioned the restaurants to their children, who for the first time showed interest in the industry once they saw that it was more than just running a fast food restaurant.

At the micro level, I saw things I never thought I would see. For example, a group of franchisees in Seattle was facing a competitive invasion from other hamburger concepts—Carl's Jr., Five Guys, In-N-Out Burger were all moving into or considering the market. So these franchisees designed what they called the “competitive blunting fund,” a pool of financial resources to help fight off competitive intrusion.

This was an extraordinary arrangement, because franchisees generally don't share money with anybody, let alone with each other. And they did so much with that money. They gave raises to employees to keep them from jumping ship, they offered customer discounts that coincided with the grand openings of other restaurants, and they offset the cost of a mid-term remodel. Their cooperation was truly unprecedented, and it came about as a direct result of one of the culture-shaping sessions. That's where the idea was born. And they were successful in halting the development of several new competing restaurants.

Q: What culture did you find when you started at Cafe Rio?

Andy Hooper: When I joined Cafe Rio in 2011, I found an organization that already had an outstanding culture. It was

truly unparalleled. And the bottom line was great; it was in its third year of nearly double-digit comparable sales growth. The first few board meetings I attended were effectively celebrations of margins and sales numbers that nobody could touch in the restaurant industry.

But it was more than that. When I wore Cafe Rio logowear, I was approached by enthusiastic strangers who loved the brand. It felt nearly unanimous in the community, and it was energizing. It was very tempting to let that culture continue to exist by default.

Q: So why mess with it?

Andy Hooper: We saw how special this brand is, how special the food is, and we knew it was effectively a trade secret. We would be silly not to actively design and shape the culture to preserve this.

When you look at companies with very strong cultures, such as Southwest Airlines, the common trait is that culture is nurtured through intentional, consistent coaching and leaders who foster an environment where people view the culture as ‘how we do everything we do.’

What Cafe Rio had was great—but it was not codified. It was basically tribal knowledge transfer. The culture had been built on what a few key leaders had between their ears, but we wanted the culture to survive and thrive well beyond all of our tenure here.

Plus, you can’t scale that. You can’t rely on those leaders to be the keepers of the flame when you grow from 10 restaurants to 50. At the beginning, we could have piled in to a van and visited each restaurant in the same day. That wasn’t the case anymore.

We were expanding far beyond Utah and facing new challenges away from our home market. Everyone else has taken note of Cafe Rio’s results in Utah and moved here. So over the last four years,



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we’ve had unparalleled competitive intrusion compared to any other market in the country.

I’m convinced that had we not taken the time to focus on nurturing the culture, our challenges would have evolved very differently.

I should note that Dave Gagnon and I joined a team that had been working together for quite some time before we arrived. So there was some natural skepticism about whether there would be an invasion of Burger King philosophies. But the culture-shaping process accelerated

the senior team’s cohesiveness. It really built a lot of trust and dispelled the “outsider versus insider” dynamic. We came together to celebrate what is uniquely Cafe Rio.

Q: Who leads the culture shaping at Cafe Rio?

Andy Hooper: Our CEO champions the culture to consistently make statements and actions that say, “I’m human. I’m vulnerable, but this is what we’re about. I am shepherding the effort—but it’s important that I’m not seen as the figurehead. Employees need to view me as

a leader who follows the culture of Cafe Rio, but the moment that I become the face of it, we lose the benefit of it being ingrained throughout the organization. The rest of the executive team has equal weight in this. Their buy-in and belief in that process is essential for long-term success in turning this from an initiative to a culture that is ingrained.

It's also important that culture-shaping tactics are partly implemented, designed, and developed by a group of culture champions who aren't executives, because the executive team can have blind spots. We made sure it isn't taboo to tell somebody on the executive team that they might be missing something.

The final piece is external coaching on the culture. We need to have someone watching us independently and pointing out to us what's working and what's not. I think one of our cultural challenges is that we are not always quick to point out what's working. Everybody here is so focused on, "What can be better? How can we make this even better?" We don't always take the time to celebrate that we've been the number one Mexican restaurant concept for seven years running.

Q: How did you shape Cafe Rio's organic culture into a codified one?

Andy Hooper: We took these concepts that had been passed down basically as oral history, and we worked them into easily identifiable concepts. We talked about the 'Human Operating System,' the mind-set of accountability, the impact of our shadow of leadership, and we ensured it all fit with the company's long-standing cultural principles.

Feedback has been a boon in a lot of areas. For example, folks in the support center office have adjusted how and when they ask for things to provide better support. They've built up some mutual empathy with field teams. We do things on different days than we used to because a general manager said,

"Hey, it'd be much more helpful for me if I had this Monday mornings and on Thursday afternoons." Or we say, "It would be really helpful if you did this each week instead of once a month." It has improved relations and operations substantially. And of course, we still have plenty of room to improve on this as well.

Q: What role does culture play in the customer experience?

Andy Hooper: Cafe Rio's culture is critical to the customer experience because it's all about the way food is made and the people who make it. We want a culture that is dedicated to the human

beings behind that because they're our customers, they're our neighbors, they're our aunts and uncles, they're our parents. We don't take shortcuts, even when we're growing rapidly and commodity prices shoot up.

There were plenty of opportunities through 2015 to downgrade to cheaper ingredients or produce items en masse, but that's not who we are. I think our focus on culture and purpose is foundational to making sure that when we're faced with those tough decisions, the culture is the filter through which we analyze the real value of taking that shortcut and making that change.



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Q: You articulated a purpose as part of the culture. Why was that important?

Andy Hooper: Our purpose that we defined at Cafe Rio is that we're leading a culture that is dedicated to the way food is made and the people who make it. So there's an equal dedication to the process and the human being behind it. I'm not sure that there's anybody else in the restaurant space that can make that claim and back it up with their activities. Utah in particular is a very purpose-driven culture. So I think knowing that the brand stands for something meaningful and has a purpose is important for fostering that long-term relationship with customers.

Q: What impact did culture-shaping have on Cafe Rio?

Andy Hooper: I've probably got dozens of examples where restaurant managers, after being exposed to the tenets of the culture-shaping process, have gone back to their restaurants and identified someone who is acting as an obstacle to progress. And instead of approaching that individual to scold them, they have instead asked themselves why this person is behaving this way.

I mean, when you have dozens of steps in a recipe to make red sauce, or when you're reconstituting dried chilies and then blending them and straining them through a cheesecloth—and you're doing these things over and over again—of course it's tempting to skip or combine steps.

And instead of leaders saying, "This is not how I taught you; it needs to be done this way," they react in line with our culture and instead say, "Tell me more about that. What's going on?" They get all sorts of fascinating, innocent responses about why people do what they do. In some cases, we've changed processes or standards because we've learned useful things from our employees when we asked these questions. We improve quality or save time as a result.

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We've also had significantly fewer employee issues per restaurant here than I've had in my past. It's not perfect, but the culture has allowed my HR team to focus on things that are significantly more value added to the organization than responding to fires.

And it also improves people's job satisfaction. They like doing this more meaningful work—with people who are at their best—a lot more than they like investigating somebody's harassment claim. You don't get a medal for not getting sued, but it's a real benefit to having open lines of communication and having your team believe that there's integrity behind a commitment to listen.

Q: How do you maintain communication between the senior team and other managers?

Andy Hooper: We had been hosting formal monthly meetings for the full team. But they specifically requested we meet less formally and more often. So now we meet every two weeks for 20 minutes as a company in an informal format that mirrors what we do in our restaurants—and the team loves it. It's quick. It doesn't take them away from their work for long periods of time. They're allowed to ask questions that shape the agenda on a biweekly basis. They get the answers they want. We don't waste time giving them answers they don't care about.

Q: Where does Cafe Rio go from here, and how will culture be part of that?

Andy Hooper: Over the past several years the organization has continued to grow both in terms of top line and new units and people and jobs created, and we want to continue that growth. Our focus on culture has kept our growth strategy achievable.

A lot of restaurant concepts grow incredibly fast, particularly if they're leveraging franchises. And because we're a company-owned operation, we want to go just fast enough to create substantial value for the owners of the organization, but not so fast that we erode that value by growing irresponsibly. So the future for us looks like 20% growth both in units and profits year over year, hopefully for a long, long time.

I think the culture will endure long beyond the current leadership team and be a driver for many years to come. It will help guide us through the upcoming talent crisis that we're entering and likely to face for a while, as the economy continues to be strong and our potential employees have a lot of opportunities in the job market. We need to make sure we're the best alternative that somebody has, and not the last alternative.

As a leadership team, we will continue to lean on the support of both our employees and our external coaches to make sure we don't get caught up in our own heads or overlook blind spots. Those help us continue to evolve and shape how we work together—it's been essential for our success and it's foundational to what we have ahead of us.



The CHRO's role in leading culture change

As leaders responsible for an organization's talent, CHROs are uniquely positioned to serve as leaders for culture change. By taking on the mantle of culture in the organization, HR executives can elevate the strategic role of the function and demonstrate clear and measurable value.

Andy Hooper provides a few words of advice for other CHROs who are considering becoming leaders of culture change.

Q: How would you recommend a CHRO take the lead on launching a culture-shaping process?

Andy Hooper: The first thing you need to do is argue the business case for culture, which means you need to be immersed in the company's finances and what drives the business on a day-to-day basis. You may see the cultural deficiency clearly, but that may not be enough; you need to tie it to the bottom line.

I would almost guarantee that if the culture is messed up, there are opportunities from a financial performance standpoint that aren't being realized. I rarely see a high-functioning organization from a balance sheet and income statement standpoint that has a terrible culture. A great

culture is foundational for operational excellence, whether you're in the restaurant business or the utility business or the healthcare business or the retail business.

You also need to demonstrate empathy, to find out the priorities of other senior team members. Because a peer's first reaction to a culture-shaping process might be, "We don't have any money to spend on this touchy-feely stuff," or another peer might say, "I'm not going to waste time with this stuff when Rome is burning."

So you have to sit on the other side of that table and ask, "What do you think is causing this?" Your solution needs to fit their priority challenges. HR leaders make the mistake of pointing to those things and saying, "Look, Google does it. So we should do it." Instead, they should be trying to solve the business challenge alongside the rest of their senior team.

About Senn Delaney

Senn Delaney is widely recognized as the leading global authority and successful practitioner of culture shaping to enhance both the spirit and performance of organizations.

As a Heidrick & Struggles company, Senn Delaney positively impacts the world by inspiring leaders to create thriving organizational cultures. We partner with the world's most recognizable companies to create cultures that create a distinct competitive advantage. It has been our sole focus since 1978.

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