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Sonoco Products Company (A): Building a World-Class HR Organization (Abridged)

Cindy Hartley, senior vice president of human resources (HR) at Sonoco—a 100-year-old global provider of industrial and consumer packaging—was meeting with her five-member reorganization task force in August 2000. The company's new CEO, Harris DeLoach, had asked Hartley to propose alternative restructurings of HR that would reduce the function's costs by 20%, or \$2.8 million.

The uninterrupted growth and financial success that Sonoco had enjoyed since the early 1980s had ended by the late 1990s. Like other packaging companies, Sonoco was highly leveraged due to the fixed costs of its many plants. Any slight shift in volume, like the drop in U.S. manufacturing exports following the 1997–1998 Asian financial crisis, had a severe impact. Sales fell 6% between 1995 and 1999, from \$2.7 billion to \$2.5 billion; the company managed to increase net income by 14% during that period by reducing expenses. But declining top-line sales caused the stock price to significantly trail the S&P 500 between 1995 and 2000, generating heavy pressure to restore shareholder value.

Controlling companywide costs to support a new business model was a prime agenda for DeLoach. Sonoco's new business model was aimed at generating top-line growth and reining in overall costs to be globally competitive. The consumer-packaging division would have to retool to meet large customers' needs for rapid changes in packaging, and the company's growth strategy called for cross-divisional cooperation to devise nimble solutions for such customers. The strategy also called for rethinking the structure of certain company functions, including HR. Under HR's existing structure, each general manager (GM) managed talent within his or her division; talent was not viewed as a corporate resource.

Since her arrival five years earlier, Hartley had introduced a series of new policies for performance management, compensation, development, and succession planning. Her current project, which she and the task force were now wrapping up, was to respond to DeLoach's challenge by devising two alternative organizational structures for HR that would cost less and support three ambitious objectives: (1) to increase GMs' accountability for talent management; (2) to distribute HR talent and support more evenly across the company's divisions and make HR systems and processes consistent; and (3) to optimize HR's ability to provide customized, strategic support to the GMs' businesses. In DeLoach's words, "You can have the best strategy in the world, but if you don't have effective execution by people, it's going to fail."

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Hartley opened the task force's final meeting by summarizing the two schemes for the members to debate one final time. Shortly she would present both options to DeLoach and the executive committee. DeLoach had also asked her to explain which option she and the task force favored and why.

A Profile of Sonoco in 2000

Founded as the Southern Novelty Company in 1899 in Hartsville, South Carolina, Sonoco gradually branched out from manufacturing a textile-industry product line into consumer and industrial packaging. Growth occurred mainly via acquisitions; in the 1990s alone, the company made over 60 acquisitions worldwide. Though North America accounted for approximately 80% of sales, Sonoco's 17,300 employees operated 285 facilities in 32 countries.

Sonoco's 10 businesses occupied two segments: industrial packaging and consumer packaging. The industrial segment, which served the textile, paper, and film industries, generated 55% of company revenue and employed 11,000 people. The consumer-packaging segment's 6,000 employees produced packaging for food and consumer products and high-density film. Customers included Gillette, Kraft, Nestle, and Procter & Gamble.

Sonoco's culture was family-friendly, paternalistic, collaborative, ethical, and team-oriented. "We don't look for that single superhero," explained a longtime employee. "Sonoco is made up of a group of ordinary people doing extraordinary things." Many employees spent their entire careers at the company. In 2000 over 60% of the executive committee had been with the company at least 20 years.

Roughly 2,000 Sonoco employees were based in Hartsville, a town of approximately 31,000. But Sonoco was not a sleepy small-town company when it came to business practices. "We have ended up as a leader in most of the businesses we have been in," one executive pointed out. But its tight-knit culture generated reluctance to hold underperformers accountable. As long as the company performed well financially, changing this feature of the culture was not a pressing need: "You could ride with the little bit of extra cost of a C player not pulling their weight," one manager said. By the late 1990s, however, a falling stock price and new competitive challenges made it clear that certain aspects of Sonoco's culture and structure would have to change.

The Packaging Industry

In the late 1990s roughly 100,000 packaging companies generated annual worldwide sales of approximately \$400 billion.¹ The United States accounted for \$115 billion of this total, closely followed by Asia and Western Europe.² Consumer packaging represented 70% of industrywide production revenues, and industrial packaging 30%. Paper and board still accounted for 34% of revenue, but durable and cost-effective plastic was supplanting metal and glass in the food and cosmetic industries.³ By the late 1990s globalization presented new competitive challenges and growth opportunities: heavy manufacturing was moving from the United States to countries like China and India, where labor was cheap, and many U.S. firms were investing heavily overseas.

¹ Ian Hamilton-Fazey, "Wrapped Up with Printing," *The Financial Times*, May 18, 2000.

² Mary Ann Falkman, "Getting the Wrap on Labeling," *Packaging Digest*, May 1, 2000.

³ Ian Hamilton-Fazey, "Wrapped Up with Printing," *The Financial Times*, May 18, 2000; Kathryn Stratton, "Consumers Call for Packaging to Deliver Safer Food, Safer Environment," *Food Engineering*, October 1, 1998; Nancy Brumback, "Packaging Needs Are Changing as Boomers Age," *Supermarket News*, August 16, 1999.

Meanwhile, U.S. overcapacity led to consolidation. Between 1998 and 2000, the market share of the five biggest packaging companies in North America increased from 40% to 60%.⁴

Domestic consumer markets were becoming increasingly segmented as products were tailored to the preferences of distinct consumer groups, especially in the food and beverage industry. Instead of one or two versions of a product, seven or eight were becoming the norm.⁵ Packaging's role in branding was also winning more attention. In traditional retail, packaging was widely viewed as more influential than advertising in wooing and retaining consumers.

The onus was on packaging companies to be equipped to change on a dime. "The winners in this race will be those who have the ability to speed development through the use of new or emerging technologies and/or application of innovative tools," one industry observer noted.⁶ Many packaging companies invested in sophisticated equipment able to handle abrupt changes in product design.⁷

Meanwhile the one-stop-shop concept was proving attractive to manufacturing firms, many of which consolidated their stables of suppliers. Hershey, for example, which earlier had relied on hundreds of packaging suppliers, met 80% of its packaging needs via only 20 suppliers by the end of the 1990s. Having fewer suppliers enabled the company to significantly shorten the initial-packaging-concept-to-market-delivery cycle.⁸

In response to these trends, Sonoco's strategy was becoming more attentive to the solutions-oriented needs of the end consumer by the late 1990s. "We realized it was not only important to understand what Procter & Gamble wanted, but what the consuming public wanted and was attracted to," said one executive. Sonoco also began pursuing a more coordinated marketing approach whereby a single point of contact within the company would coordinate all the business needs of large customers like Procter & Gamble and Nestlé.

Hartley's Findings and Innovations

When Sonoco hired Cindy Hartley as VP of HR in 1995, she found a highly decentralized and siloed HR function, inconsistent in its processes and services from business to business. (See **Exhibit 1** for HR's 1995 organizational structure.) Divisional HR managers reported solid-line to general managers of the businesses and dotted-line to corporate HR. This structure aligned HR with the divisions, one former GM said, but its role was more tactical than strategic; divisional HR managers focused on day-to-day employee-relations issues. "Business managers at the time believed HR was strictly a back-room operation," a longtime executive said.

By the mid-1990s the largest divisions had their own HR functions, with separate systems, budgets, performance-management processes, and leadership and training programs. "The divisions were left to create whatever type of HR function they wanted," one corporate HR executive recalled. "We constantly had this non-cooperative competition among the big, siloed divisions." One GM described a resulting compensation fiasco: "One division would announce their general annual salary

⁴ "Smurfit Pushing for More Acquisitions to Become Dominant Force in Packaging," *Irish Times*, March 1, 2000.

⁵ "Consuming passions," *Packaging Magazine*, June 3, 1999.

⁶ Jennifer Billings, "What the 'Experts Say,'" *Food & Drug Packaging*, November 1, 1999.

⁷ Kathryn Stratton, "Consumers Call for Packaging to Deliver Safer Food, Safer Environment," *Food Engineering*, October 1, 1998.

⁸ *Ibid.*

increase in January, while we would wait until June. If they happened to come out with a 4% increase and we were thinking more like a 3% increase, we would be put in a real dilemma. Some of our plants were co-located, and our people interacted with one another. What would this do to morale?"

Corporate HR was viewed primarily as a watchdog to head off legal and employee-relations problems. The staff's complex structure also prevented it from acting strategically. Benefits-and-compensation planning reported to a different VP than benefits-and-compensation administration. The director of the former would devise new policies and hand them off to the administrative group; communication on overall direction was scant. Compensation was centralized in name only; divisional GMs enjoyed vast latitude in how they compensated their people. "General managers in the businesses would often tell the compensation department, 'I want to do something different from a compensation standpoint,' said the VP of employee and labor relations. "And because of the reporting structure, there was not much HR could do but meet their wishes." Compensation and benefits were viewed as entitlements rather than costs in need of control or tools to drive behavior.

Nor were business goals and individual objectives linked. Performance reviews were conducted on employees' anniversary dates rather than the start of the company's fiscal year, when annual budgets and strategies were developed. Sonoco's merit-increase process was mechanistic, unreflective of actual performance. Most employees were paid at or near the midpoint for all individuals and jobs in their salary grade. According to several Sonoco managers, division managers often manipulated performance ratings to wangle salary increases for their staff. Evaluations rarely reflected performance accurately; termination of an employee who had received consistently good performance ratings was thus difficult. A former employee-relations manager recalled asking a GM how he proposed to tell an employee he was being terminated despite excellent performance evaluations. "You guys are in HR," the GM replied. "You need to help me figure that out." More seriously, succession planning was pro forma; employees were asked about their career aspirations, but action plans were never developed. "Nobody's managing my career" and "Nobody's telling me what I ought to do next" were common complaints.

Priorities for a Business-Oriented HR Function

Upon arriving in 1995, Hartley's mandate was to build a more professional, business-oriented HR group. Leadership development was a high priority; the shortage of suitable candidates for key jobs could hobble the company's ability to grow. HR also needed to develop the sophistication to support the company's growth strategy, drive down costs, improve productivity, and enhance working-capital management and cash flow.

Hartley promptly identified three priorities: (1) The mechanical and arbitrary compensation and performance-management systems needed to be linked and made consistent and more accurately reflective of employees' contributions to performance. (2) The company needed to create an employee-development process to refine employees' skills and to identify and develop deficient skills. (3) Succession planning to identify and prepare the next generation of leaders was urgent: a number of newly promoted managers were failing due to lack of preparedness. "We wanted to see Sonoco with a fully integrated process where everything was connected and, in turn, was intuitive," said Rick Maloney, whom Hartley named as Sonoco's first director of organizational development in 1995. "It was critical that it be obvious to people that performance management, development, and succession planning all fed off of one another, were mutually inclusive, and were linked with Sonoco's people, values, culture, and business objectives." (See **Exhibit 2** for a timeline of Hartley's HR initiatives.)

Clearly, Hartley was hired to be a change maker. Colleagues described her as a collaborative, systematic, hands-on manager. Early on she appointed an advisory HR council, comprising

divisional HR heads and key individuals from corporate HR, to advise her and ensure that new initiatives supported strategic business goals and the culture Sonoco wanted to foster. Hartley spent the first few months pursuing buy-in about the changes she was contemplating. Several divisional HR heads resisted her initiatives, dubious that they would boost Sonoco's performance. Buy-in grew as it became apparent that divisional HR would actively participate in all decisions. "The more they saw that they would be able to tweak the things we discussed, the more comfortable they got," Hartley said. The council tackled performance management and compensation first. "Performance management and compensation were HR fundamentals that we could design and introduce across the entire company fairly quickly," Hartley explained.

Actions to Align HR Systems with Business Objectives

A new performance-management system was introduced in early 1996. To drive consistency and alignment, the new system was designed as a cycle that began with companywide goal setting and earnings targets and cascaded down to the level of individual performance. Supervisors and employees initially agreed on what was to be measured and how. In one division, each plant manager would have a set of metrics like plant profit, machine downtime, quality, customer returns, and safety. Another division's metrics might emphasize scrap reduction and machine throughput to drive productivity and cost reduction. Both sets of metrics were linked directly to overall divisional financial and business objectives. The cyclical system in turn highlighted individual employees' development needs and fed into creation of a career-development plan. By mid-1997, a shared system of performance management for salaried employees had been implemented throughout the company. "Until you systematize something to ensure that it is done and done correctly," one seasoned executive noted, "you will never get compliance."

The compensation system was linked in turn to the new performance-management system. Sonoco's 18 salary grades were replaced with five wider salary bands to enhance managerial flexibility in differentiating among employees and awarding merit increases. The new plan called for managers to know an employee's contributions first-hand, to make fair decisions on merit awards, and to explain those decisions to their employees. Because the system would focus on the value added by the individual, considerable variation within salary bands was considered normal and desirable. The primary goal was to reward individual contributions while adhering to market guidelines. As the explanatory brochure put it, "Pay should be considered a business decision at Sonoco."

Acceptance by divisional senior management would be critical to changing the company's approach to leadership development and succession planning; Hartley formed an advisory team of divisional GMs to ensure that they had a voice. The team soon endorsed a new four-step leadership-development system. Roughly 70% of development would take place on the job, in the form of job changes and short-term assignments; the rest would consist of formal training and education. Six core leadership competencies were pinpointed: customer satisfaction through excellence, communication, teamwork, strategic integration, technical/professional skills and knowledge, and coaching/mentoring. Assessment of a manager's competencies flowed from three sources: the performance-management system, 360-degree feedback, and succession planning. Newly introduced 360-degree reviews occurred every 24 months. Succession planning took place annually at the executive-committee level, and Hartley methodically assessed candidates for key jobs to pinpoint actions needed to speed readiness or address organizational issues.

Doing More with Less

By mid-2000, most fundamentals were in place. Hartley had overhauled performance management, development, diversity, compensation, succession planning, IT systems, 360° appraisal and communication, but plenty of work remained. (See **Exhibit 3** for an outline of talent-management processes integrated with business objectives.) Talent management was still largely controlled by divisional GMs and HR managers, some of whom avoided dealing with underperformers. And though the basic compensation system had been overhauled, incentive plans were not yet fully aligned with new company strategies.

The restructuring of HR, though undertaken mainly to reduce costs, also represented an opportunity to extend companywide accountability for talent. At the task force's final meeting before her presentation to the executive committee, Hartley summarized the two structural-reorganization proposals (see **Exhibit 4** for graphic representations of the two proposals).

Option 1 was a centralized model. Most HR services would be handled by four centers of expertise; the divisions would be served by a pared-down field staff. This structure would reduce the costs of driving administrative and other process improvements. But restricted opportunities to align directly with individual businesses' needs and interests would make other objectives more elusive. Would business managers enjoy the same level of HR service? Would centralization lead HR to forget who the customer was? Would HR become just another corporate call center?

Option 2 was a hybrid structure in which the divisions would retain some direct involvement in staffing, succession planning, personnel programs, compensation, and benefits. The main advantage of this plan was that it would leave intact a divisional HR presence on which GMs could rely. New group HR managers would provide a strategic link between corporate HR functions and the businesses. The central question was whether changes could be effectively driven across the company with this model. Which functions would be owned by corporate, and which by the divisions?

Hartley then followed up with some observations about how the alternative structures would actually operate:

The administrative back-room functions and the Centers of Excellence operate identically in both structures. The key differences lie in how the link to the businesses is structured and what services are provided. Also, the projected cost savings are \$3.1 million for the centralized approach and \$2.7 million for the hybrid structure.

Under the centralized structure, field HR reps are "on call" to serve the needs of the businesses. Each rep covers 10 to 15 plants and consults one-on-one with line managers about plant-level HR issues. Responsibility for the design of strategic programs and initiatives that support overall business needs resides in the Centers of Excellence; business-unit leaders contact those people directly with their needs. Since not much support is provided directly to the GMs, this structure costs less.

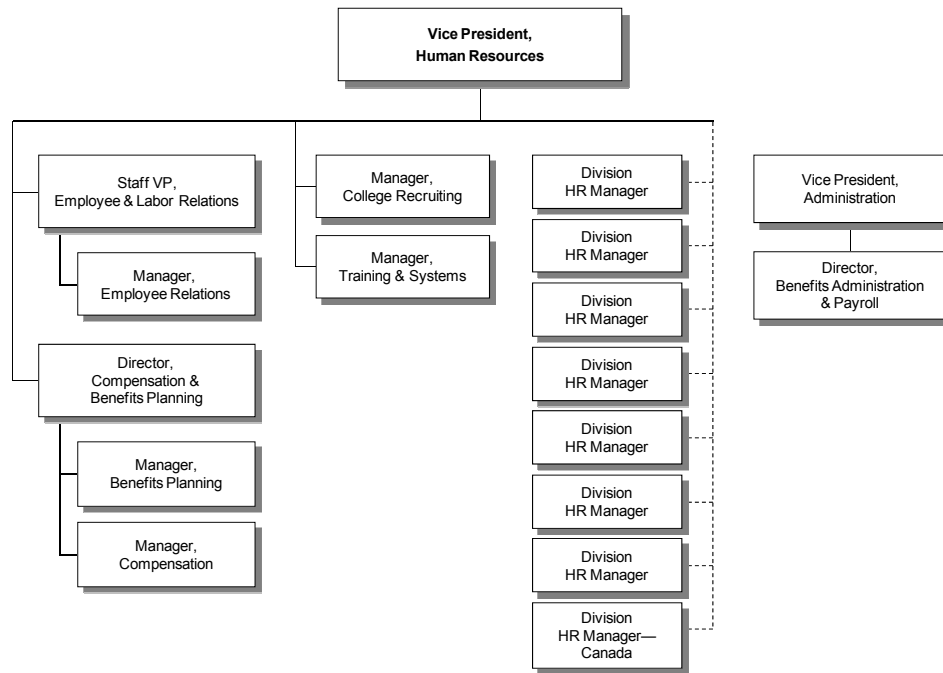
Under the hybrid model, HR is organized into two sectors—consumer and industrial—mirroring the organization of the company as a whole. Each sector is assigned a VP of HR, supported by a director of employee relations and a director of compensation and organizational development. Since these three individuals participate in sectoral planning and interact regularly with the GMs, they have first-hand knowledge of the businesses and can anticipate needs for HR support. They also link the GMs within the sector to the Centers of Excellence. Each sector also has field HR reps, who provide more proactive business-related

support, including talent management, succession planning, and formal coaching than in the centralized model.

As soon as Hartley concluded her observations on the two options, the task-force members erupted in informal and occasionally heated back-and-forth about the relative merits of the two plans.

Shortly after this meeting Hartley would present her recommendation to the executive committee. To make its decision, DeLoach and the members of the executive committee would have to ponder several questions:

- Which option would best suit a changing industry in which “only the flexible survive”?
- Which option would better ensure that the right people were in the right positions?
- Which option would better help the company meet its financial target of providing annual double-digit returns for its shareholders?
- Which option best embodied Sonoco’s time-honored principle that “people build businesses”?

Exhibit 1 HR Organizational Chart, Sonoco Products Company, 1995

Source: Sonoco.

Exhibit 2 Timeline of HR Innovations, 1996–1998

Date	Action
1996	
January	First meeting of the HR Council, composed of the HR heads of various divisions and some individuals from corporate HR
February	Letter from Hartley to the Executive Committee urging standardization of the performance-management system
March	Presentation of new performance-management system to employees
April	Initial formulation of a development process and leadership guidelines
July	Implementation of corporatwide task force on diversity issues
1997	
January	Implementation of salary-band compensation program
August	Implementation of training in performance management
Fall	Succession-planning action steps and candidate-pool analysis
November	Initial audit of new performance-management system
December	Second stage of leadership development
1998	
	Inauguration of integrated system for all HR processes, including 360° systems and succession-planning/organization reviews
January	Selection of new electronic 360° process
February	Message from Hartley to employees linking HR strategic process to Sonoco's people, culture, and values in support of business objectives

Source: Sonoco.

Exhibit 3 Linking HR Processes with People, Culture, Values, and Business Objectives

I. PERFORMANCE PLANNING AND FEEDBACK

Practice 1: Organizational Core Competencies

Identification of four core competencies required of all employees and of leadership competencies for top leaders. Annual review to align competencies with business objectives.

Practice 2: Performance Management

An integrated performance-planning and feedback system with a strong employee-development component, based on objectives and on the core/leadership competencies.

Streamlined training to reinforce key concepts and introduce changes to simplify the process, including a user-friendly online performance-management form.

Practice 3: 360° Reviews

Feedback on performance from supervisors, direct reports, peers, and customers, based on core/leadership competencies and conducted online for employees worldwide.

II. IDENTIFICATION AND SELECTION OF TOMORROW'S LEADERS

Practice 4: Career Development and Planning

Individual Career Planning: Opportunities for feedback on career aspirations.

Organization Reviews: Annual companywide reviews, utilizing performance-management career plans, to identify top performers and potential leaders. Annual reviews of companywide bench strength by the executive committee.

III. THE DEVELOPMENT PROCESS

Practice 5: Learn by Doing: Structuring Development on the Job

Development on the job: On-the-job learning experiences to accelerate development, including participation in ad-hoc, standing, natural, or cross-divisional teams.

Online performance and learning (OPAL):

An online resource to create annual personal-development plans from 360° and performance-management feedback.

Practice 6: Centers of Excellence for Learning

Companywide training opportunities aligned with business strategies.

Sales and marketing training: Basic and advanced training to accelerate top-line growth.

Team skill development: Training to facilitate teamwork and productivity initiatives.

Practice 7: Rewards and Recognition

Compensation that rewards performance, facilitates career movement, and links to growth objectives.

Broad banding: Wide compensation zones to permit maximum flexibility in awarding compensation.

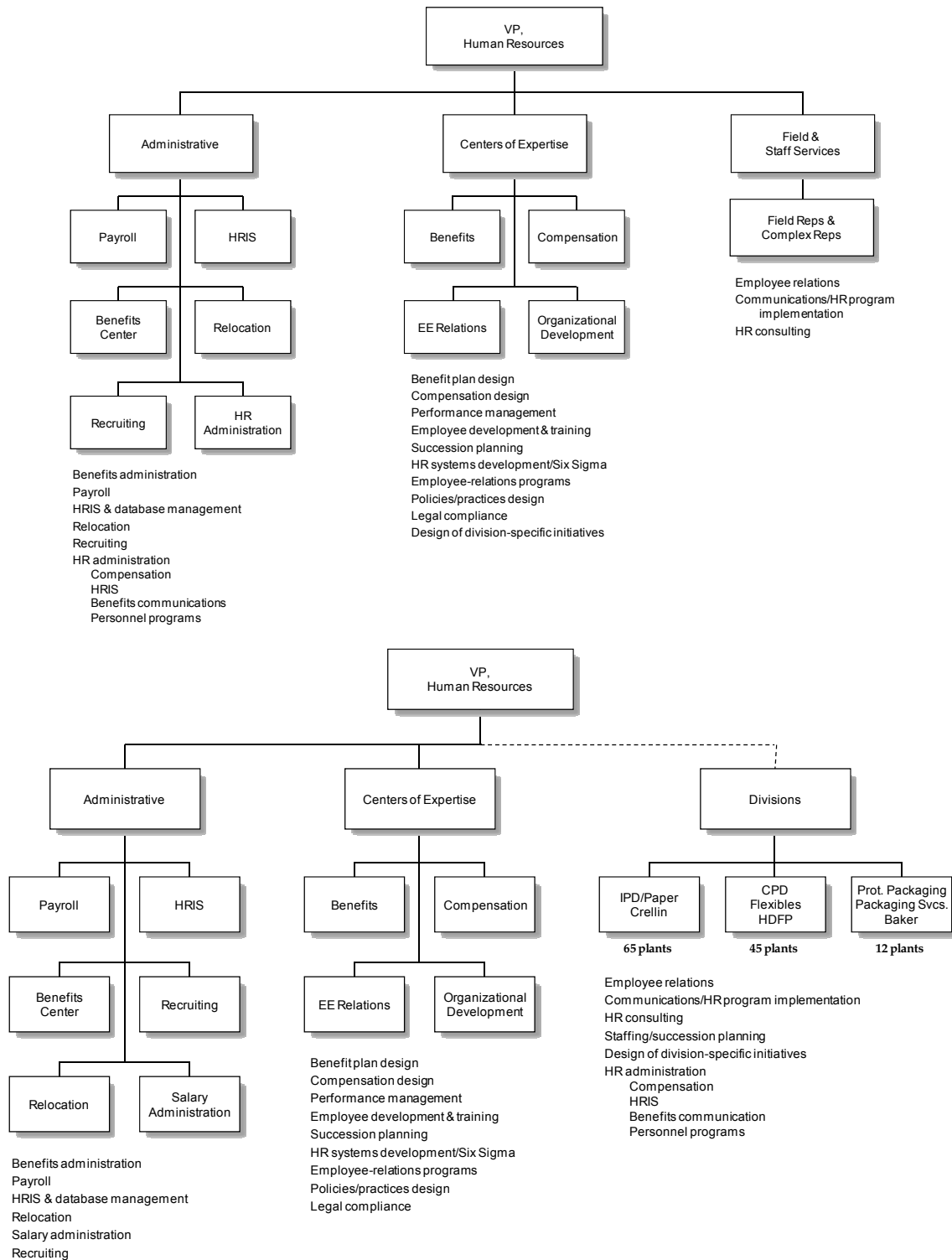
Centennial Shares: Stock options for all employees to create a sense of ownership, heighten awareness of critical business issues, and align employee and shareholder interests.

IV. COMPENSATION

Practice 8: Global Workforce Diversity

Pursuit of a more diverse workforce. Focus on valuing differences and improving work life via family-friendly policies and more flexible work schedules. Semiannual review. Inclusion of a diversity-competency metric in the management committee's 360° reviews.

Source: Sonoco.

Exhibit 4 Organizational Restructuring Options: Centralized (top) and Hybrid (bottom)

Source: Sonoco.