

Forest products companies face obstacles in attracting and retaining employees, but options exist for recruiting, developing and retaining high performers

# Research Indicates Best Practices for Attracting, Managing Industry Talent

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**A**S FOREST PRODUCTS and packaging companies emerge from a decade of cost reduction and capacity re-building, they are discovering that the bottom-line may look better, but the front office is a bit empty. Companies have lost many of the managers who traditionally would have been groomed for senior leadership.

Applying talent management best practices now, even in small increments, will help companies not only attract, develop and retain high performers, but also seize business opportunities.

To provide insight into industry talent trends and needs, Korn/Ferry International conducted background research, a demographic study of the current composition of both sector-leader management teams and incoming entry-level college graduate talent, and interviews with more than 50 senior executives and independent board directors from publicly-traded and privately-held forest products companies around the world.

The industry's talent drain has been occurring over a period of time and it is useful to review its history. Five factors have contributed to the global talent gap that is hampering the marketing and innovation capability of the industry today:

- 1. An "image problem":** Younger workers view the forest products and packaging as an "old economy" sector. College students and recent graduates perceive careers in finance, technology or other "hot" sectors to be more lucrative and attractive. As a consequence, enrollment in well-established pulp and paper science degree programs has steadily declined, reducing the pool of job candidates.
- 2. Industry consolidation:** As the mergers and acquisitions of the 1990s have consolidated the sector's key players, mid-level executives question the opportunities for advancement and seek employment elsewhere.
- 3. Globalization without talent integration:** Forest products companies have accepted the challenge of doing business in a global marketplace, but the "C-suite" (group of chief officers, CEO, CFO, COO, etc) does not reflect this. Companies have failed to recruit and develop a truly international corps of executives who can help them anticipate market needs and become sector leaders.
- 4. Lagging investment in innovation and marketing:** The

dearth of true innovation and marketing investment during the cost-and-capacity-reduction cycle has left forest products and packaging companies short of talent to create new revenue streams and to develop market leadership.

- 5. Supply chain and logistics complexity:** As companies wrestle with the new reality of buying raw materials in one place, shipping them halfway around the world to production facilities and then bringing them to a range of markets, supply chain and logistics management has grown in sophistication and importance. Yet, the lack of mid-level managers with sufficient experience to assume senior roles in this area creates a void of qualified experts.

Attracting early-stage career candidates, retention of high-performing mid-level managers and developing supply chain leadership were unanimous concerns among the industry executives Korn/Ferry interviewed in late 2006 and early 2007.

The streamlining of organizations resulting from the industry's consolidation and efficiency programs has inevitably reduced management-training opportunities. Where yesterday's large market players would hire as many as 30 new graduates each year and place them throughout the organization, today's leaner and smaller companies cannot do this.

## Specialization May Hinder Recruitment

The specialization of many forest products sector companies no longer allows young executives to manage smaller profit-and-loss operations, such as converting and non-integrated packaging plants, at early career stages. These opportunities traditionally had been major attractions for young talent.

The consequence of these realities has been that forest products and packaging are not viewed as a prestigious career path. To change this perception, companies must find ways to engage new graduates.

For example, new hires can participate as "internal consultants" on mill startups, product development or similar projects. Companies with major assets, such as a large mill in Latin America, Europe or Asia, can use this fact to attract and excite young talent. Who would not want to be involved in a \$1 billion operation internationally?

Such initiatives over the next decade will allow companies to compete more effectively for entry level, high potential talent.

A clearly demonstrated, coherent talent management process will also attract attention not only from new graduates but also from mid-career individuals. During the recent era of consolidation, divestiture and segmentation, few forest products companies have developed a comprehensive approach to managing the "next 50" senior leaders. Such programs have brought impressive results for organizations such as DuPont, General Electric Company and Nucor Corp, and there is every reason to believe they could do the same in this sector.

### Barriers to Success

While many forest products and packaging companies are beginning to reinvest in talent management and development, our research and interviews revealed some nagging barriers to success:

- **Siloed organizations:** When an organization is divided into a segregated structure, it is difficult to create and implement an organization-wide talent management process.
- **Reduced skills development cycles:** Performance in current roles is often used as a predictor of future potential and the crucial middle steps of "rounding" assignments that build skills are overlooked. What would in the past have been three-to-five year horizons for skill-building assignments are now dramatically reduced, sometimes even to six months. This lack of time to "ripen" compromises the ability of promising middle managers to make the successful transition to senior leadership.
- **Lack of cross-functional experiences:** Benchmark organizations such as GE and Nucor offer young managers opportunities to work in operations, human resources and other functional areas. Such rotating assignments are the rare exception in the forest products and packaging arena. While a single-track talent management approach may produce stellar HR, operations or financial management talent, it does not create well-rounded senior executives who see the big picture.
- **Lack of formal mentoring:** External training and course work remain substitutes for internal mentoring, coaching and development of high-potential managers. Some companies have re-invested in internal programs, but commitment levels to these internal development efforts have been mixed at best. By comparison, benchmark organizations in other industrial sectors such as DuPont, GE and Philips continue to "contribute" leaders to the forest products and packaging sector from their mid-level management ranks, leaving potential internal candidates for these posts wondering if there is a career path for them.

Executives we interviewed, regardless of geographic loca-

tion and industry sub-sector, concurred that the lack of supply chain expertise is critical. The current speed of order fulfillment, the need for efficient logistics support (internal or outsourced) and complex global procurement procedures make supply chain management challenging, multi-dimensional and difficult to master.

These executives suggested the talent gap in this crucial function is made difficult to address by a lack of senior leadership appreciation for this complex job, which results in a lack of supply chain representation at the management table and, consequently, poor career paths.

Our interviews revealed that companies, for the most part, focus on reducing supply chain cost, rather than on creating value and building capabilities in this area. Yet, in those organizations where attention is being paid to the latter two activities, new revenue streams and service extensions are developing higher margin returns. Supply chain leaders are adding share in core markets based on differentiated service and cost capabilities, not just price alone.

These benefits are leveraged further by the addition of global sourcing and procurement skills and world-class logistics excellence. This leads not only to streamlining costs, but also helps a business to develop a deeper understanding of customer buying decision factors and the supply chain value levers that improve competitiveness.

### No Coincidence

It is not coincidental that businesses with best-in-class supply chain operations in every sector — e.g. Walgreen's in retail pharmacy — have created disproportionate shareholder value.

One can extend this line of thought to other functional areas within a company. If value creation and capability improvement is focused on such areas as information technology and product management, to name a few examples, the industry will create an opportunity to boost its attractiveness and renew interest in career paths in forest products, paper and packaging.

Our interviews found executives clearly concerned about crucial shortages in supply chain competence and early-career talent acquisition. While many executives had key concerns about the industry's gap in marketing and innovation competence or the lack of multi-nationality management teams, there was a wide disparity of opinion as to the size of the gap or need in either of these areas.

Certainly, for those organizations that are primarily focused on one geographic region or a mature product line with little room for innovation or growth, international management teams and sales and marketing development are less relevant.

Yet, those companies whose executives are focused on



diversifying leadership geographically and are managing their marketing talent appear to be performing at higher levels.

The impact of globalization on a company's talent strategies is significant, even if it is not always perceived as such by industry executives. As companies make major investments in emerging markets or in mature market cross-region acquisitions, it is challenging to find managers with the best cultural fit and skills base.

In terms of international mergers and acquisitions, there have been a number of documented integration failures with European and North American combination efforts and, while significant progress has been made, it has been almost singularly focused on reinstating local management in the acquired regions (e.g. US managers in the US and native executives in each European country).

Where efforts have been made to diversify the nationalities of managers, it rarely has been reflected at the C-suite or board level. Companies with a US lineage have remained largely US-led. Nordic companies have remained insulated as well, with some of them reverting to pre-merger, single-country leadership (e.g. Finland-based companies led by Finns, Swedish companies by Swedes, etc).

While this creates a comfort level for the internal senior team, it limits an organization's pan-regional or global operations and customer efforts. Additionally, companies that have committed to creating international leadership teams generally have had to go outside of the industry to find the talent they need, another reflection of the current talent squeeze.

Asian and Latin American forest products and packaging companies have not yet had to face management team geographic diversity issues because of their current local market focus. But as they expand, they too will have to grapple with this issue.

### **Best Practices Will Help**

Attracting high performers early in their careers, retaining and training the best mid-level managers, and developing competence in specific areas, such as supply chain management or innovation, will improve the current talent gap. Forest products and paper industry executives also may consider a range of options to improve the talent process in even the most challenging business environments. These include:

- **Commit to recruiting a small number of top-tier college graduates on a regular basis.** If this cannot be done annually, taking on new grads every two to three years, as the organization can accommodate them, still brings results. Use of performance management practices among the next level of employees will identify weak performers and create room for new graduates if none exists.
- **Create robust and consistent competency and career**

**development models across the business.** This can be done initially in small steps at all levels of the organization while you create the framework to allow for larger steps.

- **Conduct regular succession planning and performance/potential reviews of the "next 50" senior leaders and the most recent 50 entry-level college graduates.** Such action can spur incredible change in the talent pool and, ultimately, in the results achieved by a capable and agile core group of leaders at each rung of the organizational succession ladder.
- **Infuse the organization with a few high-performing specialists in areas such as supply chain, information technology, sales and marketing, and innovation and development.** Bring these skills into the organization, even if the individuals involved are from other industries, in order that they may work with existing teams to change the business capability.

The business challenges facing the forest products, paper and packaging sectors remain daunting, even in the best business cycles. And, there is no easy solution to the workforce and leadership transformation issues. Yet, those organizations that recognize the key issues and take steps to address them are positioned to weather the worst of the business storms and seize value creation opportunities because they will have a team of talented leaders at every business cycle. **P&P**

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