K&N MANAGEMENT

The Love of Excellence®

Quality is Everything®

2010 Malcolm Baldrige National Quality Award Application

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Glossary of terms and abbreviations

1st Seven Days	The first week of employment that includes orientation, on-the-job training, and performance feedback.
30 Day Foundation Survey	New team member satisfaction survey
911 Maintenance Request	Status assigned to a request for maintenance requiring immediate attention.
Administrative Inspection	In-house inspection of daily, weekly, and monthly restaurant management team administrative duties.
Aloha Enterprise	Centralized point of sale data management system.
Annual Awards Banquet	Team member awards banquet conducted annually.
"A Player"	The top 10% of the talent available in the market at that pay rate.
AT Safe	Automated teller and security safe.
Comp Card	Gift cards issued to guests for satisfaction or promotional reasons.
Connection Survey	Team member satisfaction survey
Controllable Cost	A certain portion of fixed costs and variable costs associated with running the operation that can be controlled to a certain degree.
Convergent Marketing Plan	Comprehensive marketing strategy.
eAppraisal	Web-based performance appraisal system through Halogen.
Eatec	Food invoicing, inventory, reconciling, and analysis software.
eLearning Management System (eLMS)	Web-based learning and development system through Halogen.
FISH	Team member morale and motivation philosophy.
Food Borne Illness (FBI)	Any illness transmitted by consuming food or beverages.
Food Cost	The direct costs attributable to the production of the goods sold.
Foundations	New team member orientation, including a culture class. This provides the foundation for training and the 1st Seven Days.
Game Film	Film produced by a third party mystery shopping consultant used for training and evaluation.
Game Film Consultants	Third party mystery shopping consultant.
Get Fit	Company organized program encouraging team member fitness.
Group Meal	A large take-out order for 10 or more people (Rudy's).
Halogen	eAppraisal and eLMS software development company.
Hazard Analysis and Pathogen Reduction (HAACP)	Formal food temperature control and safety program.
Hot Topic	Topic for training reinforcement or new skill introduction.
Hourly Team Member	Non-exempt team member working at hourly rate.
Individual Development Plan	Formal team member development program to encourage advancement.

Internal Web Site	Web site for managing and accessing comment logs, daily sales numbers, maintenance and IT requests, the HRIS system, and performance management system.
Kronos	Human Resources Information System.
Labor Cost	Team member wages, benefits, and taxes as a percentage of sales revenue.
Managing Partner	General manager with at least five years tenure that meets certain performance criteria.
Non-Value Added (NVA)	Process or step that does not add value.
Operations Inspection	In-house inspection of the facilities, products and services.
Opinionmeter	Interactive satisfaction feedback survey devices, including touchscreen, handheld PDA, mobile, and web, that provide real-time guest and team member satisfaction feedback.
Perfect Food Cost	Forecasted food cost according to inventory, purchases and sales.
Performance Excellence Award (PEA)	Monthly award given to the top performing store.
Performance Improvement Plan (PIP)	Formal performance improvement development program.
Point of Sale (POS)	Cash register system.
Position Observation Checklist (POC)	Production and service team member skills observation.
Production Team Members	Production team members responsible for producing all food.
Product mix	Taking into account which products bring the most revenue, are the most popular and which are less so
Process Improvement Communication Form (PICF)	Form used to communicate process improvements from the top down.
Quickbooks	Accounting software.
Replay Analyst	Support team member position responsible for viewing camera footage and measuring processes.
Roving Cashier	Cashier certified to work in any location for both restaurant concepts.
Roving Manager	Manager certified to work in any location for both restaurant concepts.
Salaried Team Member	Exempt team member working at salaried rate.
Scorecard	Position performance evaluation.
Service Team Members	Service team members responsible for serving guests.
Shift Meeting	Daily staff communication meeting.
Social Media	Media designed to be disseminated through social interaction, using highly accessible and scalable publishing techniques. Social media uses web-based technologies to transform and broadcast media monologues into social media dialogues.
Tellermate	Electronic money counting system.

SplashMetrics	Analytics application that works in tandem with major analytics engines and social media platforms (such as Google Analytics, Twitter, etc.) to provide customized, objectives-based metrics for marketing campaigns.
Strategic Planning Process (SPP)	Process for developing and deploying the organizational strategic plan.
Strategic Objective (SO)	Established objective for achieving the organizational strategic plan.
Systematic Process Improvement Meeting (SPIM)	Annual review of key processes and systems by senior leadership.
(TM) Team Member	Employee of K&N Management.
Topgrading	Recruiting, hiring, and team member development strategy.
(YF) Yearly Focus	Company-wide improvement focus spanning 52 weeks.
Yearly Kick-Off Meeting	Annual meeting to kick off the upcoming yearly focus.

Preface: Organizational Profile

P.1 Organizational Description

K&N Management is the licensed developing entity for Rudy's "Country Store" and Bar-B-Q and the creator of Mighty Fine Burgers, Fries and Shakes located in Austin, Texas. Both concepts are classified as fast-casual restaurants. Through its two excellent concepts, K&N Management consistently delivers a fresh taste profile using high-quality ingredients in products that are delivered quickly and accurately by friendly team members in a clean environment.

K&N Management passionately believes in quality and excellence which are evident throughout our operation. We put quality first in our people, products, and facilities. Consequently, through the use of performance excellence, our restaurants outperform other fast-casual restaurants in the market, creating higher guest satisfaction, profitability, and sustainability. Mighty Fine Burgers, Fries and Shakes has been open two years and is already a proven leader in the fast-casual market. While most new concepts fail, $3.5 million per year in single-unit sales and very high guest satisfaction during the first two years indicates Mighty Fine is one of the best start-up fast-casual concepts in the nation.

Our growth and performance excellence model (Figure P.1) has drawn organizations from the restaurant, business, and retail industries to benchmark our service and operational processes.

K&N Management was founded in 1993 by two business partners, Ken Schiller and Brian Nolen. When they purchased the rights to develop Rudy's "Country Store" and Bar-B-Q in the Austin, Texas area, their initial vision was to become the preferred fast-casual restaurant in the local community. They intended to achieve this goal by featuring a limited menu driven by high quality food and speed of service, thus focusing on doing a few things excellently instead of many things just average. Between 1993 and 2005 K&N Management expanded from one to four Rudy's locations in the Austin market with average unit annual sales exceeding $5.5 million (food and beverage only).

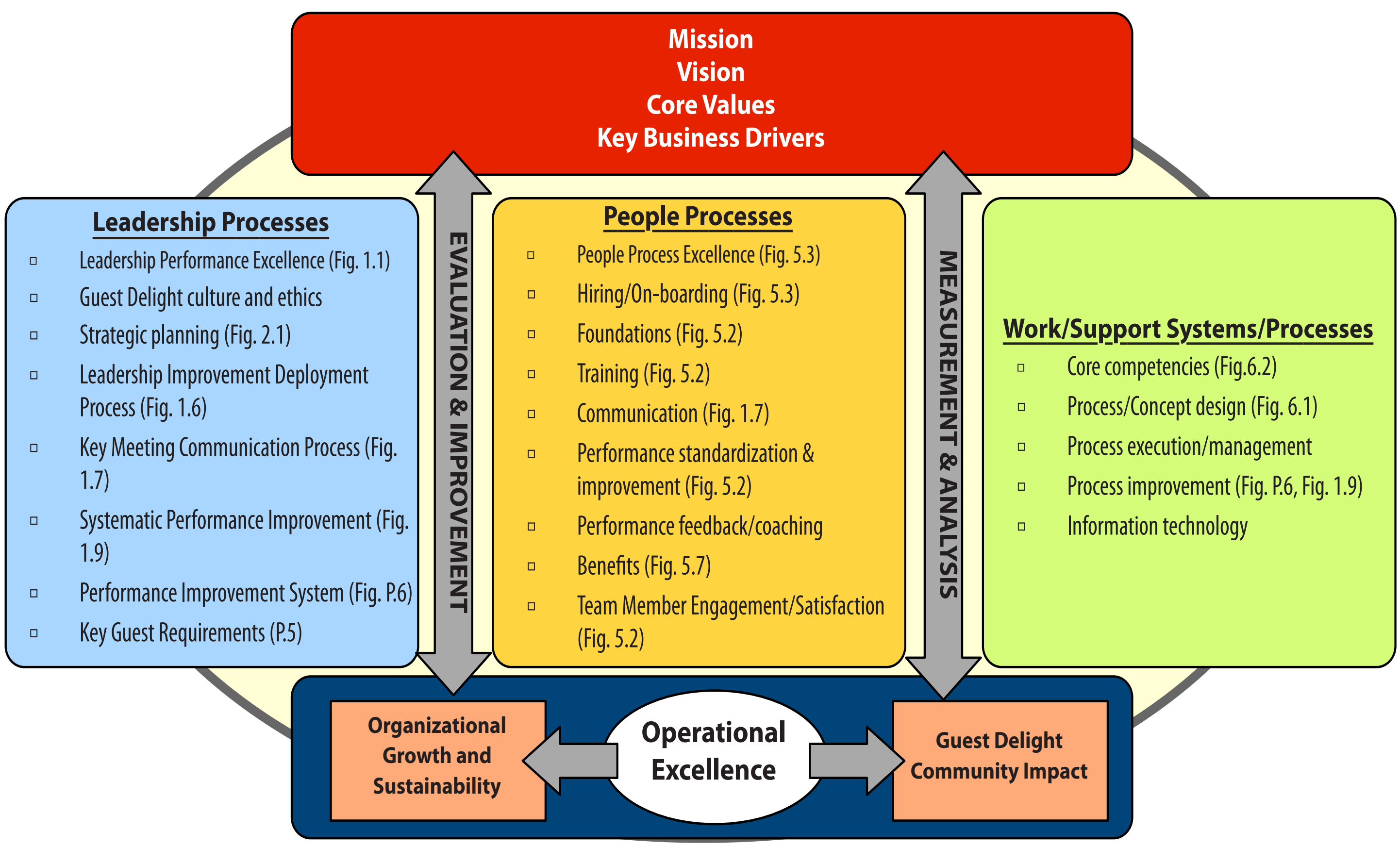
In December 2007, we developed and opened Mighty Fine Burgers, Fries and Shakes, a fast-casual hamburger restaurant in north Austin, Texas. As a result of Mighty Fine's immediate success, two more locations were opened in the Austin area in 2009. With the solid reputation of two high performing concepts in the market, K&N Management has become recognized as a leader in operational excellence in the business community as well as a fast, friendly, and clean dining experience by the general public.

P.1a Organizational Environment

P.1a(1) Products and Delivery Mechanisms

K&N Management operates two fast-casual restaurant

Figure P.1 K&N Management Performance Excellence Model



concepts, featuring limited menus and walk-up counter service. At both concepts guests have the option of dining in or taking their meal with them (Figure P.2). A limited menu and simplified service processes allow K&N Management to better meet the key guest requirements (Figure P.5).

Rudy's "Country Store" and Bar-B-Q is a barbecue restaurant with a convenience, or country store, and gas station that features a limited menu and serves guests for breakfast, lunch, and dinner. The country store, gas station and car wash are considered value-added services that do not greatly impact the bottom line of the operation. Daily single-unit breakfast sales average $2,750.00 during a four-hour period while most fast-casual breakfast

Figure P.2 Products & Delivery Mechanisms

Concept	Product	Delivery Mechanism
Rudy's "Country Store" & BBQ	Breakfast	• Counter Service • Convenience Store • Group Meal
	BBQ Lunch & Dinner	• Counter Service • Group Meal
Mighty Fine Burgers, Fries & Shakes	Lunch & Dinner	• Counter Service

restaurants rarely exceed that total the entire business day. Rudy's breakfast, which K&N Management created, was not part of the original Rudy's franchise concept, however after seeing the tremendous success of our breakfast operations, corporate Rudy's implemented our breakfast taco program in their locations. K&N Management was also an innovator for a turn-key take away program for groups of ten or more people, called a Group Meal, which was also later implemented by corporate Rudy's.

At Mighty Fine Burgers, Fries and Shakes dine-in and take-out guests can choose from hamburgers, cheeseburgers, fresh-cut crinkle fries, fresh-squeezed lemonade, hand-dipped shakes, and a unique chopped chili dog.

The guests for Rudy's and Mighty Fine require a fresh taste profile using high-quality ingredients in products that are delivered quickly and accurately by friendly team members in a clean environment (Figure P.5).

P.1a(2) Organizational Culture

Our organizational culture is passionately focused on guest delight (Figure P.3). We are committed to delivering a value-added experience for our guests through our people, products, and atmosphere. Both concepts are recognized as being excellent in every one of our key business drivers. Expectations, behaviors, and performance standards are communicated through the clearly defined mission, vision, values, and key business drivers (Figure P.3). Our core values encompass excellence, quality, integrity, and relationships.

K&N's culture is initially communicated to team members during the orientation process, called Foundations. This

Figure P.3 Mission, Vision, Values, KBDs

Vision Statement

"To become world famous by delighting one guest at a time."

Mission Statement

"To guarantee that every guest is delighted because of me."

Key Business Drivers

Food Quality
Speed of Service
Cleanliness
Hospitality
Accuracy
People
Value

Core Values

Excellence
Quality
Integrity
Relationships

comprehensive session conducted at the corporate office by certified Foundations Facilitators provides a solid foundation for team members in order to effectively integrate them into our culture. Guest delight culture is further communicated and implemented through continuous training, coaching, and meetings.

One piece of our culture that has greatly contributed to excellence in hospitality is our innovative adoption of the philosophy from the best selling book *FISH! A Remarkable Way to Boost Morale and Improve Results* by Stephen C. Lundin. The concept focuses on systematically creating a positive, fun, guest delight driven environment. We took the philosophy to a higher level by making the "choose your attitude" aspect the central success point and the foundation of the Building Blocks of FISH. The Building Blocks of FISH (Figure P.4) and training the four steps in a way that team members can apply them on a daily basis are the two main factors in the long-term success the company has had in hospitality since incorporating the philosophy into its culture.

Figure P.4 FISH Building Blocks

Our core competencies are those strategically important capabilities listed in Figure 6.2, which enable us to excel in achieving our mission, vision, and thus guest delight and profitability . We excel in people, food quality, speed of service, accuracy, counter service hospitality, cleanliness, and profitability (Figure

6.2). We use our core competencies to design and execute work systems and key work processes that delight the guest through meeting and exceeding their key guest requirements.

P.1a(3) Workforce Profile

Employees, or team members, are typically 18-45 years old, and come from Austin and the surrounding communities. Most entry-level team members hold high school degrees or an equivalent, while managers and senior leaders have undergone various levels of higher education. We do employ team members at Mighty Fine while they are attending high school, which allows them to gain early work experience. Career development through succession planning is available for team members who desire to grow within the organization. Over forty percent of the current salaried team members have been promoted from hourly positions within the restaurants and fifty seven percent of the existing general managers were originally hourly team members. Most of our team members work directly in the restaurants.

K&N Management employs over 400 team members consisting of hourly and salaried team members that are classified into five main categories: (1) senior leadership team, (2) management team, (3) support team, (4) production team, and (5) service team.

We engage team members (TM) in accomplishing our mission by selecting, training, developing, and compensating TMs who follow processes and delight guests. The factors that engage our team members are listed in Figure 5.2. TM feedback is gathered through an online team member comment log, engagement surveys, meeting surveys, a monthly newsletter, and daily shift meetings.

We have superior human resources practices including people selection, training, benefits, safety, and people development processes. For fast-casual restaurants, we are at or near the benchmark by providing full-time hourly team members 90% paid comprehensive group benefits in addition to a company matching 401(k) plan. We consider a 30-hour work week as full-time eligibility status for TMs to participate in the group benefits program. This enables students to attend school and maintain benefits. Other above market benefits included are company owned vehicles for senior leaders, general managers, and other key TMs, plus 90% paid group benefits for eligible dependents of salaried team members. Our human resources philosophy encompasses doing what is right for our people in order to retain engaged, experienced team members who delight our guests. We employ non-union team members matching the diverse Austin community and crossing a wide range of demographics who work together as a team to delight our guests.

P.1a(4) Technologies, Equipment and Facilities

K&N Management facilities include a corporate office, four Rudy's "Country Store" and Bar-B-Q locations, and three Mighty Fine Burgers, Fries, and Shakes locations.

The restaurant facilities have been carefully designed to be easily accessed by guests, as well as being reliable, clean, versatile, and efficient. At Rudy's, the taco line that produces breakfast in the morning has been innovatively designed to transform into the cutting line that produces barbecue for our lunch and dinner guests. Both concepts feature extensive stainless steel surfaces throughout the dining rooms and kitchens, which is a highly durable and cleanable material. Neither restaurant concept includes a drive-thru, offering only walk-in service that results in a more streamlined, efficient service line that can easily be replicated in a stand-alone or strip center facility. Both concepts feature state-of-the-art technology including touch screen registers, web-based automated sales reporting, automatic hand-wash sinks, and extensive camera systems.

Managers, support team members, and senior leaders have instant communication through mobile devices. We have developed an internal website for the entry and tracking of sales, guest comments and complaints, team member comments, and maintenance and IT requests. When guest comments or complaints and team member comments are submitted through the website, senior leaders receive daily notification on their mobile devices.

To further improve the efficiency of the management team, operations manuals, training materials, and required forms are available through a server shared by all locations. Incorporating a high level of information technology throughout the operation enables quick communication and calibration between senior leaders and members of the management team.

P.1a(5) Regulatory Environment

We adhere to state and federal employment guidelines including Workers Compensation, EEO, OSHA, and FLSA in addition to state and local food safety regulations. We hold senior leaders, managers, and TMs accountable to ethical and legal standards and remain committed to maintaining our upstanding reputation as a sound organization with high principles (Figure 1.11).

P.1b Organizational Relationships

P.1b(1) Organizational Structure

K&N Management is a privately held company that does not have a formal board of directors. The two owners are equal partners who closely adhere to a system of checks and balances, each reporting back to the other (Figure 1.10). A team of seven directors reports directly to the owners and acts as a board of advisors to the owners. Senior leaders work closely with the management teams to achieve organizational strategies and objectives. Fewer levels of hierarchy have enabled senior leaders to personally drive expectations which results in a more streamlined, efficient communication process.

P.1b(2) Key Market Segments

The market for Rudy's and Mighty Fine consists of Austin, Texas and its surrounding communities. The primary market segment for Rudy's and Mighty Fine is the fast-casual market, either dine-in or take-out. Both concepts appeal to a wide range of guests from various demographics and have become destination places for business travelers,

Figure P.5 Key Guest Requirements

Key Requirement	Key Measure	KBD
High Quality Ingredients & Fresh Taste Profile	• Guest satisfaction survey (Fig. 7.2-1) • Food quality rating (Fig. 7.1-2) • Operations inspections (Fig. 7.1-1)	Food Quality
Quick Service	• Guest satisfaction survey (Fig. 7.2-4) • Line times (Rudy's only) (Fig. 7.1-5) • Cashier efficiency (Fig. 7.1-7 and 7.1-8) • Operations inspections (Fig. 7.1-1)	Speed of Service
Accuracy	• Guest satisfaction survey (Fig. 7.2-5) • Order accuracy (Fig. 7.1-6)	Value
Friendly Service	• Guest satisfaction survey (Fig. 7.2-2) • Game Film (Fig. 7.1-9) • Operations inspections (Fig. 7.1-1)	Hospitality
Clean Environment	• Operations inspections (Fig. 7.1-1) • Guest satisfaction survey (Fig. 7.2-3) • Health department inspections (Fig. 7.1-3)	Cleanliness

tourists, and other visitors.

The key requirements for our guests (Figure P.5) are summarized as follows: a fresh taste profile using high-quality ingredients in products that are delivered quickly and accurately by friendly team members in a clean environment. Our guests maintain a high degree of loyalty because we consistently deliver our key guest requirements and key business drivers in every transaction.

Rudy's and Mighty fine have only one guest or market segment. The key guest requirements (KGRs) for Rudy's and Mighty Fine are the same regardless of age, gender, or market segment. Both concepts are designed to meet the same KGRs. We identified the KGRs for Rudy's and confirmed they were the same for Mighty Fine guests, which enables us to leverage our core competencies within both concepts. Therefore, we stay true to our KBDs and KGRs because they work. We are consistent with our products and services and do not allow varying local and national menu trends to distract us from consistently meeting and exceeding KGRs at an outstanding level.

P.1b(3) Key Suppliers

We carefully select suppliers and vendors to partner with, and require all vendors to comply with our standards and product specifications. Key vendors receive an annual Key Vendor Scorecard that provides them performance feedback as well as reinforces the communication of our core values. Our key suppliers consist of food, beverage, equipment, and IT vendors. We have an agreement with each key vendor listing approved products with written specifications and acceptable substitutions. Incoming products do not change without adequate testing that the change will meet our key supply chain requirements of quality, yield (when applicable), pricing, reliability, and guest approval. Delivery days and times are specified for applicable vendors.

We partnered with Sysco Foods, our primary food supplier, to create an efficient, price-effective order and delivery process. As a result, our supplier pricing is among the best in the state. Other supplier and vendor relationships have been created to assist in building and equipment design, product or process innovation, and technology implementation. Online ordering, meetings, and e-mail communication are effective methods for communicating our product and delivery standards as well as managing relationships with suppliers. Fostering supplier relationships and limiting the number of key suppliers and vendors has resulted in an economical, streamlined and efficient order, delivery, and inventory process.

P.2 Organizational Challenges

P.2a Competitive Environment

P.2a(1) Competitive Position

Rudy's and Mighty Fine compete in the local Austin market with other restaurants from major national chains as well as single-unit operators. There are over 2,000 restaurants to choose from in Austin. K&N creates a competitive advantage in the market by focusing on our KBDs and continuously improving our processes. Competitive factors in the market include food quality, speed of service, accuracy, friendly service, cleanliness, and our people (Figure 6.2). Because we excel in these competitive factors, our sales per unit are among the highest in the nation.

P.2a(2) Success Factors and Changes

The key factors that determine our success in exceeding our KGRs are our core competencies (Figure 6.2) and process excellence. The current economic downturn is a key industry challenge affecting our competitive position. Many restaurants have either struggled to remain open or have been forced to close their operation. Data provided in 2009 by our primary supplier, Sysco Foods, shows that Rudy's was down 1% in total purchasing as compared to other restaurants in the market who were down 15.6%. In a direct sales comparison, we do not know of another fast-casual or full-service restaurant in the Austin market or the nation that produces the same volume per square foot, exclusive from food revenue, as our original Rudy's. We feel that our unique restaurant concepts and continual focus on our key business drivers have enabled us to maintain high sales at Rudy's while growing the Mighty Fine concept. We are one of the few organizations that has actually grown in a depressed economy.

P.2a(3) Sources of Comparative Data

We are limited in gathering comparative data in that most restaurants in our market are not publicly traded, thus the data is not published. Various sources of comparative data include the National Restaurant Association, the Texas Restaurant Association, financial information from publicly traded companies, published health department scores, in addition to information shared by suppliers and other restaurant operators with whom we have a professional relationship. The Chamber of Commerce and banking institutions have provided valuable financial data.

P.2b Strategic Context

Strategic challenges are inherent in the restaurant business and all operators are affected by the same threats to some degree. Various challenges faced by K&N include effects of the current economy, new competition, improving our people development and communication processes, and growing the Mighty Fine concept while maintaining focus on operational excellence within Rudy's and Mighty Fine. Our strategic planning process enables us to efficiently and effectively allocate resources to address our strategic challenges.

In the midst of these challenges, we continue to utilize our advantages (our core competencies and ability to deliver on KGRs) by being one of the first fast-casual operations in Austin to feature a premium, all-natural hamburger and strategically positioning each of our locations. Another strategic advantage is our superior ability to operate restaurants excellently, whether they be an existing franchise or our own start-up concept.

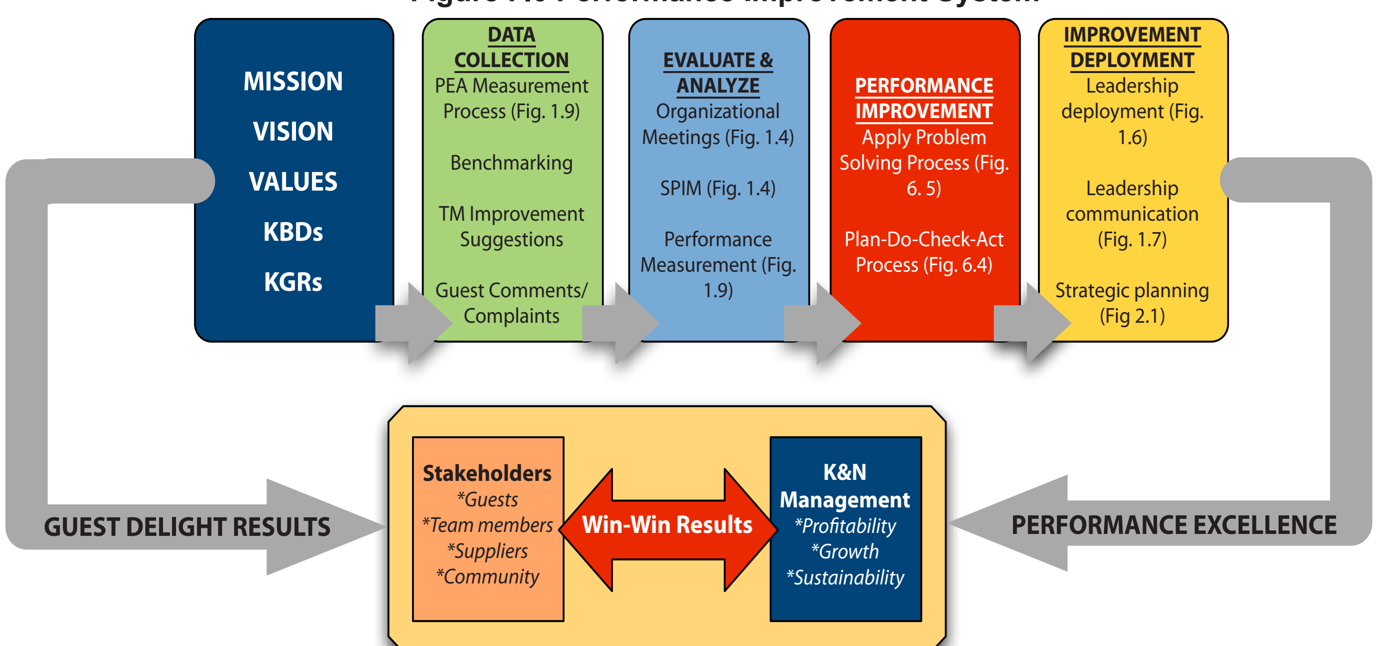
P.2c Performance Improvement System

The mission, vision, values, KBDs, and KGRs drive senior leadership decision-making and performance improvement. Figure P.6 illustrates the process the SLT uses to promote a culture of improvement. The SLT systematically uses a variety of data to identify performance improvement opportunities then applies our problem solving process (Figure 6.5) to ensure the change will have a positive and sustainable impact on our mission, vision, values, KBDs, and KGRs, thus creating a win-win result for the organization and our stakeholders. We then use structured organizational meetings (Figure 1.4) to effectively deploy improvements to team members and communicate performance measurement (Figure 1.9).

Senior leaders conduct an annual Systematic Process Improvement Meeting (SPIM) to review and evaluate key processes and measures. Other elements of our performance improvement system include systematic measurement processes (Figure 1.9), the strategic planning process (Figure 2.1), benchmarking, and applying the Malcolm Baldrige criteria. The feedback report from the 2009 Progress Level Application for the Texas Award for Performance Excellence provided an excellent source for learning and improvement. The feedback from the site visit team of examiners provided valuable, actionable improvement opportunities and recommendations which were integrated into our performance improvement system.

On the journey to achieve operational excellence and perfection, we benchmarked the business excellence model of the previous Malcolm Baldrige Award recipient, Pal's Sudden Service. We have applied best practices from Pal's Sudden Service, In-N-Out Burger, Disney, The Ritz-Carlton, and other valuable resources at various levels of the organization, resulting in continuous results-driven performance improvement. K&N Management is a recipient of the 2010 Texas Award for Performance Excellence. Senior leaders are utilizing the information from the examiner feedback report to further improve processes in order to continue to strive to higher levels of performance excellence. In 2010, K&N Management was also selected as the number one large employer in Austin, Texas by the American Statesman.

Figure P.6 Performance Improvement System



Category 1: Leadership

1.1 Senior Leadership

1.1a Vision, Values, and Mission

1.1a(1) Setting and Deploying the Vision and Values

K&N Management is passionate about guest delight and excellence, which is evident throughout our operation. The senior leadership team (SLT) consists of two owners and seven directors who are responsible for setting and deploying the vision and values of the organization. The mission, vision, and KBDs were originally set by a group of senior leaders and managers as a result of a benchmarking visit to Pal's Sudden Service in 2002. Our vision reflects the passion for guest delight while our mission statement defines the role of each team member in achieving that vision. If team members guarantee that each guest is delighted, we will be recognized world-wide as being excellent in hospitality, processes, and performance. The core values were set by senior leaders with input from team members about what they felt was most fundamentally important about our culture. Our passion for guest delight is integrated into our values which are thoroughly deployed throughout the organization.

Senior leaders refer to the mission, vision, values, and KBDs throughout key leadership process deployment, measurement, data analysis, evaluation, and performance improvement (Figure 1.1). The mission, vision, values, and KBDs are reviewed annually by the SLT during the strategic planning workshop to decide if any changes should be made.

Our commitment to excellence is evident in our people selection and development processes, concept design, and operational management. The mission, vision, values, and KBDs are first deployed through the Foundations session, then reinforced through training, shift meeting communication, and performance appraisals. The first flashcards in every set of training modules communicate the key elements of our culture to TMs. During Foundations, TMs receive a culture card that contains the mission, vision, values, KBDs, and the Building Blocks of FISH (Figure P.4).

Our mission, vision, and values are deployed to key suppliers and guests in a variety of ways. The mission and vision are printed on all business cards. Our guests can easily view our mission, vision, values, and KBDs posted on the walls of our restaurants, the Mighty Fine website, and demonstrated through the attitudes of our team members. Our values are communicated to our key suppliers through a key vendor scorecard conducted annually by the executive director. The criteria of the scorecard essentially holds suppliers accountable to our product and delivery standards. We require our suppliers to provide us with product that meets our quality specifications at the scheduled delivery time in order for us to maintain our KBDs. Suppliers who do not meet the standards of the vendor scorecard are replaced.

Figure 1.2 illustrates how senior leaders show their commitment to support the core values of the organization through personal action.

Figure 1.1 Leadership Performance Excellence

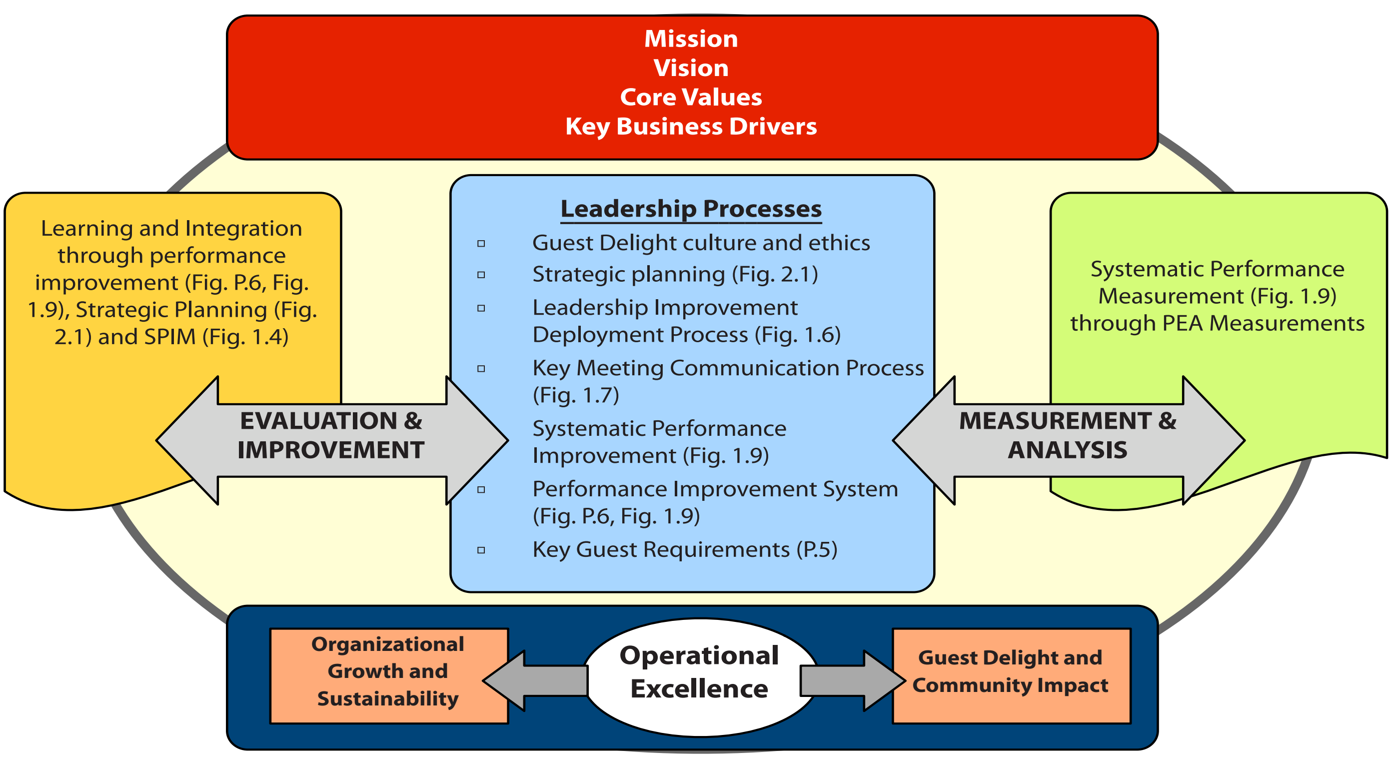


Figure 1.2 Senior Leadership Support of Values

Value	Example of SLT Personal Action
Excellence	• One owner and two directors completed Quality-Texas Examiner training. • SLT lead the effort to apply Baldrige principles within K&N Management. • Benchmarking best practices inside and outside the hospitality industry. • Sharing process excellence and operational information with others.
Quality	• Facilities design • Product standards • Topgrading selection process • Cleanliness innovations (automatic hand wash sinks) • Resources allocated to keep managers on the front line for maximum guest accessibility.
Integrity	• Role model behavior • Team member comments • On-time payment to suppliers, banks, and team members
Relationships	• Team member picnic • Excellent benefits package • Team member awards • Community impact is the 2010 Yearly Focus • Team member contributions matched for Austin Habitat charity partner • Senior leaders donate time to community impact events

1.1a(2) Promoting Legal and Ethical Behavior

Senior leaders foster an organizational environment that requires legal and ethical behavior by stressing the organizational core value, relationships, and by using the plan-do-check-act process (Figure 1.3) to define, review, and enforce legal and ethical policies and processes. We have adopted a zero-tolerance policy for any breaches and established systems to both communicate and enforce these policies and expectations. Open communication is promoted through the online team member comment log. Since TMs do not have to leave their name or contact information, the online team member comment log is a valid method to report legal and ethical violations anonymously. New hires undergo background screening and drug testing during the hiring process to make certain we are hiring people with integrity. This also ensures we are providing a safe environment for our TMs and guests. TMs receive anti-harassment training during the Foundations session and salaried TMs are required to attend an anti-harassment class.

Figure 1.3 Process to Ensure A Legal & Ethical Environment

1.1a(3) Creating Sustainability

The SLT has created a sustainable organization through establishing systems and processes (Figure P.1) that enable us to operate both concepts at an excellent level. Both concepts have great success by translating our KGRs and KBDs to our key products and services. Our operational excellence brings our guests back and reinforces key elements of our guest delight culture. The SLT directs a culture of operational excellence through well-designed and operated processes. Through our leaders and processes we have created an environment of operational excellence through continual performance improvement, a comprehensive leadership improvement deployment process (Figure 1.6), and workforce learning and development. As a result, we have seen organizational growth in both good and bad economic conditions.

Communication/Agility: Meetings are key to communicating our culture, current performance, agility, performance improvements, strategic plan accomplishments, and organization and workforce learning. Figure 1.4 shows the different meeting types, participants, purpose, and frequency. The analysis and measurement of the short- and long-term strategic objectives, operational process measurement, and individual management team results comparisons also guide organizational performance excellence and enable us to make rapid adjustments.

Company-Wide Focus On Excellence: Senior leaders, support team and management TMs participate in a yearly kick-off meeting to introduce the goals for the upcoming year and launch the next year's organizational focus, referred to as the Yearly Focus (YF), and how it

Figure 1.4 Organizational Meetings

Type	Participants	Purpose	Frequency
Strategic Planning (SP)	SLT General managers Non-industry consultant Key support staff	• SWOT analysis • Develop strategies • Develop strategic objectives • Develop action items	Annual
Systematic Process Improvement (SPIM)	SLT	• Review key work systems & processes • Review guest feedback channels • Discuss leadership or responsibility changes • Review training systems	Annual
Yearly Kick-Off Meeting	SLT Management team Support team Trainers	• Deploy annual organizational goals • Deploy Yearly Focus • Leadership learning & development	Annual
Directors	SLT	• Review team member suggestions • Review guest feedback • Determine process improvements	Biweekly
Owners	SLT General managers Key support staff	• Monthly SP review • Review store sales & store measures • Review company-specific focuses • Deploy process improvements	Monthly
General Managers	Relevant directors General managers	• Review store sales & store measures • Review company-specific focuses • Deploy process improvements	Biweekly
Store Managers	All directors (attend monthly) General managers Managers	• Review store sales & store measures • Review company-specific focuses • Review store-specific focuses • Deploy process improvements	Weekly
Shift Meeting	General managers Managers Production team members Service team members	• Deploy process improvements • Daily event communication • Review company-specific focuses • Review store-specific focuses	Daily (each shift)

will be measured. The goal is to achieve organizational excellence in this area over the next year, then maintain the gains through defined methods of measurement. The YF selection process is part of the annual SP process and becomes a company-wide improvement focus for the next 52 weeks. The YF is a strategic objective or strategy that will have a substantial impact on team members and a profound impact on competitiveness and culture which can be accomplished within the year. The past yearly focuses are listed in Figure 1.5 and are continually measured to ensure continued improvement in these areas. Figure 1.6 illustrates the senior leadership annual meeting process and the integration of the yearly focus and strategic planning across the workforce.

Learning & Leadership Development: Performance improvement is a continuous focus accelerated by workforce learning and leadership development. We have established an effective training program and promote development and succession planning through learning. Through our online learning system, all TMs have access to developmental books and videos, managed by the training director. In addition, we conduct workshops and host keynote speakers to further develop

Figure 1.5 Yearly Focus History

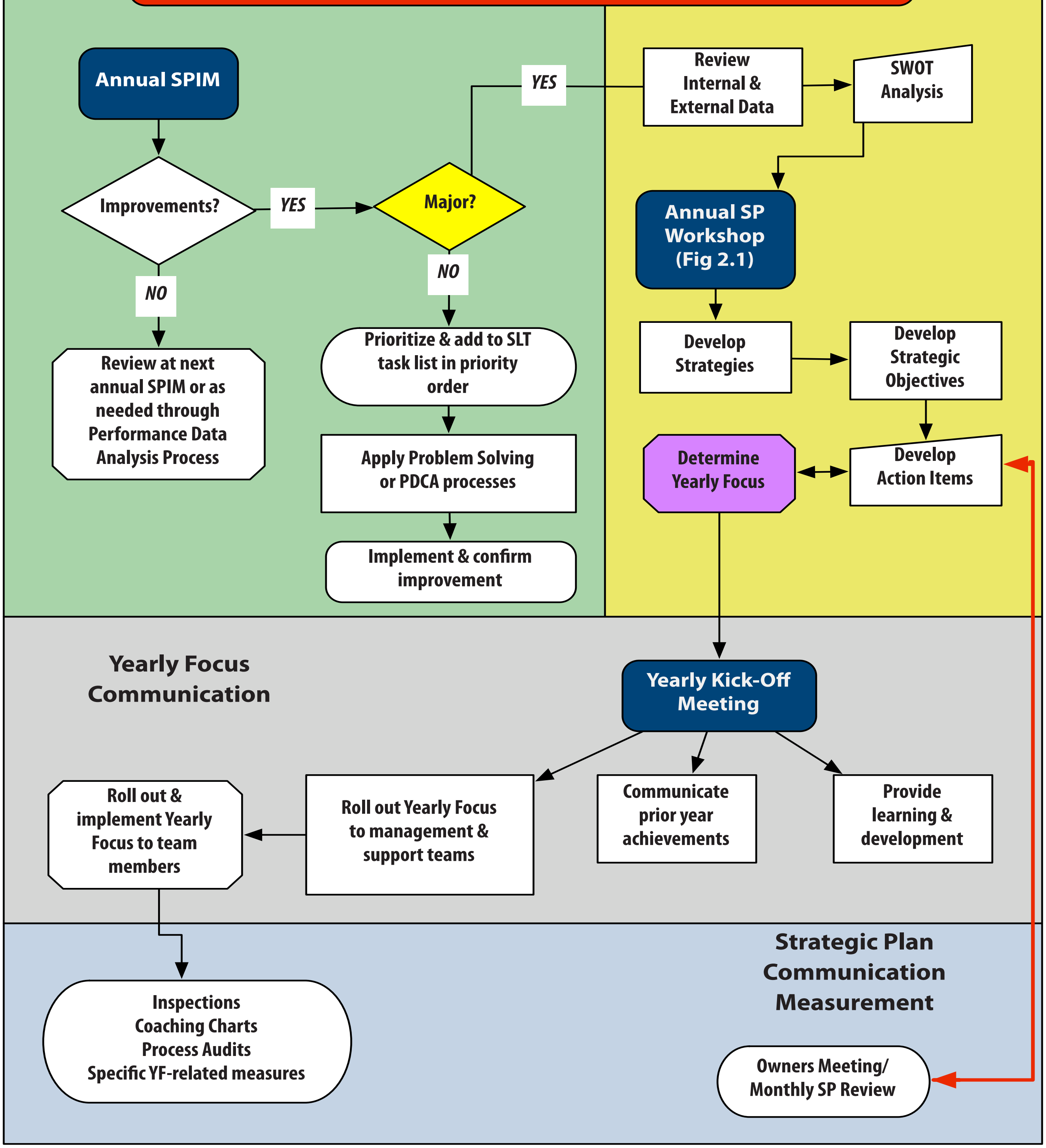
Yearly Focus	Measure	KBD
2001 Speed of Service	Line Times (Fig 7.1-5)	Speed of Service
2002 Perfect Food Quality	Food Quality Rating (Fig. 7.1-2)	Food Quality
2003 Perfect Service	Game Film (Fig. 7.1-9)	Hospitality
2004 Cleanliness	Comp. Cleaning Inspections (Fig. 7.1-4)	Cleanliness
2005 People	Scorecard Ratings (Fig. 7.4-12)	People
2006 Topgrading	% "A Players" (Fig. 7.4-13)	People
2007 Process Improvement	No. of Deployed Processes (Fig. 7.5-10)	All KBDs
2008 Coaching	Manager on the Line (Fig. 7.5-4)	Speed, People
2009 Culture of Pride	Survey (Fig. 7.6-8)	People
2010 Community Impact	TM Engagement Survey Volunteer Hours (Fig. 7.6-7)	People

and enhance the personal skills of the SLT, managers, and coaches. Group reading participation has also provided us with an excellent channel for developing personal leadership skills. For SLT development please see 1.2a(2).

Benchmarking: Senior leaders have fostered a culture of excellence and innovation through benchmarking best practices (Figure 4.4). To develop our Foundations session, several senior leaders visited the Disney Institute. Many benchmarked practices have been implemented as a result of most of the managers visiting the 2001 Malcolm Baldrige Award recipient, Pal's Sudden Service. The visit included a tour of the Pal's operation and a comprehensive course at the Pal's Business Excellence Institute. Other companies we have benchmarked and adapted best practices include The Ritz-Carlton, Kincaid's Hamburgers, and In-N-Out Burger.

Succession Planning: The SLT has created a series of levels that a TM can step through into management. Once

Figure 1.6 Leadership Improvement Deployment Process



a team member has shown initiative and capability, they can be promoted to the role of coach, if selected by the training director. Top performing coaches who desire to move up are then assessed, interviewed, and selected to become shift supervisors. This position gives the team member some management responsibilities and allows the SLT to assess their potential to become managers. This process allows us to maintain not only the staffing level of the management team, but also the effectiveness of individual performance within those teams. The succession planning process continues up to senior leadership. One owner can replace the other and assume their duties or delegate them to directors where appropriate. If a director exits the organization, senior leaders determine if the position can be filled internally through the development of a general manager or support team member or externally. A plan is in place to delegate the exiting director's responsibilities through senior leaders cross-trained in those areas and/or outsourcing. The succession plan for senior leaders along with established processes and systems ensures the sustainability of the leadership system and the organization.

1.1b Communication and Organizational Performance

1.1b(1) Workforce Communication and Engagement

The SLT has established several avenues to effectively communicate with and engage team members as listed in Figure 1.4. Key decisions, short- and long-term achievements, challenges, and goals are communicated to the management team and training team through the interactive meetings. Part of TM engagement includes effectively communicating process improvements (what and why) to team members through a Process Improvement Communication Form (PICF) in order to keep them committed to performing their jobs and accomplishing our mission, vision, values, and KBDs. Improvements are systematically implemented and communicated face-to-face through meetings to ensure complete understanding of the improvement. This interaction also allows for questions and answers. Figure 1.7 illustrates how the improvements are deployed downward through the organization using the key meeting communication process and then measured through the measurement inspection process.

We reward performance excellence and recognize teams, as well as, individual TM contributions. For example, each month one owner and the general manager personally give the "A Player of the Month Award" to the recipient at each location. The SLT honors TM achievements through the monthly newsletter and the annual awards banquet. The purpose of the annual awards banquet is to recognize team members who have received Game Film Awards, Service Anniversaries, Attendance Awards, and other awards for high performance excellence and guest delight. A Performance Excellence Award (PEA) is given each month to the store that had the best overall performance results in several key areas. All TMs who work at the store that receives the PEA are rewarded with complimentary meals for the entire month. Figure 1.8 lists types of awards, who is recognized, and the distribution frequency.

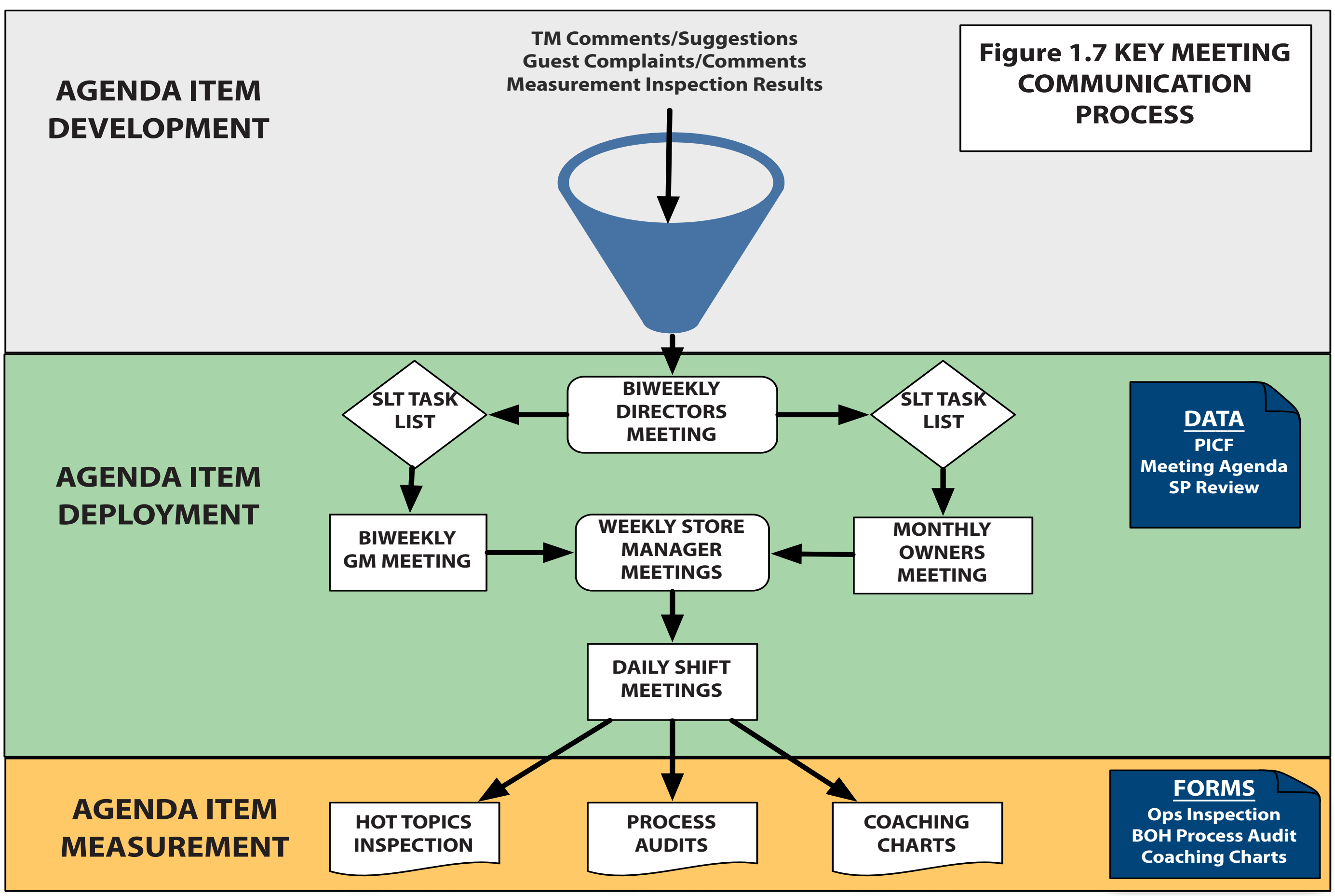


Figure 1.7 KEY MEETING COMMUNICATION PROCESS

Figure 1.8 Awards & Recognition

Award	Who	Frequency
Volunteering	TMs with the highest participation in community impact events	Annual
Anniversary	Recognize TM length of service commitment	Annual
Game Film	TM with best Game Film Score in the company	Annual
"A Player"	The "A Player" TM for each location	Monthly
Attendance	TMs with zero attendance incidents	Annual
Performance Excellence (PEA)	Top performing location	Monthly

1.1b(2) Process Improvement Deployment

Performance excellence is used to consistently achieve our organizational mission of guest delight. The SLT effectively manages the operation by measuring more process results than our competitors, thus continually driving our business. To create and balance value for guests and team members we have designed a business model that is a win-win for all stakeholders. We excel in providing guest delight and meeting our KGRs. We then share our profits by providing our TMs with an excellent benefits and compensation package, work environment, and training and development system. Meeting the needs of our stakeholders provides maximum returns for the company, thus creating organizational sustainability.

The organization has established a systematic performance measurement process (first part of Figure 1.9) to create an action-oriented, results-driven environment. A system of measures reviews the daily operations of the organization and how they impact guest delight, the company core values, mission, vision, and KBDs. The performance measurement process consists of KGR supportive measures as illustrated in Figure 1.9. These are the key performance results the SLT and managers review that are systematically measured, analyzed, and communicated across the organization. This system of measures is used to create a win-win for the organization and stakeholders by ensuring we consistently meet KGRs through systematically measuring key operational processes and people processes. Senior leaders directly coach the management teams, driving them to continuous improvement through utilizing the measurement process as a developmental, ongoing process. Key measures and processes are reviewed and evaluated annually during SPIM.

1.2 Governance and Societal Responsibilities

1.2a Organizational Governance

1.2a(1) Key Governance Factors

K&N has established a defined governance process to hold senior leaders and team members accountable for performance excellence, integrity and ethical behavior. Managers and directors are held accountable through

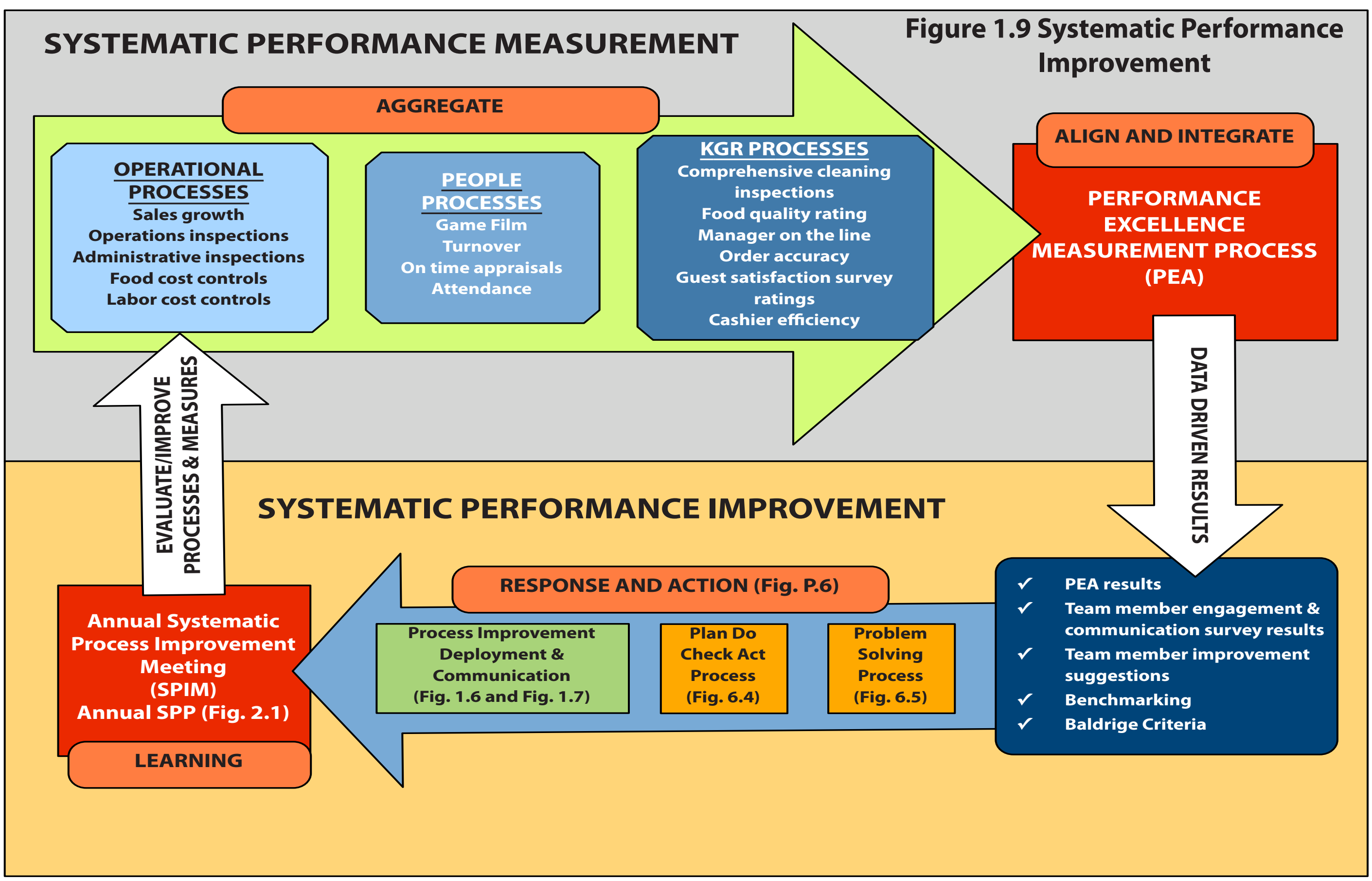


Figure 1.9 Systematic Performance Improvement

annual performance scorecard reviews and annual 360 assessments. The owners receive annual performance feedback, coaching, and development through an outside executive coach. TM engagement surveys (Connection) also provide feedback concerning leadership, ethics, and overall work environment, resulting in further accountability.

Both internal and external audits are conducted to ensure management accountability. Fiscal meetings are internally conducted each month by key senior leaders to review the Profit and Loss statements in order to analyze fiscal performance opportunities. Figure 1.10 outlines the methods the SLT utilizes to ensure fiscal accountability through a system of checks and balances. Internal reviews are conducted annually by designated senior leaders to ensure human resources process compliance and determine the need for process improvements in those areas. Internal and external reviews protect the interests of our team members and our guests, in that the organization takes measures to ensure sustainability through fiscal and legal responsibility (see also P.1b).

1.2a(2) Evaluating Senior leaders

K&N has established a structured process for evaluating senior leadership performance and leadership systems which follows Figure 6.4. Key performance evaluation processes are reviewed each year using the SPIM process (Figure 1.4). The owners meet with each director, annually, to review performance and set individual performance goals. Directors are responsible for reporting actions and accomplishments to the SLT biweekly through the SLT task list. The team of seven directors serves as a de facto governance board and holds senior leadership accountable for performance excellence as well as personal leadership effectiveness.

The owners use a third party executive coach who uses structured interviews of direct reports and others, along with appropriate established assessment tools, to provide data-based feedback and improvement suggestions related to their personal leadership and the leadership system. The owners and directors work with the coach to translate the assessment into written improvement actions which are shared with the SLT. The improvement actions have a systematic follow-up process that utilizes accountability partners to ensure they stay on track. Having an accountability partner is part of the process to support and ensure senior leaders carry out their leadership development actions.

Each year at SPIM (Figure 1.4), the SLT reviews leadership positions and determines any required changes or changes in responsibilities.

1.2b Legal and Ethical Behavior

1.2b(1) Addressing Societal Impact

The SLT addresses adverse impacts on society due to factors concerning our products through prevention measures based on internal health inspections, external health department inspections, food safety and sanitation training, and a hazard analysis and pathogen reduction program (HAACP).

Internal Health Inspections: K&N Management utilizes a third party contractor to conduct a minimum of three internal inspections of our products and facilities each week. As a result, Rudy's and Mighty Fine locations achieve high city health inspection scores.

Figure 1.10 Fiscal Checks & Balances

Fiscal Responsibility	Check	Balance
401K	Annual Audit	• Finance director reconciles statements quarterly
Bank Statements	Owners receive unopened statement	• One owner reviews line-by-line
Financial Control	Funds can only be transferred between K&N accounts by the finance director	• Finance director reconciles bank accounts weekly
Payroll/Labor	Tracked weekly on the GM agenda to eliminate possible discrepancies	• Reconciled weekly
Daily Cash Handling	Tracked weekly on the GM agenda	• Reconciled daily
ERISA - benefits	CPA firm conducts an annual audit	• 5500 filed by experts • Annual report reviewed by the finance director
Cash Flow	Profit & Loss reviewed monthly	• Key senior leaders conduct monthly money meetings
Accounting	CPA firm conducts an annual review	• Key senior leaders conduct monthly money meetings
Corporate Credit Cards	Owner reviews each statement line-by-line	• Card holders sign an agreement • Corporate credit card policy
Large Expenditures	Checks over $7,500 require both owners' signatures	• Owners have to both agree to large expenditures

Food Safety & Sanitation Training: At least one member of the management team at each restaurant attends a city-approved, food management training class each year. All production and service TMs are required to be food-handler certified by the city.

HAACP: Our restaurants maintain an HAACP, monitored daily. A date rotation system is followed for all prepared items. A food borne illness (FBI) complaint process is followed to quickly address any issues should they arise. If a manager receives a complaint regarding a potential FBI, they obtain all necessary information and log it on the internal website. The SLT receives notification on their mobile devices, enabling them to respond quickly.

We anticipate public concerns with current and future products and operations through a third party risk management company, Specialty Risk Management (SRM), and our partnership with our main food supplier, Sysco. SRM sends early information regarding possible product recalls or other safety concerns. Early notification provides K&N the opportunity to plan and prepare for possible concerns. For example, SRM provided early information concerning the tomato recall which allowed us to work with Sysco to ensure we were receiving safe product. Figure 1.11 lists examples of our key ethical compliance processes and measures for achieving regulatory and legal requirements. Figure 1.12 lists examples of our key processes, measures, and goals for preventing operational risks.

Figure 1.11 Examples of Legal & Ethical Compliance

Compliance	Measure	Outcome	Goal
Food Safety	Health inspection	Figure 7.1-3	90+ score
FLSA	Wage & Hour Audit	Figure 7.6-4	0 violations
Workplace Safety	OSHA	Figure 7.6-4	0 violations
Anti-Harassment	EEOC Complaints	Figure 7.6-4	0 complaints
Waste Management	City inspections	Figure 7.6-4	0 violations
Fiscal	IRS	Figure 7.6-4	0 violations

1.2b(2) Promoting and Ensuring Ethical Behavior

K&N always considers the community, team members, and guests in order to create a win-win for stakeholders. We have established policies and processes to ensure legal and ethical behavior of our TMs. Establishing ethical HR processes has resulted in an environment of mutual respect and engagement. TMs can anonymously submit employment-related complaints through the online comment log. Breaches of ethical behavior are rapidly dealt with by the SLT. A board-certified attorney is available for consultation should the need arise. Figure 1.13 illustrates the processes developed to minimize risks associated with breaches in ethical and legal behavior. The SLT communicates and monitors social responsibilities by ensuring that all public and personal safety and sanitation guidelines are adhered to through the training and measurement processes.

1.2c Social Responsibilities

1.2c (1) Environmental Responsibilities

K&N promotes care for the environment through recycling efforts. We recycle glass bottles and the locations with the capabilities also recycle cardboard. Grease traps are properly rendered and collected by an approved vendor. As a recycling incentive, our cups are designed to be multi-use instead of single-use. We actively participate in the Keep Austin Beautiful campaign by adopting and maintaining the cleanliness of two local streets. Senior leaders review changes in laws, regulations, products, markets, and population trends during our annual SP process. We are aligned with the global awareness of recycling and developed a specific recycling strategic action item under the 2010 Yearly Focus, community impact. The first action plan under the recycling strategic action item included

Figure 1.12 Examples of Minimizing Risks

Objective	Description	Preventative Controls	Measure
Team Member Safety	Team member accidents and on-the-job injuries	• Non-slip shoes required • Safety training • In-house maintenance team to ensure facilities are safe and equipment functions properly • Security systems and cameras • Internal inspections of facilities	• Major incidents • Ops. inspections
Food Safety	Preventing contamination of food & beverages	• Food safety certification for all service & production team members • Comprehensive cleaning inspections • Time & Temperature charts • HAACP • Gloves required	• Major incidents • Comp. cleaning inspections • Ops. inspections • BOH audits
Guest Safety	Guest accidents and injuries	• In-house maintenance team to ensure facilities are safe and equipment functions properly • Internal inspections of facilities • Security systems and cameras	• Major incidents • Comp. cleaning inspections • Ops. inspections

a benchmarking trip to Burgerville, a recycling leader in the industry.

To ensure we are supporting our social responsibilities we have established ethical labor practices and sound people processes that include providing excellent health insurance, flexible scheduling, and a good environment for our team members to learn to be responsible employees. We have an in-house chaplain that serves our workforce and helps them deal with problems they face inside or outside of the organization. We will continue to be a supporter of the community by staying a successful business due to our excellent business model (Figure P.1). K&N will continue to be a good employer, delight our guests, support our community, and pay our taxes.

Figure 1.13 Examples of Processes Ensuring Ethical Behavior

Group	Description	Process	Measure
Team Members	Theft, harassment, illegal behavior	• Background checks • Selection process • Orientation (Foundations) • Security cameras • Communicating expectations • Anti-harassment training	Major incidents
Suppliers	Kickbacks, price changing, substitutions	• Vendor scorecard • Supplier audits • Communicating expectations • Product specs	Major incidents
Senior Leaders	Theft, harassment, illegal behavior, ignoring legal requirements	• Background checks • Anti-harassment training • Regulatory reporting • External reviews • Internal reviews • Communicating expectations	Major incidents

1.2c (2) Support of Key Communities

The key communities we support are those surrounding our restaurant concepts. The company's support of key communities is a direct reflection of the values established by the SLT. K&N has partnered with the Austin chapter of Habitat For Humanity as our charity partner. TMs are encouraged to give to Austin Habitat through payroll deductions or a one-time online gift. We are committed to giving back to the local community through our involvement in charitable donations and events (Figures 7.6-6 and 7.6-7). We monitor and measure community support through TM total volunteer hours and total donation dollars. A donation website allows members of the community to efficiently submit requests for donations which are reviewed by the owners. Requests can include food donations, discounts, or gift cards; we do not fulfill cash requests. The owners use a donation process when deciding to grant a request.

The SLT is in concert with our workforce to promote community impact in 2010 by personally heading community impact events. Each location organizes a company-wide event and team members from all locations are given the opportunity to volunteer to serve at these events. The owners serve as leaders on community boards and donate their time to provide education and consultation to local business owners who have selected K&N Management to benchmark. In addition to the community involvement of senior leaders, team members are encouraged to model the behavior of the owners by participating in community impact events.

Category 2: Strategic Planning

2.1 Strategy Development

2.1a Strategy Development Process

2.1a(1) and 2.1a(2) Key Strategic Process (Figure 2.1)

K&N has established an effective, formal process to conduct strategic planning as shown in Figure 2.1. An SP workshop is conducted annually and is facilitated by an expert that is outside of the industry. The key participants in the SPP and the workshop are senior leaders, general managers, and key support team members. The first three steps in the strategic planning process encompass the development of the organizational SP. We develop the SP using the following key process steps:

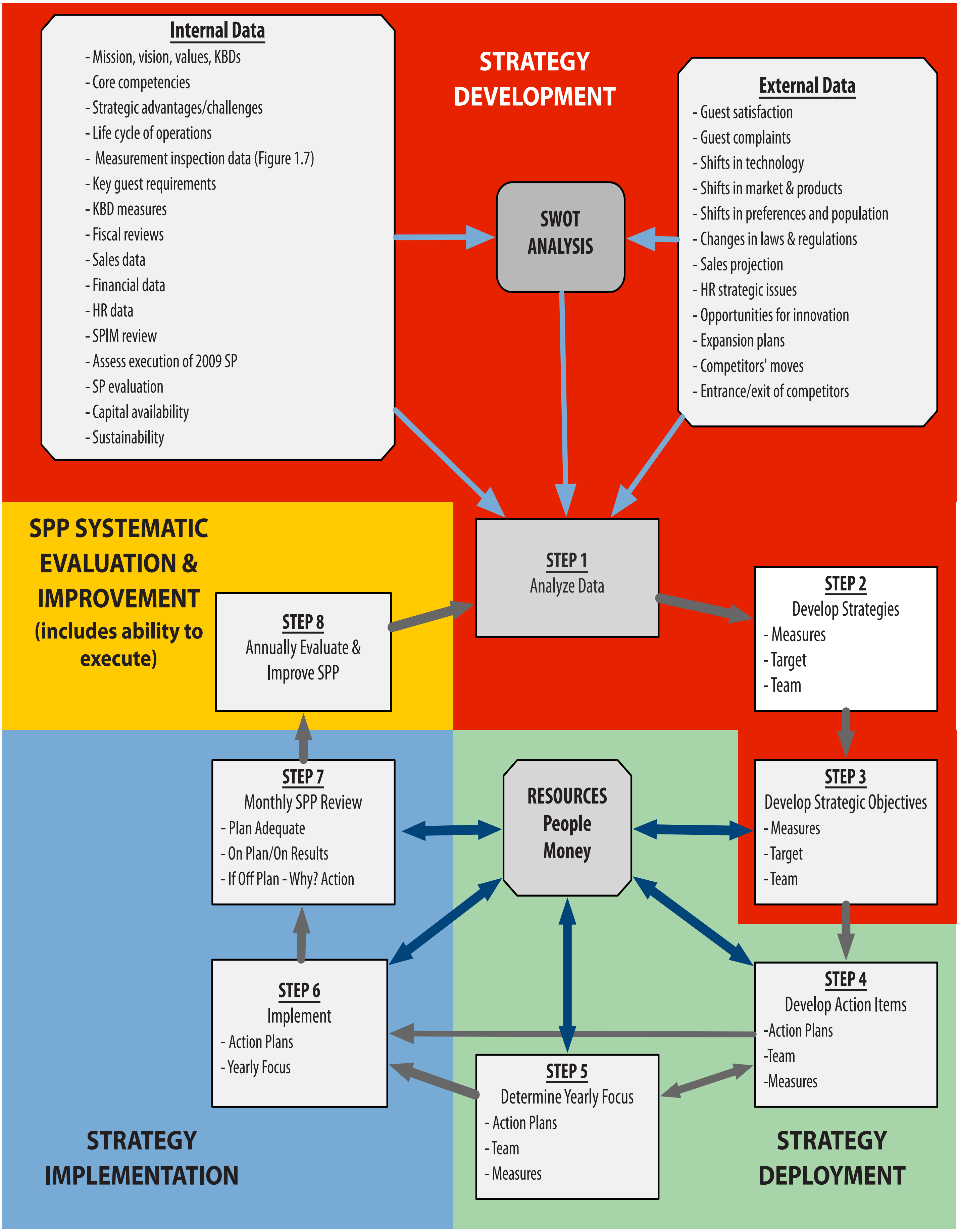
Step 1: Analyze Data (SPP participants)

- Determine the internal and external data needed for SP. The specific list of data used in the SPP is shown in Figure. 2.1. This includes a review of the mission, vision, values, and KBDs.
- Assign specific senior leaders or key support team members to collect and analyze the data.
- Specific senior leaders are responsible for preparing a report of the data with analysis that is reported on during the SPP workshop.
- The group then draws strategic implications from each data source.
- Conduct a SWOT analysis of the organization's strengths, weaknesses, opportunities, and threats.
- The current state of our long-term sustainability and vulnerabilities is discussed, as well as what strategic changes are needed to minimize any future risks related to long-term sustainability.

Step 2: Develop Strategies (SPP participants)

- Define the key directions to best position K&N to be competitively excellent now and in the future. One to four strategies are developed based on the data and analysis. For each strategy selected, the group

Figure 2.1 K&N Management Strategic Planning Process (SPP)



- determines a team leader, measures, baseline data, three-year target, and one-year target.

Step 3: Develop strategic objectives (SPP participants)

- The group determines the best way to accomplish each strategy. One to four strategic objectives (SO) are developed for each strategy: team leader, measures, baseline data, three year target, and one year target.

The SPP effectively identifies blind spots by reviewing a broad range of internal and external data, including forecasts and projections by experts. Having a formal SP workshop is value-added in that it includes experience in all aspects of K&N from at least three levels in the organization. An added benefit is the expert outside of the industry to make sure the right questions are asked and interpreted from multiple view points, including outside K&N. Major shifts in technology, markets, products, guest preferences, competition, and regulatory environment are addressed by reviewing external data during SWOT analysis portion of the SPP (Figure 2.1). We have determined our core competencies to be those areas where K&N has great expertise (Figure 6.2). These are key factors to accomplishing our mission, vision, and KBDs, as well as creating a competitive advantage. Core competencies, strategic challenges, and strategic advantages (see Organizational Profile) are confirmed or revised during the SP workshop based on the data presented and the experience and knowledge of the workshop participants.

The SLT has set the long-term time horizon for the SP at three years. Three years is considered the longest period of time where there is enough stability in the external factors to make planning useful, but long enough to accomplish significant breakthrough changes. The short-term time horizon is set at one year because it corresponds with the time frame in which other management functions are measured while providing enough time to achieve significant results. The SPP sets both one- and three-year targets for strategies and strategic objectives. SPIM review covers the entire SPP, including execution, and thus, our ability to execute the SP is systematically evaluated and improved.

2.1b Strategic Objectives

2.1b(1) Key Strategic Objectives

The timetable for accomplishing strategic objectives is three years. There are one-year and three-year targets for each strategy and strategic objective.

2.1b(2) Addressing Strategic Challenges & Advantages

Strategic challenges are identified in the annual SPP. There is at least one strategic objective that will address each of the strategic challenges. The SP shows a list of what strategic advantages and core competencies we are utilizing to maximize the effect of our SOs. Many of the SOs and action items (AI) are very innovative in nature to achieve the benchmark levels of excellence being both achieved and sought by K&N.

We have established a three-year and a one-year planning horizon for the strategies and SOs. This planning horizon ensures there is a good balance between addressing short-term challenges and longer-term opportunities.
All of the strategies, SOs, and AIs address the best methods for K&N to obtain competitive excellence and long-term sustainability, thus providing a win-win for all stakeholders involved—our guests (excellence in meeting KGRs), team members (great place to work with good job security), owners (excellence in everything we do, profits, appreciation of assets), suppliers (reliable customer who pays bills), and the community (strong, stable, growing employer who contributes and pays taxes).

2.2 Strategy Deployment

2.2a Action Plan Development and Deployment

2.2a(1) Key Short- and Long-Term Action Plans

The third level of deployment is action items (AI), each of which has action plans (AP). The SP proactively addresses key planned changes to products and markets through plans for the growth and expansion of each of the two concepts.

2.2a(2) Developing and Deploying Action Plans

Figure 2.1 illustrates the deployment process for the organizational strategic plan, SOs, and AIs. Based on the data plus the experience and knowledge of the participants in the SP workshop, the AIs that will best accomplish each SO are developed and deployed to teams and team leaders. The participants in the developing and deploying of AIs are senior leaders, general managers, and key support TMs which ensures good alignment, buy-in, and resources. This process ensures all parties are heard and issues are addressed. APs are developed, accordingly, to accomplish each AI. APs deploy the actions needed to all who need to be involved, including suppliers and key partners as needed. Resources needed to accomplish the AIs are confirmed by the owners, who participated in the workshop. The SLT is committed to sustaining the results once they are obtained by ensuring the results are built into the process standards, measures, audits, and training. The deployment (including evaluating and improving the SPP) process is as follows:

Step 4: Develop AIs & APs (SPP participants)

- Identify the best way to accomplish each SO.
- Develop one to four AIs per SO.
- Determine and develop the following for each AI: team and team leader, measure (as appropriate), and AP (Who, What, When) for each AI.

Step 5: Yearly Focus (YF) (SPP participants)

- This is an SO that will personally involve or impact many team members, address the mission, vision, values, KBDs, and/or KGRs. This is a K&N innovative step in our SPP.
- The YF is a strategic culture changing process. Each YF will have a lasting impact on the culture and the way business is conducted within K&N. The YF is part of the organizational SP, thus it is selected based on data and analysis, but also has special emphasis on the factors

listed above. In order to make the YF a company-wide focus for the next 52 weeks, there is only one YF per year which is linked, aligned, and integrated with the KGRs, KBDs, and other SOs. AIs and APs are developed and resourced for the YF and the progress is reviewed during the SP reviews.

Step 6: Implement (action item team)

The AI teams practice good project management and change management skills, use the process design/ redesign process (Figure 6.1) or the problem solving process (Figure 6.5) and follow their APs and make adjustments as needed to effectively accomplish their goals. In order to take advantage of knowledge learned, externally as well as internally, the teams benchmark other restaurants and other industries to ensure the best possible processes are implemented. External consultants and experts help, as appropriate, by providing advice. External research and best practices aid in bringing state-of-the-art learning to the improvement being made.

Step 7: SPP Review (SPP participants and AI teams)

The SPP participants conduct monthly reviews of the AIs and YF designed around world-class review practices learned from Deming Prize winning companies. These practices help keep the reviews both effective and efficient. Each AI team's project plan is reviewed to ensure it is the best available path, is capable of achieving its targets, has multiple actions per month, and is properly staffed, funded, and supported by management.

In the monthly owners meeting, each AI team leader reports if they are “on plan” (meaning that all actions in the action plan scheduled to be accomplished by the review meeting were accomplished) and are “on target” (meaning the results expected by the review meeting are being achieved). If off plan or target, the SPP participants ask “why” two to five times to determine the cause and create the right corrective/preventative actions to get the AI team back on plan. This is typically done prior to the meeting, but sometimes takes place during the meeting. The emphasis is on working together and getting the AI teams the help needed to stay on track. If APs are on plan and on target, the SPP participants look for ways to reinforce the AI team by recognizing outstanding efforts they have made. Knowledge learned about how to keep AIs on plan are shared between teams.

Step 8: Annual Evaluation and Improvement of the SPP Process (SPP participants and action item teams)

As part of the SPIM, the SPP participants, AI teams, and a non-industry consultant review the SPP annually to determine how it needs to be revised to make it more effective and efficient. Facts and data are gathered by the executive director regarding how well the process worked and where the problems are. Some of the data sources used include interviews with the process participants, the success rate of how well strategies, SOs, and AIs were accomplished, reviewing external literature, and benchmarking. Recommendations are agreed to and implemented at the next SP review. The effectiveness of changes are evaluated during a SPP review meeting.

2.2a(3) Ensuring Financial Resources

The owners, who are the final authority to commit the financial resources, lead the SP workshop. They authorize the resources the teams request to accomplish their assigned SOs and AIs based on the benefits of the change, the risk, the knowledge that the best approaches are being used based on research and benchmarking the best practices, and that the change fits with the culture. As seen in Figure 2.1, steps three through seven interact with the K&N resources. During the SP workshop and subsequent monthly review sessions, an interactive "catch-ball" process occurs to balance the resources needed for the SOs, AIs, APs, and the YF, as well as the specific "hows" and targets related to those objectives, items, and plans. This assures that the resources are spent where they will give the best strategic return. The owners also participate in each of the SP reviews, so they are up to date on status, changes, and the reasons for the changes. They are aware of all substantial financial obligations and, therefore, make SPP resource decisions knowing the impact on other obligations. In many cases, resource changes can be approved during the review meetings since the owners are present. To assess and manage any risks associated with the plan, changes in the plan, the environment surrounding the SPP, or the underlying assumptions associated with the plans, potential risks are considered during the approval process for the strategies, SOs, and AIs. Any updates to risks and financial return are considered during the SPP review.

2.2a(4) Modifying and Adjusting APs

We establish and modify AIs through the monthly SP review process. Any changes that will be needed to the SP will be considered during this review. Approval of changes and corrective actions can happen very rapidly, since the owners participate in the SP reviews and provide final approval for any significant changes that are made to the SP, including changes in resources. The owners consider changes to the plan that are necessary and well-supported. The SP review participants represent various aspects of the business, providing a good measure of protection against risks because many different viewpoints are in the room and are part of the decision-making process.

2.2a(5) Key Human Resource (HR) Plans

The SP includes key supporting HR plans required to accomplish short- and long-term action plans. The impact of each SO and AI on the workforce and leadership is considered during the SP workshop, by the HR director, by each strategy, SO, and AI team, and during the SP reviews. HR plans are established to ensure the people capability required by the SP is in place when needed. Processes such as Topgrading [5.2a(2)] and workforce development (5.1b), working in conjunction with the SPP, maximizes potential and minimizes adverse impact on the existing workforce. For example, almost half of the SOs require a higher level of TM performance and, therefore, the HR objective and process around establishing more "A Players", is a high priority and receives high priority attention and resources.

2.2a(6) Key Performance Measures

The SP includes key performance measures for tracking the strategies. The measures are well aligned with the mission, vision, KBDs, and KGRs, thus reinforcing organizational alignment and direction. Since the strategies and SOs cover major areas of the mission, vision, KBDs, and KGRs, the strategy and SO measures are well deployed to cover all key deployment areas and stakeholders over both the short and long term.

2.2b Performance Projection

The SP includes key performance measures of performance projections for strategies and SOs for both the short-term (one year) and the longer-term (three years). Key projections for competitors are also evaluated on the 2010 SP. Competitor projections are also shown for 1 and 3 years when appropriate. Projections are based on the impact of the SP, industry knowledge, knowledge of competitors and their actions, the analysis of historical trends, and available published data and benchmark comparisons. There are no projected performance gaps against competitors because we are already the best in many areas important to our KBDs. The operational excellence strategy and other plans aggressively drive K&N towards pursuing ever higher levels of excellence focused in those areas that are most important to meet and exceed KGRs and achieve sustained business profitability and growth.

Category 3: Guest Focus

3.1 Guest Engagement

3.1a Product Offerings and Guest Support

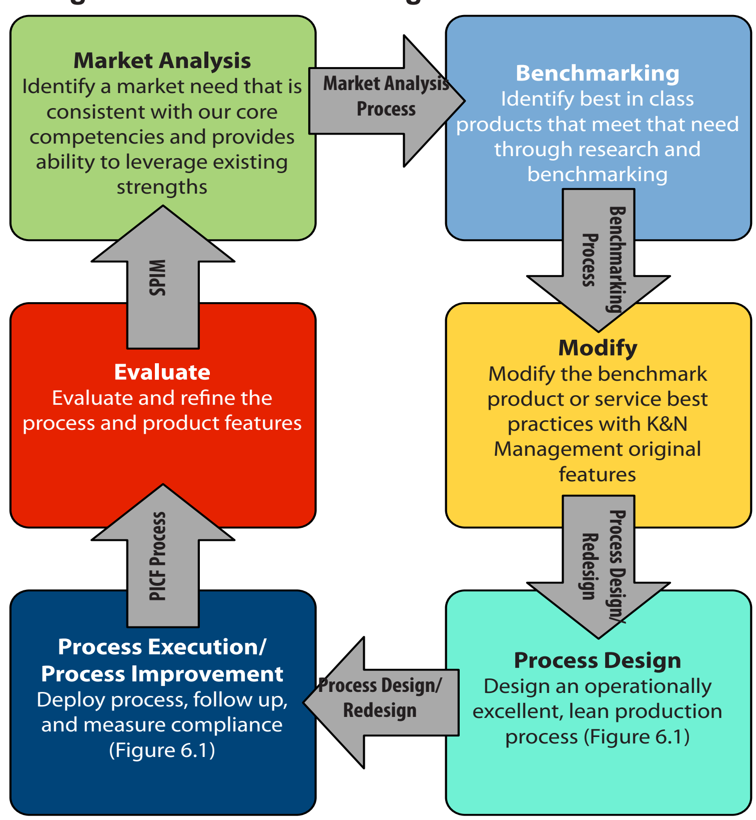
3.1a(1) Identifying Product Offerings

K&N identifies product offerings by aligning our business model and core competencies with our KGRs. We have identified the key components of our concepts (Figure 6.2) that meet the KGRs (Figure P.5) and can be universally applied to new products or services. The plan-do-check-act process we use to identify and innovate product or service offerings is illustrated in Figure 3.1. We have various guest listening methods (Figure 3.6) that are utilized as applicable during the product offering identification process.

An example of identifying innovative products at Rudy's is the breakfast taco product offering. In-house breakfast was not part of the original franchise. Prior to 2001, Rudy's Austin featured a limited menu that included breakfast products supplied by a vendor. In 2001, to attract new guests to the Rudy's concept as well as improve the taste profile and quality for existing breakfast guests, K&N developed an in-house breakfast program in order to improve the consistency and quality of our breakfast tacos. The new in-house breakfast program ensured our products were produced quickly using ingredients that met our quality specifications. We innovatively designed a process that uses the same kitchen and front line used for barbecue. The line design meant team members could rapidly produce tacos in large quantities to quickly satisfy the speed and quality demands of our guests. Consequently, breakfast taco sales increased 91.17% in 2002.

An example of identifying innovative service at Rudy's is the Group Meal pavilion. To expand the relationships of existing Rudy's guests and attract new large take-out business, K&N designed the Group Meal pick up area. In 2007

Figure 3.1 Product Offering Identification Process



we built pick up pavilions to accommodate and expedite the order pick up process. When a guest arrives to pick up their order they park in a reserved parking area, walk into the covered pavilion, and pick up the phone to let a team member know they have arrived. A TM loads their packaged order in their vehicle, checking off items on their checklist. This seamless process significantly increased Group Meal sales by delighting the guest with our attention to their KGRs of hospitality and speed of service (Figure P.5).

Figure 3.2 Concept Design & Development

Concept Creation Factors	Product/Service Identification and Innovation Process Elements
Product	• Restaurant trade shows & publications • Test kitchen • Test kitchen feedback • Benchmarking burger concepts
Kitchen design	• Restaurant trade shows & publications • Knowledge transferred from K&N • Test/modify kitchen design at test kitchen
Equipment	• Restaurant trade shows & publications • Knowledge transferred from K&N • Test/modify kitchen design at test kitchen • Equipment supplier-partner advice
Product delivery to guest	• Benchmarking burger concepts • Knowledge & core competencies transferred from K&N
KGSMs	• Knowledge & core competencies transferred from K&N

An example of how K&N identified an innovative, new concept is through Mighty Fine (Figure 3.2). The owners identified the need to create a new concept in order to promote organizational growth. After conducting industry research, senior leaders identified the burger market to attract new guests and grow the organization for the following reasons:

- ✯ The core competencies of K&N could easily be transferred to a premium hamburger concept.
- ✯ Industry trends indicated a premium hamburger concept would meet shifts in guest preferences.
- ✯ We wanted to be one of the first fast-casual operators in Austin to feature a premium hamburger.

Once senior leaders identified the product offering for Mighty Fine, a strategy was developed to design, build, and open the new concept. Part of the design process included identifying the first location that was strategically positioned in Austin. This is the same process used to develop the breakfast taco program at Rudy's (Figure 6.1). Based on the concept and data, the same KGRs (Figure P.5) applied to the new Mighty Fine concept. The test kitchen enabled senior leaders to identify the product menu, test the products, and tweak recipes with feedback from team members, suppliers, and guests. The result was the best new restaurant concept start-ups with sustainable food sales per square foot; better than almost all existing hamburger restaurants.

3.1a(2) Key Support Mechanisms

We determined our key guest support mechanisms (KGSM) and their requirements to support the use of our products and services (Figure 3.3) based on meeting the KGRs, KBDs, guest feedback, and benchmarks. The in-store KGSMs for each concept were determined by the time and accuracy requirements to ensure the appropriate communication channel response. We systematically review and refine the KGSMs for both concepts during the annual SPIM as part of the evaluation and improvement process (Figure 6.4). The KGSM requirements are quick and accurate order placement, personal interaction, friendly service, and to be able to seek information, ask questions, make comments, and quickly get answers.

Figure 3.3 Key Guest Support Mechanisms

Support Mechanism	Mechanism Availability	Guest Requirements	Key User	Main Use
Phone - answering	Business hours	• Quick response-Rudy's • Accurate information	Current or potential guests	• Ask questions • Seek directions • Submit comment or complaint
Phone - ordering (Rudy's only)	Business hours	• Accurate order (Group Meals/ large taco orders)-Rudy's • Friendly interaction	All guests	• Place Group Meal orders or large taco orders
Counter service	Business hours	• Order placed quickly and accurately • Friendly, personal interaction	All guests	• Order product • Replace product • Submit comment or complaint
Website	24 hours/365 days	• Accurate information • Easily navigated	Current or potential guests	• Seek information • Submit comment or complaint
Social media	24 hours/365 days	• Accurate information • Easily accessed	Current or potential guests	• Seek information • Submit feedback

The KGSMs that enable guests to seek information about Rudy's include phone and website. Large take-out orders for ten or more people (Group Meals) can be placed with a country store cashier over the phone. All other orders are placed face-to-face with a friendly cashier at the barbecue counter. Mighty Fine guests can access information concerning hours of operation via the website or an automated answering service. All orders are placed face-to-face with a friendly cashier at the burger counter. We do not accept phone orders at Mighty Fine in order to minimize the wait time for in-house guests as well as preserve food quality. While we might sell more burgers in the short-term, we would sacrifice long-term sales due to inconsistency in speed of service and quality. We are not willing to sacrifice any KGRs for short-term financial gain.

We designed a user-friendly website for the Mighty Fine concept that features video clips of our team members in action in order to create a more enhanced web experience for our guests. Guests for the Rudy's concept can access our menu information and location directions through a corporate Rudy's website created for all of the Rudy's concept locations.

The KGSM requirements are the same for all guests at Rudy's and Mighty Fine. We communicate with our guests through several channels, enabling guests from varying ages and genders to access our information using their preferred communication channel and provide us feedback. Our KGSM requirements are built into the training process and deployed to team members through the job requirements, training, coaching, and communication. Our systematic performance measurements (Figure 1.9) verify the KGSM requirements and address any opportunities. If something does not meet the KGRs we correct it quickly.

3.1a(3) Keeping Approaches Current

To keep our approaches used for identifying and innovating product offerings and for providing guest support current with business needs and directions we evaluate and improve these approaches annually at the SPIM. To keep approaches used for identifying and innovating product offerings current, the R&D director collects internal information related to how well the approaches worked during the last year, benchmarks best practices inside and outside the industry (Figure 4.4), and collects and analyzes data related to product sales mix both inside and outside K&N. From this information, the R&D director recommends to the SLT at SPIM any needed changes in the approaches.

To keep approaches related to guest support current with business needs and directions, the executive director analyzes data related to complaints, internal information related to the support process, and benchmarks best practices inside and outside the industry (Figure 4.4). This method is used to determine if any changes are required in approaches to guest support for seeking information and conducting business with K&N. If changes are needed in the approaches, they are recommended to the SLT at SPIM for their consideration. Changes in approaches that are approved are then assigned to an SLT member to follow through by incorporating the change into processes, standards, and training, then reporting progress and results as part of the biweekly directors meeting.

3.1b Building a Guest Culture

3.1b (1) Guest Experience and Engagement

Providing guest delight is the central focus of our guest service culture. We want to create raving fans by strengthening loyalty and enhancing word of mouth advertising through guest delight. Our TMs are coached and empowered to guarantee guest delight through hospitality, speed of service, accuracy, and superior food quality. One key aspect of creating an experience for our guests and encouraging guest engagement is through our innovative modification during benchmarking. The FISH philosophy has made a large impact on guest delight. We modified the four steps outlined in the book and created our own Building Blocks of FISH (Figure P.4). Our TMs and managers follow the four building blocks on a daily basis, beginning with choosing a positive attitude. We measure FISH and hospitality through Game Films, guest satisfaction surveys, and TM performance scorecards.

The workforce performance management system is designed to measure our guest delight processes using coaching charts, performance scorecards, and Game Films. Game Films allow us to measure our guest delight processes through the eyes and perspective of the guest. Shift meetings, a FISH board in the restaurants, Game Films, job performance scorecards, and in-store FISH meetings also provide feedback and reinforce to each TM our guest delight culture and keep guest delight expectations fresh with TMs [see 5.1a(3) for more details].

Our Systematic Performance Improvement Process (Figure 1.9) is a systematic process for gathering and assessing the results of the performance measures and making needed process changes to enhance our guest delight culture. Part of the Topgrading selection process involves hiring TMs and leaders who are predisposed to be passionate about service and will follow our processes to delight our guests. Some of the awards and recognitions (Figure 1.8) specifically address key elements of our guest delight culture. As an innovative practice to ensure a consistently outstanding guest experience and build relationships is the positioning of managers on the guest-side of the line during peak business. This enables the manager to maximize their accessibility, interact with guests, build guest relationships, answer any questions, quickly spot and react to flow and other issues to assure speed, and assess and coach TMs on hospitality and speed. [See 5.1b(1) for how the workforce and leadership development system reinforces the guest delight culture.]

3.1b (2) Managing Guest Relationships

In order to build relationships with our guests and create raving fans, we identify each guest to Rudy’s as either a rookie or a repeat guest. Rookies receive a hearty welcome before their cashier provides samples of our signature items, explains the menu step-by-step, and clarifies the ordering process. Repeat guests are welcomed back and given samples of items they might not have tried on previous visits. Mighty Fine has its own method of providing guests with personal service by labeling each individual guest's order with their first name. Parties with more than one person do not have to sort through the order because each individual guest receives their meal packed in their own bag. All completed orders are called out to the guest to be picked up on the line where they are greeted by the friendly face of a TM.

Other ways in which we build guest relationships and create raving fans at Rudy's is by greeting guests as they walk through the door, recognizing loyal guests, and maintaining our KGRs of cleanliness and sanitation at high levels. Because clean facilities are a very important requirement for our guests, restrooms are inspected and attended to by a TM every fifteen minutes according to a checklist that is posted for guests to see.

We focus on consistently achieving operational excellence to build a loyal guest base and attract new guests by our reputation in the community and through innovative advertising.

We have an advantage to building guest relationships in that we have numerous opportunities to interact with and delight our guests throughout their visit. There are at least seven key touch points during the guest's experience that involve our KGRs and our TMs (Figure 3.5). These touch points are the key opportunities to optimize the guest experience by meeting or exceeding their KGRs. The charts in Results Items 7.2 and 7.3 show the results of how effective our practices have been in the area of creating guest satisfaction (overall and by each KGR) and loyalty.

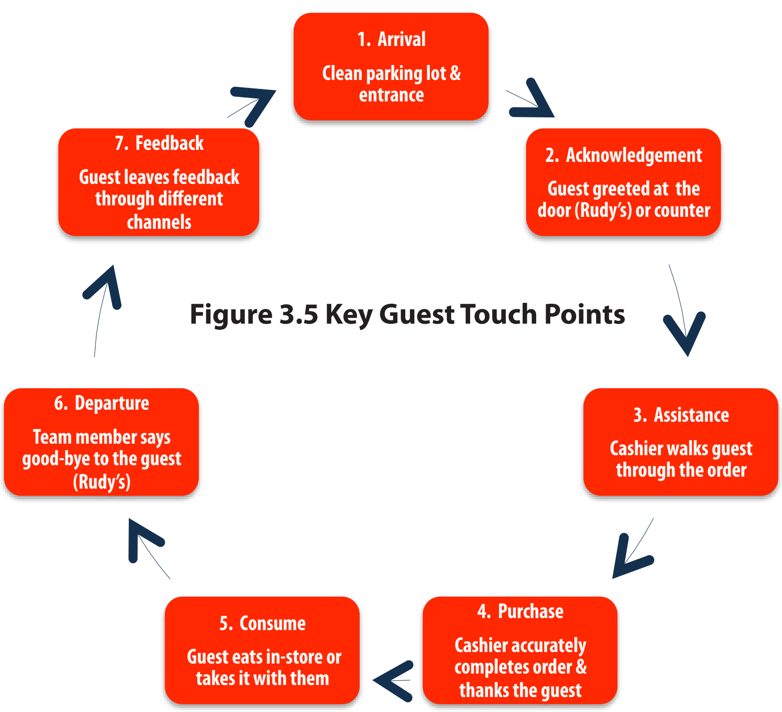


Figure 3.5 Key Guest Touch Points

3.1b (3) Maintaining Guest-Focused Approaches

To keep our approaches focused on creating a guest delight culture and building long-term relationships with our guests and creating raving fans, we continually evaluate our KBDs to ensure they are properly aligned with our KGRs. As part of the annual SPIM, senior leaders review existing approaches for creating a guest-focused culture and building guest relationships by reviewing internal data, benchmarking best practices inside and outside the industry, and studying books, research, and publications. The goal is to determine if there are any changes that need to be recommended regarding keeping our approaches to fostering a guest-focused culture and building guest relationships current with business needs and direction. Changes in approaches that are approved are then assigned to an SLT member to follow through by incorporating the change into processes, standards, and training, then reporting progress and results as part of the biweekly directors meeting. The effectiveness of any changes implemented is evaluated as part of the next annual review of these processes or sooner if possible as part of the actual implementation of these changes.

3.2 Voice of the Guest

3.2a Guest Listening

3.2a(1) Listening Methods

We have many channels for receiving feedback from guests (including face-to-face) to obtain actionable information as shown in Figure 3.6. Our listening methods are easily accessible from each segment of the population and cover all guests who are able to pick from the various communication channels. Our listening methods are designed to vary based on the individual guest and their needs by allowing options for access across the entire guest life cycle.

Each response to a complaint or comment is individualized based on the complaint or comment made and the guest's personality. Every comment or complaint is heard or read and appropriately acted upon (Figures 3.6, 3.7).

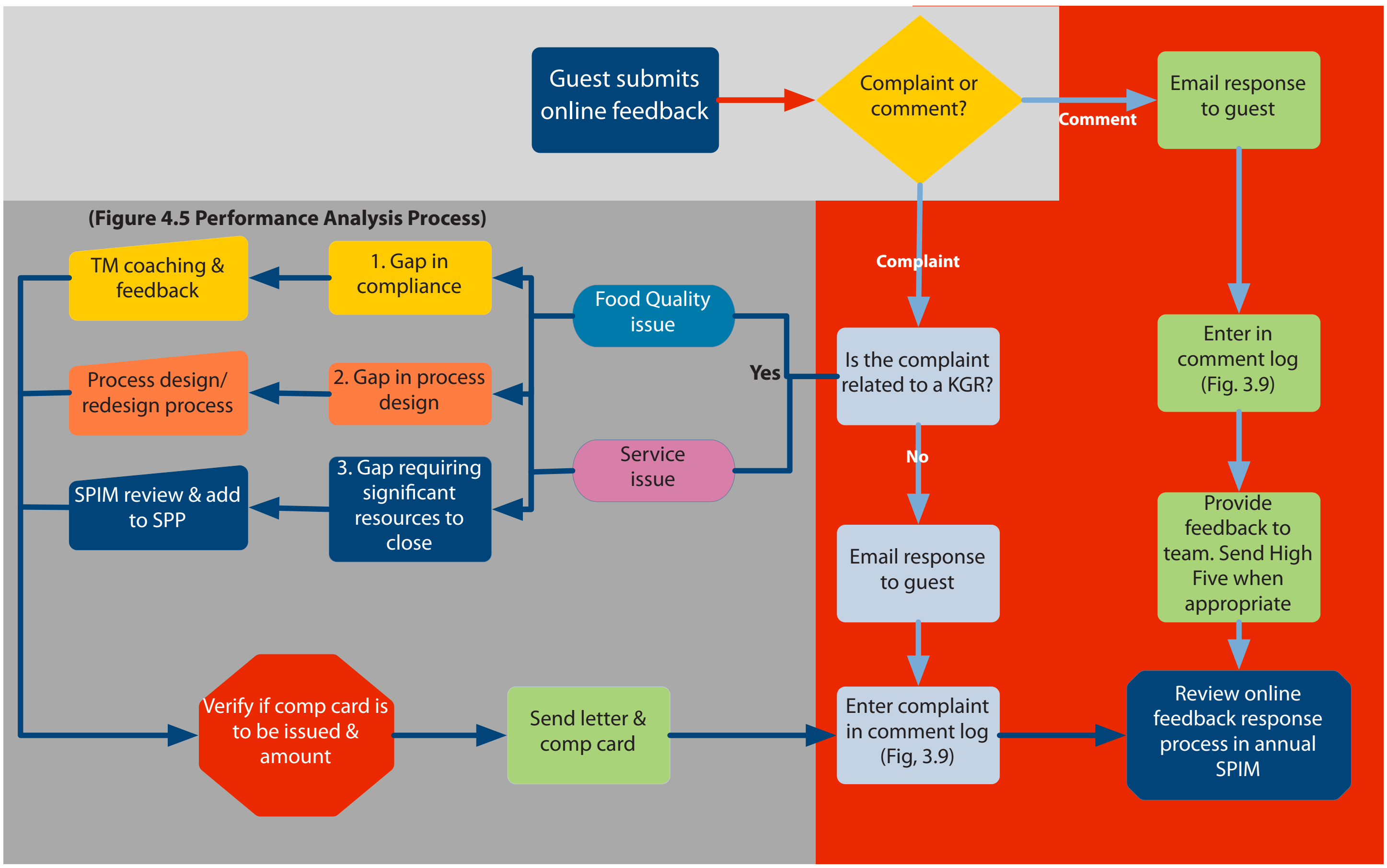
KGSMs are accessible in-store, during the key touch points, and from the guest's home or place of business. These KGSMs are always actively available to all guests and are applicable throughout the entire life-cycle of the guest whether it be single visit or that of our long-term, repeat guests. Guests can enter complaints or comments via the Rudy's or Mighty Fine website, on comment cards located in-store, or verbal in-store and phone feedback. Comments and complaints are entered on the guest comment and complaint log on our internal web site. Guest feedback receives personal attention, accordingly, at either the store or corporate level (Figure 3.7). Comments and complaints can then be searched by location, type, or particular product or service involved. Social media feedback is reviewed during the directors meeting with comments and complaints from the internal guest comment log.

Listening methods vary across the life cycle of the guest. We have the opportunity to listen to our guests at multiple touch points as shown in Figure 3.5. Guests receive face-to-face interaction while in-store which enables them to place their order, complete their transaction, and

Figure 3.6 Listening Methods

Feedback Input	Responder	Feedback Output
Guest Sat. Survey	SLT reviews	Communicate results monthly in owners meeting
Game Film	Training director & GMs review	GMs communicate and coach results to team member
Replay analyst	SLT reviews	Communicate results weekly on general manager meeting agenda
Comment card	Store level	Entered in comment log—corporate responds when appropriate (Figure 3.7)
Verbal in-house	Store level	Manager responds and enters in comment log—corporate takes further action when appropriate (Figure 3.7)
Phone in-house	Store level Corporate	Manager enters in comment log—corporate responds (Figure 3.7)
Website	Corporate	E-mail, phone, written response—entered in comment log (Figure 3.7)
Online 3rd party reviews	SLT reviews	Communicate reviews through meetings and *The Pride*
Social media	PR specialist & SLT review	Communicate reviews through meetings and *The Pride*

Figure 3.7 Guest Online Feedback Process



receive quick resolution to complaints. Once they leave the store we listen to our guests by phone, through the internet and mail. We follow up to feedback in-person in the restaurants through the managers positioning themselves on the guest-side of the line. This allows guests and managers to easily talk to each other, determine the guest's level of satisfaction, and build relationships. This provides an excellent opportunity for guests to give feedback in that they do not have to search for a manager, thus any issues can be promptly resolved. Managers are required to spend a percentage of their time on the service line depending on the time of the day. The replay analyst watches video footage and determines if this goal was met. Results of measuring managers on the line are communicated to the general managers weekly (Figure 3.8).

3.2a(2) Listening to Competitor Guests

K&N has identified the following systematic methods for listening to former guests, potential guests, and those of our competitors to identify strengths and opportunities:

- Key questions from our guest satisfaction survey that ask how we compare to our competitors.
- Senior leaders shop competitors from the perspective of a guest using the same food quality assess-

Figure 3.8 Process to Ensure Manager-On-The-Line Compliance

ment tools used internally and compare the results to our concepts.

- ✯ A 3rd party, neutral mystery shopping company conducts formal shops, annually, at competitors and ours. This enables us to compare and contrast the objective scores
- ✯ 3rd party restaurant web reviews (Yelp, Chowhound, Urban Spoon) also provide objective feedback relating our products and services to our competitors.

All KGSMs that take place outside of the store (online, verbal phone, 3rd party web reviews) are also available to former or potential guests.

During the design and development process of the Mighty Fine menu we listened to the voices of potential guests through vendors, family and friends (Figure 3.1). Once a week for the four months leading up to the opening of Mighty Fine, we operated a test kitchen and invited potential guests to eat for free in exchange for their objective feedback.

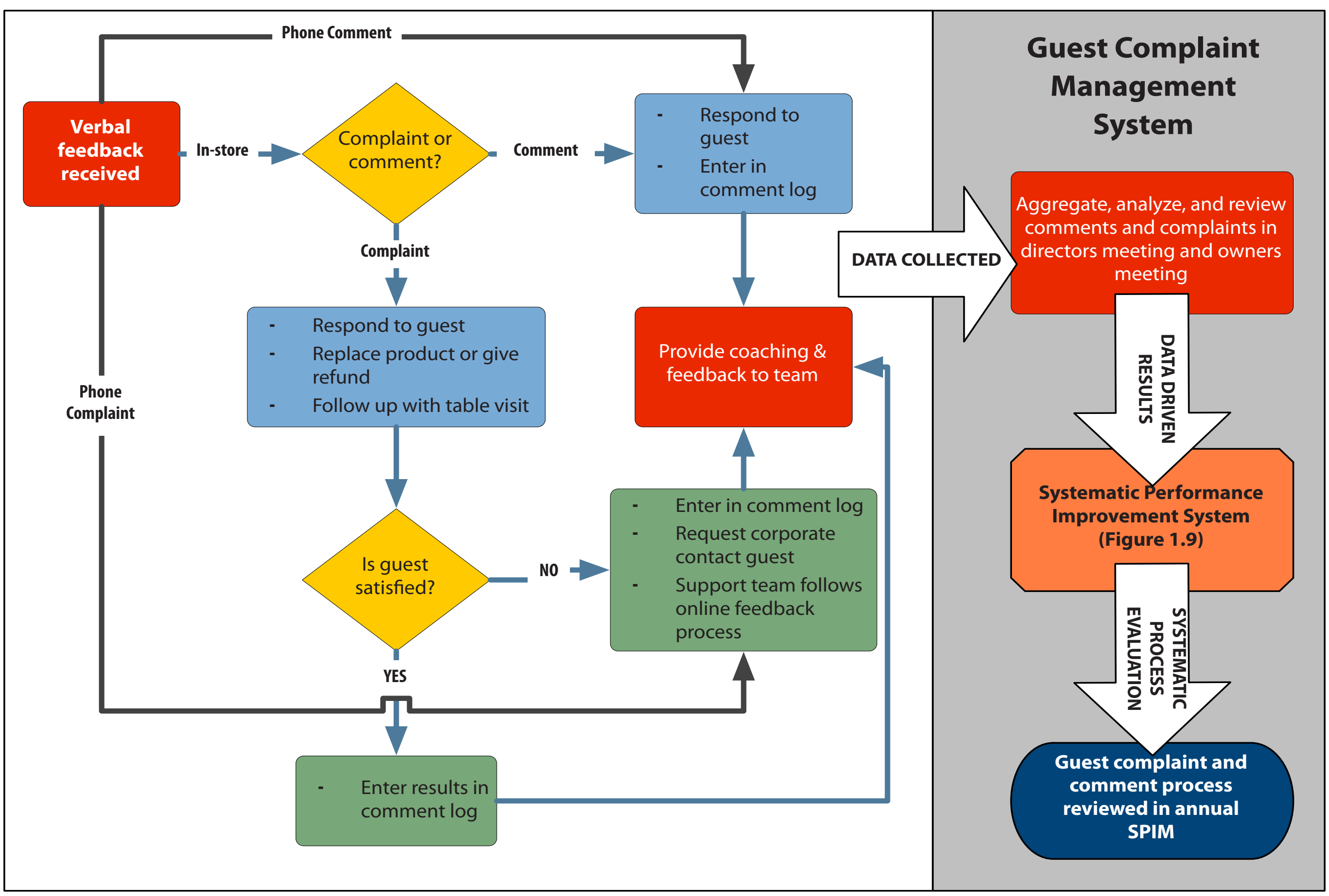
3.2a(3) Managing Complaints

The purpose of our complaint management process is to:

- ✯ Promptly and effectively resolve the complaint to restore and maintain guest satisfaction.
- ✯ Prevent reoccurrence through analysis, feedback, coaching and training.
- ✯ Revise processes to design out errors.

In order to minimize dissatisfaction and ensure all comments and complaints are handled quickly and effectively, we have established different methods to manage guest complaints according to the listening method (in-person, phone, web). After the guest complaint has been responded to their satisfaction, we enter the complaint in the log data base, which is categorized and analyzed to find the rood cause and determine opportunities to prevent future problems by improving our processes. Figure 3.9 illustrates our comprehensive guest complaint management system. Figures 4.5 and 1.9 shows the larger data analysis process with which the analysis of complaints and comments fol-

Figure 3.9 Guest Complaint Management System



lows and is an element of.

The food service industry demands fast resolution to guest dissatisfaction. Most of our complaints are submitted while the guest is still in the store, thus we have implemented a process to quickly handle and satisfy guest complaints when submitted at the store level. Verbal in-store comments and complaints are largely handled by TMs and managers who are trained and empowered to delight the guest through hospitality and quality control. In-house complaints are processed initially by TMs by replacing product that does not satisfy the guest. TMs are fully trained on guest delight during training and are coached to personally take ownership of any guest complaint and resolve it based on verbal and non-verbal cues from the guest. Managers are able to determine how satisfied the guest is with the complaint resolution through follow-up table visits and conversation with the guest. Managers can offer refunds or complimentary cards to guests who are not 100% delighted with their product replacement. This guest confidence recovery mechanism ensures that most complaints are resolved at the store-level. Comments or complaints that are submitted by guests on the external website, e-mail, or phone are responded to by a senior leader or key support TM via phone, e-mail, or letter using an assured process (Figure 3.9)

Complaints about products that are not due to an internal error are conveyed to suppliers or other partners, as appropriate. Mobile device notification enables senior leaders to quickly identify problems with supplier products. A senior leader will follow up with the supplier to troubleshoot the problem, correct the situation, and conduct an analysis to find the root cause (Figure 6.5) to see if any supplier or K&N process needs to be changed to prevent future occurrences.

Our internal web site features a sorting mechanism that allows us to track comments and complaints by item, name, guest name, location, and date. At any time we can look up the number of comments or complaints we have received on a particular menu item. Logging guest comments and complaints on the internal web site enables the SLT to efficiently track all actionable guest feedback. The aggregated and analyzed the complaint data (Figure 4.5) is reviewed the SLT during the biweekly directors meeting to determine performance improvement opportunities (Figure 1.7, 1.9)

3.2b Guest Satisfaction Determination

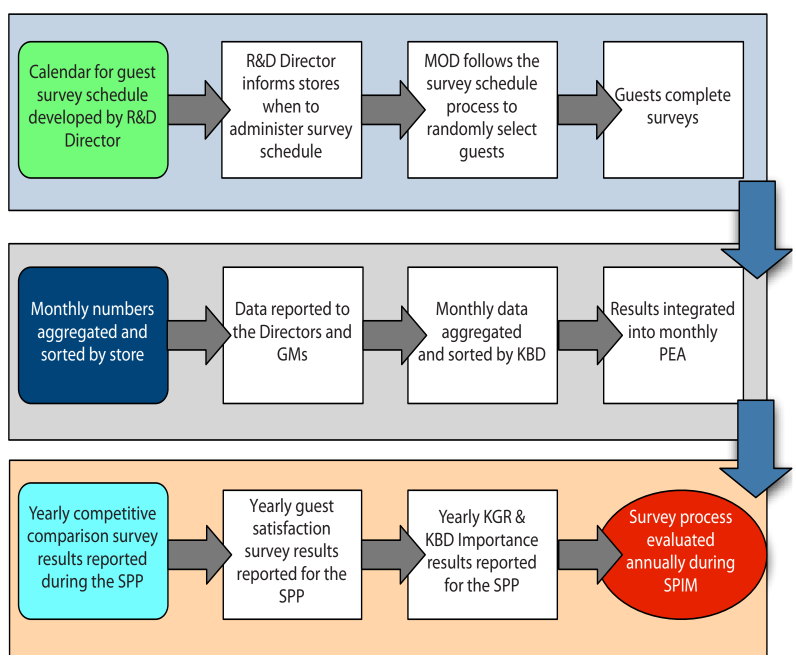
3.2b(1) Determining Guest Satisfaction

As part of a continuous improvement process, we have researched and benchmarked (Figure 4.4) to find the best guest survey tool to fit our business and guest needs. We utilize the guest satisfaction survey as a reliable resource for measuring our success in aligning our KBDs with our KGRs. We determine guest satisfaction using an innovative (for the restaurant industry) survey PC device and online satisfaction surveys. The survey tablet PC is a mobile electronic device that is designed to capture overall satisfaction with our KGRs and guest loyalty. The surveys are short and take less than five minutes to complete. Another important feature of the tablet device is that it is wireless and connected to the 3rd party survey supplier's server. The tablet is handed to the guest with the survey loaded on it, the guest sends in the survey results to the survey supplier's computer server, clears the tablet, then hands the tablet back to our manager. Therefore, none of our managers can see or influence the results.

Each location has its own tablet device and managers are responsible for coordinating the completion of a minimum number of surveys each day. There are three main survey types: Overall Guest Satisfaction, Competitor Comparison, and Relative Importance to KGRs. Managers use a randomized survey process to invite guests to provide their feedback with the survey box and give them a discount card in return. Surveys are conducted throughout the day around the main meal periods. Take-out guests are referred to www.opinionmeter.com where they can complete the survey online at their convenience. The questions for all three guest surveys are based on the KGRs (Figure P.5), overall satisfaction, and loyalty, assuring the data is both actionable and relevant to their key buying decisions. These web-based guest satisfaction surveys provide real-time data that is available once the guest has completed the survey. Results are viewed and managed from the survey provider's web site. The aggregated data is systematically reviewed using the guest survey data analysis process (Figure 3.10). Data is analyzed and reported back by location and by KBD and is part of the monthly PEA results. Guest delight and satisfaction determination is also supplemented by the number of loyal, repeat guests.

Our main indicators of guest engagement are repeat guests and our raving fans who rate us in overall satisfaction a 5 out of 5. Our raving fans are not just satisfied guests, but are guests who are engaged advocates of

Figure 3.10 Guest Survey Data Analysis



Rudy's and Mighty Fine. To supplement and correlate with our direct measures of guest satisfaction, dissatisfaction, and guest engagement is innovatively being measured through social media activity using a marketing analytical tool. This tool will allow us to measure guest engagement through monitoring social media websites.

3.2b(2) Guest Satisfaction with Competitors

We utilize the competitor comparison survey on the survey tablet PC, annual mystery shopping comparisons, and 3rd party restaurant web reviews as systematic ways to obtain information regarding the relative satisfaction of our guests compared to our competitors. The comparative guest satisfaction and loyalty data can also be analyzed using graphical and statistical data analysis to determine significant trends, comparisons, and patterns. The data is used to drive further inquiry and improvement projects. The surveys can be analyzed by descriptors (time of day, age, male/female, etc.), as well as by satisfaction overall and by the KGRs. The information is used to identify areas where we are doing well and those where we can competitively improve. Improvement opportunities identified are addressed by senior leaders during SPIM (Figure 1.4).

3.2b(3) Determining Guest Dissatisfaction

We have several systematic measures of guest dissatisfaction. The same methods for managing complaints [3.2a(3)] are also used to determine guest dissatisfaction. Guest dissatisfaction measures can be obtained from in-store verbal feedback, verbal phone feedback, web site complaints, 3rd party restaurant web reviews, comment cards, and the guest satisfaction survey. A rating of 1 or 2 on satisfaction surveys are indicators of guest dissatisfaction. A rating of "worse" on the competitor comparison survey would also be a systematic indication of guest dissatisfaction. The dissatisfaction data is actionable in most cases because it involves a guest having a negative impression of something important to that guest. Managers or TMs respond immediately to comments that are made in the store and corporate rapidly to complaints that are conveyed after the fact. Data is collected, analyzed, and then the performance data analysis process (Fig. 4.5) is used to determine the appropriate action in the performance improvement process.

We also determine dissatisfaction through the use of Game Film to capture the guest experience and improve our coaching process. Each month locations receive Game Films that visually show the guest's experience. The TM watches and scores their own film followed by coaching from their GM. Filming from the guest's perspective has been invaluable in training guest delight and process compliance to TMs.

3.2c Analysis and Use of Guest Data

3.2c(1) Identifying Current and Future Segments

We use guest data to identify current and future segments through market analysis on shifts in demographics, changing requirements and preferences as part of the annual SP SWOT analysis. We also utilize guest satisfaction survey measures to identify trends or drifts in satisfaction. Guest counts and product sales mix are also reliable indicators. Since the market analysis data includes the Austin area population, it includes all people that are or could be guests of K&N or our competitors. Refer to 3.1a(1) for how we determine which guest or guest segments to target for current and future products.

3.2c(2) Use of Data to Identify Guest Expectations

K&N focuses on doing a few things, but doing them excellently. We have determined that a limited menu of high-quality products served quickly by friendly team members in a clean environment exceeds our guests' requirements because our KGRs are so basic and appeal to almost all guests of fast-casual restaurants. We review market and data from various sources to identify shifts in guest expectations and KGRs. Our three main survey types [3.2b(1)] help us to systematically and rapidly detect changes in KGRs, expectations, or relationship decisions. "Relative Importance to KGRs" survey results tells us directly from the guests if their requirements are shifting. Our competitor comparison helps us to identify relationship-related decisions and our overall guest satisfaction survey gives us their real-time rating of how we are doing related to the factors most important to their buying decision.

3.2c(3) Use of Data to Improve Marketing

Our targeted market or customer segment includes anyone in the Austin area who eats barbecue and hamburgers. Refer to 3.1a(1) to see in detail how we use marketing-related data. 3.1b(1) and 3.1b(2) show how we use data to ensure a positive guest experience and guest-centered culture. We analyze and correlate our production and guest satisfaction data to determine any associations, strongly related variables, and predictive models that might be useful to target and drive improvement or innovation. We study trade magazines, business publications, and books as well as probe suppliers for market intelligence. We also subscribe to a unique, innovative service that searches the internet for any information on us or our competitors. We retain a public relations firm to advise and consult with regarding media opportunities to promote our brands. With the recent explosion of social media, K&N has partnered with a firm to align all advertising and public relations efforts while using an analytical tool, to measure the success of marketing efforts. We also partnered with an advertising agency to make sure our marketing efforts are both creative and cutting edge. We use information provided by our advertising agency to improve marketing and appeal to changing population demographics.

3.2c(4) Keeping Guest Listening Current

The SLT keeps approaches for guest listening, determination of guest satisfaction, dissatisfaction, and engagement, as well as the use of data current with our KBDs and KGRs by reviewing these approaches in the SPIM (Figure 1.4). Any changes recommended based on these annual reviews are assigned to a member of the SLT to follow up on and review progress and results at the directors meeting. The results of these recommended changes are reviewed as part of the improvement effort.

Category 4: Measurement, Analysis, and Knowledge Management

4.1 Measurement, Analysis, and Improvement of Organizational Performance

4.1a Performance Measurement

4.1a(1) Performance Data Collection and Measures

K&N has created a consistent, systematic approach to analyzing and using organizational performance measures. Using the performance measures identification process (Figure 4.1), we have determined exactly which data to collect, how to integrate it, and how to measure it based on what is truly important to our organization, our KBDs, and KGRs (Figure 4.2).

Data for tracking daily operations and overall organizational performance is collected from a variety of sources including measurement inspections, daily sales data, HR data, order accuracy results, line times, guest and TM feedback, and operational labor and food cost analyses (Figure 4.2). Each location is held accountable to the same performance measures, thus ensuring reliability and calibration among the management teams.

The three main software systems used to collect and integrate data include Aloha Enterprise (automated point of sale system), Eatec (food costing and inventory), and Kronos (HR information). The data is then summarized, usually in a computer data base. The summary devices are three servers that are triple redundant and local computers. Display/communication and analysis mechanisms include internal website, the innovative instant mobile device notification, and Quickbooks. Another major collecting, aligning, and integrating of data occurs as the data is collected for the organizational meetings (Fig. 1.4), particularly the general managers meeting. The key data collected is shown in Category 7 and listed in Figure P.5 (Key Guest Requirements), Figure 1.9 (Systematic Performance Improvement), the K&N 2010 Strategic Plan, and Figure 6.3 (Key Work Processes).

One of our most useful resources to review collected, integrated, and aligned data is the general manager meeting agenda form. This agenda form allows us to view the key operational performance criteria in a single, concise report and efficiently distribute performance results to the management teams. Sales data is collected from our automated point of sale system, Aloha Enterprise. Sales numbers, customer count, product mix, and financial information is automatically generated on a daily basis and transmitted to the corporate office each night. In addition, closing managers submit daily sales information on the internal website nightly which notifies senior leaders' mobile devices, thus keeping them informed of the latest sales data. Shift labor shortages are also entered on the internal website and assigned senior leaders are notified, thus allowing them to quickly aid in determining the best solution to fill the position as necessary.

Primary supplier food and beverage invoices are automatically posted by our suppliers to our food costing and inventory software application, Eatec. Aloha posts product mix and sales data to Eatec on a weekly basis and, subsequently, the software reconciles purchases to sales, producing precise food cost projections and comparisons. Managers are responsible for directly entering any product transfers between locations. At the end of the fiscal period Eatec computes the overall food cost following the month end physical inventory. Results are reviewed with the assistant general managers within one week of the period end, expediting the feedback process in order to quickly address any variances, challenges, or process breakdown.

We partnered with Kronos to implement a reliable, efficient human resources information system. Kronos pulls labor information daily and then tracks it weekly. At any time a member of the management team or SLT can access Kronos through the security-enabled internal website to review data related to labor hours, scheduling and overtime. This allows managers to tightly control labor and compare weekly labor costs to the same week's costs from the previous year. Overtime and total labor costs are updated each week on the general manager meeting agenda.

Figure 4.1 Performance Measures Identification Process

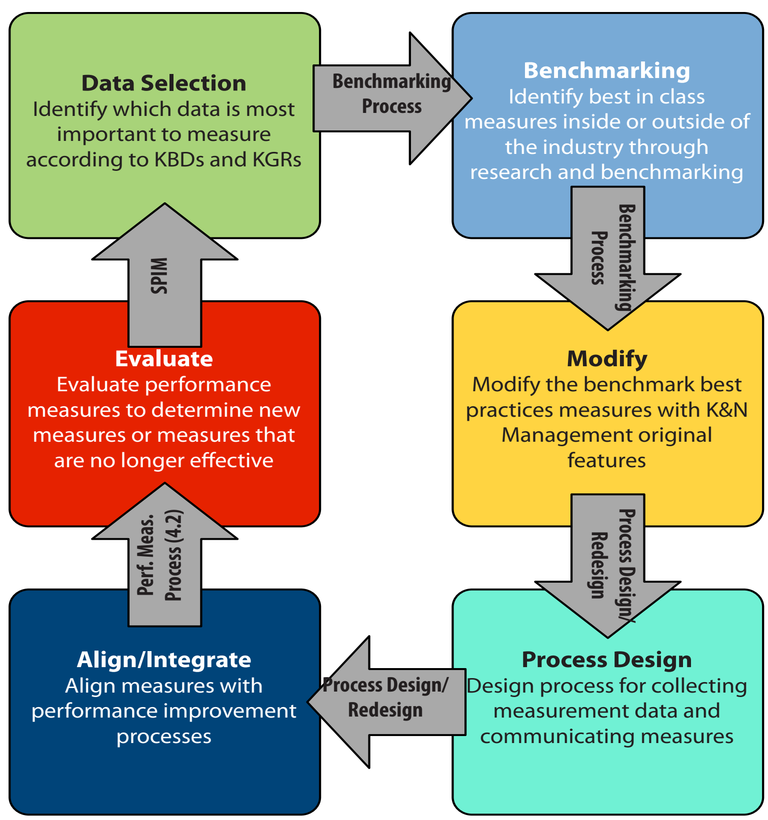
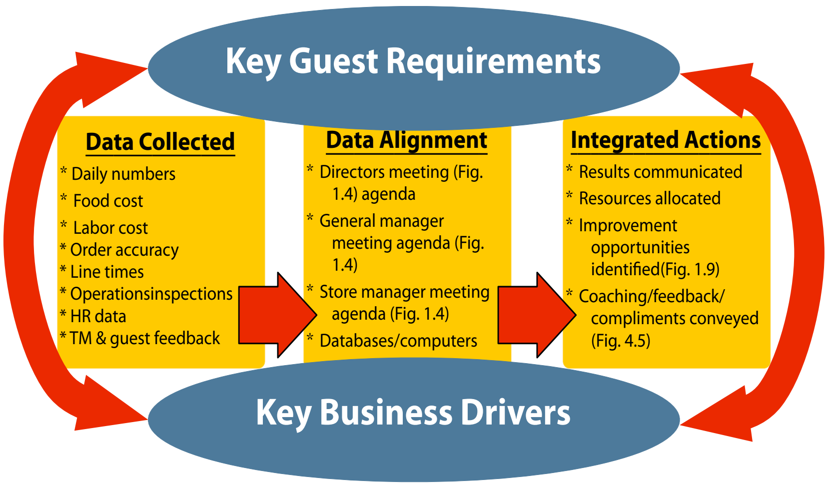


Figure 4.2 Performance Measurement Process



Measurement inspection scores are tracked by the corporate office and evaluated weekly by the SLT and the general managers. Each location is measured using the same criteria on an inspection checklist, holding all stores accountable to the same operational performance criteria. All performance data is available to the SLT and members of the management team through the general manager meeting agenda which is distributed to each manager and shared on the corporate server. Figure 4.3 illustrates the key performance measures according to short-and long-term financial measures. These are segmented according to daily operations and overall organizational performance. Each measure is analyzed through the performance measure identification process (Figure 4.1) to determine frequency. The frequency varies based on use: daily, weekly, monthly, quarterly, or annual performance results communication, and improvement action requirements.
Data is used to support organizational decision making and innovation by using real-time data, analyzing trends, conducting competitor and industry comparisons, comparing locations within each K&N concept, and viewing comparisons from year to year. Data is integrated into PEA and tracked on control charts.

4.1a(2) Key Comparative Data

We are able to compare key data with highly competitive local fast casual restaurants in Austin, best competitor (inside or outside of Austin), and national chains using our benchmarking process (Figure 4.4). In the case of Mighty Fine, the comparison restaurant meets all three classifications (local, best, and national). Rudy's comparisons include three different restaurants. Many of our key measures are unique to K&N. We are innovators in the industry with our inspection process in that there are no other known fast-casual restaurant concepts that have implemented such a comprehensive measurement process. These innovations include operations inspections, administrative inspections, free food assessments (FFAs), daily line times, and food quality ratings. We are able to evaluate comparative data for speed of service, guest satisfaction, city health department scores, restaurant publications, as well as local and national restaurant associations. We are continuing to improve our comparative data collection methods through third party consultants.

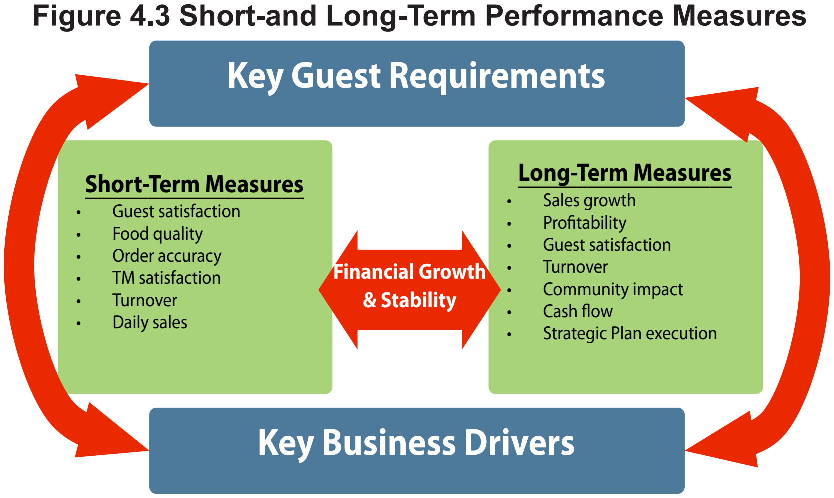
4.1a(3) Keeping Performance Measurement System Current

Performance measurement systems are kept current and aligned with our business needs through the strategic planning process and the YF process during which measures are added or adjusted to measure current strategic directions. Senior leaders review our existing measures in SPIM (Figure 1.4) and then throughout the year as needed in order to determine if the measurements require improvement. New measures implemented as part of the YF are continually assessed to ensure value and accuracy. An important aspect of the YF process involves maintaining the gains through continued process excellence. The Line Time process that started in 2001 is still followed every single day, although the line standards have been improved along with the form used to record the line times. To ensure our performance measurement system is sensitive to sudden organizational or external changes we review performance weekly through the general manager meeting agenda. Additional performance reviews and SP reviews are conducted monthly in the owners meeting.

4.1b Performance Analysis and Review

We review organizational performance and capabilities frequently to support learning and performance improvement. Data is reviewed biweekly in the general managers meeting and monthly in the owners meeting (Figure 1.4). Once collected, all data is integrated into the general manager meeting agenda, PEA, and into Quickbooks for accounting review as indicated in Figure 4.5. Performance data is analyzed and reviewed in the biweekly general manager meetings and monthly owners meeting with the SLT. Each GM is accountable for researching performance gaps and doing trend analysis regarding sales, labor data, inspection scores, order accuracy results, and line times

Figure 4.3 Short-and Long-Term Performance Measures



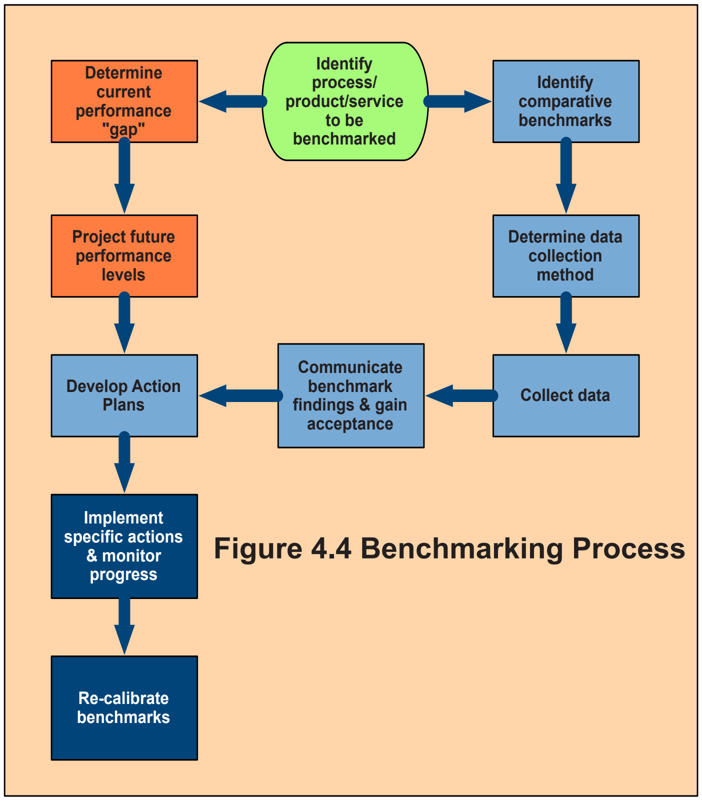


Figure 4.4 Benchmarking Process

before the meeting, thereby identifying opportunities and challenges. Appropriate performance data is communicated at the store level through store manager meetings and shift meetings (Figure 1.4).

One of the main methods for ensuring the conclusions based on the data analysis are valid is by cross-referencing data to see a larger pattern of data and determining if all data sources are moving in a direction consistent with the conclusion. Performance measures and progress related to the organizational strategic plan are reviewed in the monthly owners meeting during the SP review (Figure 2.1). Occasionally new performance measures will be added in order to achieve SOs. Senior leaders utilize performance data related to conduct gap analysis and trend analysis (Figure 4.5) in order to assess our ability to respond to changes or potential changes in KGRs (Figure P.5). At a deeper level, data mining techniques are utilized in evaluating the relationships between and within guest satisfaction, HR, and operational data. The purpose of the analysis is to understand the interrelationships of the metrics that can help direct innovation and improvement initiatives.

4.1c Performance Improvement

Performance measures are reviewed during SPIM to drive action from the review findings into opportunities for innovation. Measures must be aligned with and support KBDs and KGRs (Figure 4.3). Measures that are no longer effective or supportive are dropped and new measures are added based on strategic objective action items. We use the plan-do-check-act process (Figure 6.4) to identify performance gaps and address them through team member coaching or the process design/redesign process (Figure 6.1). Performance gaps that require significant resources are identified and addressed through the strategic planning process and during SPIM (Figure 1.4). Priorities and opportunities are deployed to suppliers through the key vendor scorecard.

4.2 Management of Information, Knowledge, and Information Technology

4.2a Data, Information, and Knowledge Management

4.2a(1) Data Reliability, Security, and Accuracy

IT systems and processes are designed to ensure the accuracy, integrity, timeliness, and security of organizational data, information, and knowledge.

Accuracy: The IT department regularly evaluates all hardware and software systems to ensure the accuracy and reliability of information. At several points data is cross-referenced to guarantee the validity of information (Figure 4.2, Figure 4.5). To ensure financial accuracy, daily financial reconciliation is aided by the use of a Tellermate machine that accurately weighs money, expediting the process for balancing cash drawers and deposits. Deposits are manually entered in Aloha Enterprise and the totals are immediately reconciled with sales and discounts, thus quickly identifying any cash shortage or surplus. Deposits are then cross-referenced with bank statements in Quickbooks to verify

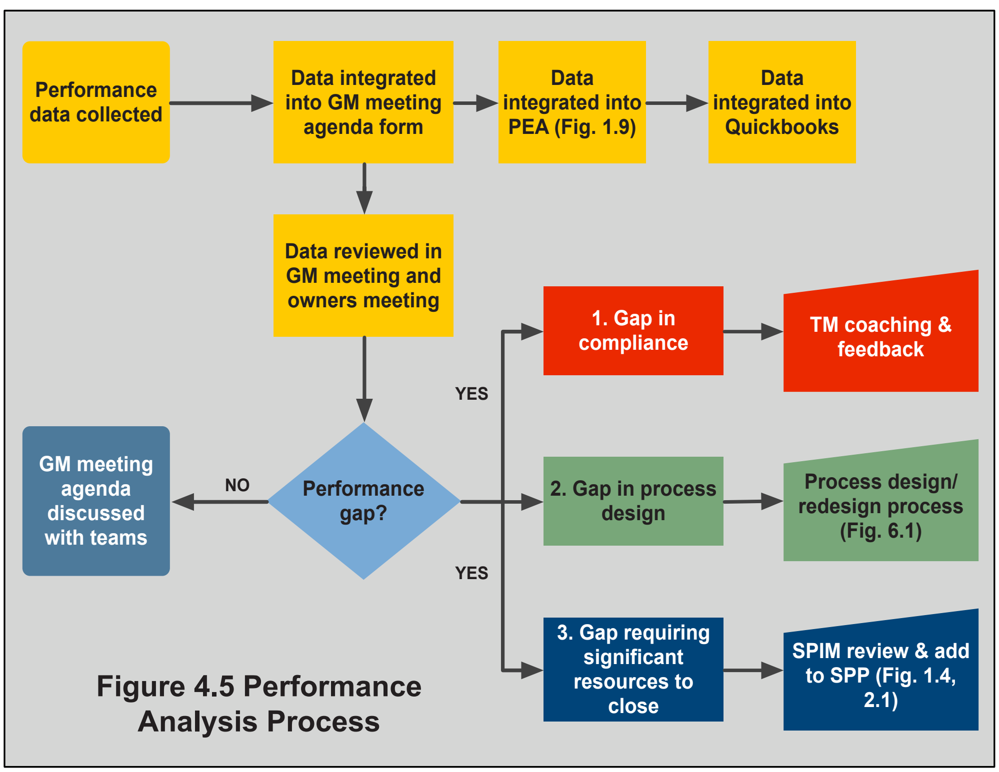


Figure 4.5 Performance Analysis Process

accuracy. The data collection process and frequency, audits and evaluation of performance measures (SPIM), and rewarding team members that find errors ensure the accuracy of organizational data, information, and knowledge.

Integrity and Reliability: Systems are password protected to ensure integrity. Performance data is cross-referenced and collected by different team members who do not have a reason to influence the data results. Support TMs are responsible for auditing administrative processes independently from the restaurants, therefore, they lack motivation for altering or manipulating data.

Timeliness: The aggregation of data, information, and knowledge has a deadline. Weekly numbers and measures are input and ready to review at the store manager meetings every Tuesday. Deadlines must be met in order to review measures to identify improvement opportunities. Input tasks are assigned to back-up support team members as appropriate.

Security and Confidentiality: We deal with confidential data concerning both our guests and our TMs. Strict protocol has been created to ensure the security of confidential data. Computer access is protected by secure login and passwords. At the corporate level, all personnel records and guest payment records are maintained in locked files. File keys are issued only to TMs who have security access. Salaried TMs sign a confidentiality agreement during orientation and the HR director audits the agreements to ensure all signed documents are accounted for. At the restaurant level, the manager offices in the restaurants are kept locked at all times and personnel information is securely transmitted to the corporate office. These processes reduce the likelihood of theft of confidential information and provide secure knowledge and information management.

4.2a(2) Data Availability and Accessibility

K&N has implemented a system of storing files on a highly available server which allows each location to easily access the general manager meeting agenda, the strategic plan, operations manuals, and other forms needed during daily operations. Key updates are deployed throughout the meeting process (Figure 1.7). The addition of store-shared files allows for zero lag-time between process updates in the operations manual and communicating the updates to team members.

Real-time data is available to senior leaders and managers through Aloha Enterprise and Kronos. Data is accessible according to established security levels per position and responsibility (Figure 4.6). Server files and software applications are password protected and must be cleared through the IT department. This virtually eliminates the possibility of someone viewing or securing information that they are not authorized to receive. Sales data and inspection scores are communicated to team members during daily shift meetings to ensure understanding and alignment of strategic goals. Data is communicated through selected, appropriate channels including the newsletter, the internal website, e-mail, and face-to-face delivery. Links are set up on the internal website home page to direct managers and senior leaders to all HR applications. Workforce knowledge in the form of personnel information, timekeeping, payroll, and benefits are all stored and managed through Kronos. Managers have access restricted to the TMs in their location. Access to Kronos is password protected in order to maintain confidentiality and security.

4.2a(3) Managing Organizational Data

K&N has a formal IT department consisting of an IT director and a systems administrator who are dedicated to developing and managing all hardware and software systems. The IT director follows the benchmarking process (Figure 4.4) to research best practices in hardware and software systems. We created an internal website which enabled the SLT and management teams to easily view sales data, guest comments, and labor numbers. Shortcuts to Aloha Enterprise and Kronos were established to allow senior leaders and other managers to quickly access operational and other HR information. We manage organizational data through databases which are accessible through our internal website and mobile device notification and communication. The internal website enables managers and senior leaders to access all information and applications required to run the organization. Workforce knowledge and information are collected and transferred through TM learning and

Figure 4.6 Data Management

DATA	LOCATION	ACCESSIBLE BY
Sales numbers	Web site	Management team Support team SLT
Guest comments	Web site Newsletter	Management team Support team SLT
Team member comments	Web site Newsletter	SLT
Financial data	Quickbooks Bank statements	Owners Finance director
Profitability	Quickbooks Profit and loss statement	SLT General managers
HR/Payroll data	Kronos	Payroll & Benefits SLT
Timekeeping	Kronos	Managers - their store only SLT Payroll & Benefits
Labor cost	Quickbooks GM meeting Agenda	Managers SLT Support team
Food cost	Eatec Quickbooks	SLT Managers

development processes (Figure 5.2). Engaged TMs transfer their knowledge for improving work or other processes directly to their manager or indirectly through the TM comment log. Comments are reviewed by the SLT in the directors meeting. Innovative ideas that are implemented are rewarded accordingly and the TM is also recognized for their contribution in the newsletter.

Knowledge is transferred to and from suppliers via the vendor scorecard, e-mail, and phone communication, where appropriate. Knowledge is transferred to and from guests via the external website, e-mail, and phone communication, where appropriate. Relevant supplier and guest ideas are reviewed during the directors meeting.

Senior leaders use the benchmarking process (Figure 4.4), review TM, supplier, and guest ideas to rapidly identify, share, and implement improvements and best practices.

The SP is accessible to the SLT, management teams, and support teams through the shared server [see Step 1 of 2.1a(1) and SPP in Figure 2.1].

4.2b Managing IT Resources and Technology

4.2b(1) Ensuring Hardware and Software Reliability

Hardware and software systems have been researched, tested, and purchased for the right specifications to be reliable, secure, and user-friendly with minimal time spent by managers performing calculations, data entry, and paperwork. Scheduled testing is performed to ensure hardware and software are performing adequately. IT systems have been designed to be easily diagnosed and maintained. Three corporate servers are utilized to ensure systems are reliably accessible. In the event one server fails, another server can take over in a matter of minutes, avoiding any significant down time. A differential data back up is performed on a nightly basis on the corporate servers and a full-back up is executed once a week. This process guarantees the retrieval of any lost data for a three-week period. Aloha, Eatec and Kronos were selected for their capability and because the applications allow us to control the data on our own servers. This eliminates the possibility of being negatively affected by the reliability of a 3rd party server. All files and documents within the restaurants and the corporate office are saved to shared folders on the corporate server, protecting information from accidentally being deleted by an end-user. Should data be lost, it can quickly be retrieved from a back-up.

4.2b(2) Emergency Readiness

With two dedicated, capable IT team members, there is always at least one person available to address and resolve hardware, software or communication issues. One IT team member is designated as on-call after hours and posted daily on the internal website. If an IT problem occurs in the restaurant after hours, the manager can quickly identify who to call. Processes for managing circumstances when hardware or software are not functioning are outlined in the operations manual and communicated to managers and TMs.

In the event of a severe weather emergency, restaurant data is uploaded every fifteen minutes to Aloha Enterprise, protecting our sales data in any event. If time permits, IT requests them to shut systems down, completely powering them off. When available, IT does this remotely for them. If any systems are damaged, they are repaired, if recoverable, or replaced. The goal is to get any devices operable as fast as possible. If a server is unrecoverable, it is replaced, Aloha is loaded on the new one, and the data is reloaded onto it, thus we are up and running quickly. We have servers in storage that can be used in the case of such an event. Even a total local data loss would not prevent us from accessing the sales data from Aloha Enterprise. At the corporate level, in the event of an emergency, IT shuts down the system completely. The room that houses the servers is ideal for any severe weather or fire event. There are no windows and the back wall is a fire wall. The small footprint of the room allows for it to be structurally stable. The server itself is on wheels and can be quickly disconnected and rolled out should there be a problem in the room.

4.2b(3) Keeping Information Mechanisms Current

The IT department annually evaluates current hardware and software systems, identifies any performance gaps, researches new technology, benchmarks IT best practices (Figure 4.4), and determines which technological improvements would best align with KBDs and KGRs. Recommended changes are reviewed by the SLT during SPIM.

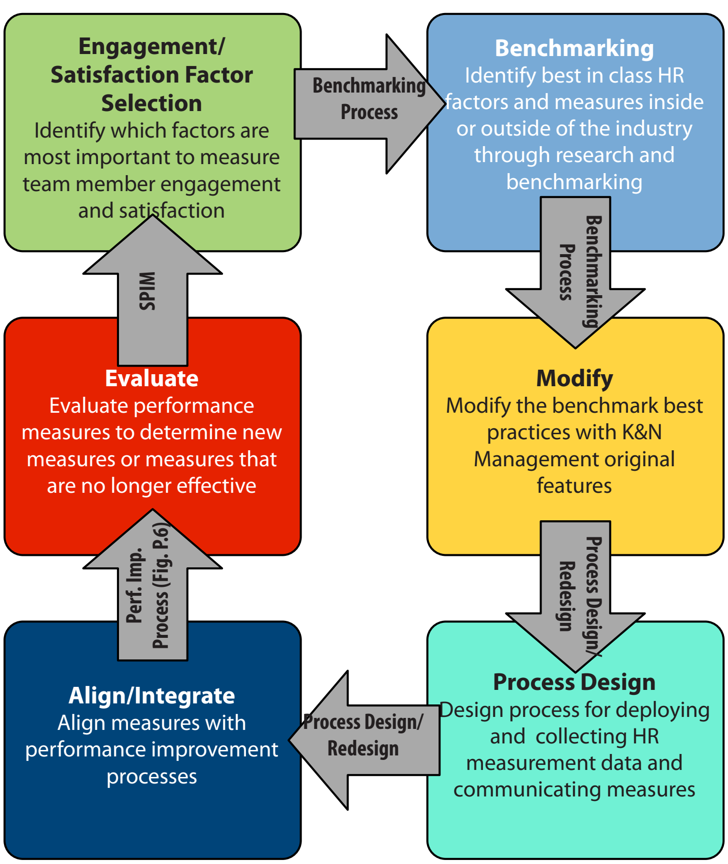
5.1 Workforce Engagement

5.1a Workforce Enrichment

5.1a(1) Key Factor of Workforce Satisfaction

K&N Management utilizes a systematic process for identifying factors that affect team member engagement and satisfaction (Figure 5.1). We created engagement/satisfaction surveys to determine our TM satisfaction level. New TMs complete a 1st Day survey and then a 30-Day Foundations survey after 30 days on board, and existing TMs complete a Connection survey to measure engagement/satisfaction. The factors in the engagement/satisfaction survey were determined through industry and non-industry benchmarking, and researching the Gallup Q12 poll. Gallup's employee engagement study, which resulted in the Q12 survey, is based on more than 30 years of in-depth behavioral economic research involving more than 12 million employees from various industries. The questions capture TM engagement information concerning hiring, training, leadership, and communication effectiveness. The questions measure the factors that are fundamental to overall job satisfaction and apply to each segment of the workforce. The survey results are reviewed by the SLT and any existing gaps identified are deployed per Figure 4.5 (Performance Data Analysis Process) to coaching, process improvement, SPP, or SPIM.

Figure 5.1 Process for Identifying TM Engagement and Satisfaction Factors



5.1a(2) Organizational Culture

Our KBD, people, is a critical component to achieving our organizational mission of providing guest delight. The primary responsibility of our TMs is to guarantee guest delight by providing exceptional service. Through our best-in-class selection, onboarding, training, and coaching practices, team members are aligned to the company's mission, vision, values, KBDs, and strategic direction, thus creating an environment which exceeds our guests' expectations. Our PEA measurement (Figure 1.9) and key meeting communication process (Figure 1.7) ensure TMs are continually calibrated to processes and performance standards.

TMs buy in to our guest delight culture and are highly motivated to follow our processes and delight our guests beginning with the Foundations session which was modeled after the world-class employee orientation process from The Ritz-Carlton. We foster an organizational culture that is characterized by open communication, high performance work, and workforce engagement through streamlined TM selection processes, onboarding, training, and coaching (Figure 5.2). Through excellent communication of our culture in the Foundations session, complete integration of the FISH philosophy, and training and coaching the importance of KGRs, we ensure our people have effective, systematic processes in a culture which motivates TMs to delight our guests. Core values, coaching, and store-level PEA and other recognitions keep the culture focused on quality and excellence.

K&N has an established open door communication policy deployed to TMs through the Policy Handbook. The TM comment log serves as an excellent avenue for team members to voice their concerns in a non-threatening manner. TM comments go directly (and anonymously if desired) to senior leaders' mobile devices, therefore any personnel issues can be promptly addressed and resolved. Positioning managers on the line provides accessibility to TMs for quick communication and problem resolution.

Both concepts attract a diverse workforce due to their above-market benefits, compensation, fun atmosphere, and flexible scheduling. Our workforce mirrors the diverse workforce of Austin and our teams are comprised of various age groups, cultures, and demographics which provide the organization with innovative ideas. K&N benefits from our diverse workforce through the use of their innovative suggestions. TMs submit diverse ideas via the TM comment log and suggestions are discussed in the directors meeting. Ideas that benefit the organization are given monetary compensation and recognition.

5.1a(3) Workforce Performance Management

Our workforce performance management system supports high performance work and workforce engagement by establishing, training, measuring, and evaluating people processes, work processes, and work flow to al-

Figure 5.2 Team Member Engagement/Satisfaction Processes

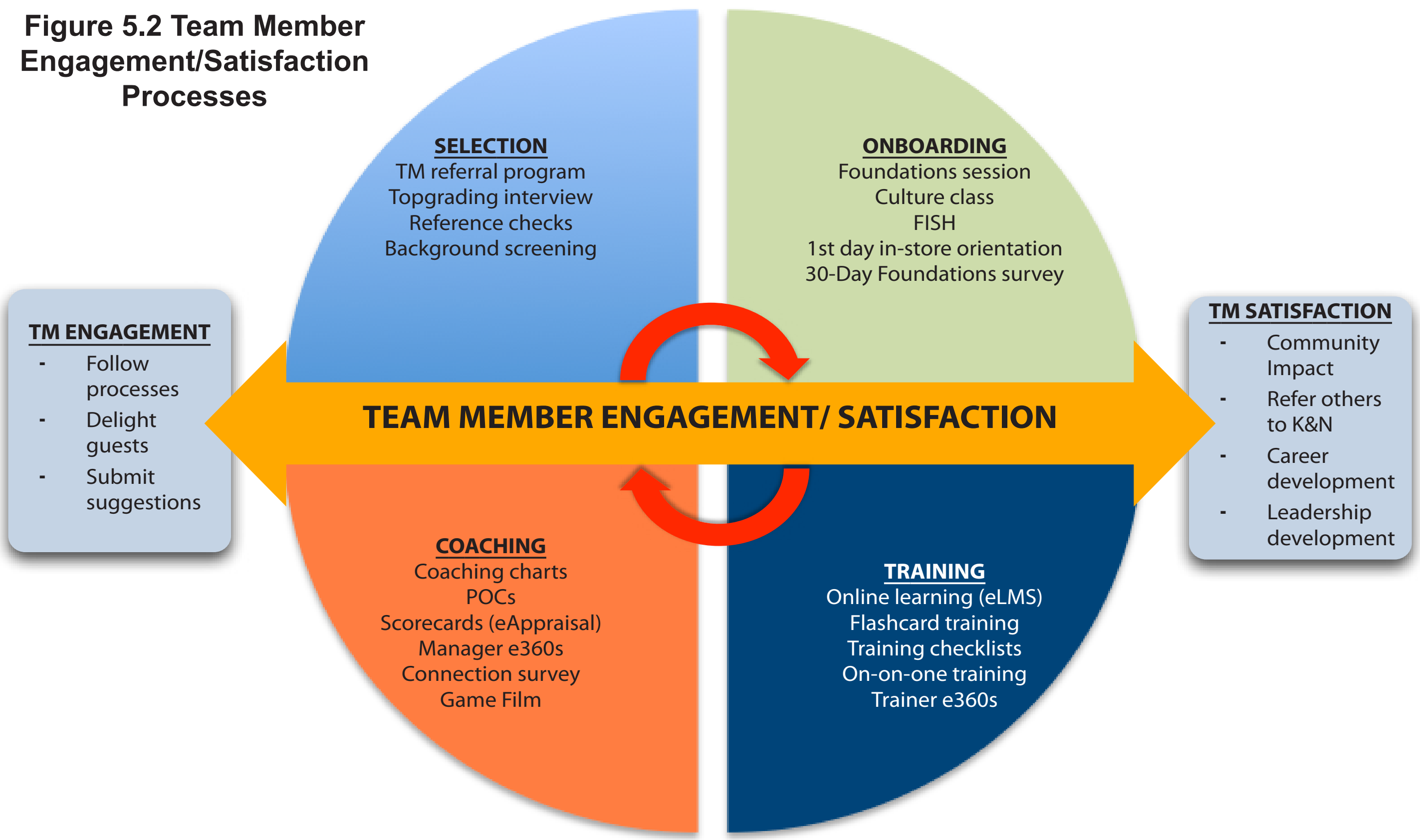
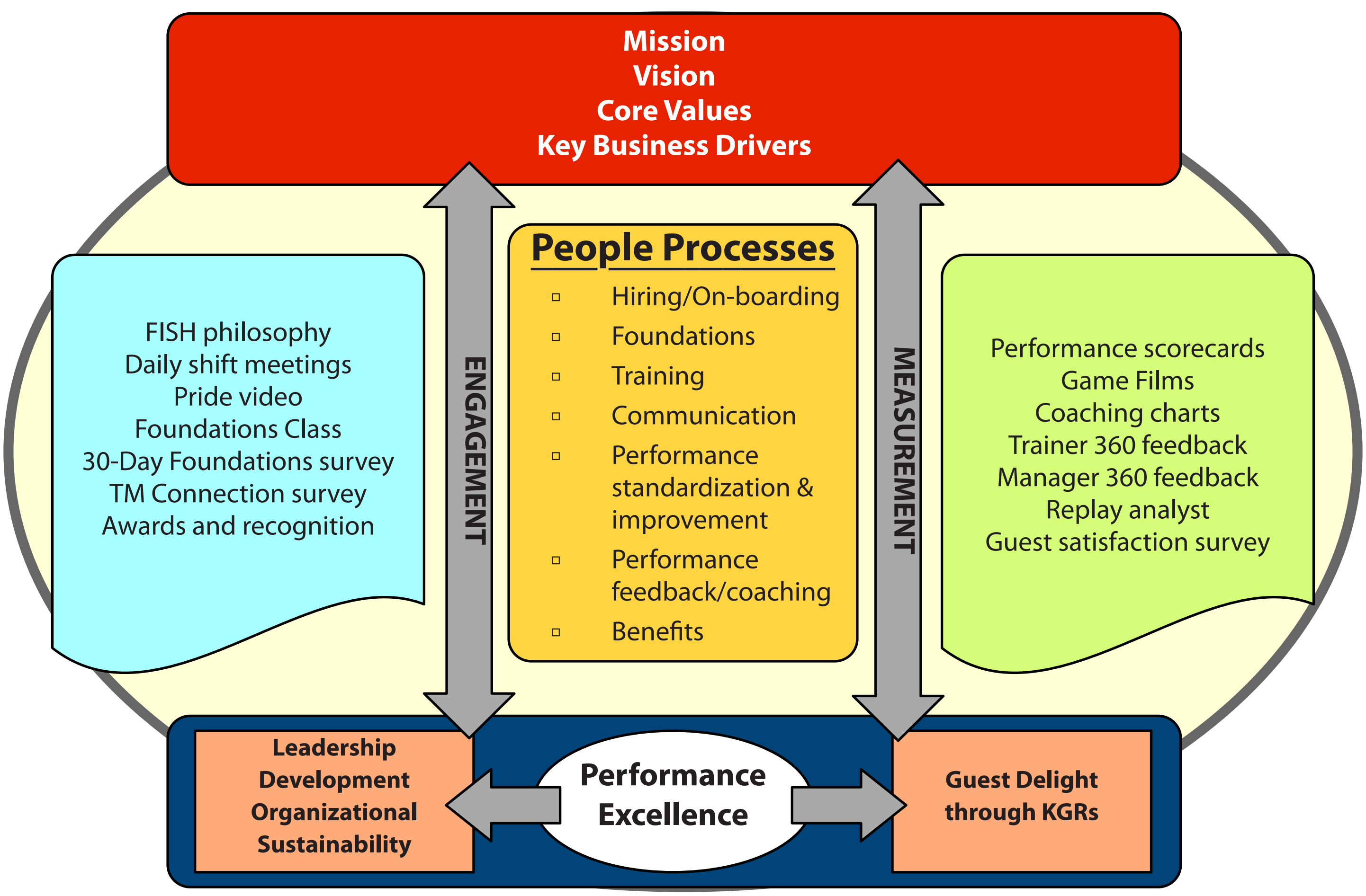


Figure 5.3 People Process Excellence Model



low TMs to meet our KGRs at a consistently high level and delight our guests (Figure 5.3). TM performance standards are established in the Foundations session and on-the-job training, then reinforced through coaching. We have designed a workforce performance management system based on day-to-day coaching in order to maximize TM performance. Daily coaching charts are effective in improving performance while semi-annual performance scorecard appraisals are effective in measuring performance.

Rewards, Recognition, and Incentives: Our workforce performance management system considers compensation, reward, recognition, and incentive programs by basing people development decisions on individual job performance instead of length of service. "A Players" are rewarded and recognized for outstanding performance through awards, compensation, promotion, and the monthly newsletter. Managers are compensated additionally through the manager bonus program. The measurement inspection process affects the PEA results and the manager bonus, which is distributed to reward operational excellence. In addition to the awards listed in Figure 1.8, Figure 5.4 lists additional team member rewards, recognition, and performance incentives.

Performance Measurement: TM performance expectations are measured by position scorecards and coaching charts, as well as through Game Film Consultants. TMs are held accountable to the same core responsibilities regarding attendance, attitude, teamwork, and other performance-related behaviors. Each position scorecard has a Position Observation Checklist (POC) that includes a demonstration and observation section. The manager observes specific skills throughout the team member's shift and then the team member demonstrates they have an understanding of their key work processes. TMs receive a POC after 30 days onboard and then every six months.

Reinforcing a Guest Focus: All processes are directed toward a focus on guest delight. The manager bonus program, performance excellence award (PEA), Game Films, performance scorecards, POCs, coaching charts, and replay analyst results contain measurements of our KBDs and KGRs to continually reinforce a guest delight focus. The performance appraisal process and monthly SP reviews aid in maintaining focus on our SOs. The Game Films provided by Reality Based Group are reliable resources for measuring TM performance in terms of guest focus because the film allows the cashier to visually see the level of service they gave to the guest. TMs are measured on the four steps of FISH and process execution. Each film is scored on guest delight criteria which holds TMs accountable to the same performance measurement.

5.1b Workforce and Leader Development

5.1b(1) Learning and Development System

We have designed an effective learning and develop-

Figure 5.4 Rewards, Recognition & Incentives

Reward, Recognition & Incentive	Eligible Team Members	Given By	Frequency
High 5 Cards	Production Service	Manager	Ongoing
Free Food for PEA	Production & service TMs of winning store	Senior leaders	Monthly
Company Picnic	All	K&N	Annually
Awards Banquet	"A Player" award Attendance award Game Film award Service anniversaries Volunteering	Senior leaders	Annually
FISH Meetings	All	General manager	Annually
Trainer Outings	Trainers Managers	Training director	Annually
Birthday Certificate	Production & service TMs	K&N	Ongoing
Community Impact events	All	K&N	Ongoing
Referral Bonus	Managers Support Production Service	K&N	Ongoing
Master Cutter	Production - BBQ Cutters	R&D director	Annually
Free Food	Managers Senior Leaders Support	K&N	Per shift
Half-price Food	Production & service TMs	K&N	Per shift
Tuition Assistance	All	K&N	Ongoing
Bingo - safety program	Production & service TMs	General manager	Ongoing

ment system (Figure 5.2) that not only teaches TMs how to do their job, but also coaches them to focus on KGRs. Topgrading selects people who will be successful ("A Players") at delighting guests and following processes. Our Foundations class and training indoctrinates our new TMs in our culture, KBDs, and KGRs.

Core Competencies, Strategic Challenges and Action Plans: Specific job training teaches the core competencies and other skills each person needs to do the job and delight guests. Coaching and feedback processes refine those skills to the "A Player" potential is transformed into habits that make them successful in following our processes and delighting guests. Core competencies are reviewed to keep them current and strategic challenges are addressed during the annual SP workshop and SP process (Figure 2.1). When processes are changed to better address strategic challenges, they are communicated to TMs (PICF, Hot Topics, shift meetings) and turned into sustainable behavior change through training and coaching.

Organizational Performance Improvement and Innovation: Within our development process, both organizational performance improvement and innovation are addressed. GMs and senior leaders are trained on how to apply problem solving to analyze data, find trends and determine root causes (Figures 6.4 and 6.5). TMs and managers are given the opportunity to suggest improvements by submitting ideas for innovations and improvements through the TM comment log or by directly telling their supervisor. Senior leaders, managers, support staff, and trainers have attended a formal Baldrige Criteria workshop to further accelerate organizational performance improvement skills. Our approaches promote a learning culture seen in Figures 6.4 and 6.5 as well as shift manager training in 5.1a(4).

Ethics and Ethical Business Practices: Core values and ethical expectations are communicated during Foundations and reinforced through training, coaching (Figure 5.2), and through the positive role models of their managers and peers. Anti-harassment training is provided to all team members and managers. A company chaplain conducts weekly site visits to communicate and reinforce ethical practices to support an ethical work environment. We use the Halogen e360 performance review to measure managers according to how they promote an environment of mutual respect.

Breadth and Depth of Learning Opportunities: Our learning and development system also provides development and advancement opportunities for TMs who want to advance past the basic job training. Our training system is designed to prepare new TMs to delight our guests, as well as provide them with the skills they can further develop inside K&N or outside, depending on their personal career path. A turnkey performance management and learning development software program helps us address both short-term training and long-term development needs. Learning opportunities are provided through cross-training, tuition assistance, and developmental books and DVDs assigned through Halogen eLMS. Senior leaders, managers, support staff, and trainers have the opportunity to learn through keynote speakers at the yearly kick-off meeting. There are many learning opportunities for all TMs. For example, cross-training on additional jobs provides a powerful learning opportunity as well as internal development to advance to shift manager or higher (Figure 7.4-10). Trainers are provided additional learning opportunities through coaching workshops conducted by the training director. Senior leader development occurs through the executive coaching process, benchmarking process, and through attending outside workshops and seminars.

5.1b(2) Workforce Learning

Needs and Desires for Learning: We use a turnkey performance management software, Halogen. Halogen eAppraisal, e360, and eLMS link workforce performance management, training, and development. This innovative approach to aligning development and performance measurement provides advanced reporting features, allowing for quick access to individual and group performance results. TMs can access Halogen eLMS and assign themselves additional learning and development by checking out books and DVDs from the corporate library. Learning and development can also be assigned through Halogen by the TMs supervisor during the performance scorecard process to address performance gaps or take advantage of developmental opportunities. Systematic follow-up and deployment is assigned and the TM and their supervisor are prompted by Halogen.

Our training program has been designed to produce effectively trained, knowledgeable and productive TMs. Training materials are frequently reviewed by senior leaders, managers, and TMs to keep information current. Training materials have been created with input from the restaurants and are designed to not only be well-organized and informative, but produce a high rate of knowledge retention as well. Our goal is to provide excellent training and career development for our TMs that they can use to grow within K&N Management or take their skills with them as they follow their career paths.

Production and service TM training is focused on learning the necessary work skills to accomplish the KBDs. Training for the production and service positions consists of flashcard tutorials, videos, on-the-job training with a certified coach, and skills testing. We encourage TMs to learn different responsibilities within the organization through cross-training. Cross-training enables TMs to learn multiple positions to gain knowledge in multiple service and production areas, thus increasing their performance, flexibility, and overall effectiveness. TMs receive at least 38 hours of structured, on-the-job training with designated, certified trainers, or coaches. This level of training is far more than most fast-casual restaurants provide (Figure 7.4-19) in a much more effective format. There are designated coaches in each location who have been selected through an interview process. Coaches are required to attend a Foundations class, complete projects, and read assigned books on coaching. Educational and classroom training consists of various flashcard tutorials, videos, written tests, and demonstration tests. Required skills are validated on a training checklist to ensure the TM is perfectly capable of completing key job responsibilities before working a station alone.

Transfer Of Knowledge: Knowledge from the best known practices for each job, which includes knowledge from current and departing TMs, managers, or support TMs are transferred during our structured training and coaching process. Our training processes are where we put our best-proven practices and how we assure they will be systematically transferred to all current and future TMs and managers. For example, the SLT has created structured, on-the-job training modules for the different levels of management. Restaurant managers are required to complete a comprehensive ten-week training program consisting of individual training modules that include training checklists, flashcards, written tests, demonstration tests, and weekly projects. During training the manager in training (MIT) learns the responsibilities of each position and completes training with three weeks dedicated to shadowing the opening and closing managers. The MIT meets weekly with the training director to discuss their progress, review training materials and projects, and address any training needs or concerns. Training for roving managers, assistant general managers, and general managers consists of a minimum of four weeks of hands-on training with current TMs in those positions. Exit surveys are conducted to ensure valuable knowledge does not walk out when a TM leaves.

Reinforcement of New Knowledge and Skills: To address the reinforcement of new knowledge and skills on the job, the SLT implemented coaching charts and a Hot Topics section in the daily shift meetings to communicate focus points and process improvements (Figure 1.7), thus thoroughly reinforcing new knowledge and skills. The purpose of the Hot Topics section is to "over learn" either a new process or reinforce a current process by coaching that topic repeatedly for two to six weeks and coaching charts are utilized to check off the retention of the new skill or process. This process guarantees that each Hot Topic is a primary focus for a minimum of fourteen shifts, ensuring knowledge retention. The Hot Topics are determined as a result of identifying opportunities through the performance measurement process. Hot Topics are also included on the coaching charts which give managers the opportunity to visually verify TM knowledge and reinforce training daily.

TMs receive POCs at the end of training to ensure they can perform the job to standard. TMs receive a performance scorecard appraisal after thirty days of employment and then every six months thereafter. Scorecard results are entered in Halogen eappraisal and tracked by the HR director. Managers receive a position scorecard and a 360° performance appraisal each year. The scorecard measures the manager's performance in clearly defined core competencies and core responsibilities, while the 360° appraisal measures the manager's impact on the TMs at their particular location. The scores are entered in Halogen eAppraisal and reviewed by the executive director and the HR director. TM coaching and support is available on an on-going basis through certified coaches, shift leaders, shift supervisors, and managers.

5.1b(3) Evaluating Learning and Development System Effectiveness

The SLT determines the effectiveness of our learning system through job scorecards, coaching charts, guest feedback, Game Films, and operations inspections as illustrated in Figure 5.3. The SLT reviews results and any performance gaps are identified and training solutions are determined and implemented. The training director reviews the learning and development systems to determine if they still efficient, streamlined, best-in-class, and user-friendly. Potential changes in learning and development systems are identified through researching trends and benchmarking best practices. Senior leaders review the data during SPIM (Figure 1.4) and determine which potential changes would have the greatest impact on developing our people to optimize performance and guest delight. Approved changes are assigned to the training director or another SLT member and the implementation progress is reviewed at the directors meetings. Each improvement has its own measure of effectiveness which is tracked through surveys, coaching charts, or other channels as appropriate.

5.1b(4) Career Progression

We offer TMs the opportunity to advance through training and development. Cashiers have the opportunity to work with the teams of other locations as well as to gain knowledge and experience in both restaurant concepts through the roving cashier position. Roving cashiers have been fully trained to work in any of the Rudy's and Mighty Fine locations allowing them the opportunity to develop their skills. To provide a systematic path for high-potential TMs to make the leap from hourly position to management, we have created an introductory level shift supervisor position. This position is almost exclusively reserved for internal career progression (Figure 7.4-10). This is an excellent path for TMs to progress into management while learning the basics of coaching, problem solving, quality control, process improvement, and performance measurement. Shift supervisors receive six weeks of structured training and are often promoted to restaurant manager within six to twelve months of completing shift supervisor training.

Through our coaching and development processes we provide hourly TMs who are driven by performance excellence the opportunity to naturally progress from production and service positions into management at their own pace. We have established a performance-based promotion process that rewards "A Players" who possess the drive to succeed, regardless of employment tenure. Our succession planning process allows us to promote from within, thus providing effective training and development for our upper-level management positions. An established plan has been created for all management positions and includes ensuring we have a senior leadership succession plan (see 1.1a(3)) to ensure a smooth transition if any member of the SLT should leave or shift to a new role. The results of our succession planning process are listed in Figure 7.4-10.

5.1c Assessment of Workforce Engagement

5.1c(1) Measuring Workforce Engagement

As a result of our TM engagement/satisfaction processes (Figure 5.2), TMs are in a state of self-control in relation to their job responsibilities. This means they know the standards, have the skills to check to see if the process output meets the standards, and are empowered to correct it or stop the product unless it meets 100% of the standards. The key measures of workforce engagement include audits, Game Films, POCs, and other measures that assess whether TMs are fully following the processes and delighting guests every time. TMs are trained on our culture, our processes, and their role in providing guest delight. TMs are engaged to delight our guests through our work and people processes, the FISH philosophy, and a guest delight centered work environment. We asses TM engagement by tracking and reviewing the following measures:

- New TM engagement/satisfaction surveys
- Existing TM engagement/satisfaction surveys
- Productivity (cashier efficiency)
- Absenteeism
- Internal promotions
- Scorecards, coaching charts, Game Film, replay analyst, guest satisfaction (Figure 5.3)
- Exit surveys (Exit)
- Turnover rates
- Accidents and workers compensation data
- TM suggestions

Data from the TM survey results is segmented by workforce group and by concept then reviewed by senior leaders. Besides the TM engagement/satisfaction surveys, TM feedback, and training and development, another resource to assess TM engagement/satisfaction is the attitude of our TMs and the overwhelming response of guest delight. Our guests become raving fans because of the focus our TMs place on our KGRs. Our TMs enjoy working in a fun, energetic environment and for a company that is driven in their pursuit of excellence. We conduct satisfaction surveys for existing TMs to capture data concerning their overall job satisfaction.

Another resource used to measure engagement/satisfaction is the online TM comment log. This allows TMs to anonymously voice their opinions about K&N, their work environment, and leadership. Figure 5.5 illustrates the detailed process for responding to TM comments.

TM retention is also an indicator of engagement/satisfaction that we measure consistently. Senior leaders review turnover on a monthly basis. Through excellent people processes we have among the lowest turnover rates in the industry. TMs who are voluntarily leaving are invited to complete an online exit survey. We analyze various HR data to look for relationships between HR-related measures to help us assess and improve our engagement processes, HR systems, policies, and practices.

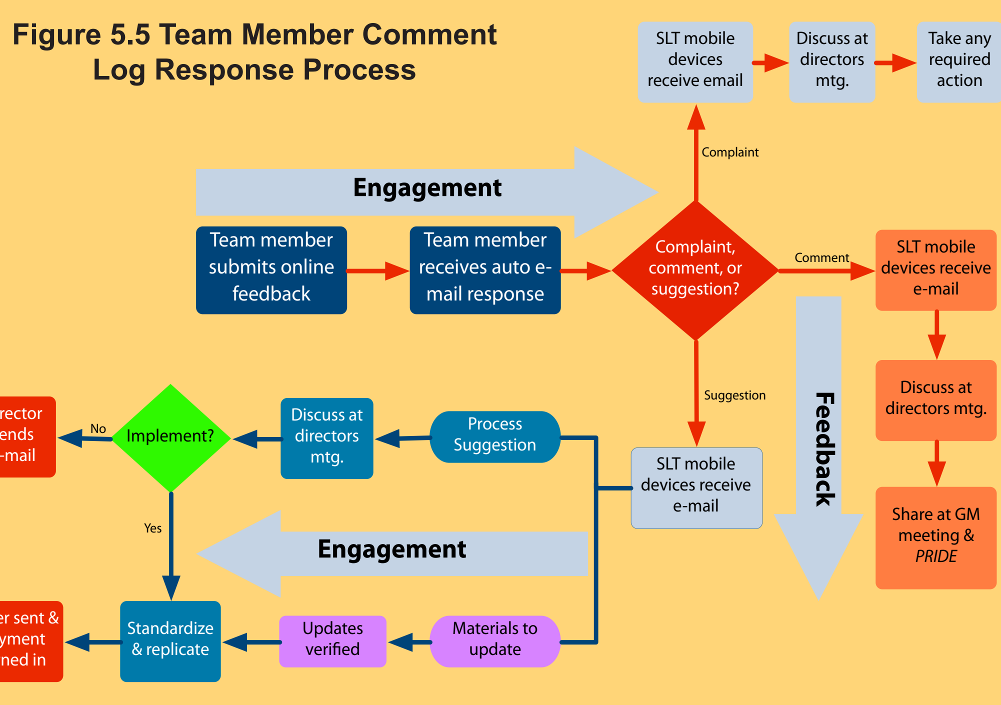
5.1c(2) Linking Workforce Engagement to Results

Many of the workforce engagement findings are linked to business results since they directly impact KGRs and KBDs. They either impact the accuracy, speed of service, hospitality, cleanliness (scorecards, Game Film, guest satisfaction surveys) or costs (productivity, turnover, absenteeism), and thus are seen in the overall business results in Item 7.3. HR data is reviewed during the routine meetings in Figure 1.4, including the SP workshop, to identify trends in strategic strengths and challenges. We systematically identify opportunities to improve our HR processes through SPIM (Figure 1.4).

5.2 Workforce Environment

5.2a Workforce Capability and Capacity

Figure 5.5 Team Member Comment Log Response Process



5.2a(1) Workforce Capability and Capacity Needs

Workforce Capacity: Both restaurant concepts produce high sales volume, therefore, providing adequate staffing is critical to meeting our KBDs and KGRs. Each location is allotted a certain number of labor hours each week that is needed based on the sales per hour reports from Aloha. This report helps to determine exactly how many positions are needed per hour throughout the day. The general manager is responsible for completing the schedule in Kronos according to their store's allotted labor hours. TM identified skills and certifications help the general manager align needs and capabilities. Weekly schedules are audited by the executive director to verify adequate coverage. The SLT reviews guest complaints, measurement inspection scores, and special event or holiday requirements to make adjustments to staffing needs. Shift shortages are entered on the internal website by the manager. The manager denotes whether they were able to cover the shift internally or if they need to have the position filled by a roving cashier or TM from another location. The SLT is instantly notified on their mobile devices and provides support accordingly.

Workforce Capability: This is identified through training and developing the skills necessary to produce high quality products served quickly and accurately by friendly team members in a clean environment. Mastered skills are checked off training checklists and TMs are required to complete certification training for key functions. Required certifications are tracked and managed through Kronos. Halogen eLMS manages TM learning, skills, and certifications. Refer to 5.1b(1) and b(2) for more details on development processes.

5.2a(2) Workforce Recruiting, Hiring, and Placing

We use the Topgrading process to select our people. This best in class interview process helps us hire the best candidates that will become engaged "A Players" who follow our processes and delight our guests. All eligible manager and support team candidates complete a thorough career history form, an introductory meeting with the Topgrading director, and then complete an online work, personality, and performance profile. If the candidate is a potential fit they then undergo a two-hour tandem Topgrading interview followed by an in-store observation day. The Topgrading process is also applied to the selection of service and hourly TMs. We retain new TMs through a carefully designed onboarding process and inserting them into a culture where they can achieve excellence in their jobs (Figure 5.2).

To ensure our workforce represents the diverse ideas, cultures, and thinking of our hiring and guest community we hire from within the community surrounding our stores. Our workforce consists of various ages, genders, and races and is a representative sample of the community. We rely on the structured Topgrading interview process to hire diverse individuals with great attitudes, different talents, and skills to compliment our workforce. As a result, our TMs work well with each other and have the capability to cross gender, age, language, and cultural barriers. The Topgrading process aids in selecting the best people for us and does not allow the interviewer to impose their own values or prejudices into the hiring process.

5.2a(3) Managing and Organizing Our Workforce

Both concepts have well-defined positions that are responsible for the service and production processes. All positions are in a state of self-control, meaning they understand the performance expectations and have control over the quality for the products and services that leave their position. TMs are cross-trained and learn different positions after mastering the job skills of their starting position. This creates a certain level of flexibility in that TMs from different departments can step up and offer assistance when needed to guarantee we are serving high quality food in a fast, clean, and friendly environment. At least two managers are scheduled for most shifts and are responsible for directing and systematically coaching the staff, as well as supervising process execution.

A properly trained, fully staffed restaurant with HR processes, measures, and reinforcement (Figure 5.2) directed at meeting KBDs and KGRs, plus a SPP that addresses strategic challenges ensure that we reinforce a guest focus by exceeding guest expectations and delivering our KBDs. A capable, cross-trained workforce that is adequately staffed also provides the required human resources to address changing business conditions. The roving cashiers and managers, able to work in all or most locations, also help meet immediate changing conditions. If changing conditions require long-term, major adjustments, then this is done through our HR processes.

5.2a(4) Preparing for Changing Workforce Needs

Communication is essential to prepare our workforce for changing organizational needs. Team members receive information regarding organizational performance and process improvements through several channels. Daily shift meetings are conducted in the restaurant to communicate corporate as well as store-level focus points, training points, and other important topics that affect the stores. Process improvements are rolled out to TMs through the PICF that answers the questions most TMs want to know about an improvement. The PICF describes the old process, the new process, the steps involved, how it will affect TMs, and how the improvement will make us better. We have found that answering these questions in a concise format alleviates most doubt and hesitation up front.

We minimize the need for future workforce reductions through proper (not over) staffing and cross-training to maximize flexibility and agility, staffing and hiring according to projected labor hours to prevent over-staffing, and focusing on operational excellence to ensure organizational sustainability. We prepare for and handle seasonal or economic fluctuations in business volume through forecasting and scheduling based on historical trends. These fluctuations dictate an increase or decrease in workforce capacity. Typically a higher number of TMs are required during the summer months and a lower number during the winter months. Because we offer flexible scheduling, we appeal to a large number of students whose availability tends to match the workforce capacity fluctuations. Another reason to be excellent at guest satisfaction and meeting KGRs is that we maximize the number of guests who are repeat guests which helps to ensure job growth and organizational sustainability.

5.2b Workforce Climate

5.2b(1) Workforce Health, Safety, and Security

We ensure the safety, security, and well-being of TMs

Figure 5.6 Workplace Safety & Security Indicators

Indicator	Prevention	Measure
Burn	Heat-safe gloves	Number of burns
Cut	Cut-proof gloves Knife handling policy	Number of cuts
Slip, Trip or Fall	Slip resistant shoes	Number of falls
Back Strain	Partner lifting Lifting training	Number of strains
Theft or Robbery	Prevention training Camera system Security system AT Safe Parking lot cameras	Number of security incidents

by remaining proactive versus reactive. Numerous safety and security measures have been implemented, including cameras, panic buttons, and state-of-the-art fire and security monitoring systems. Team members receive training on the location of panic buttons as part of onboarding. The same safety and security processes apply to both concepts.

A process for properly handling accidents has been clearly defined and communicated in the Safety Handbook. We enter all accidents and incidents in Kronos, including those requiring minor first aid which is beyond what OSHA requires to be recorded. The SLT reviews accidents, identifies trends, and modifies processes accordingly to eliminate the root causes of future accidents. Figure 5.6 illustrates the indicators and measures for workplace safety and security. Our goal is to have zero to minimal incidents each year. Our safety evaluation and learning process shows our commitment to continually improving the health and safety of our team members.

In addition to implementing security equipment, the Austin Police Department (APD) provides a robbery and theft prevention training class. The APD conducts mock robberies at our locations, providing managers with invaluable training in emergency situations. There is a constant presence of uniformed police, firefighters, and emergency assistance, in our restaurants due to the discounts we offer them when dining-in. These measures are indicative of our determination to provide a safe and secure environment for TMs and guests. In fifteen years there have not been any security incidents due to our comprehensive security system and security processes.

5.2b(2) Workforce Support

K&N provides one of the best benefits packages in the industry. We offer 90% paid comprehensive group health insurance to all full-time TMs who average a minimum of thirty hours worked per week. Policies concerning harassment and discrimination are deployed to team members in the Policy Handbook. TMs receive sexual harassment prevention training during the Foundations session and anti-harassment training is also added to the daily shift meeting topics throughout the year. Our people are key to achieving our key business drivers and key guest requirements, therefore, we treat our team members like we want them to treat our guests.

Figure 5.7 Team Member Benefits Plan

Benefit	Plan	Who is Eligible?
Group Medical (PPO)	90% paid	• Salaried TMs and eligible dependents • FT Hourly TMs - dependent coverage is available
Group Dental	90% paid	• Salaried team members and eligible dependents
TM Assistance	In-house chaplain program	• All team members and dependents
Life Insurance	100% paid	• All FT team members
401K	3% company matching	• All team members 21 years old with 1 year of service
Short- and Long-term Disability	100% paid	• All FT team members
Accidental Death & Dismemberment	100% paid	• All FT team members
Voluntary Life (2 plans)	Supplemental term life insurance plan	• Salaried team members • Hourly team members
PTO	Paid Time Off	• All FT team members
Company Vehicle	Company vehicle including gas and weekly car wash	• Senior leaders • GMs and AGMs • Key support team members
Manager Bonus	Monthly bonus awarded for achieving goals	• Salaried team members
Flexible Spending Account	Pre-tax contribution for health or dependent care	• All FT team members

6.1 Work Systems

6.1a Work Systems Design

6.1a(1) Internal and External Work Systems

By allocating time and resources to developing, measuring, analyzing, and learning how to execute our processes to a high level of performance, K&N has proven to be a leader in the restaurant industry. Achieving our KGRs depends on our ability to consistently execute production and service processes, while our ability to grow and achieve organizational sustainability depends on how well we execute our business and operational processes. We have established a structured process for designing and innovating overall work systems. The process used for designing and redesigning processes is illustrated in Figure 6.1. Factors we must consider when determining to keep key work systems internal or external are:

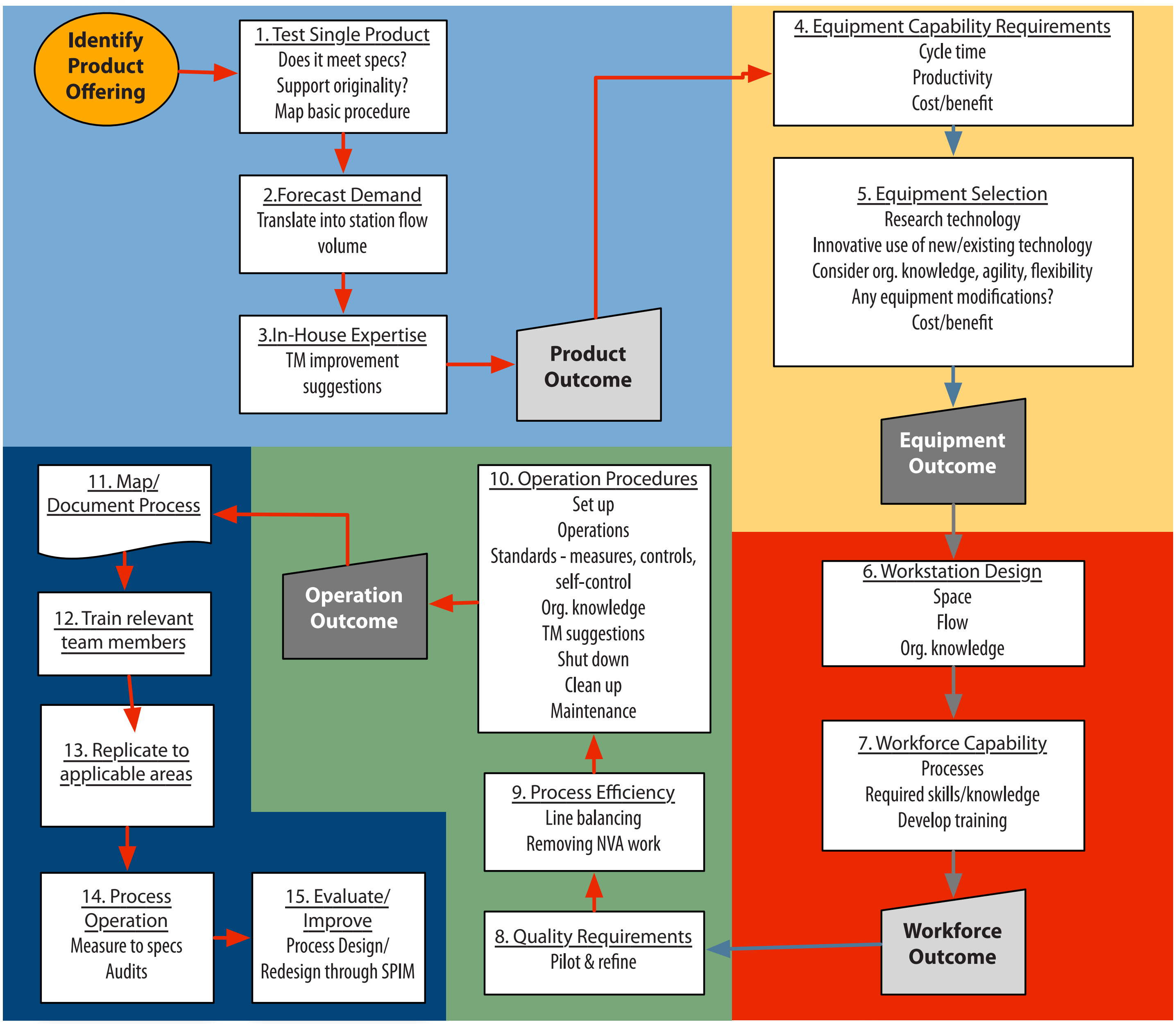
- DFC (desirable, feasible, and capable)?
- Is it consistent with brand image?
- Can it meet key guest requirements?
- Do we risk trade secret information?

Specific factors to determine if a process will be internal or external to K&N Management include:

- Cost-benefit analysis
- Is it a commodity?
- Can we control the quality of product?

A key feature of our work systems and processes is that they are easy to replicate and measure with each individual location being held accountable to the same criteria. In our

Figure 6.1 Process Design/Redesign Process



environment our team members serve our guests face-to-face, therefore work systems are clearly defined and trained which enables our staff to consistently create memorable interactions. Our guests require high-quality food served quickly and accurately by friendly team members in a clean environment. This requires our team members to know and follow the processes required to do their jobs. In order to be effective, work processes are implemented with clearly defined requirements and measurements which are reviewed during SPIM with input from guests and team members.

6.1a(2) Core Competencies

Our organizational core competencies are aligned with our core work processes and are determined according to their impact on our KBDs. We excel in people, food quality, speed of service, hospitality, cleanliness, and profitability. We use our core competencies to design and execute work systems and key work processes that delight guests through meeting and exceeding their key guest requirements. Figure 6.2 lists our core competencies and their requirements. The requirements for all core work processes are that they enable us to consistently delight the guest in addition to contributing to organizational sustainability. Team members are empowered to guarantee guest delight and to contribute to our overall success by practicing quality control and submitting ideas on how to better achieve our KBDs and KGRs.

6.1b Key Work Processes

6.1b(1) Key Work Processes

Key work processes contribute to delivering value to guests, profitability, organizational success, and sustainability by meeting the KGRs and KBDs. Key work processes are key contributors to guest delight, loyalty, profitability, and sustained operations. Key work processes are designed to enable our team members to serve quality product to our guests in a fast, friendly, and clean environment and enable our management teams to successfully run their operation on a daily basis while performing required administrative functions efficiently. They enable our corporate support team to support strategic planning, other support services, and reconcile all financial and HR func-

Figure 6.2 Core Competencies and Core Processes

Core Competency	Core Processes	Requirements
People	• Topgrading selection • Foundations • On-the-job training • Coaching charts • POCs • Scorecards	Team members are hired, trained, and developed according to established people processes.
Food quality	• Recipe production • Cooking • Kitchen sanitation • Food safety process • Food quality rating process	Products are produced according to established processes and food safety requirements.
Speed of service	• Line time process • Managers on the line • 2-minute goal - Rudy's tacos • 2-minute goal - Mighty Fine	Order taking and packaging processes are followed to ensure orders are fast.
Accuracy	• Expo checks all bags • To-Go pad process	Order taking and packaging processes are followed to ensure orders are accurate.
Counter service - hospitality	• Script • FISH	Team members choose a positive attitude and follow service processes to ensure guest delight.
Cleanliness	• Cleaning inspections • Restroom checklists • Busser checklists • Overnight cleaning crew	Facilities are cleaned and maintained on a daily basis to provide a clean environment for team members and guests.
Profitability	• Recipe adherence • Par levels & ordering accuracy • Inventory control • Daily administrative processes • Labor & scheduling processes • Controllable cost control	Operational financial process adherence in order to capitalize on other core competencies and maximize profitability.

Figure 6.3 Key Work Processes

Key Work Process	Key Requirements	Key Measures
Production	High quality ingredients	• Operations inspections (Fig. 7.1-1) • Food quality rating (Fig. 7.1-2) • Overall guest satisfaction (Fig. 7.2-6)
	Quick	• Overall guest satisfaction (Fig. 7.2-6)
	Accurate	• Order accuracy (Fig. 7.1-6) • Overall guest satisfaction (Fig. 7.2-6)
	Clean	• Operations inspections (Fig. 7.1-1) • Overall guest satisfaction (Fig. 7.2-6) • Health department score (Fig. 7.1-3)
	Recipe and production process adherence	• Operations inspections (Fig. 7.1-1) • Process audits (Fig. 7.5-9)
Service	Friendly service	• Operations inspections (Fig. 7.1-1) • Overall guest satisfaction (Fig. 7.2-6) • Game Films (Figure 7.1-9)
	Quick	• Operations inspections (Fig. 7.1-1) • Overall guest satisfaction (Fig. 7.2-6) • Cashier efficiency (Fig. 7.1-7/7.1-8) • Line times-Rudy's only (Fig. 7.1-5)
	Accurate	• Operations inspections (Fig. 7.1-1) • Overall guest satisfaction (Fig. 7.2-6)
	Service process adherence	• Operations inspections (Fig. 7.1-1) • Process audits (Fig. 7.5-8)
	Clean	• Operations inspections (Fig. 7.1-1) • Overall guest satisfaction (Fig. 7.2-6)
	Cash control	• Cash discrepancy (Fig. 7.5-5)
Operations	People development	• Scorecard ratings (Fig. 7.4-12) • Turnover (Fig. 7.4-1 through 7.4-5) • Length of service (Fig. 7.4-9) • % "A Players" (Fig. 7.4-13)
	Cost control	• Labor as % of sales (Fig. 7.4-17/7.4-18) • Food as % of sales (Fig. 7.5-1/7.5-2) • Food cost variance (Fig. 7.5-3)
	Process compliance	• Process audits (Fig. 7.5-8/7.5-9) • Manager on the line (Fig. 7.5-4) • To go pad results (Fig. 7.5-6) • Operations inspections (Fig. 7.1-1)
	Guest delight focus	• Overall guest satisfaction (Fig. 7.2-6) • % of returning guests (Fig. 7.2-9) • Ratio of complaints to transactions (Fig. 7.2-10)
	Proper staffing	• Number of shifts fully staffed (Fig. 7.4-15)
Administrative Support	Cost effective maintenance	• Maintenance cost (Fig. 7.5-7)
	People effectiveness	• Scorecard ratings (Fig. 7.4-12) • Turnover (Fig. 7.4-1 through 7.4-5) • Absentee rate (Fig. 7.4-14) • % "A Players" (Fig. 7.4-13) • TM satisfaction (Fig. 7.4-6 through 7.4-8) • Overall guest satisfaction (Fig. 7.2-6)
	Effective work process design	• Line times-Rudy's only (Fig. 7.1-5) • Cashier efficiency (Fig. 7.1-7/7.1-8) • EBITDA (Fig. 7.3-6/ 7.3-7) • Gross profit (Fig. 7.3-3/7.3-4) • Operations inspections (Fig. 7.1-1)
	Supplier reliability and pricing	• Food Cost (Fig. 7.5-1/Fig. 7.5-2)

tions accurately. Key work processes are categorized as production, service, operations management, and administrative support as outlined in Figure 6.3.

6.1b(2) Key Work Process Key Requirements

Key work process requirements (Figure 6.3) are determined by what is necessary to meet the key product requirements that in turn satisfy the KGRs and create guest delight, repeat business, and profitability. Senior leaders review processes to confirm that our processes, products, and services are exceeding our guests' expectations. Our operational success is determined by the ability of our TMs to execute work processes consistently and effectively on a day-to-day basis.

6.1c Emergency Readiness

We take a proactive approach to emergency readiness. We have fully developed plans for an entire range of emergencies that we might be faced with and have our TMs and managers trained to execute those plans if required. The team member Safety Handbook outlines emergency preparedness procedures. For specifics on IT emergency readiness refer to 4.2b(2). For example, TMs are trained in how to handle power outages, weather emergencies, water outages, register issues, TM accidents, and guest accidents. TMs are instructed during training on where to go in the event of a fire or a tornado, depending on the location they work. To reinforce emergency readiness, these topics are rotated in daily shift meetings throughout the year. To proactively handle situations to prevent the outbreak of illnesses, K&N created a flu shot reimbursement policy to encourage TMs to get their seasonal flu shots. Due to a recent outbreak of H1N1, we have included this vaccine in our flu shot reimbursement policy. Sick TMs are encouraged to stay home to recuperate in order to prevent other TMs from getting sick. To assist with emergencies, we have a fully-staffed maintenance team and IT team that always have a member on call. Whenever possible, our work systems and processes are designed to prevent threats rather than just react to them.

6.2 Work Process Design

6.2a Work Process Design

We apply the same method (Figure 6.1) to design work systems and work processes. To determine whether to incorporate new technology, we first evaluate whether it fits with our business model and design, and if it will improve our ability to achieve our KBDs and KGRs. Organizational knowledge is incorporated into work processes by using the process design/redesign process which systematically guides us through a number of decisions including appropriately designing in best-practices (Figure 6.1: boxes 5, 6, and 10). Organizational knowledge is also incorporated into process design through the TM suggestion process. The in-house expertise from the team members who perform the processes on a daily basis is a valuable resource (Figure 6.1 boxes 3 and 10). The restaurant industry experiences seasonal fluctuations, thus we design work processes to meet varying levels of demand. Cycle time (Figure 6.1 boxes 4, 5, 6, and 10), productivity (box 9), and cost control are factors (boxes 5, 10, 13) considered during the design/redesign process (Figure 6.1). Service and production work processes are designed to provide guest delight while maximizing profits. We allot the appropriate human resources to ensure our KGRs are met. Kitchen workflow design and established product par-levels, and cooking processes are critical to providing our guests high quality food quickly. Positioning, staffing, training, and service processes allow our TMs to exceed the hospitality expectations of guests.

6.2b Work Process Management

6.2b(1) Managing Work Processes

Work processes are implemented during the training process (Figure 6.1 box 12). TMs are provided the coaching, materials, equipment, and support required to consistently execute work processes. Work processes are deployed through new team member training and shift meeting communication for existing TMs. Team members know and understand the process standards and are trained to perform tasks to meet the process standards using the approved production or service processes. Each operation is designed so the team member is in a state of self-control, meaning they know the standards, have the skills to check to see if the process output meets the standards, and are empowered to correct it or stop the product unless it meets 100% of the standards.

Guests provide feedback if our products and services do not meet their expectations. This feedback is used to correct the product or service (Figure 3.9 Complaint Management Process). We use measures to control the process output using visual standards that allow team members to see if standards are being met. The prep TMs check portion weights to visually compare the product to standards. Each process is designed so the process requirements are translated to operational steps which are a set of behaviors and methods that if they are performed to standard will result in the product meeting standards. Following the process steps and the associated behaviors and methods, along with visual standards, provides the TM a set of in-process controls. In most work processes there are in-process indicators if the process is performing to standard. Many of these indicators are visual or audible. For example, if the fries do not look like the right color coming out of the fryer, etc., there are in-process corrective steps the TM performs to correct or throw out the product.

6.2b(2) Work Process Cost Control

K&N applied lean principles in order to remove non-value added steps to ensure errors are not made, passed on, and /or repeated. Self-control is built into each job so the TM knows the standard for their product or service, if they are meeting the standard, and how to correct or not pass on product that does not fully meet standard. The day-to-day operation of work processes is measured and controlled through measurement processes, including inspections and audits (Figure 1.9). Other methods to help ensure the correct product gets to the guest include:

- ✯ Mighty Fine—QC position checks every burger to the guest's order before wrapping.

- Mighty Fine—Expo position checks every bag to ensure accuracy.
- Rudy's & Mighty Fine—Cashier reads back order to guest to verify it is complete.
- Rudy's—TMs use a triple-check system to verify accuracy on Group Meal orders.
- Rudy's—Cashier checks items off of a to-go pad before placing them in the to-go bag.

6.2c Work Process Improvement

Work process improvements are identified using our key measures to collect data from operations inspections, process audits, as well as TM and guest feedback (Figure 1.9). There are three paths for improvement in the performance analysis process (Figure 4.5):

- Compliance gaps—given to managers for coaching.
- Process gaps—R&D director coordinates using either the process design/redesign process (Figure 6.1) or the problem solving process (Figure 6.5).
- Gap requiring significant resources to close—considered during the SPP review (Figure 2.1 Step 1).

Senior leaders use a systematic process improvement process during SPIM (Figure 1.4) based on the plan-do-check-act cycle (Figure 6.4) to evaluate and improve the major work systems, work processes, support systems, and management processes (Figure 6.1 box 15). To integrate organizational learning and innovation, our work process improvements and lessons learned are shared with other locations by ensuring that once a process change is accepted, the standard is changed, and is rolled out to all applicable locations (Figure 6.1 box 13). The approved change is required and not optional. Once implemented, we audit the new standard and correct discrepancies.

When the cause of a problem is not known, we apply a problem solving process illustrated in Figure 6.5. Applying this disciplined processes determines the root cause and the solution addresses the root cause rather than a symptom of the problem. This addresses the problem at its source and helps to prevent the problem from reoccurring for the same cause. The problem solving process has assisted us in reducing variability in processes across the organization, improving our production and service processes, and achieving better performance.

Figure 6.4 Systematic Process Improvement Process

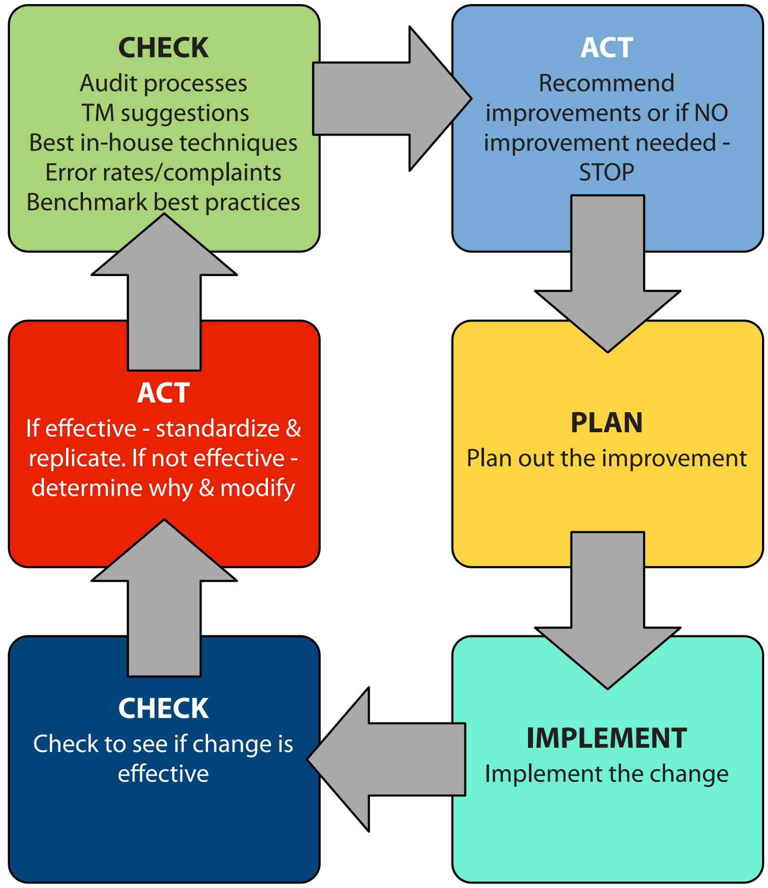
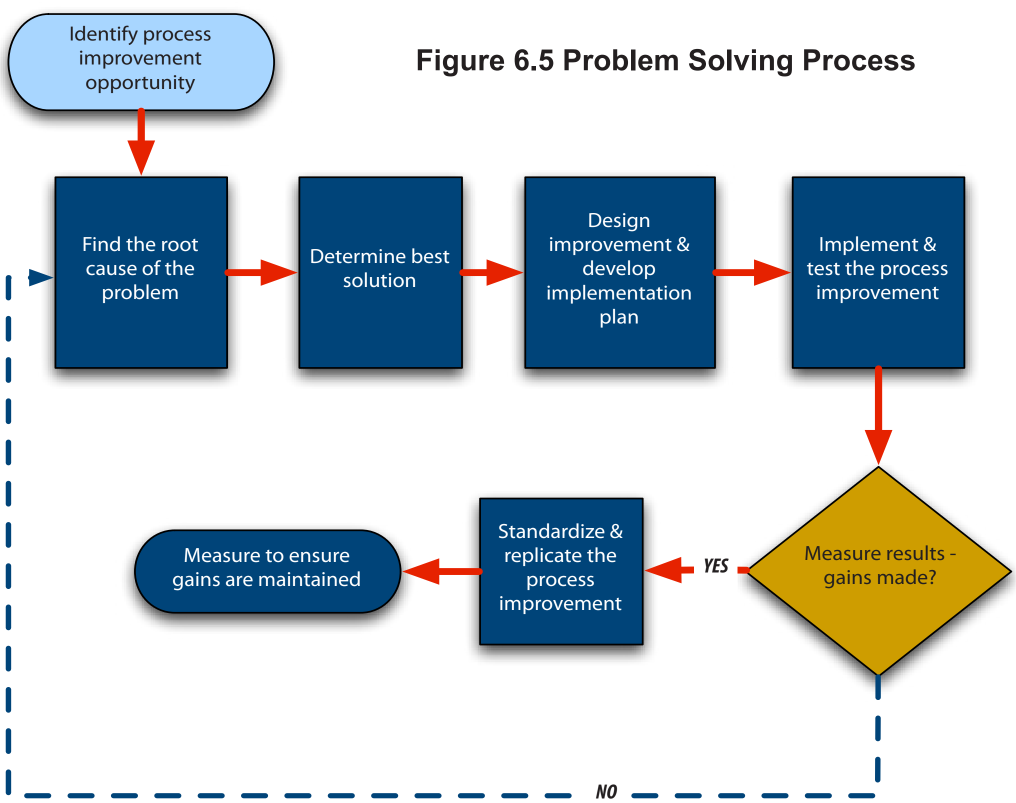


Figure 6.5 Problem Solving Process



7.1 Product Outcomes

Our guests require high quality products served quickly and accurately by friendly team members in a clean environment. The key measures of product and service performance for the KGRs (Figure P.5) are shown in Figures 7.1-1 through 7.1-9. We are better than our best competitor in all the KGRs. This is easily seen in Figure 7.1-6 Order Accuracy and 7.1-3 Health Department Inspections where direct comparative data to our best competitor is available. The uniqueness of our other innovative measures makes direct benchmarking difficult. Therefore, we have gone right to the source, the guest, since they are the final judges related to satisfaction, repeat business, and buying decisions. In Figures 7.2-1 through 7.1-6, Guest Satisfaction Results, you see a direct comparison of Rudy's and Mighty Fine Guest Satisfaction with the satisfaction that our best competitors' guests have for them. For each KGR and overall rating, Rudy's and Mighty Fine guest satisfaction were higher. In our comparative guest survey (Figures 7.2-11 and 7.2-12), comparative questions about each key guest requirement are asked. Rudy's and Mighty Fine were best in every KGR by a large margin.

A third confirmation source of K&N's competitive excellence in meeting the KGRs better than our competition is the unit sales for both concepts. (Figures 7.3-1 and 7.3-2). This shows that the average unit sales for Rudy's and Mighty Fine exceeds those of our best competitor. These comparisons come directly from the guest. The competitive comparisons for Rudy's include the best fast casual BBQ competitor (inside or outside of Austin), the local competitor (best competitor within Austin), and the national competitor (one of the best national chains). The competitive comparison for Mighty Fine is the best competitor, which happens to be both local and part of a national chain.

Figure 7.1-1 Operations Inspections

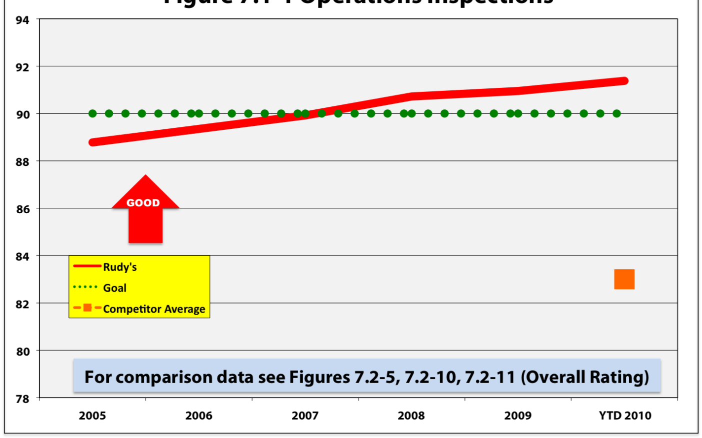


Figure 7.1-2 Rudy's Food Quality Rating

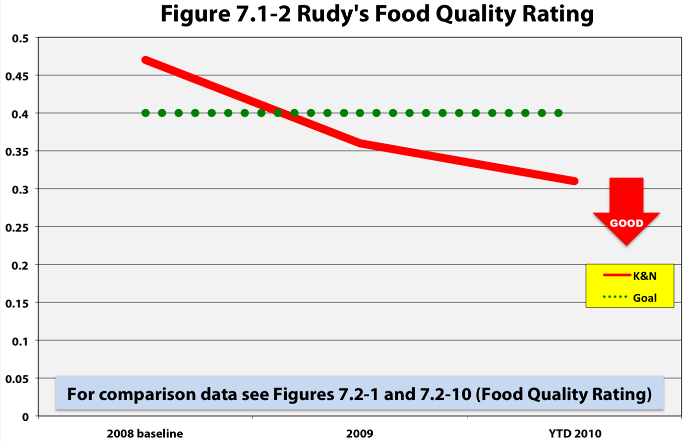
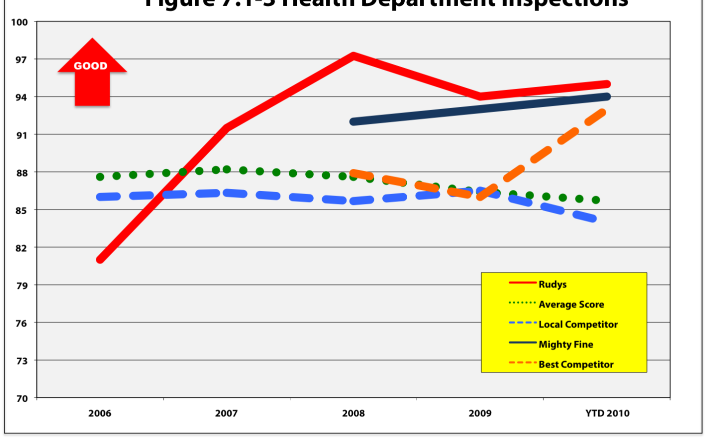


Figure 7.1-3 Health Department Inspections



7.1-4 Comprehensive Cleaning Inspections

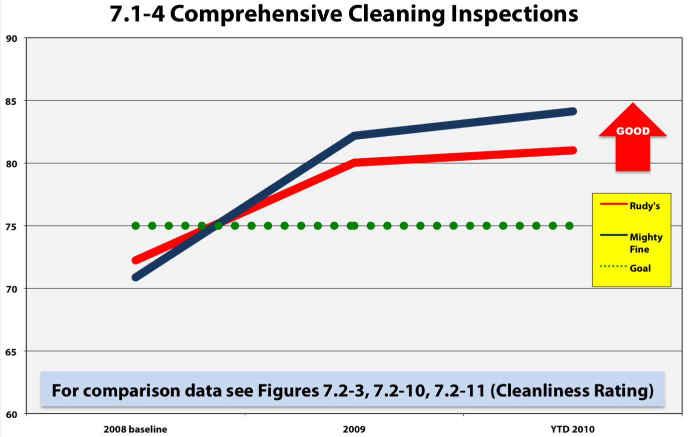
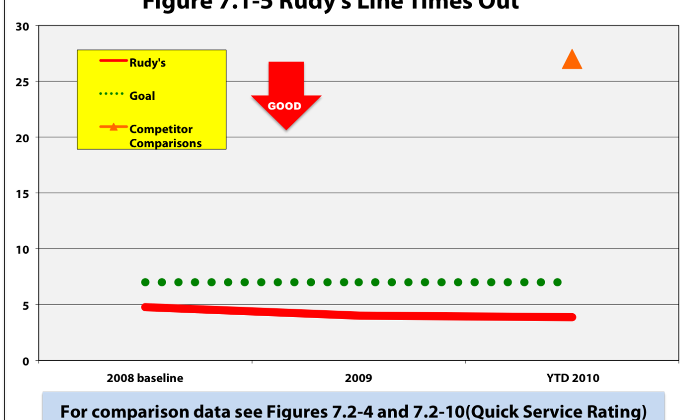


Figure 7.1-5 Rudy's Line Times Out



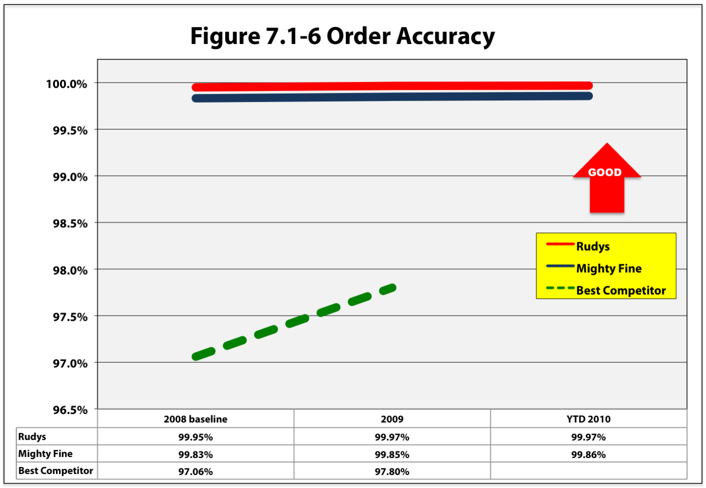


Figure 7.1-6 Order Accuracy

	2008 baseline	2009	YTD 2010
Rudys	99.95%	99.97%	99.97%
Mighty Fine	99.83%	99.85%	99.86%
Best Competitor	97.06%	97.80%	

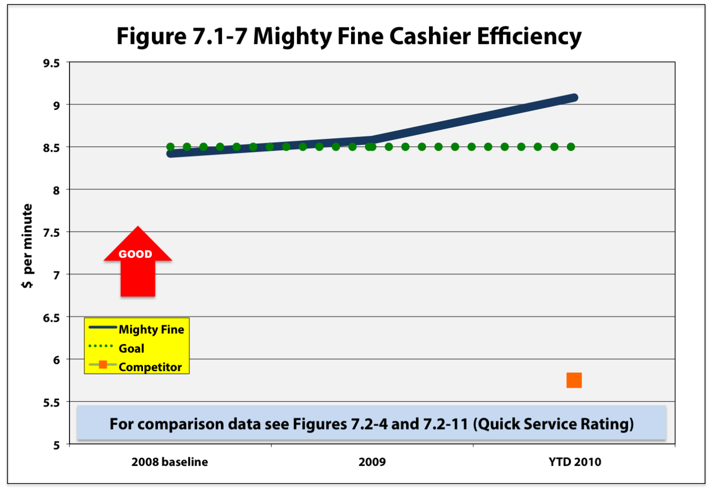


Figure 7.1-7 Mighty Fine Cashier Efficiency

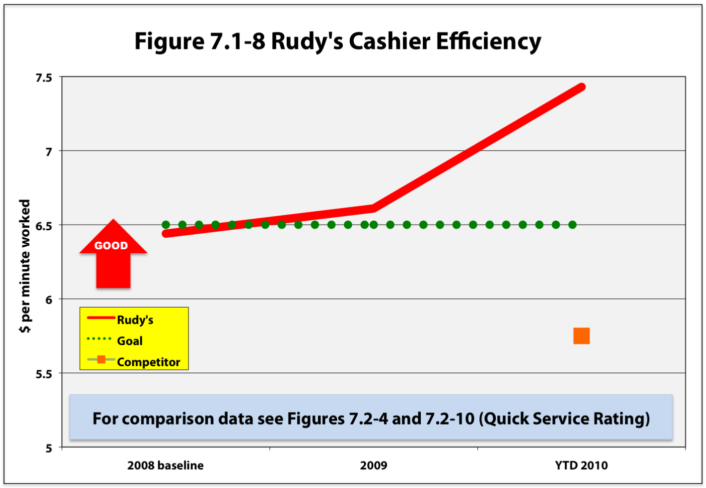


Figure 7.1-8 Rudy's Cashier Efficiency

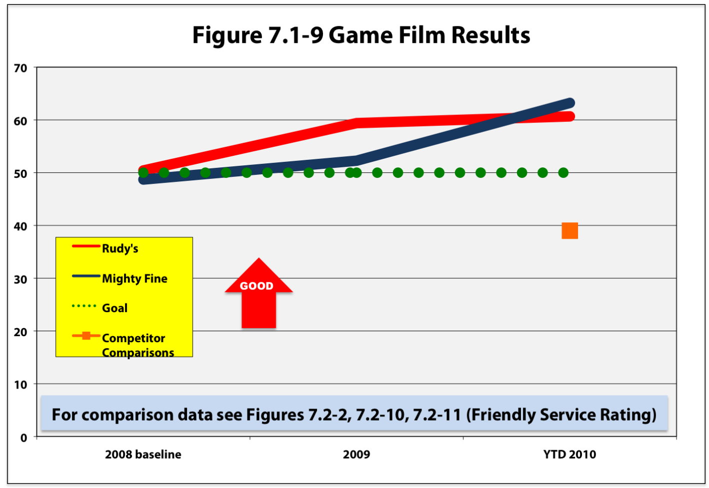


Figure 7.1-9 Game Film Results

7.2 Guest-Focused Outcomes

7.2a(1) Guest Satisfaction

As mentioned in the Item 7.1 write up, Figure 7.2-1-7.2-6 show that Rudy's and Mighty Fine have higher satisfaction levels than the satisfaction levels of the best competitor for each of the KGRs and overall satisfaction. Figure 7.2-7 indicates the most popular 3rd party restaurant review web sites rate Rudy's and Mighty Fine favorable against our competitors. Figures 7.2-11 and 7.2-12 show that when the guest directly compares Rudy's and Mighty Fine to a similar restaurant they last visited, both Rudy's and Mighty Fine are considered Better or Much Better by an overwhelming majority of the guests. We also have very low levels of dis-satisfaction and very high levels of loyalty as represented by repeat business and high levels of desire to return. This is confirmed by the benchmark levels of unit sales and profitability shown in Item 7.3.

7.2a(2) Guest Relationship Building

Figure 7.2-9 is a valid measure of our current level of guest relationship building. This figure indicates that over 97% of our guests will return to Rudy's and over 96% will return to Mighty Fine. This success rate is due to our continual focus

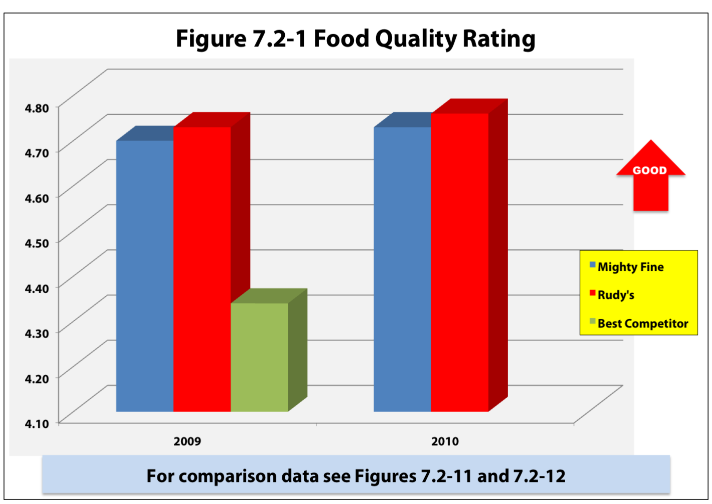


Figure 7.2-1 Food Quality Rating

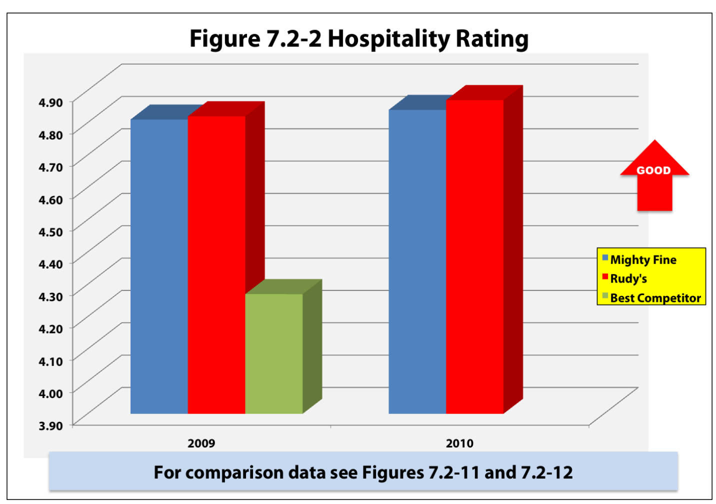


Figure 7.2-2 Hospitality Rating

on meeting and exceeding our KGRs. Figures 7.2-11 and 7.2-12 contain results from our guest comparison survey. The survey asks guests to directly compare their experience at Rudy's or Mighty Fine to the last similar restaurant they visited. This information provides objective comparative data for obtaining guest satisfaction relative to our competitors based on our KGRs. The results indicate our guests are much more satisfied with their experience at Rudy's and Mighty Fine than with a similar competitor.

Figure 7.2-3 Cleanliness Rating

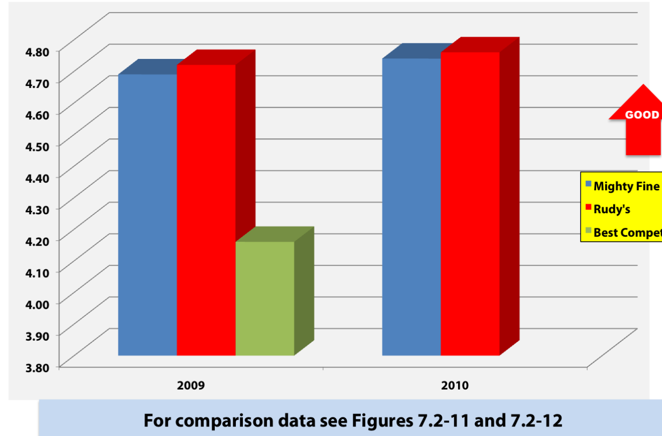


Figure 7.2-4 Speed of Service Rating

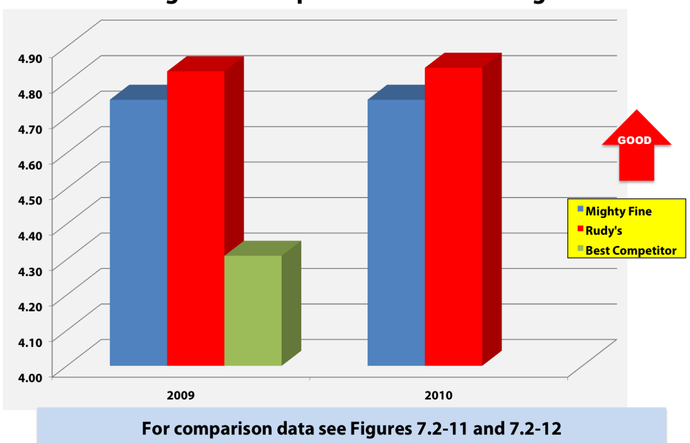


Figure 7.2-5 Value Rating

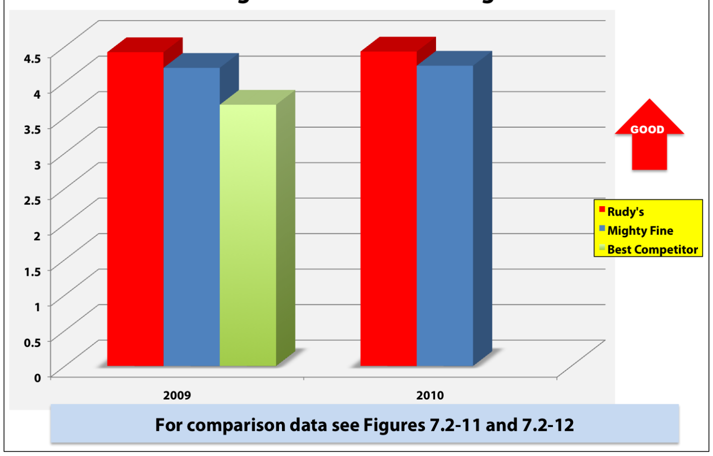


Figure 7.2-6 Overall Satisfaction Rating

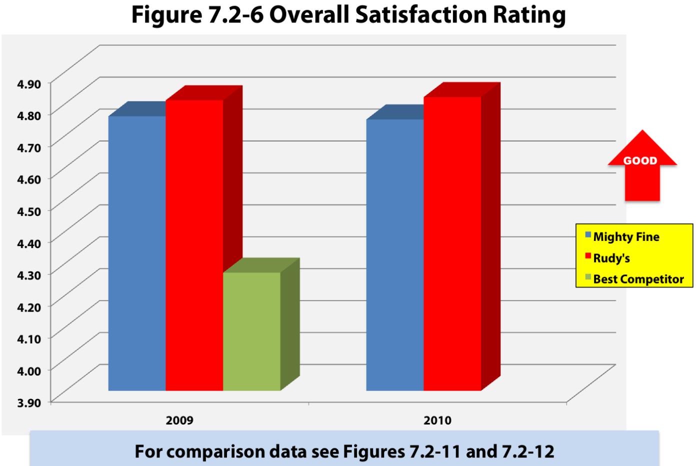


Figure 7.2-7 2009 Restaurant Review Web Sites

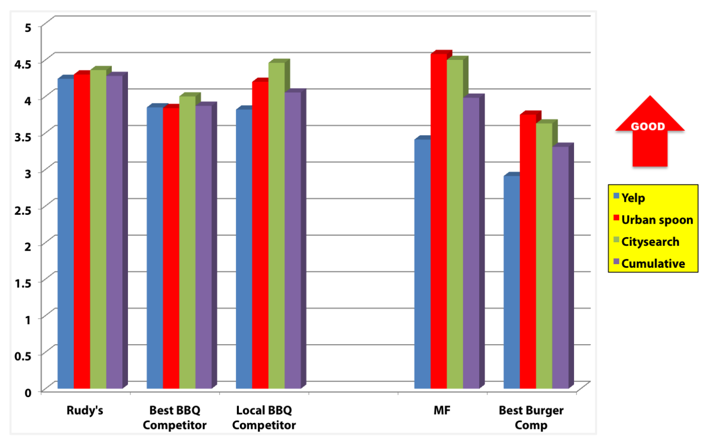


Figure 7.2-8 Guest comparative survey results: Based on your experience, are you more likely to return here or to a similar restaurant?

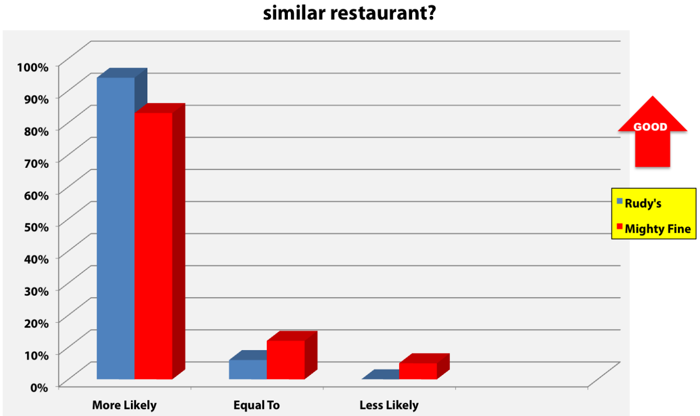
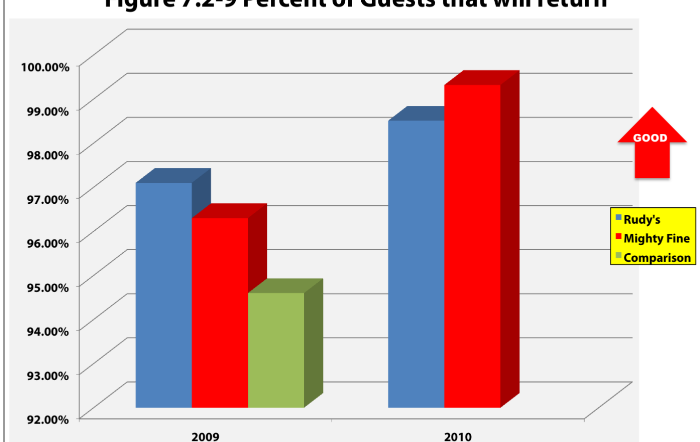
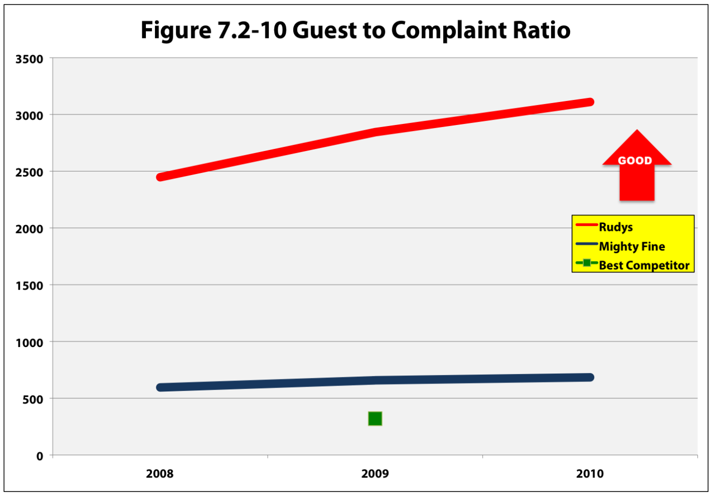
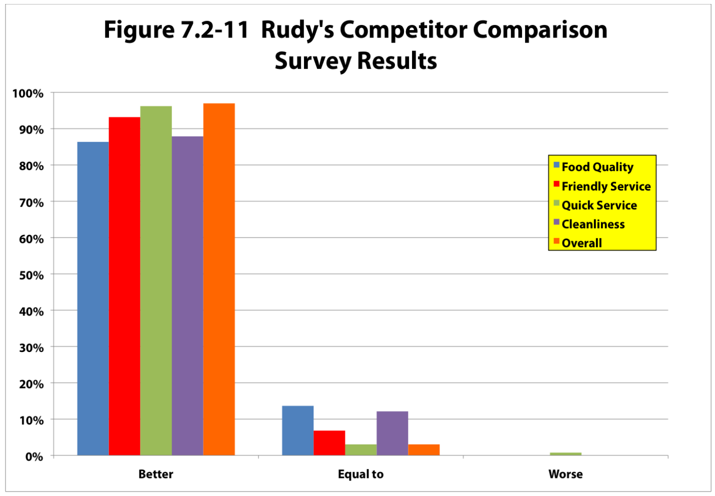
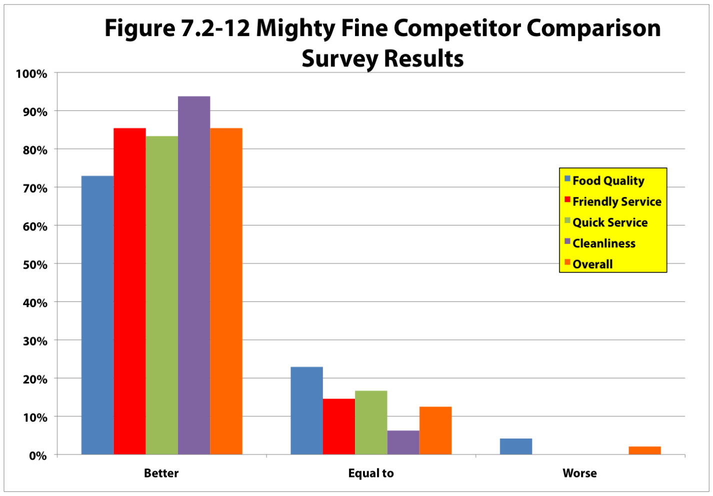


Figure 7.2-9 Percent of Guests that will return









Financial goals are clearly outlined and communicated to GMs through food cost analysis and labor analysis. Operating excellently through tight inventory controls, security cameras, thorough training processes, and cross-training ensures labor and food cost goals are consistently met. This is evident in the continuing rise in our gross profit margin which shows organizational profitability and sustainability.

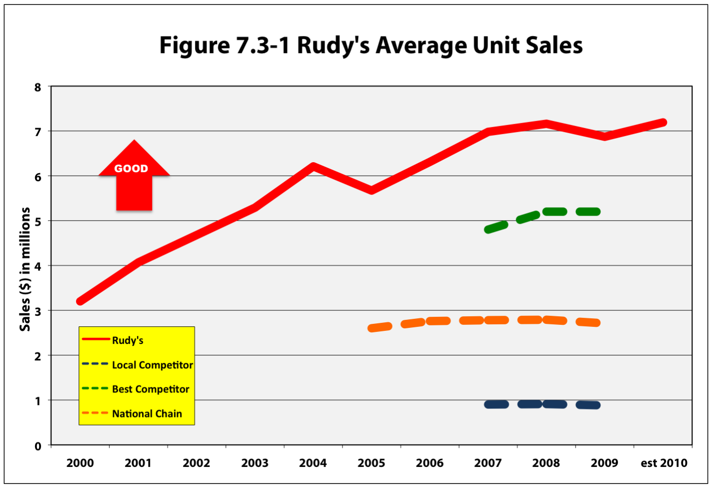
7.3 Financial and Market Outcomes

7.3a(1) Financial Performance

We have maintained a steady pattern of sales growth (Figures 7.3-1 and 7.3-2). This is attributed to our ability to consistently deliver our KGRs. Figures 7.3-1 and 7.3-2 indicate we are outperforming our competitors including our best competitor. Work processes have provided a structured approach to monitoring and achieving our two biggest costs, food cost (Figures 7.5-1—7.5-2) and labor costs (Figures 7.4-17 and 7.4-18), thus achieving gross profit margin goals (Figure 7.3-3 and 7.3-4) as shown.

7.3a(2) Market Performance

Our successful growth history, expansion, and sound financial processes promote organizational sustainability. Our success is due to concept design, operational excellence, and focus on KGRs. We have expanded our operation by designing a new concept and opening three locations, while at the same time paying down debt as indicated in the debt to equity ratio (Figure 7.3-5). We accomplished this, even during the current economic downturn, by focusing on operational excellence. We have continued to gain our share of the Austin market (Figure 7.3-10) through two successful concepts, operating at an excellent level, and an outstanding reputation in the community. Both concepts produce more food sales per square foot and serve more guests per square foot than our competitors, including our best competitor (Figures 7.3-8 and 7.3-9). We accomplish this by continually meeting and exceeding our KGRs.



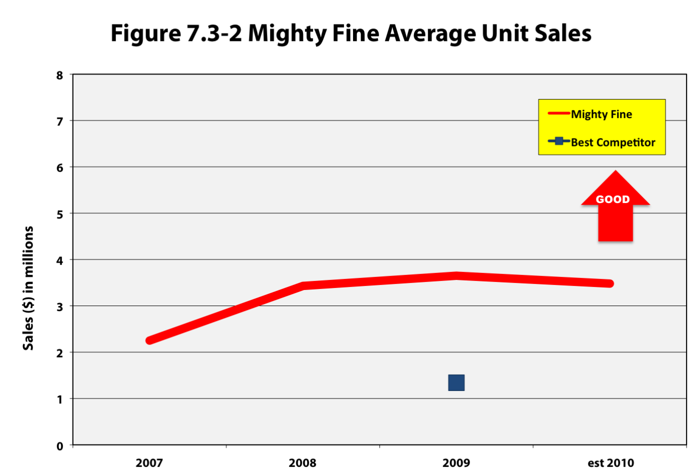


Figure 7.3-3 Rudy's Gross Profit

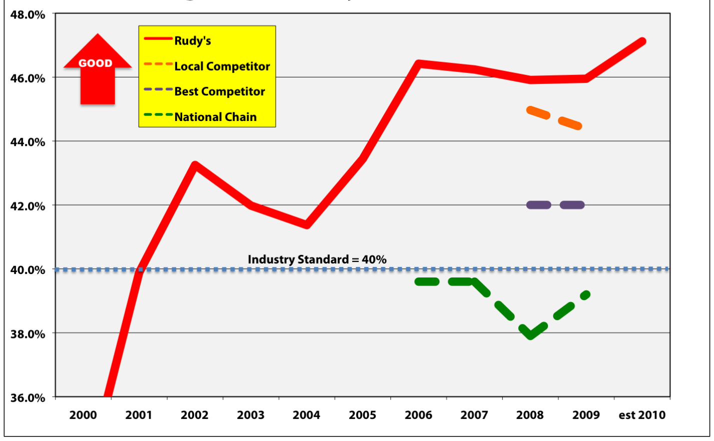


Figure 7.3-4 Mighty Fine Gross Profit

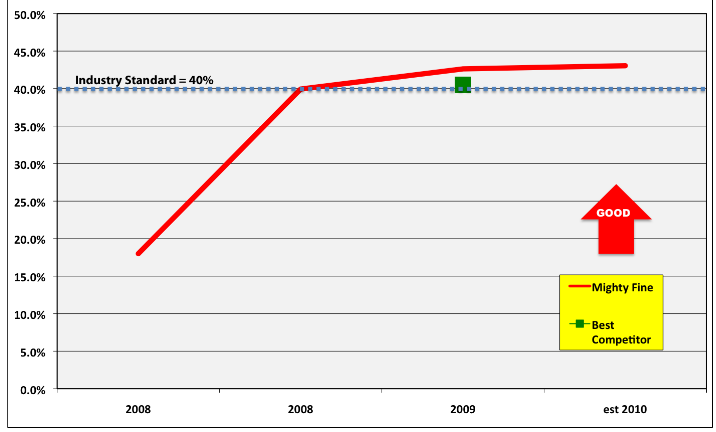


Figure 7.3-5 K&N Debt to Equity

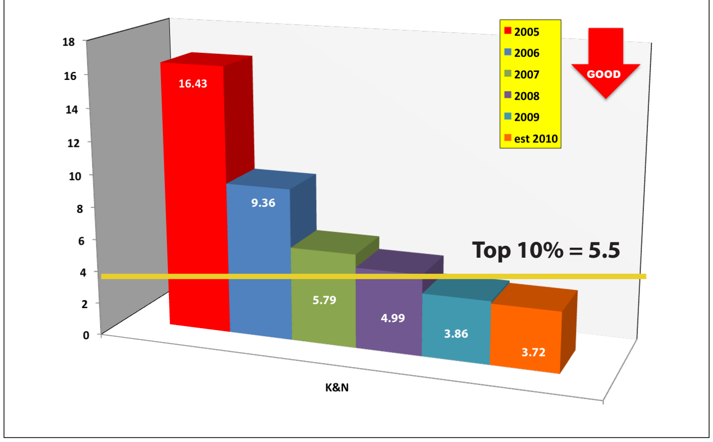


Figure 7.3-6 Rudy's EBITDA

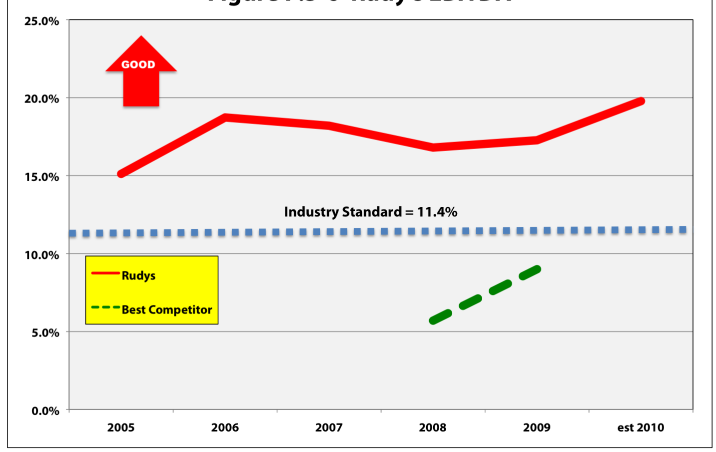


Figure 7.3-7 Mighty Fine EBITDA

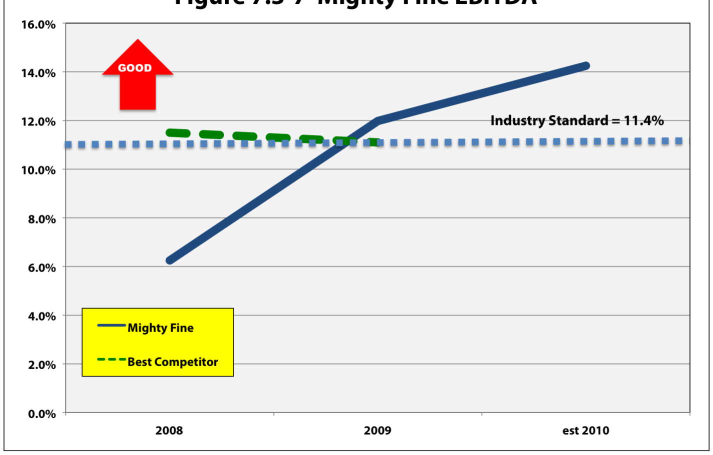


Figure 7.3-8 Guest Count per Square Foot

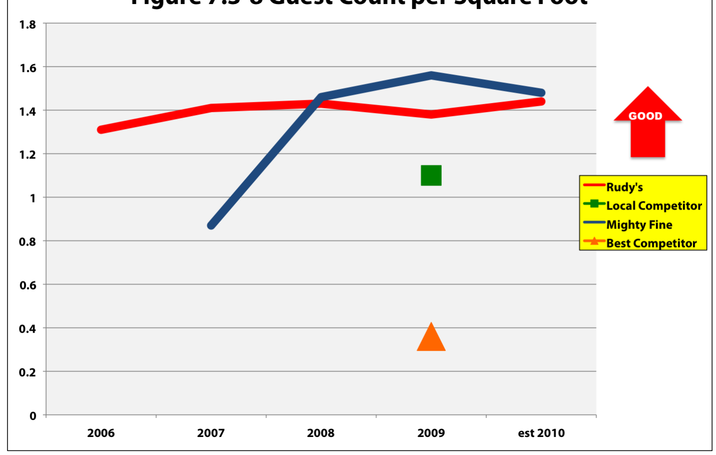


Figure 7.3-9 Sales Per Square Foot

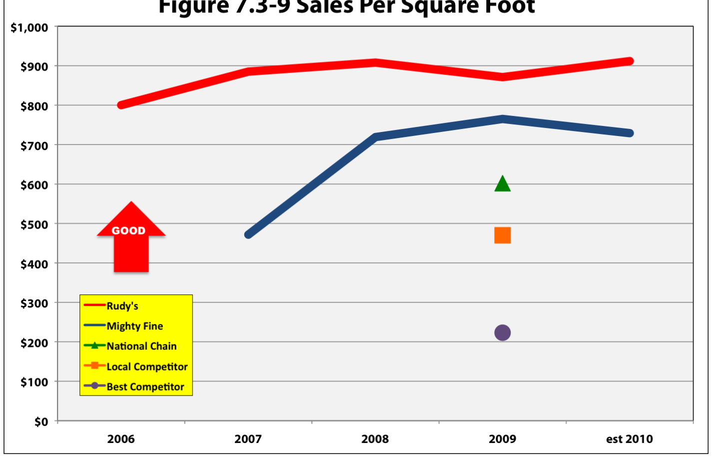
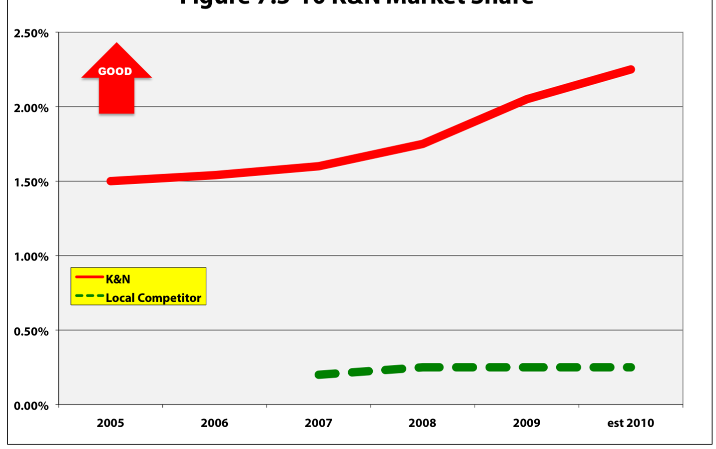


Figure 7.3-10 K&N Market Share



7.4 Workforce-Focused Outcomes

7.4a(1) Workforce Engagement and Satisfaction

Our TMs are very satisfied and engaged, as indicated by the TM survey results both after 30 days (Figure 7.4-6 to 7.4-7) and for all TMs (Figure 7.4-8). Other indicators include our lower than industry average turnover by all TM classifications (Figure 7.4-1 to 7.4-5), and Length of Service (Figure 7.4-9.). It is significant that in Figure 7.4-6 and 7.4-7, all eleven factors are at high and improving levels. These factors are the basis of strong engagement as they are based on the well researched Gallup Q12 engagement questions. Additional indicators of high levels of engagement are shown in Figures 7.4-10; 7.4-11; 7.4-12; 7.4-14; 7.4-16; 7.4-17; 7.4-18. Our TMs have remarkably low absenteeism, receive training in multiple jobs, are productive, perform well, and work safely. Figure 7.4-19 shows very favorable comparable data applicable to areas of address within 7.4.

7.4a(2) Leader Development

Our commitment to training and development results in lower turnover and higher guest satisfaction. In addition to providing resources for training hours, we also invest in the personal and career development of managers and TMs. Allocating a higher amount of resources for training and development has produced capable and productive

Figure 7.4-1 Production TM Turnover Rate

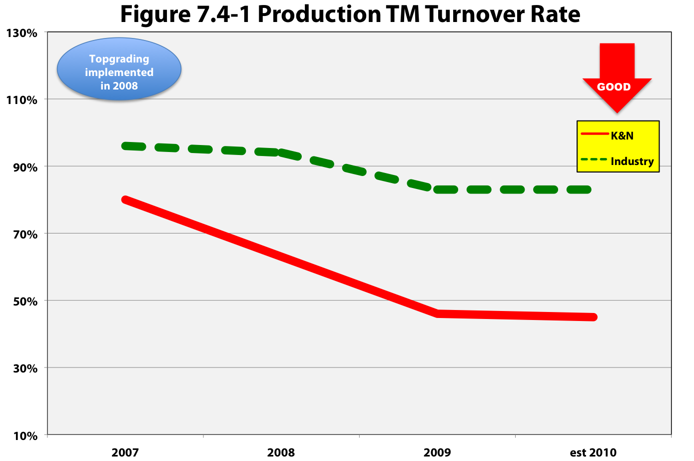


Figure 7.4-2 Service TM Turnover Rate

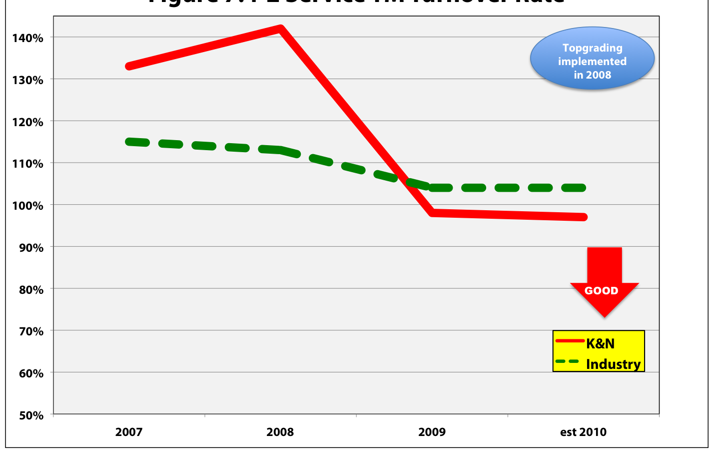


Figure 7.4-3 Manager Turnover Rate

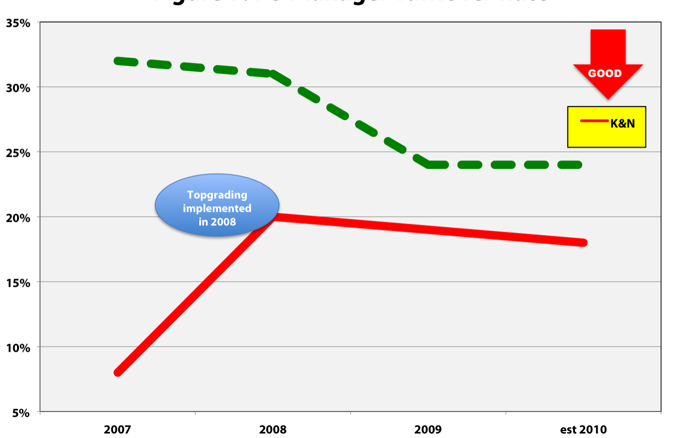


Figure 7.4-4 Support TM Turnover Rate

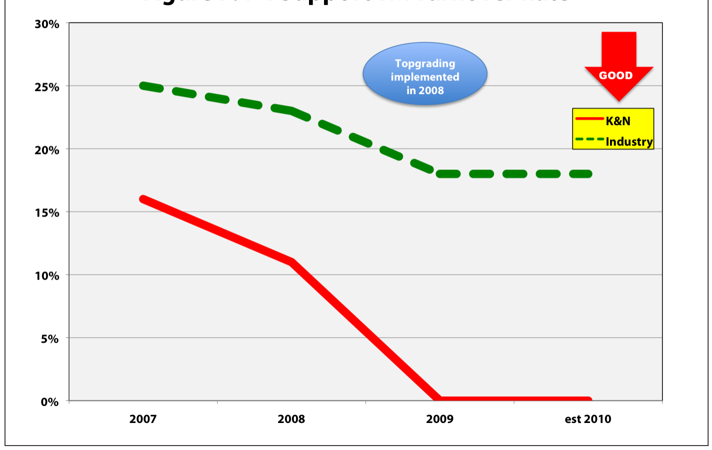


Figure 7.4-5 Senior Leader Turnover Rate

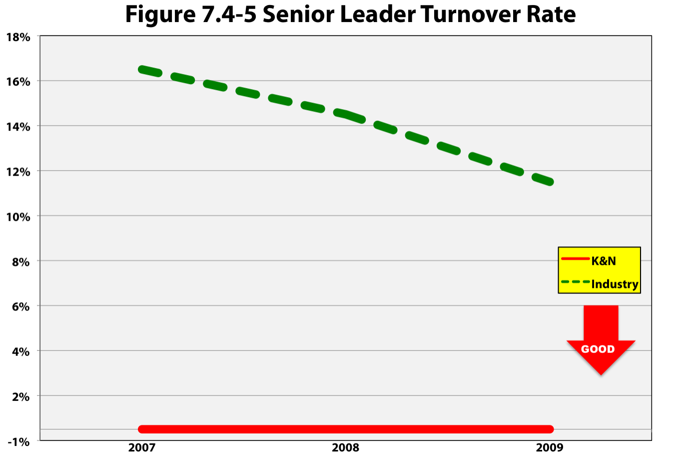


Figure 7.4-6 Team Member30-Day Foundations Survey

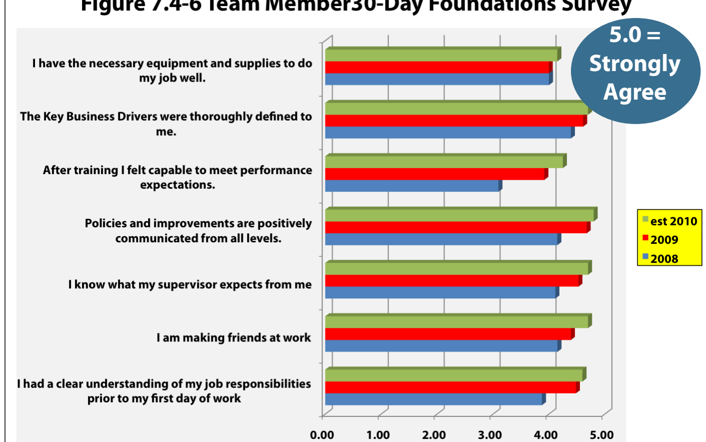


Figure 7.4-7 Team Member30-Day Foundations Survey

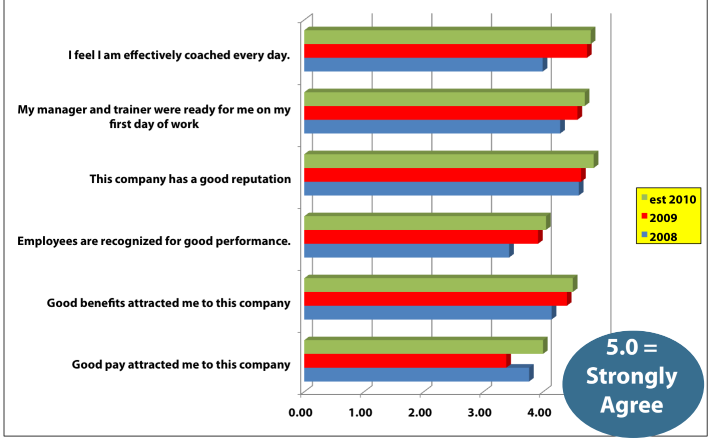
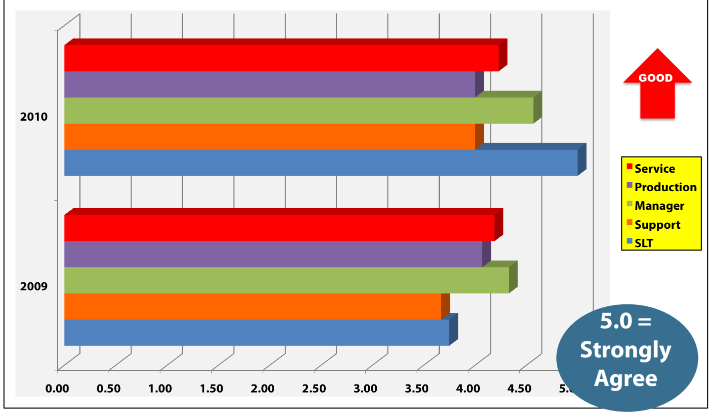


Figure 7.4-8 TM Satisfaction: I would recommend K&N as a great place to work.



teams. The result is a high number of internal promotions through leader development and succession planning (Figure 7.4-10). One of our 2010 strategic objectives is people development. Cross-training (Figure 7.4-11) and scorecard ratings measure (Figure 7.4-12) our performance appraisal processes. The average scorecard rating for non-Topgrading companies is a 5.2 (less than "A Player" performance).

7.4a(3) Workforce Capacity and Capability

The key indicators for measuring workforce capacity include measurements for absenteeism and the percentage of shifts that are fully staffed (Figures 7.4-14, 7.4-15). Our workforce is highly capable to meet our KGRs in that 100% of our production and service TMs receive a performance scorecard, including a job-specific POC to ensure they have learned and can perform the required skills of their position. 100% of TMs receive a POC after 30 days of employment. Figures 7.4-17 and 7.4-18 show the effectiveness of our labor and development controls. Question number three in Figure 7.4-6 indicates TMs felt capable to perform their responsibilities after training.

7.4a(4) Workforce climate

Workplace climate is indicated through the Work-Comp experience rating (Figure 7.4-16) which shows that we provide a safe work environment for TMs. Our absentee rate is below our best competitor (Figure 7.4-14). K&N provides above market benefits for TMs and only requires a 30-hour work week to qualify. The last two questions on Figure 7.4-7 show TM satisfaction with pay and benefits.

Figure 7.4-9 Length of Service

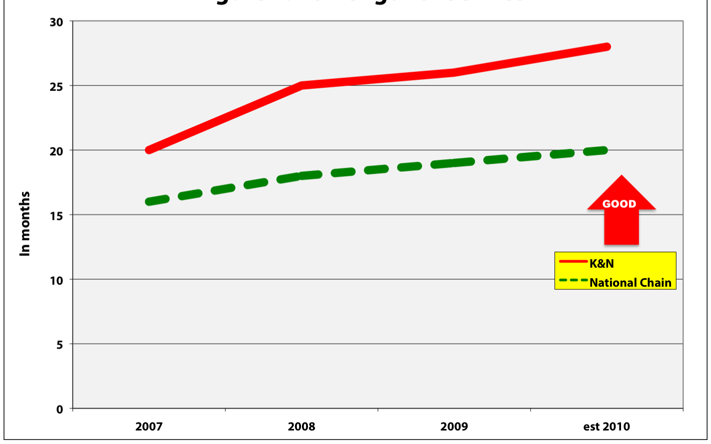


Figure 7.4-10 Percent of Internal Promotions
(from hourly TM position)

Figure 7.4-11 Percent of Cross-Trained Hourly Team Members

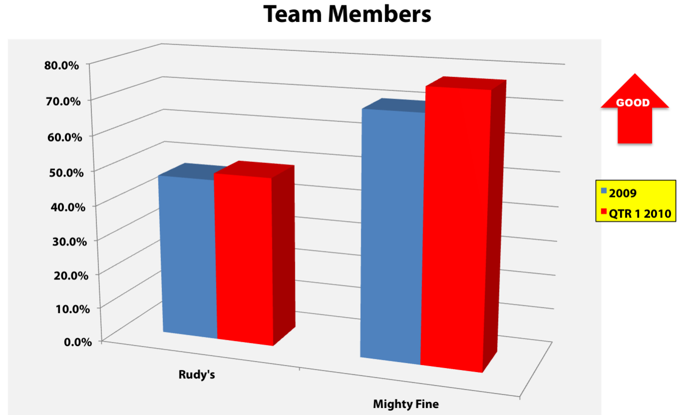


Figure 7.4-12 2009 Performance Scorecard Rating

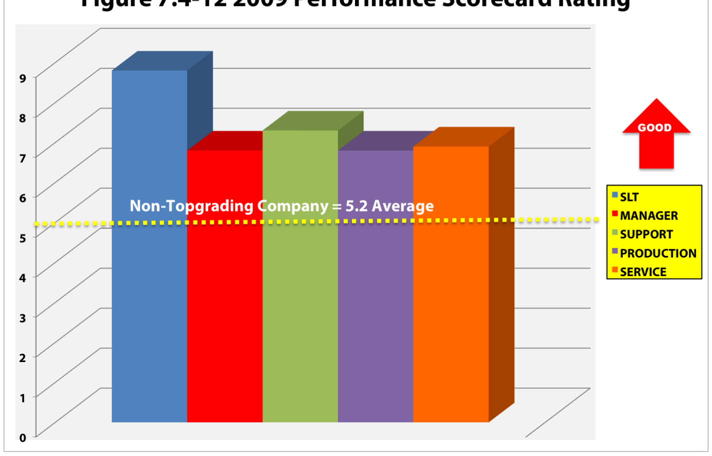


Figure 7.4-13 Percent of "A Players"

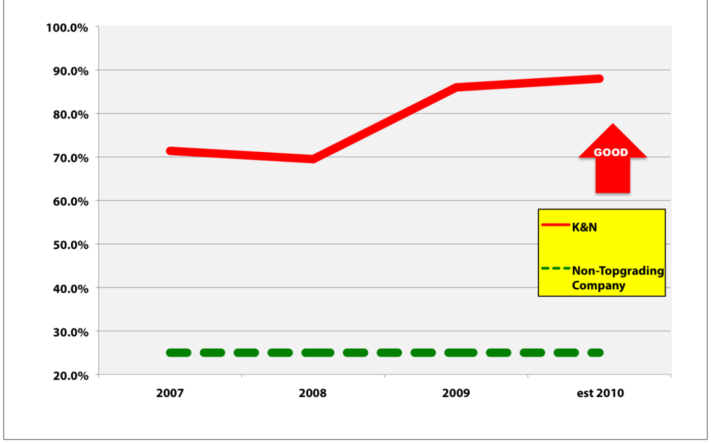


Figure 7.4-14 Absentee Rate

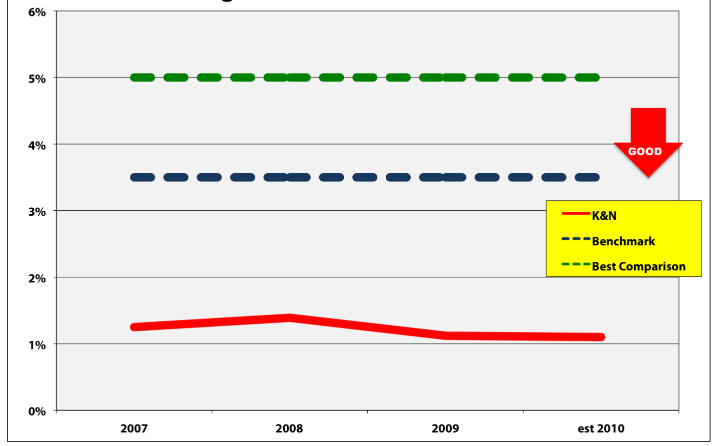


Figure 7.4-15 Percent of Fully Staffed Shifts

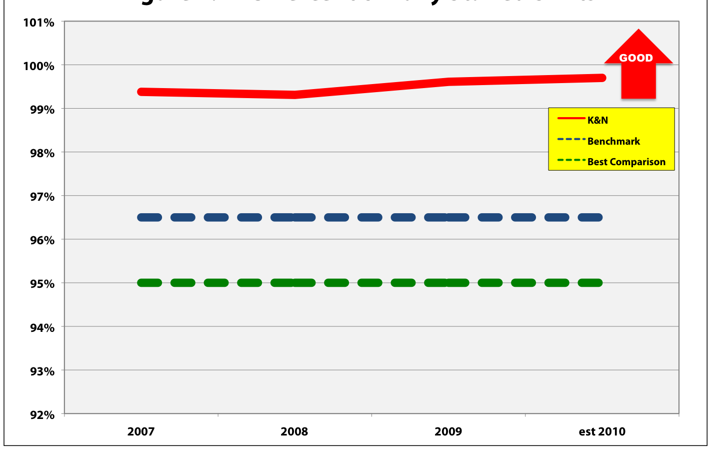


Figure 7.4-16 Work-Comp Experience Rating

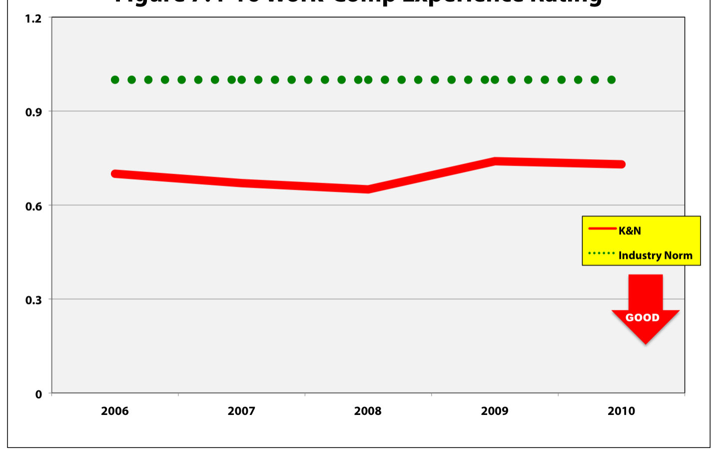


Figure 7.4-17 Rudy's Labor Cost as a Percent of Sales

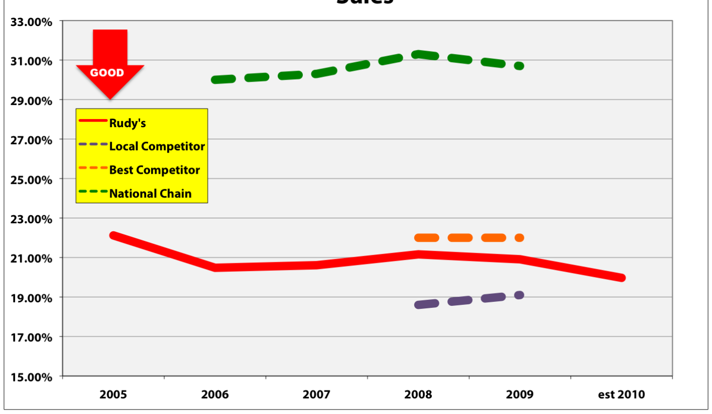


Figure 7.4-18 Mighty Fine Labor Cost as a Percent of Sales

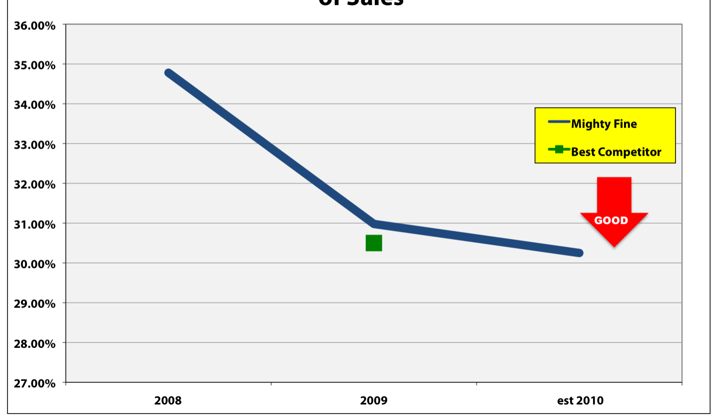
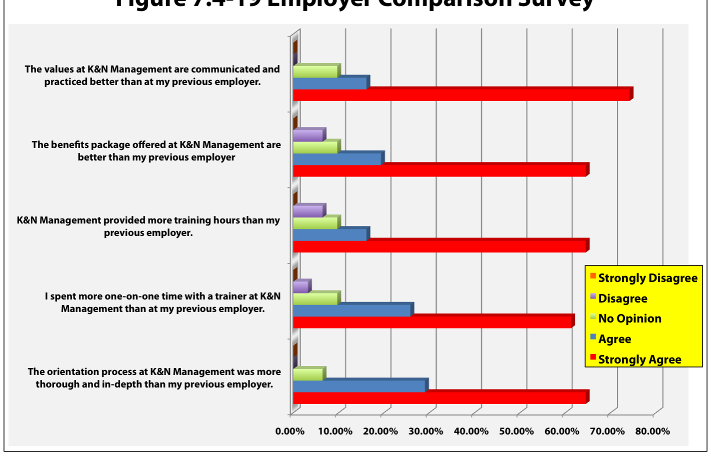


Figure 7.4-19 Employer Comparison Survey



7.5 Process Effectiveness Outcomes

7.5a(1) Work Systems Performance

Food cost is a key performance measurement that indicates the effectiveness of our production and operational work systems (Figures 7.5-1 and 7.5-2). We operate excellently through our work process design, process audits, and performance measurement process (Figure 1.9). Figure 7.5-11 shows high levels of workplace preparedness.

7.5a(2) Work Process Performance

Key inspection measurements (Figure 7.1-1 and 7.5-3-7.5-9) are key indicators of our operational performance of key work processes. They drive high performance in KGRs

Figure 7.5-1 Rudy's Food Cost as a Percent of Sales

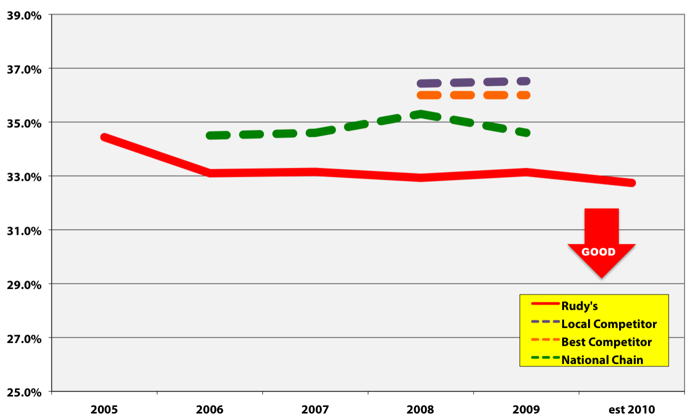


Figure 7.5-2 Mighty Fine Food Cost as a Percent of Sales

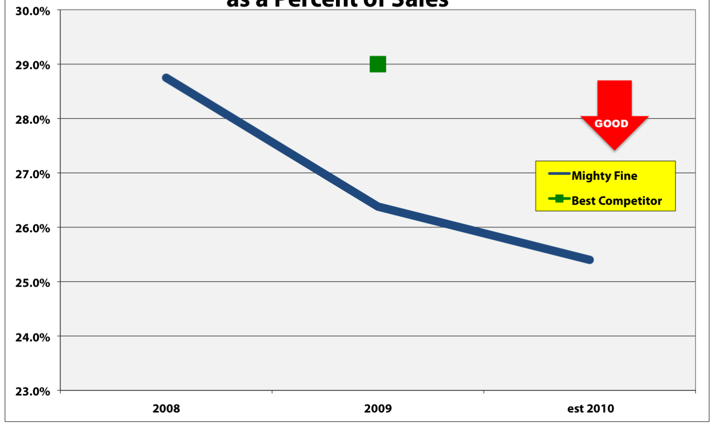


Figure 7.5-3 Rudy's Food Cost Variance

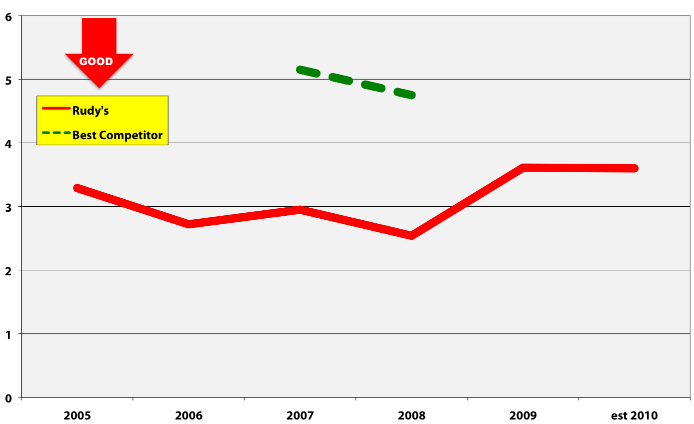


Figure 7.5-4 Rudy's Manager on the Line

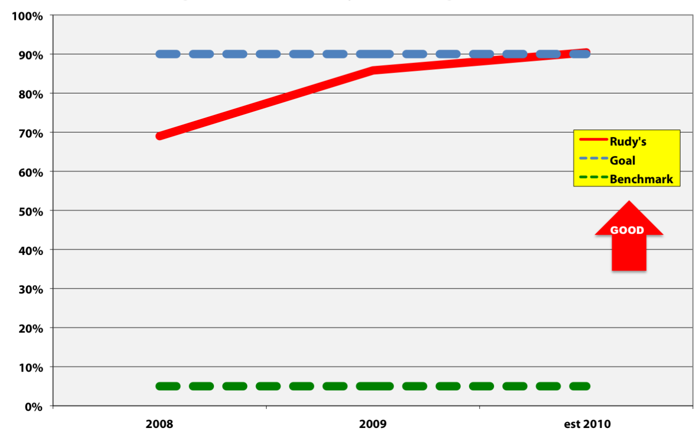


Figure 7.5-5 Cash Discrepancy

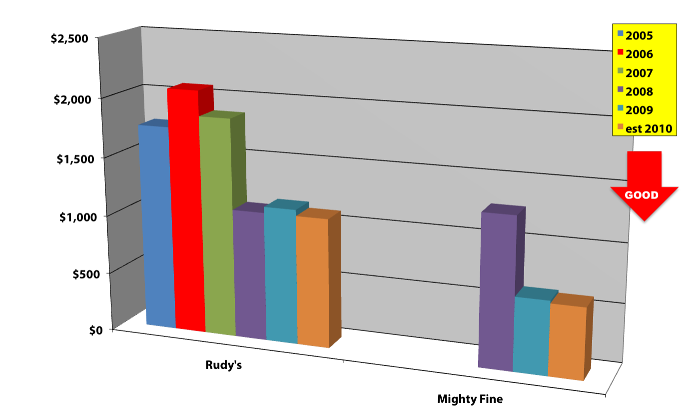


Figure 7.5-6 Rudy's To Go Pad Results

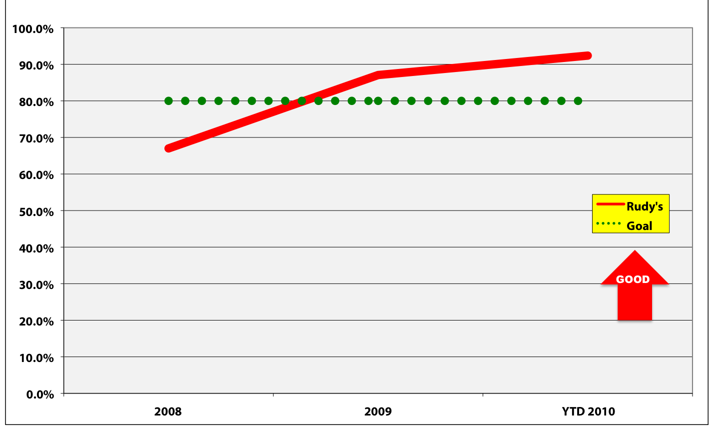


Figure 7.5-7 Maintenance Cost

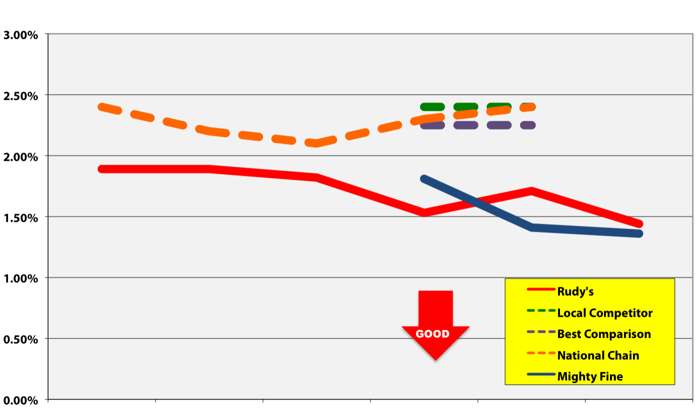
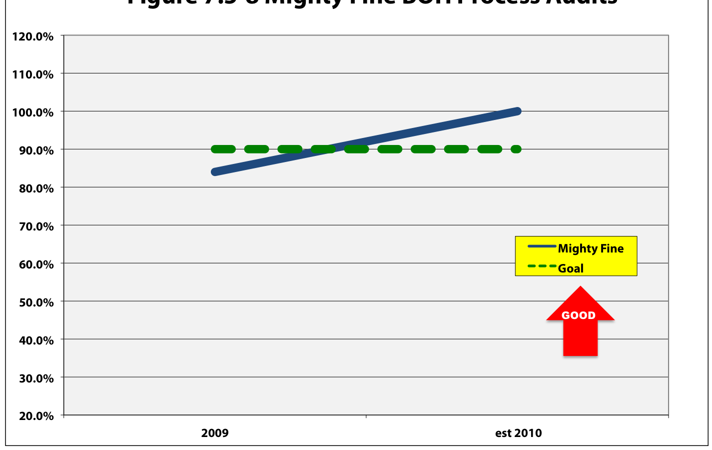


Figure 7.5-8 Mighty Fine BOH Process Audits



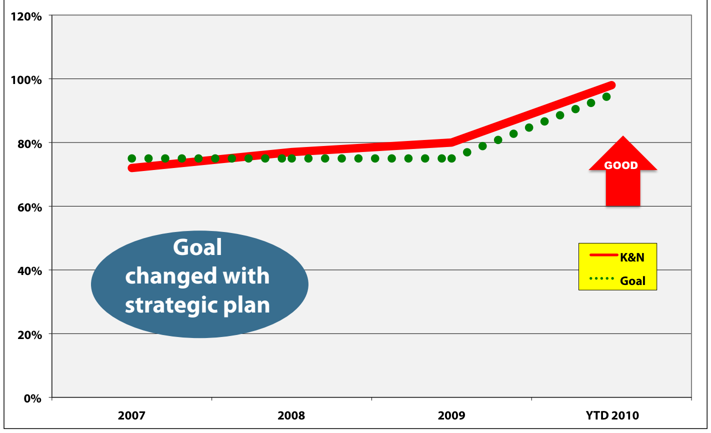


Figure 7.5-9 Process Audit Scores

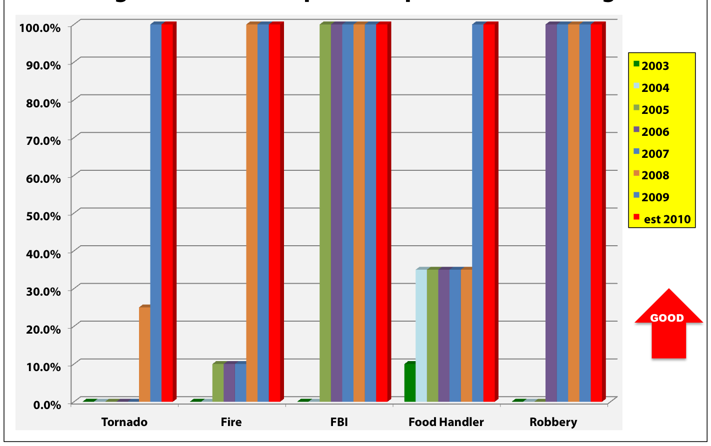


Figure 7.5-11 Workplace Preparedness Training

and KBDs. Figure 7.5-10 shows the number of processes deployed since 2005. Our process measurement results indicate our success in achieving our core competencies, KGRs, and KBDs.

7.6 Leadership Outcomes

7.6a(1) Strategy Results

We have established an effective SP process. Strategic objectives and time-oriented action items are reviewed monthly during the owners meeting. Figures 7.6-1 and 7.6-2 show the results of the current SP. Figure 7.6-3 shows current and on-going YF results.

7.6a(2) Fiscal Accountability

Fiscal accountability is guided by the finance director who partners with an independent public accounting firm to conduct annual financial reviews. K&N is 100% compliant with all laws and regulations under the IRS, TNRCC, ERISA, and other government agencies (see Figure 7.6-4). There have been no organizational fiscal violations or infractions in the past fifteen years.

7.6a(3) Regulatory and Legal Compliance

Our restaurant concepts serve as role models in the industry due to our outstanding health inspection scores (Figure 7.1-3) and commitment to providing a clean environment for our guests. Audits are conducted to verify that all laws governing wages, overtime, workplace safety, and equal opportunity are strictly adhered to (Figure 7.6-4). K&N Management has implemented a zero tolerance attitude to

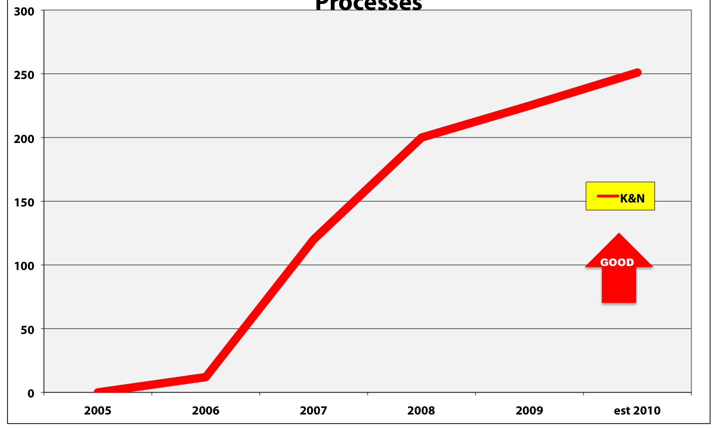


Figure 7.5-10 Cumulative Number of Deployed Processes

FIGURE 7.6-1 Strategic Plan Objective Measures

Key Measure	Results	On-Target
SO 1 - Operational Excellence		
Sales	Fig. 7.3-1/2	YES
EBITDA	Fig. 7.3-6/7	YES
Guest satisfaction	Fig. 7.2-5	YES
Strategic Objective 2 - Growth & Expansion		
EBITDA	Fig. 7.3-6/7	YES
Market Share	Fig. 7.3-10	YES
Strategic Objective 3 - Community Impact		
Volunteer hours	Fig. 7.6-7	YES
Strategic Objective 4 - Convergent Marketing		
Sales	7.3-1/2	YES
SplashMetrics	N/A	YES

handle violations of any company ethical practices policy. As a result, there have been no accusations of legal or ethical breaches in fifteen years.

7.6a(4) Ethical Behavior

Ethical behavior is directed and monitored by the SLT. The owners have established an environment based on honest and ethical behavior through training, communication, and role model behavior (Figure 7.6-5). There have never been any accusations or citations for unethical behavior on the part of the owners. The results in Figure 7.6-8 indicate

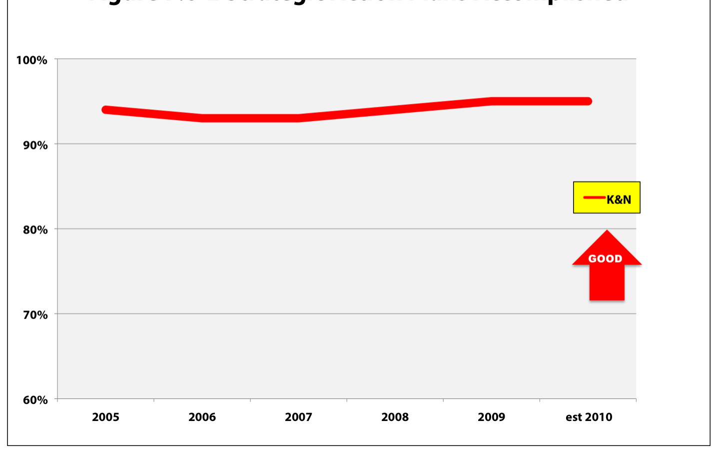


Figure 7.6-2 Strategic Action Plans Accomplished

Figure 7.6-3 Yearly Focus Results			
Strategic Objectives	Measure	Results	Goal Met
2001 Speed of Service	Line Times	7.1-5	Yes
2002 Perfect Food Quality	Food Qual. Rating	7.1-2	Yes
2003 Perfect Service	Game Film	7.1-9	Yes
2004 Cleanliness	Comp. Clean. Inspections	7.1-4	Yes
2005 People	Scorecard Ratings	7.4-11	Yes
2006 Topgrading	% "A Players"	7.4-12	Yes
2007 Process Improvement	# of Deployed Processes	7.5-10, 7.5-9	Yes
2008 Coaching	Manager on the Line	7.5-4	Yes
2009 Culture of Pride	TM Survey	7.6-6	Yes

Figure 7.6-4 Compliance Audit Outcomes					
(Good Citizenship)	Violations or Findings				
Type	2005	2006	2007	2008	2009
FLSA	0	0	0	0	1
Workplace Safety/ OSHA	0	0	0	0	0
EEOC	0	0	0	0	0
City Inspections	0	0	0	0	0
Fiscal Audits	0	0	0	0	0
ERISA	0	0	0	0	0
HR Audits (major/ minor)	0/6	0/3	0/4	0/3	0/2
Safety Audit	n/a	n/a	n/a	2	1

Figure 7.6-5 Ethical Behavior Measures					
Type	2005	2006	2007	2008	2009
Background Checks	100%	100%	100%	100%	100%
Sexual Harass-ment Training	0%	0%	0%	100%	100%
% of TMs who receive required food safety courses	100%	100%	100%	100%	100%

Figure 7.6-6 K&N Charitable Contributions

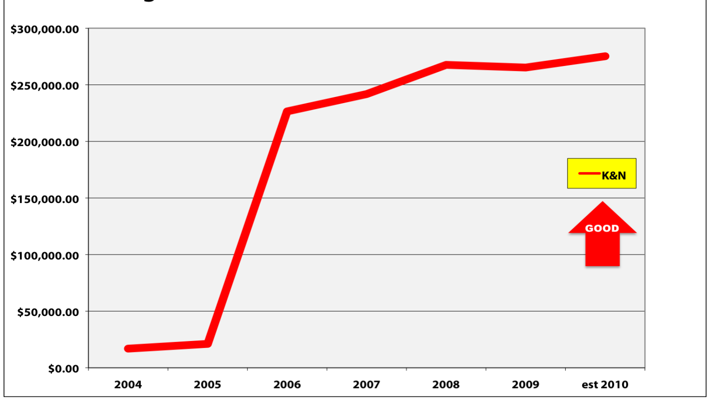
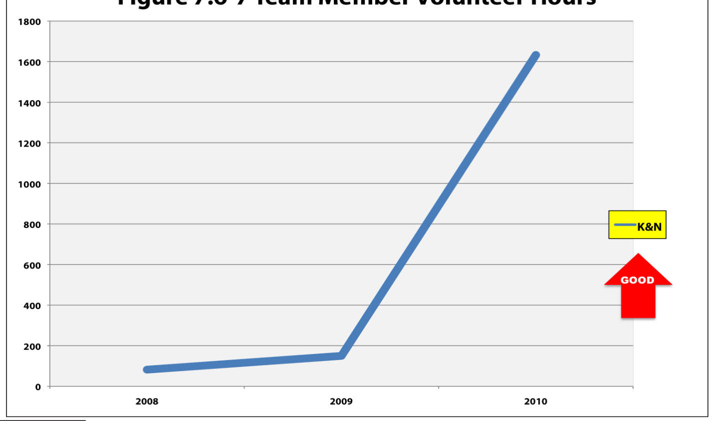
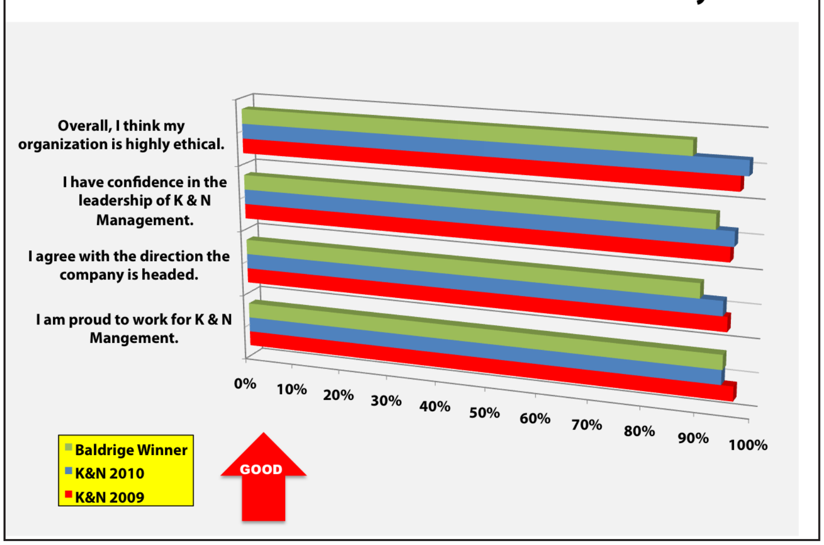


Figure 7.6-7 Team Member Volunteer Hours



7.6-8 Team Member Pride Survey



team members regard us as an ethical employer that they are proud to work for.

7.6a(5) Societal Responsibilities

Our good citizenship is evident through our community involvement (Figure 7.6-6 and 7.6-7). We support numerous charitable organizations. While most companies were forced to downsize in 2009, we added over 100 jobs in the Austin market. Our business results prove that our work processes are properly aligned with our mission, vision, values, and key business drivers. We will continue to be a supporter of the community by remaining a successful employer through our excellent business model. K&N Management will continue to be a good employer, delight our guests, and support our community.