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Leading from Behind – A New Case from Luby's Cafeterias

In 2008, inspired by an article from the *Harvard Business Review* [1], I began on our website a series on "leadership from behind", a search to identify leaders who can build a culture where leadership skills filter down and are broadly shared in the organization. As I began to look for examples of this shared leadership, I ran into a set of experiences that pushed back against this concept, where events, traditions, and circumstances conspired to keep leadership more centralized rather than distributed. Chief among these, perhaps, was the economic debacle in late 2008 that undermined our confidence in business leadership in general and produced trainwrecks of some of the most prestigious companies, such as Citigroup and Countrywide Financial, led into extremis by leaders who seemed to be doing their best in sharing leadership downward.

A second piece concerned Merwyns, which was destroyed when its owner/leader sold out the company to Target , which turned it over to venture capitalists who stripped Merwyns of its assets and eventually into bankruptcy. (Again, see this website.)

But now comes a new inspiration from a book published in 2006, *House of Plenty*, about the founding, growth, and development of Luby's Cafeterias, Inc., written by Carol Dawson and Carol Johnston, the latter a grand-daughter of Lola Ethel Luby (who was in turn a cousin of founder Harry Luby). The Luby's story is well-told by the 2 Carols and reads like a novel. Indeed, there is lots of mystery and excitement throughout: one if the company's early CEOs after incorporation unexplainably committed suicide just before his first board meeting. Luby's was also the scene of the largest public massacre that had taken place up to that time, in its cafeteria in Kileen, TX – resulting in a landmark change in the state laws around concealed weapons licensing to the public. The book is hard to put down! Photographs of key players (and copies of many of Luby's home-style menus) are featured in every chapter.

In any case, Harry Luby was an inspired leader who in turn inspired leadership among his followers. His formula centered around the following 4 elements:

- Harry Luby established the first version of the cafeterias in St. Louis, MO, in 1911 under the name New England Dairy Lunch, a self-service alternative to eating out at an expensive hotel. Harry's wife Julia was a talented cook, and an early specialty was the New England boiled dinner, hence the early name given. Harry had learned the assembly line of the food trade in Chicago. Food was served family style by sliding a tray across the array of food choices, without the intermediation and delay of waiters or waitresses. Folks began to arrive in droves to the establishment, prompting expansion to other locations and a change of name to The New England Cafeteria. A key factor in Luby's growth was the leader's lack of ego – "…everyone was naturally and constitutionally equal in Harry's eyes, and an attitude of mutual cooperation and mutual gain was the only one he wished to prevail under his sponsorship [supervision]…." His catchphrase was "Share the work, share the risks, share the profits". The groundwork was laid early for <u>participative leadership</u> in Luby's Cafeterias, as a primary tenet.

- Harry's plan from nearly the beginning was to retire early and live comfortably, which he did at the age of 39. Harry and Julia had only one son, Bob Luby, who grew up traveling with his parents opening stores across the Midwest. The cafeterias' expansion clearly required more managers than Harry and Julia's sole progeny. Fortunately, Harry had an uncle much more prolific than he, with multiple offspring, and he began to include his cousins in the Luby enterprise expansion. The cousins were unusually empowered and generously supported, and the enterprise expanded rapidly into Texas. A second principle of <u>growth around trusted family members</u> became a company norm. Of course, family members were expected to invest in the stores they were expanding into, and share the risks as owners.

- A third element, tied to the above, was to <u>train the new managers</u>, most of which were family-related in some way, <u>and reward them</u> handsomely. Early on, Luby's early established a management training institute, which prepared managers in all aspects of food preparation and had them participate in all jobs, from pot washer to line server and cashier. These managers were then put into positions as Assistant Managers of operating cafeterias for an internship which would test their mettle for becoming General Managers. GMs were involved in every aspect of operations, working 60 or more hours per week, personally opening their cafeterias every day and locking the doors when the last customer left at night . But they were also very well compensated with an astounding 40% of the profits of their operation, 60% returning to the corporate offices for further expansion.

- The last element was to <u>continue the expansion</u>, as general managers became available. Beyond the energy initially provided by the founder, this process was led by Bob Luby in tandem with his cousin (by marriage) , Charles Johnston (Carol's father). Practically inseparable most of their working lifetimes, Bob and Charles became de-facto co-CEOs: Bob was the corporate finance and operations guru, and Charles was the "people person" who kept the family-oriented relationships well oiled and maintained the focus on the employees who attended the customers. This leadership combination was key to the ability to drive the necessary expansion and make it sustainable over decades.The company had put down its roots in Texas, particularly in San Antonio where it made its headquarters, and had steadily increased its influence and number of stores and throughout the '30s, through the post-WWII years when Bob first met his cousin Charles, and beyond into the '70s. Luby's motto became *"Good food from good people"*. The company went public in 1973. It's 100th store was opened in Round Rock, TX, north of Austin in 1977, and at that point in time Luby's was operating cafeterias all over Texas, and into Oklahoma and New Mexico. In 1982, LUB was listed on the NYSE. By 1992, Luby's had further established locations in Louisiana, Tennessee, Missouri, and Kansas, i.e. an enterprise covering 10 states across the heartland of America. The company held the 93rd spot in the "200 Best Small Companies in America" and led all the competition as "America's first choice in cafeteria dining".

I have had the privilege of meeting Carol Johnston. and engaging her in correspondence. Here is how she sets up the leadership position of her grandfather and his successors:

"… the inspiration of this concept of doing business and providing food to the customers, was Harry Luby. Providing business opportunities for family members to follow was his brainchild.

As [the] company grew, Harry's son Bob invited my dad to participate within the company. My dad's intuition for selecting the right people for the job, his appreciation of hard-working employees and his brilliant sense of humor made building the company with Bob, the right fit. The reason that the company survived for the decades that it did was the GENEROSITY that the company promoted. [It was a generosity] that was provided to the customers in the form of a delicious product (with a great deal of variety); a generosity that was paid to those willing to work the hours required, learn the company's methods of food preparation and obey the rules of operation to work at Luby's.

The Luby model, as it developed around the 4 elements above, including a focus on participative management, looked to provide for a sustainable enterprise that would outlive the leadership of its founders. So were there any flaws in this model as the development went forward over the years, such as those that broke apart Merwyns after its founder sold out to venture capital?

A potentially disintegrative element that has gone undisclosed so far in this paper is the internal perfidy that early took place in the Johnston family, which mirrors the external one that took place in Merwyns years later. Back in 1959, Charles Johnston's brother-in-law, J.W. Cunningham, joined Luby's management cadre, much as had entered many family and extended-family members over the years. J.W. attended the Luby management training institute and was assigned as Associate Manager of the Harlingen, TX, store. He did not prosper there, nor show himself particularly capable as a manager, nor was he well liked. In spite of his family connection, he was passed over for what would have been a lucrative General Manager position in Harlington. Cunningham reacted by secretly pilfering copies of the architectural plans for the new Harlington store and going to Dallas to build his own cafeterias, J's Cafeterias, in the exact likeness of the plans he had stolen. People wondered why the new Dallas Cafeterias looked just like Harlington, down to the paint scheme, but the perfidy remained shrouded in secrecy – even from Charles' wife and daughter Carol for many years. However, the treachery destroyed Charles' family, estranging his wife and daughter and causing Charles such stress that it greatly affected his health. Yet Charles was such a people-person, and the Luby tradition of loyalty to family so strong, that Charles went to his grave with the secret. Eventually, it festered into the open and poisoned relationships all around the remaining members of the Johnston-Cunningham clans, not reaching resolution in court until late 2000, a degrading proposition for all concerned. However disastrous the ensuing scandal was to Gertrude Cunningham Johnston and her daughter, Carol, nevertheless, the overall impact on the company was negligible.

I have already mentioned above the 2 other events that could have felled the enterprise. In magnificent detail, Dawson and Johnston enter into the story of the October, 1991 "massacre at Killeen", the awesome and awful account of how a misguided and deranged former merchant mariner crashed his vehicle through the wall of a Luby's cafeteria full of noontime diners and began killing 24 patrons and wounding 23 more, one-by-one over a hellish period of 10 minutes. He was eventually felled by police and ended his own life with a shot to the head. But Luby's survived this disaster and demonstrated to its community a warm and human response to the emergency, as

Board members travelled to the site to counsel customers and employees, established emergency funds for victims' families, and set plans to restore the Killeen store. Thus, even here, there turned out to be little negative implication for future company growth…

However, the second occasion, the ritualized suicide in March, 1996, of John E. Curtis a talented financial expert whose shocking demise at his own hand greatly confused the succession process that was underway after Bob and Charles had stepped down from their CEO roles in 1982. Luby's, again with considerable inner anguish and angst, picked up the pieces of its succession process. Ralph "Pete" Erben, who had been the previous CEO and the Luby's hero in the reaction to and aftermath of Killeen, was turned away by the board as interim CEO. The person appointed to fill the vacancy, after a thorough search, was Barry J.C. Parker, who was not a food person and was a complete outsider to the Luby tradition. Thereby hangs the tale of the company's market-position change that laid the basis for Luby's Cafeterias development in the late '90s and beyond. The rest of this paper will track the development of the company in these later years.

Barry Parker took up the mantle of President and CEO on October 1, 1997. He was thought by the Board to be a breath of fresh air to a company that had been contaminated by grief and angst after Curtis's unsettling death. The interim president, David Daviss (not a Luby family member, but a tenured auditor on the board) had publicly stated that, "a look from the outside will be very healthy…" However, this outsider's view brought with it some radical changes in the way that Bob Luby and Charles Johnston had run the company. In an effort to cut costs, store maintenance budgets were cut; fresh food "made from scratch" was discarded and replaced by cheaper substitutes with pre-made and frozen ingredients. Most important, the general managers' famous 60/40 compensation plan was dismantled, and they were placed on reduced salaries. Meanwhile, corporate executives' perks and entitlements were increased, and morale fell precipitously.

And as an uncomforting punctuation mark to these changes, it fell to Parker to announce, less than a year into his presidency, that Bob Luby had suddenly passed away at the age of 88, due to a freak accident.

By 1999, customers were reacting negatively to the changes perceived at Luby's, morale had deteriorated further, manager resignations were proliferating, and the LUB share price had fallen nearly 75%. A management crisis ensued, and an incipient stockholders' revolt began to rear its head. The Board commissioned a consulting firm to study the matter, and their recommendation was to remove Barry Parker as CEO. He was finally sacked in 2000, and the revolt went to full bloom in the face of further store closures and stock price deterioration.

Although bringing in a outside CEO had worked well for IBM and Lou Gerstner (from Nabisco) in the '90s and for Alan Mulally (from Boeing) at Ford in the 2000s, the outcome for Parker was more like that of Ron Johnson (from Apple) at JC Penny's in 2013 . The makeover of an old successful company like Luby's was not well tolerated by its managers, customers, and stockholders.

However, at the end of 2000. a *deus-ex-machina* appeared on the stage in the form of outside investors who were willing to "share the (management) work, share the risks and share the profits" in the old partnership framework of Harry Luby. The new investors were also, like the Lubys, members of an extended entrepreneurial family --

in this case Greek restaurateurs now located in Texas. The brothers Christopher and Harris Pappas, owners of a successful dining franchise based in Houston, bought an effective controlling interest in LUB. Although they were not in the cafeteria business directly, they were experienced "food people", with a similar trajectory as Bob Luby's and Charles Johnston's. Moreover, Harris, the younger brother, had completed the Luby's management training institute and actually worked as a manager at a store in Houston for about a year.

So a new chapter has opened in Luby's Inc. (renamed from Luby's Cafeterias, Inc. by Barry Parker before his forced resignation). Indeed, the Pappas brothers have continued their commitment to the company, increasing their capital investment to over 30% in 2010. In the style of the Luby's founders, they have also increased the size of their operations, in part by also acquiring other franchises such as the Fuddrucker restaurants.

After a fall in stock price to a record low below $4 in 2010, LUB had grown to $9 per share in mid-2013. Certainly many of the former Luby's employees who worked hard for the company and held onto their stock have seen their faith restored.

As a personal experience, I asked Carol Johnston to recommend to me a Luby's store that she thought was one of the best in San Antonio, so that I could try it out. She mentioned one that was very near my home and was still being managed by one of the early Luby's GMs. I went near closing time, at 8 p.m., to see what I would find in the final hours of the day, and was the last person to place my sliding tray on the line. I have to say that I was totally surprised to find that the servers were so cheerful and welcoming, at the end of what must have been a long day on their feet. So was the cashier; and the busboy twice came over to inquire if I needed anything. On his third pass, I asked to see the manager, and he told me that he would go to his office and bring him by. Thus I met Mr. Bruce Turner, a Luby's veteran with 42 years of experience in the company. He approached my table without knowing anything about me, except that I was a customer. When I identified myself as a friend of Carol Johnston, he beamed and began to tell me his story as a long-time employee of his company. Our conversation was cut short by another employee who needed his help in order to close the cafeteria, but he invited me back to talk further. I plan to go back and see him soon. (See Epilogue below.)

I should mention that my food was tasty, plentiful, and nicely displayed. I think that Bob and Charles would have been pleased.

My colleague and friend, Rick Maurer, with whom I have worked in leadership development programs at the University of Maryland, is an astute observer of business cultures. He writes of the best practices of companies that have learned and made the rules which guide us in our own management practices:

1. The first theme is **Quality**, doing it right, pleasing the customer, meeting (and exceeding) expectations. Components of this themes are continuous improvement, always striving to be better; a commitment to quality as a core value; and a customer-driven orientation , externally <u>and</u> internally. (If we can't serve each other well, how can we expect to serve well the client?)
2. **Partnership.** Relationships among our people are a key factor in Quality. Helping others and asking for help are critical; showing our people that they are

> part of the action, and sharing the successes of our enterprise; and giving them the authority and responsibility to make decisions that count.

Luby's had taken these values to heart, beginning long before they embodied Maurer's observed practices and rules. Their principles of "Sharing the work, sharing the risks, sharing the rewards" fit very nicely into Rick Maurer's schema above. I believe that Rick would be pleased to study the story of Harry Luby and his *House of Plenty*...

Luby's has passed into the hands of another successful family operation. Those who have lived the Luby's experience from the inside and observed it from the outside hope that this example of *Leading from Behind* , and "Good Food from Good Luby's assets (particularly some extensive real estate ownership) to fuel other ventures?

Epilogue: This paper ends with the final interview promised by Bruce Turner. I met with him at 730 p.m., just before the Luby's #19 in northwest San Antonio closed its cafeteria line. There were still very beautiful and tempting desserts spread out at the end of the line. Bruce only had about 25 minutes before he had to return to attend closing, and I asked him to give me a summary of his view of operations since the Pappas Brothers had taken over the company."Our cafeteria is still well frequented all day, particularly at noon when it fills completely. Where once the food was served pretty impromptu, today it is more structured, more upscale. The Pappas influence is somewhat more impersonal than was the Luby family's traditionally. But the focus is still on the customer, providing quality food at fair prices..."

Finally, as I gazed over Bruce's shoulder, a family was celebrating a birthday, with presents stacked over a couple of tables. I remembered the story recounted by Carol Dawson and Carol Johnston of the employee who worked as a cashier at the early Main Avenue store in San Antonio. She had met a young man in San Antonio and wanted to get married. She had no family, so she asked permission to have the ceremony performed right there in the cafeteria. She invited her co-workers (and a few favorite customers) to attend the wedding -- and the manager to act as the father of the bride and give her away to the groom! Although entirely outside his job description, it was one of the manager's favorite memories of his service to the Company. By the looks on the faces of the birthday party at the nearby table today , it appeared to me that customers still find a "family" environment at a Luby's Cafeteria and a place to celebrate events with their own families...

The same busboy I had met at my previous visit again approached me to ask if there was anything I needed. His name was "Robert", and I can imagine him years into the future, perhaps occupying Bruce's position as manager at one of the Luby's venues, carrying on the tradition of quality and personal attention begun over a century before at the New England Dairy Lunch in St. Louis...

[1] Hill, Linda A."Where Will We Find Tomorrow's Leaders?", *Harvard Business Review*, January, 2008.

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End note:
For their insightful comments on the final draft, the author is indebted to Carol Johnston and to Herbert Knight, the latter who began his career as a busboy in the Dallas Luby's and rose to Senior Vice President in the Luby's Corporation. This paper also pays tribute to Ina Faye Knight, Herb's life partner, and to Lola Luby Johnston, Carol's grandmother, who, among others, exemplified the talent and dedication of the many women of the Luby extended family that made Luby's what it is.

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