Guttman Insights

June 2011

Ricola is a Swiss-based, privately held company and the worldwide leader in providing natural herbal relief for coughs and sore throats. William D. Higgins joined Ricola three-and-a-half years ago, as president of the company's U.S. business.

What are your key strategic objectives for Ricola U.S.A. over the next three years?

Ricola has had a solid track record of 9.6 percent compound annual growth for the past five years. My strategic objective is to continue—and accelerate—that growth by launching new products, continuing to build upon and improve existing product offerings, and creating an organization that can uncover and capitalize on growth opportunities more quickly.

What do you see as the biggest challenges in achieving those strategic objectives?

There are two big challenges. The first is external. Over the past five years, the total cough-and-cold- remedy category, of which we are a segment, has grown 3.4 percent. The Consumer Price Index has gone up 2.2 percent. However, the cough drop/lozenge segment has been roughly flat. So, our segment has lagged behind inflation and category growth. We have managed to grow our market share in a flat category, but it would be far more interesting and lucrative for us to increase our share in a growing segment. We need to find creative ways to reverse the slow decrease in household penetration of cough drops, despite being the number-two brand in the segment.

In this issue, Ricola's Bill Higgins discusses the rewards of building a high-performing organization. Overcoming decision bias is a big challenge, which is why Howard Guttman tackles it. And Wendy Weidenbaum comes to terms with one client's M&A integration problems. All this in a five-minute read.

In This Issue

High-Performance Relief at Ricola

What about the second challenge?
We have already tapped many of the drivers of past growth, such as gains in distribution and optimization of the current business. My team and I need to uncover, prove, and implement new growth drivers. This requires clear alignment on our core values and goals, along with greater empowerment and flexibility on the part of our team to test and learn how to tap new growth opportunities.

What have you done to prepare your top team—and the organization—to meet those challenges?
We used a phased approach to drive up performance, not only of the senior team but throughout the organization. When I joined Ricola, we had a typical “Stage 2” culture, with lots of departmental tension, personalization of issues, attacking and blame-gaming, and a ton of control issues. First, we developed the listening, assertiveness, and conflict-management skills of our senior executives. We then cascaded these to everyone else. This gave us a common language, a sense of safety when disagreements arose, and a baseline of skills to move ahead. Next, we aligned the senior team and then continued the process right down to all levels of the organization. Every team has the foundation and skills training to perform as a “Stage 4,” high-performance entity.

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You mentioned the external challenge of growing in a flat market segment. How did the alignment process help here?
The fact that we were aligned helped us in the way we approach customers and other strategic partners. Our proprietary data shows that during cough and cold season 68 percent of consumers recognize the need for cough drops, but only 42 percent actually purchase them. There is great opportunity to increase household penetration. Rather than trying to solve the issue by sales-pitching retailers, we have taken a more strategic approach. We sit down with our larger accounts for a strategic session in which we explore both parties’ needs, clearly define goals, and then test for alignment. When we meet obstacles, we use the same approach that we use internally for resolving cross-functional conflict: “Let’s both understand what we each what to accomplish and then look for common ground where we both win.” In fact, I was in one such session where one of my folks actually pulled out a copy of the eight attributes of a high-

performing team and shared it with the retailer, explaining, "Here's what we're trying to do."

What was the retailer's reaction?
At first he seemed surprised, but he quickly saw the value. When you take a high-performing approach, you show up differently with clients; even the dialogue changes. And, by the way, after each strategy session, we conduct a self-assessment with the retailer, similar to what we do internally. We jointly develop a scorecard that summaries everything we collectively committed to do: how we each will invest resources, actions to take, and results we both expect.

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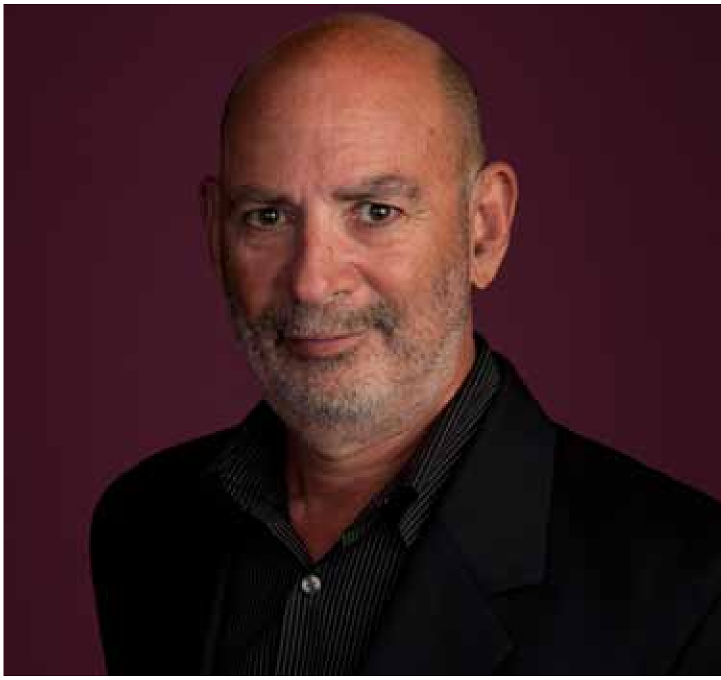
What result are you most proud of achieving?
The business results speak for themselves: steady, consistent sales growth of 9.6 percent over five years; market-share growth of more than four points over three years; and profit growth that exceeds sales growth. But, beyond these, what really excites me is when I see team members who are two levels down from me in the organization truly excited about the company's opportunities and looking for ways to make a difference. The feeling in the office on a daily basis is probably the best indicator of results. People are excited, committed, and working together better to grow Ricola.

In looking back at your effort to build a high-performance team and organization, what, if anything, would you have done differently?

I wish I had been better able to articulate how "jazzed up" the team would be by the wins we would achieve by moving to the high-performance model. I could also have presented a clearer picture of how much everyone's productivity would improve and how much fun they would have being part of a high-performing organization.

What's your advice to other senior executives who might be contemplating making a similar journey?
I initially worried that the transition to a high-performing organization would detract from our business results in the short run—take our eye off the ball of growing sales, share, and profit as we focused on conflict management, influencing skills, decision-making processes and protocols. In hindsight, that should not have worried me. By removing restrictions on thinking and encouraging greater ownership and accountability, the team members became even more focused on a broader scorecard of sales, share, and profit and delivered better results.



Judgment and High-Performing Teams: Can Bias Be Eliminated?

by Howard M. Guttman

Judgment. Ask any executive what capability he or she values most in a colleague, and chances are "sound judgment" will be at the top of the list. Try as you might to reduce decision making to logic, calculus, or black-box algorithms, it's a process that remains rooted in human judgment.

Judgment is, of course, subjective. It comes wrapped up in who we are—our values, beliefs, prejudices, and "stories." It is as much, and often a good deal more, psychological than logical. In an article on the subject in the May-June, 2011 issue of *Mother Jones*, Chris Mooney points out that, ". . . an array of new discoveries in psychology and neuroscience has further demonstrated how our pre-existing beliefs, far more than any new facts, can skew our thoughts and even color what we consider our most dispassionate and logical conclusions."

> While we may never free decision making from inherent bias, it is possible, at least within organizations, to manage its effects.

By the time we process facts through the lens of our "confirmation" and "disconfirmation" biases, there's a good chance that our judgments and the decisions that flow from them bear only a passing resemblance to reality.

Maybe that's why we are left scratching our heads when we see some very smart executives make some pretty dumb decisions. Cases in point: AOL paying $850 million for BEBO in 2008 and selling it two years later for $10 million. Or corporate raider Carl Ichan's heavy investment in Blockbuster, which shortly thereafter declared bankruptcy.

While we may never free decision making from inherent bias, it is possible, at least within organizations, to manage its effects. The cardinal principle is to subject judgment to discussion and constructive criticism.

Here is where the horizontal, high-performance model excels. It imposes a kind of "sunshine law" on decision making. At the heart of the model is the concept of transparency. By design, a high-performance team offers a safe haven for tough questions, being comfortable with uncomfortable inquiry, and "going there" to test the judgments of colleagues.

This adds great openness and a high need for accuracy to the conversations of high-performing teams. If a team member—or the leader—is underperforming, or if a function is problematic, colleagues on the team will go there. Dead elephants' heads—those touchy issues that most teams pretend do not exist—are an endangered species, as was the case when one high-performing team we worked with had to make a tough call on a new minority hire. The team engaged in a frank, fact-based discussion in which no punches were pulled to ferret out flawed thinking and preconceived notions, and when the decision to terminate was made, there was no doubt that it was the right one.

Facts, data, and observable behavior are the pivot points of conversation on a high-performing team. You will often hear: "It's my opinion that . . ."—signifying that the speaker wants listeners to know that he or she is about to enter a no-fact zone. A common question team members ask one another is, "On what do you base your judgment?"—indicating that decisions aren't going to be made without factual back-up. If a problem is being discussed, the first order of business is not to assume some pet cause but to get the facts: What, specifically, is the problem? Where and when is it occurring? Who and how much is involved?

The high-performance model also neutralizes the effects of silo bias. On a typical team that operates within a hierarchical setting, judgments tend to get locked into the confines of functional silos. This compounds the challenge of remaining objective by adding functional bias to the bias inherent in all human judgment. But high-performing teams operate horizontally as mini boards of directors whose "owners" consider it fair game to reach across functions to assess and question one another.

In fact, not only is it fair game to do so: It is a key requirement. On high-performing teams, the notion of accountability is radically redefined. Team members are not only accountable for their individual success and that of subordinates, they are also accountable for the success of peers, their leader, and, ultimately, the organization. Questionable judgments have nowhere to hide when everyone is invested in success.

While horizontal, high-performing teams do not eliminate the inherent bias in our judgments, by promoting transparency and institutionalizing across-the-organization skepticism, they help to ensure that the judgments made by teams and their members square more closely with reality.

Speaker's Corner

Howard M. Guttman
"Applying the Social Sciences to Leadership Development"
Case Western Reserve University
Cleveland, OH
July 13, 2011

Howard M. Guttman
"Helping High-Potentials Self-Coach to Win"
HRPS Webcast
July 26, 2011

Howard M. Guttman
"Developing Future Leaders Through Self-Coaching: HR's Role"
HR.com Virtual Conference on Leadership Development
August 17, 2011

Howard M. Guttman
"Creating Performance Breakthroughs through Self-Coaching"
Institute for Sustainable Enterprise at Fairleigh Dickinson University
Cleveland, OH
September 16, 2011

From a Consultant's Notebook:

Wendy R. Weidenbaum

Here are the field notes from an intervention led by GDS associate senior consultant Wendy R. Weidenbaum.

Presenting Situation

Two mid-size financial institutions in the Southeastern U.S. merged. The intent: become the premier provider of financial services in their marketplace. Three months later, acquisition stalled and pain levels high. . . . Mission to provide quality service shared by both organizations, but two different business models and cultures not meshing. . . . Integration of two senior teams into one not working. . . . CEO of acquiring company calls GDS for help, based on principal investor's positive experience with GDS.

Charter

First, integrate the two senior teams, then the rest of the organization, into one seamless entity that can accomplish mission of the combined organization: Provide a wide range of superior financial services to clients of both institutions.

Process

- Interview both teams to determine how they perceived each other, their level of trust as well as the clarity of business goals, roles and protocols. Data reveals that conflict not being handled openly, team members not operating interdependently . . . little collaboration or trust, with high level of frustration on both sides . . . resistance to change . . . team members from acquiring company used to more hierarchy; reps of acquiree looking for more horizontal, participatory environment.
- Integration and alignment session held. Good news: general agreement that values and mission statement same in both companies, and entire team committed to providing exceptional products and service.
- Stories uncovered . . . near-universal "us" versus "them" mentality on both sides: "We" operate very differently from "them"; "they" don't give "us" information; "they" don't have the same work ethic as "us", etc. . . . No focus on what two sides had in common . . . no leveraging of strengths of both teams.
- Begin to eradicate stories . . . look for ways to bridge the gaps . . . set up one-on-one conversations to contract for new behaviors . . . begin to focus on areas of strength versus differences.

Outcomes

- In creating an integrated, high-performing organization all realized the need to work as a team. One-on-one contracts created . . . more open communication . . . team members now calling out unacceptable behaviors and forcing resolution.
- CEO restructured team . . . moved players into different roles, based on strengths.

- CEO and COO (former CEO of acquired company) being coached . . . becoming clear on mutual expectations . . . looking for opportunities to break down barriers and show up to team as partners.
- Team will meet again to create decision-making and communication protocols.
- Team to receive active listening and assertion skills.

Key Insights

- When merging two cultures, the sooner an alignment is held, the better. Waiting three months to align the senior team allowed stories to be created, lack of trust to grow, conflicts to go unresolved. Aligning during first month would have lessened the pain.
- Initial focus on integrating two organizations' systems instead of their human capital was a big mistake.
- Make sure you have the right players in the right roles, based on strengths and not old structure.
- Once there is a clearly articulated vision, integrate strategy with operational excellence. Get all on board, committed to and engaged in the change process.