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

Your business is only going to be as good as the people you've got. You can have the best strategy in the world, but if you don't have effective execution by people, it's going to fail.

—Harris DeLoach, Sonoco CEO

In order to make progress, we had to somehow decide what things were going to be the same across the company and what things could be or needed to be different to support the businesses. There was a balance that we needed to figure out.

—Cindy Hartley, Senior VP, Human Resources

It was late August 2000. Cindy Hartley, senior vice president of human resources (HR) at Sonoco, a 100-year-old global provider of industrial and consumer packaging and related services, was meeting with five members of her reorganization task force comprising the heads of employee relations and organizational development, the company's chief labor attorney, and two key divisional HR directors. Looking to cut costs across the company, the company's newly appointed CEO had asked Hartley to come up with at least two potential new HR structures that would reduce the function's costs by 20%, or $2.8 million.

But there were other equally pressing reasons for the reorganization. Number one was to ensure top-level accountability for talent management and upgrading. The second reason was to provide for a more even distribution of HR talent and support, particularly to the company's smaller growth divisions. Finally, HR needed to lead the way in supporting the company's new growth strategy, which often meant working across division lines to market and sell "solutions" to a single large customer.

Since her arrival in 1995, Hartley had helped transform Sonoco's HR organization by introducing new, interwoven processes for performance management, compensation, development, and succession planning. Now Hartley and her team faced a new challenge, namely, being able to maintain and further develop HR fundamentals with fewer resources and a changing company strategy.

Throughout the 1980s and 1990s, Sonoco enjoyed years of uninterrupted growth and financial success. This started to change by the late 1990s. As were most packaging companies, Sonoco was highly leveraged due to the number of plants it operated and their fixed costs. Any slight swing in

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Professors David Thomas and Boris Groysberg and Senior Researcher Cate Reavis, Global Research Group, prepared this case. HBS cases are developed solely as the basis for class discussion. Cases are not intended to serve as endorsements, sources of primary data, or illustrations of effective or ineffective management.

volume, such as the drop in U.S. manufacturing exports that occurred during the 1997–1998 Asian financial crisis or a slowdown in the economy, had a major impact. By early summer 2000, the company's stock price had fallen to an eight-year low. (See **Exhibit 1** for financials.)

The company realized that it had to change its business model to enable new top-line growth and to reduce its overall cost structure to be competitive in the global marketplace. On the consumer packaging side, Sonoco had to rethink how it met the demands of a growing, convenience-obsessed society and how it would differentiate itself from its competitors. In the meantime, controlling costs to support the shift in the business model was one of the main objectives of Sonoco's CEO, Harris DeLoach, who was named to the position in July 2000. In addition, cost cutting provided an ideal opportunity to rethink how parts of the company were structured, including HR. For HR, the current structure was too dependent on each general manager's managing talent as he or she saw fit, rather than viewing talent as an overall corporate resource to be managed in support of the company's overall objectives and shared or moved cross-divisionally when needed.

The task being asked of Hartley was to devise a new HR organization that, in addition to costing less, would support three not entirely inclusive objectives: 1) create corporate-wide consistency on how HR systems and processes were implemented and used; 2) increase the level of accountability placed on general managers in the businesses for developing, retaining, and replacing talent; and, 3) provide customized, strategic support to the businesses.

As the members of the task force gathered for what would be their last meeting before Hartley was to present to the executive committee, they began debating the merits and potential pitfalls of the two options they had devised.

Sonoco in 2000

Sonoco Products Company was founded as the Southern Novelty Company in 1899 in Hartsville, South Carolina by Major James Coker. The company's first product was a cone-shaped paper yarn carrier used for winding and transporting yarn for the textile industry. While the company did not invent the cones, it designed an automated manufacturing process to produce them. In 1923, with sales nearing $1 million, the company changed its name to Sonoco.

Throughout the rest of the twentieth century, the company expanded its product line and its operations globally. Growth came mainly by acquisitions. During the 1990s, the company completed over 60 acquisitions worldwide.

By 2000, revenue reached $2.6 billion through the manufacture and sales of consumer and industrial packaging. The company's 17,300 employees[a] were scattered across 285 operations in 32 countries, serving customers in 85 nations. North America accounted for approximately 80% of the company's sales.

Sonoco's 10 businesses fell into two segments: industrial and consumer packaging (**Exhibit 2**). Industrial packaging served the textile, paper, and film industries. It produced cones and tubes in addition to plastic products, wood and metal reels used for wire and cable, and protective packaging. With 11,000 employees, the industrial division accounted for 55% of revenue.

[a] Roughly 2,000 employees were based in Hartsville. The town of Hartsville and the surrounding area had a population of approximately 31,000.

The 6,000 employees working in the consumer packaging segment produced paperboard-based composite cans and flexible packaging for snack foods, powdered beverages, cleansers, and frozen orange juice concentrate as well as high-density film. Customers were consumer goods companies including Gillette, Kraft, Nestle, and Procter & Gamble. Consumer packaging made up 45% of revenue.

Culture

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

According to Ronnie Holley, a 40-year executive who had held managerial positions in a number of businesses, Sonoco was not a sleepy Southern-town company when it came to business practices. "Throughout history we have ended up as a leader in most of the businesses we have been in," he stated. However, one of the downsides to a tightly knit culture was the internal reluctance to hold underperformers accountable. As one manager pointed out, because the company did well financially during the 1980s and most of the 1990s, there was not a pressing need to change this aspect of the culture: "You could ride with the little bit of extra cost of a 'C' player not pulling their weight."

With a falling stock price and new challenges facing the industry, by the late 1990s, it was apparent that certain aspects of Sonoco's culture and structure were going to have to change.

Packaging

In the late 1990s, over 5 million people in roughly 100,000 companies worldwide worked in the packaging industry.[1] Worldwide sales reached $400 billion annually with the United States accounting for $115 billion of that total, followed by Asia with $111 billion and western Europe with $110 billion.[2] Consumer packaging represented 70% of industry production revenues and industrial, 30%. Paper and board (e.g., cereal boxes) accounted for 34% of industry revenue; plastics, 29%; metal, 25%; glass, 6%; and other (wood, cotton), 5%.[3]

With the introduction of the aluminum can in the early 1970s, the packaging business experienced a surge in growth.[4] The industry further benefited from the increasing popularity of plastics in the 1980s. Plastic, with its durable, cost-effective, and environmental advantages,[5] was replacing glass and metal (e.g., aluminum) in many consumer markets, most notably in the food, beverage, and cosmetic industries.[6]

By the late 1990s, however, packaging companies were facing new challenges brought on by new competition and potential growth opportunities resulting from globalization. Heavy manufacturing was moving out of the United States to countries such as China and India where labor was cheap and where competition was all about price as opposed to quality, value, and service. Many U.S. packaging companies followed the pack by increasing their investments overseas. Indeed, research conducted by Salomon Smith Barney indicated that between the early 1980s and late 1990s packaging manufacturers' ratio of U.S. to non-U.S. investment (measured as dollars of assets) fell from 2:1 to 1:1.[7] Those plants that remained in the United States, however, soon found themselves competing in a crowded market. Overcapacity brought on consolidation and dozens of plant closings. Between 1998 and early 2000, market share for the five biggest packaging companies in North America increased from 40% to 60%.[8]

This was not to say that U.S. packaging companies were at risk of becoming obsolete in their home market. There were a number of interwoven societal trends that indicated a potentially bright future, albeit one that would be increasingly complex and would perhaps entail new strategic thinking. Buzz words and phrases such as *value-added*, *brand-enhancing*, *customized*, *environmentally friendly*, *convenient*, and *safe* became part of the common lexicon of the packaging industry. One industry executive called it the "Age of Differentiation."[9]

There was a growing appreciation for the role packaging played in building and enhancing brand value,[10] most notably at a time when the concept of "private label" was emerging as a less expensive option for consumers. As one industry executive noted, "Packaging is really the most powerful thing. It is the permanent expression of the brand. Advertising does a fantastic job of raising awareness, but packaging works where it matters. It's really the ultimate form of relationship marketing."[11]

New technologies allowed manufacturers to work with equipment and packaging suppliers anywhere in the world. With the increasing popularity of two-way video communication, new product releases could be instantly presented to customers without the need for travel.[12] As one industry executive noted, "All business is local in the cyberworld, and customers will expect business to respond to their needs with the speed of a double-click."[13] As another added, "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."[14]

And then there was the growing popularity of e-commerce. It was not certain how the packaging industry's role as a marketing device in the brick-and-mortar world of retail would have to change, or would be changed, because of the Internet. As one industry observer noted:

> On the one hand, packaging might need to be more robust if products are being sold singularly to customers thousands of miles away. On the other hand, there will be far more versions of the same product, and packaging will have a role to play in differentiating those products. Moreover, when purchases are made on the Internet, packaging might still have a role as a marketing device once the product reaches the purchaser's home.[15]

It was widely believed that price would rule over visual appeal in winning market share on the Internet. However, despite the growth in Internet shopping, traditional retailing and distribution were not going away anytime soon, further complicating and segmenting the markets that packaging companies had to serve. [16] In traditional retail, packaging was often considered more influential than advertising in wooing and retaining consumers.[17]

An increasingly segmented consumer society whose likes and dislikes were becoming more varied and difficult to reach en masse was another societal trend providing opportunities and challenges for the packaging industry. A growing number of products were being tailored to meet specific demands of various consumer groups, most especially in the food and beverage industry. Instead of one or two variants of a packaged product, seven or eight versions—with different sizes, shapes, and types of packaging material (flexible versus rigid)—were becoming the norm.[18] Consider all of the different packaging options of perishable and nonperishable goods found in club stores, mass merchandisers, convenience stores, supermarkets, smaller niche stores, and through the Internet.

With a more demanding and wily consumer society spurred on by the reach of the Internet, the onus was on packaging companies to be ready to change on a dime. As one industry observer stated, "No longer are [packaging companies] the specialist. They cannot afford to be. Change is everywhere. [Packaging companies] are now the one-stop source of information. The key mantra will be flexibility."[19] Many companies responded to these changes by investing in new, more efficient, sophisticated equipment able to handle sudden changes in product design. In a 1998 study carried out by the Packaging Machinery Manufacturers Institute, 45% of respondents indicated that they would be spending $500,000 or more on new equipment in 1998, compared with 33% in 1997.[20] At the same time, many companies were closing down old plants with outdated equipment, few of which were running at capacity.

By the late 1990s, in response to these societal trends, Sonoco's strategy was evolving from one that had traditionally been product driven to one that was more solutions oriented. The one-stop shop concept was proving to be appealing to manufacturing firms, many of which were consolidating their supplier base. For example, whereas at one time the food company Hershey relied on hundreds of packaging suppliers to serve various small business segments, by the end of the 1990s, 80% of the company's packaging needs were handled by 20 suppliers. The reduced and focused supplier base enabled the company to significantly reduce the initial packaging concept-to-market delivery cycle.[21]

Simultaneously, Sonoco was placing more attention on the needs and desires of the end consumer. "We realized it was not only important to understand what Procter & Gamble wanted, but what the consuming public wanted and was attracted to," explained one executive. It was at this time that the company was in the midst of developing a more coordinated marketing approach by which larger customers such as Procter & Gamble and Nestle had a single point of contact coordinating all of their business needs within the company.

What Hartley Found

Born and raised in Chicago, Illinois, Hartley had started her career in HR back in the early 1970s when she was hired at the age of 22 as a secretary in the HR department of the Continental Can Company. After nearly 25 years' experience in HR, she was hired in 1995 as VP of HR for Sonoco. Upon her arrival, Hartley found an HR function that was highly decentralized, siloed, inconsistent in its processes, and unequal in the services that existed among the various businesses. (See **Exhibit 3** for HR organizational structure.)

This had not always been the case at Sonoco. In the 1970s and early 1980s, HR functioned largely at the corporate level, was administrative in its focus, and provided little field support for Sonoco's divisions.

This structure, however, started to shift by the late 1980s when a move to decentralize the HR function coincided with a companywide move to a more divisional structure. HR managers began reporting solid line to general managers of the businesses and dotted line to corporate HR. As one former general manager pointed out, while this decentralized structure enabled HR to be highly aligned with the divisions, it played more of a tactical as opposed to strategic role. Many division HR managers focused their efforts on handling day-to-day employee relations issues (and all the paperwork that entailed), getting people hired and ensuring that there were no major employee problems that got out of hand. According to one longtime executive, "Business managers at the time believed HR was strictly a back-room operation that existed to protect the front lines."

Decentralization of the HR function became so entrenched that by the mid-1990s each of the big divisions, specifically paper, industrial, and consumer, had its own HR function with separate HR systems, budgets, performance management processes (used largely to determine compensation), development, and leadership and training programs. The smaller divisions often shared HR services with the bigger divisions. As one corporate HR executive recalled, "The divisions were left to create whatever type of HR function they wanted. As a result of this, we constantly had this non-cooperative competition among the big, siloed divisions. It made anything we wanted to try and do in HR nearly impossible." Another general manager shared an anecdote relating to the compensation program and the disconnect that could occur between divisions: "One division would announce their general annual salary 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?"

At the corporate level, HR, comprising 26 employees, handled employee and labor relations, benefits, compensation, and some training. (Organizational development was handled by the divisions and was not a centralized function.) Hartley soon discovered that while her staff was strong in the employee relations and labor areas, it was weak when it came to benefits and compensation, both of which were viewed more as entitlements and not as costs that the company needed to control or as a tool to drive behavioral results. In addition to this, the staff's complex structure prevented it from acting in a strategic way. Benefits and compensation administration was separated from the benefits and compensation-planning function and reported to a separate vice president. The director of benefits and compensation planning would devise new programs or approaches and then hand them off to the administrative group. There was little communication regarding overall intent or direction regarding how implementation needed to be coordinated at the division or plant levels.

According to one longtime manager, compensation was centralized in name only; in reality, division managers had a lot of latitude in how they compensated their people. As Jim Shelley, vice president of employee and labor relations, noted, "General managers in the businesses would often tell the compensation department, 'I want to do something different from a compensation standpoint.' And because of the reporting structure, there was not much HR could do but meet their wishes."

Sonoco's merit-increase process was "highly structured and mechanistic." As a result, the numbers often obscured an employee's true performance. Jim Bowen, general manager for Sonoco's North American Paper Division in the late 1990s, recalled the process he went through to determine raises for his employees:

> I would sit down once a year with each employee and give them feedback on their performance. Their performance was based on hard, measurable objectives, not soft skills like communication and teamwork. I would rate their performance anywhere from a "1" to "5." A "1" meant they were on the verge of being fired and a "5" that they walked on water. Most people got "4s." The numerical rating combined with an employee's market value and an inflation factor determined his or her raise.

According to several Sonoco managers, division managers often manipulated performance ratings to get larger salary increases for their staff. Evaluations often did not accurately reflect an employee's performance, which complicated the termination process. Managers wanting to terminate someone despite having given them good performance marks found justifying their decision difficult. A former employee relations manager recalled one such scenario. After asking the general manager "how it would sound" telling an employee that even though his performance evaluations had been excellent, he was being terminated, the general manager replied, "I don't know. You guys are in HR. You need to help me figure that out."

Priorities

Hartley was given a mandate of creating a more professional, business-oriented, contributing HR group. Upon arriving, she was told that leadership development was very important, since often there were insufficient choices for successors to key jobs, which could limit the company's ability to grow. Furthermore, HR was viewed primarily as a watchdog for keeping the company out of legal or employee relations problems. It lacked sophistication when it came to supporting the company's growth strategy, driving down costs, improving productivity, and enhancing working capital management and cash flow.

After a few months of due diligence, Hartley identified three main priorities. The first entailed changing the compensation and performance management systems so that they were less mechanical and arbitrary and instead linked, consistent, and more accurately reflective of employees' contribution to the company's performance. A second priority was to create an employee development process to highlight and further refine employees' skills and to identify and develop required skills that were lacking. Indeed, "Nobody's managing my career," "Nobody's telling me what I ought to do next" were common complaints heard from employees. A third priority was building a succession-planning process to identify the next generation of leaders, therefore deepening the talent pool. Succession planning was slated as a top priority due largely to one concerning trend: a number of Sonoco employees with 15 or more years with the company were failing once they reached the management ranks, it was believed, because of a lack of preparedness. Historically, succession planning had been a paper exercise. Meetings were held with employees about their career aspirations, but action plans were never developed in response to the data that was discussed.

Encapsulated in all of these priorities were issues pertaining to diversity, more specifically, gender, race, ethnicity, age, education, experience, personality, and management style. Shortly after Hartley arrived, a vision for diversity was developed. Long-term goals included creating a more flexible working environment, developing a definition of diversity that could be easily communicated throughout the company, making the business case as to how becoming more diverse would equate with competitive advantage, altering the compensation system to be based more on team results, and setting goals related to women and minority representation in the management ranks. Ideally, Sonoco would become a work environment in which diversity did not have to be talked about because "it would be woven into the fabric of the company."

Actions

Clearly, Hartley was hired to be a change maker. Colleagues and reports described her as a collaborative, methodical, systematic, open-to-disagreement, approachable, hands-on manager, blessed with a good sense of humor.

One of her first acts was to put together an HR council. The HR council initially comprised the HR heads of the various divisions and a few key individuals from corporate HR. Its mission was to provide input, coordination, and guidance on key HR issues and companywide initiatives and to ensure that all HR objectives and outcomes supported strategic business goals and were aligned with Sonoco's desired culture.

Hartley spent the first few months getting buy-in and agreement about the council's purpose and some of the changes she was contemplating. While certain changes were "no brainers," such as creating a director of organizational development position and reforming the benefits group to include benefits planning, design, and administration under one person, other proposed changes met resistance from a number of division HR heads. These individuals did not believe that Hartley's new initiatives, which would take a lot of hands-on HR time away from the business, would help Sonoco's performance. However, slowly but surely the level of buy-in grew as it became more apparent that division HR would be able to 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," recalled Hartley.

Performance management and compensation were tackled first. As Hartley explained:

> We needed to start with something that moved us in the right direction. Getting people more accountable for results, linking their efforts with the overall strategy and initiatives of the company, and having managers deliver very candid feedback regarding how people performed and their career plans were all key goals initially. Performance management and compensation were HR fundamentals that we could design and introduce across the entire company fairly quickly.

By March 1996, a new performance management system was introduced. A communiqué sent out to employees about the new system stated, "[The changes to performance management] recognize that in today's competitive business climate, it has become more important than ever to ensure that all of the organization's employees are being developed to help achieve the company's vision." In step with Hartley's desire to drive consistency throughout the organization and to create an interwoven system, the new system was designed as a cycle that began with overall company goal setting and earnings targets and worked its way down (**Exhibit 4**). In the past, business goals and individual objectives had not been connected. In fact, reviews were conducted after the fact, coinciding with an employee's anniversary date versus the company's fiscal year when budgets and strategies were developed for the next 12 months.

The performance management system, based on a set of business objectives (what must get done) and core competencies (how things get done), comprised six sections:

- **Section 1:** Individual business objectives (what needs to get done) that included establishing goals (beginning of plan year), recording progress (during the plan year), and recording results (end of plan year)

- **Section 2:** Measuring competencies, namely how it will get done, bearing in mind corporate values, culture, and strategy. Included in this section: identifying competencies (beginning of plan year), recording progress (during plan year), and assessing competency (end of plan year).

- **Section 3:** Career development (beginning of plan year), namely the employee's career goals and the supervisor's assessment of promotability, strengths, and development needs

- **Section 4:** Personal development plan that included establishing such a plan (beginning of plan year), recording progress (during plan year), and recording results (end of year)

- **Section 5:** Summary (end of plan year)

- **Section 6:** Signatures and associate comments: performance plan (beginning of plan year), self-appraisal (end of plan year), management review (end of plan year), and associate review (end of plan year)

Employees were to take an active role in managing the process throughout the year. Together, supervisors and employees initially agreed on what was to be measured and how it was to be measured. For example, in one division, each plant manager would have a set of metrics such as plant profit, machine downtime, quality, customer returns, and safety. Each metric had a target as well as a scale on which performance was judged. Another division would have similar metrics but might emphasize scrap reduction and machine throughput as measures more appropriate to driving productivity and cost reduction. In either case, these metrics were linked directly with the division's overall financial and business objectives. The cyclical system highlighted areas that each employee needed to strengthen, which served as a building block for creating a career development plan.

To hasten shifting the mind-set throughout the company about performance management and to ensure that the new system was used correctly and consistently throughout the company, a two-day training program for managers and a one-day program for all other employees were provided on how the new system worked. By mid-1997, a common system, training, and performance management form for salaried employees had been implemented throughout the company. As Holley noted, "Until you systematize something to ensure that it is done and done correctly, you will never get compliance."

Shortly after introducing the new performance management system, changes were made to the compensation system to enable close linkage with how performance was now being measured. Sonoco's 18 salary grades were replaced with five wider-range salary bands (**Exhibit 5**). As explained in a 12-page brochure given to each employee, it was hoped that this change would provide greater managerial flexibility in differentiating and awarding merit increases. Greater emphasis, the brochure stated, was being placed on paying the person and not the job. It was hoped the new system would "avoid artificial barriers to changes in position, responsibility or horizontal transfers; acknowledge the value of jobs in the market, but focus on the value added by the individual; and reward employees' demonstrated efforts to enhance their skills." "Pay," the brochure went on to explain, "should be considered a business decision at Sonoco."

Under the new plan, managers were being asked to own the compensation process. They were responsible for knowing firsthand an employee's contributions to make fair and equitable decisions regarding annual merit awards, allocating award dollars to their employees, and communicating and explaining award decisions to their employees.

At the time the new performance management and compensation systems were being devised, efforts were under way to significantly change the way Sonoco approached leadership development and succession planning. Hartley formed a team composed of division general managers to provide feedback on the processes she was recommending. Since acceptance by the divisions' senior management was critical, this ensured that most had a voice in how the system would work. The team of general managers soon endorsed a new leadership development system. The four-step process was closely linked to the cyclical model of the performance management system (**Exhibit 6**). The first was assessment, which led to the second step, in which gaps and development needs were identified. Step three entailed the creation of an individual development/career plan, and step four was the implementation of that plan. Roughly 70% of development activity was expected to be on the job, in the form of job changes and short-term assignments on projects, teams, and committees. Thirty percent comprised training and education. (The 70/30 ratio was arrived at based on leadership development research that indicated roughly 30% of all development occurred through classroom instruction.)

Leadership expectations for all Sonoco employees were based on satisfying customers through six core competencies: excellence, communication, teamwork, technical/professional skills and knowledge, strategic integration, and coaching/mentoring. Assessment of a manager's ability to meet the core competencies came from three arenas: the performance management system; 360-degree feedback (also known as multi-rater feedback), in which managers were rated on their competencies by supervisors, peers, subordinates, customers, and suppliers; and succession planning.

Hartley's newly introduced 360-degree reviews occurred every 24 months. When employees received their feedback, they were asked to share the data with their manager and then together build development plans into their performance management form to address areas of weakness. Succession planning happened annually at the executive committee level and involved reviewing a leader's skills, development gaps, potential, desire, and ability to learn. During the succession-planning process, parts of the performance management form were reviewed. Most important, actions resulted from the process. Hartley methodically summarized succession candidates for key jobs across the company as well as any actions required to speed readiness or address other organizational issues. Follow up with the management team ensured the developmental actions were addressed, and as openings occurred during the year, the lists of candidates identified as part of succession planning were revisited to determine the appropriate candidate pool.

Doing More with Less

By the time Hartley and her HR reorganization task force met in late summer 2000, most of the fundamentals were in place. In just five years, Hartley had overseen the development and implementation of numerous initiatives (**Exhibit 7**). Rick Maloney, whom Hartley named as the company's first director of organizational development in 1995, summed up the objectives of the efforts she led: "We wanted to see Sonoco with a fully integrated process where everything was connected and, in turn, was intuitive. 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 8.**)

Despite this, there was a lot of work left. Some managers were still reluctant to address long-term problem performers. Furthermore, talent was still largely controlled at the division manager level and reinforced by the division HR managers. Finally, while the basic pay system had been largely changed, other aspects of compensation such as incentive plans were still not totally aligned with new company strategies. While the restructuring of HR was being done in large part to reduce costs, it was also seen as an opportune time to further standardize and streamline HR processes related to recruiting and development and to drive more accountability for talent throughout the organization.

As they gathered for what would be their last meeting before her presentation to the executive committee, Hartley wanted to do one last formal review of the options recommended by the task force (**Exhibit 9**). The first option was a centralized HR function in which the majority of services would be handled by one of four centers of expertise. The divisions would be served by a pared-down field staff. The main advantage to this structure was that it would bring down the costs associated with driving administrative and other types of process improvements. However, it was going to be difficult to achieve some of the other objectives with this structure, since there would be less opportunity to be directly aligned with individual business needs and interests. Would, for example, business managers be able to get the same level of HR service? Would centralizing HR lead the function to forget who the customer was? Would HR become just another corporate call center?

The second option was more of a hybrid organization in which the divisions would have some direct involvement with staffing, succession planning, personnel programs, compensation, and benefits. The main advantage to this structure was that it left a form of divisional HR management intact on which general managers could still call for help. These new group HR managers would be able to provide the strategic link between corporate HR functions and the businesses. The main disadvantage to this option stemmed from a concern over whether changes could be easily driven across the company with this new structure. What really was owned by corporate, and what was owned at the three-division level?

Hartley reflected on two options:

> The administrative back-room functions and the Centers of Excellence functions were the same in both structures. The key difference was how the link into the businesses would be structured and what services would be provided. Also, the projected cost savings would be \$2.7 million for the hybrid structure and \$3.1 million for the centralized approach.
>
> Under the centralized organizational structure, there was a single large group of field HR reps, each handling 10 to 15 plants and an administrative staff of about five people who would operate across all business units/divisions and be basically "on call" to serve the needs of the businesses. The field HR reps would perform basic-level employee relations functions and ensure legal compliance as well as communicate HR program changes and consult one on one with plant-level line managers on plant-level HR issues. The design of more strategic programs or initiatives that would support overall business needs would come from the Centers of Excellence group. Business unit leaders would contact Centers of Excellence people directly with needs. The cost for this organizational structure was the lowest of the two, since there would not be much support directly provided to the general managers of each business. Instead, most of the support would be directed at the plant level, where most of the employees resided.
>
> Under the hybrid organizational model, there would be few people left in at the business-unit level. If the hybrid model were selected, the company would be organized by two sectors: consumer (CPD, Flexibles, HDFP, and Protective Packaging) and industrial (IPD/Paper, Crellin, Protective Packaging, and Baker). Each sector would be led by a VP of HR. He or she, in turn, would have a director of employee relations and a director of compensation and organizational development reporting to him or her. These two individuals, along with the VP, would provide the link between the general managers of the businesses in the sectors and the Centers of Excellence. Since these three people would be able to attend some meetings, participate in planning sessions, and frequently interact with the general managers and other key division personnel, they would have firsthand knowledge of business needs and would be able to anticipate the requirement for HR support without being specifically asked. Field HR reps would be assigned to one or the other sector. But since direction would be provided at the sector level, the field HR reps would be able to provide more proactive, business-related support. Under the hybrid, the role and responsibilities of the HR field reps would actually be expanded and standardized to encompass assistance with talent management and succession planning, formal coaching besides the more traditional HR functions of employee relations, and so on.

When the meeting concluded, Hartley needed to decide which option made the most sense for Sonoco. She was asked to present her recommendation to the executive committee, of which she ws a member. Hartley realized that in order to make its decision, the committee would have to ponder several questions, namely:

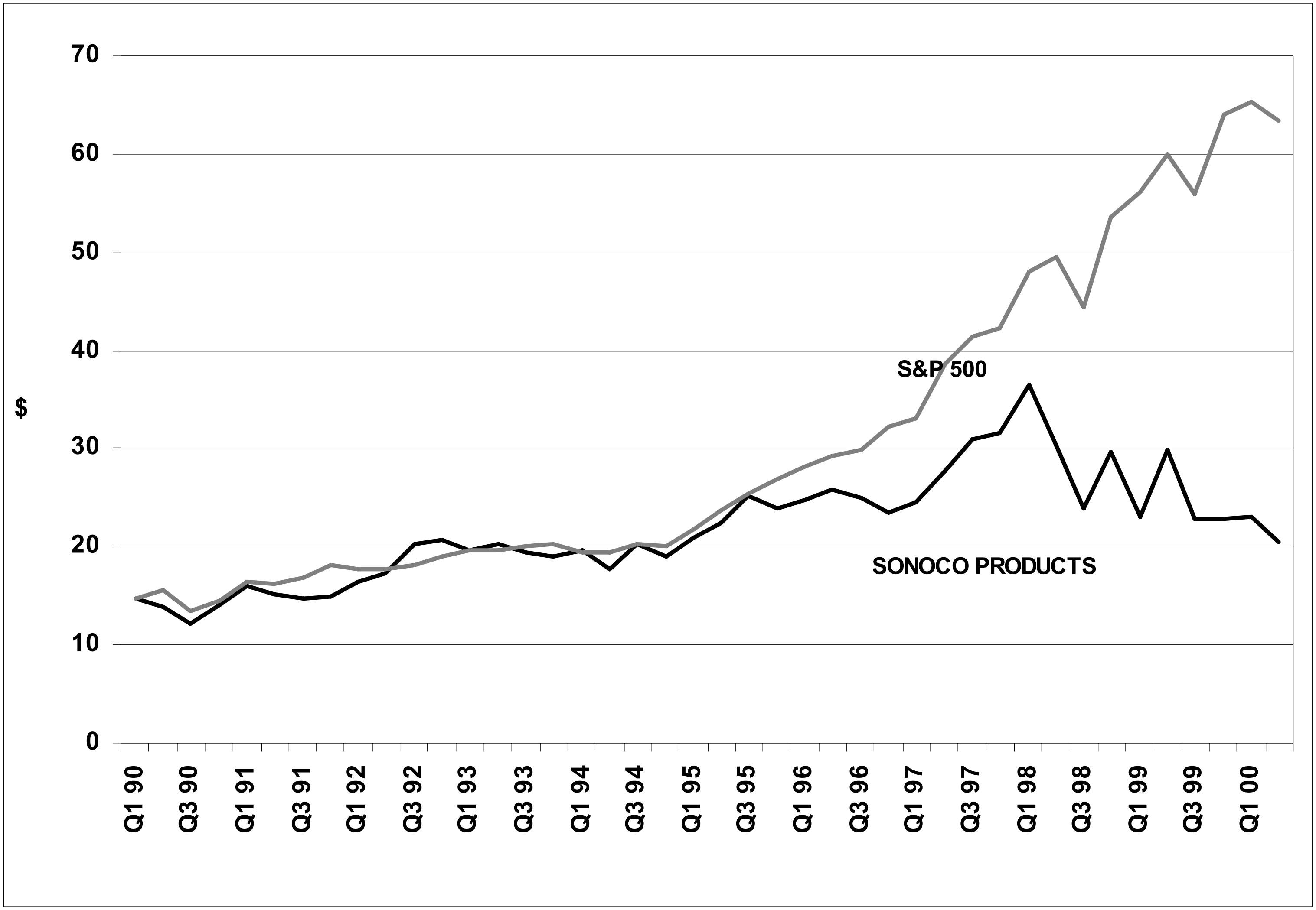
- Which option made more sense bearing in mind a changing industry in which "only the flexible survive"?
- Which one would better ensure the right people were in the right positions?
- Which option would help the company meet its financial target—providing annual, double-digit returns for its shareholders?
- And finally, which option best demonstrated Sonoco's long-held principle that "people build businesses"?

Exhibit 1a Sonoco Products Co., Income Statement ($ millions)

	Dec95	Dec96	Dec97	Dec98	Dec99
Sales	2,706.173	2,788.075	2,847.831	2,557.917	2,546.734
Cost of Goods Sold	1,981.151	2,005.178	2,054.568	1,822.531	1,807.759
Gross Profit	725.0221	782.897	793.2629	735.386	738.9749
Selling, General & Administrative Expense	289.297	310.605	297.439	301.61	259.917
Operating Income					
Before Depreciation	435.725	472.292	495.824	433.776	479.058
Depreciation, Depletion & Amortization	125.836	142.927	153.524	145.669	145.846
Operating Profit	309.889	329.365	342.3	288.107	333.212
Net Interest Expense	39.099	49.290	52.223	48.863	47.152
Nonoperating Income/Expense	0	0	-226.358	100.354	3.5
Special Items	0	0	0	0	0
Pretax Income	270.790	280.075	63.719	339.598	289.56
Total Income Taxes	106.64	107.433	60.111	153.989	108.585
Income Before Extraordinary Items & Discontinued Operations	164.150	172.642	3.608	185.609	180.975
Equity in earnings of affiliates/ Minority Interest	.369	-1.771	-.991	6.387	6.83
Extraordinary Items	0	0	0	-11.753	0
Discontinued Operations	0	0	0	0	0
Net Income	164.519	170.871	2.617	180.243	187.805
Preferred Dividends	7.763	7.196	3.061	0	0
Available for Common	156.756	163.675	-0.444	180.243	187.805
Savings Due to Stock Equivalents	0	0	0	0	0
Adjusted Available for Common	156.756	163.675	-0.444	180.243	187.805
EPS (Primary)—Excluding Extra Items & Discontinued Operations	1.563636	1.645454	0	1.87	1.84
EPS (Primary)—Including Extra Items & Discontinued Operations	1.563636	1.645454	0	1.76	1.84
EPS (Fully Diluted)—Excluding Extra Items & Discontinued Operations	1.490909	1.572727	0	1.84	1.83
EPS (Fully Diluted)—Including Extra Items & Discontinued Operations	1.490909	1.572727	0	1.73	1.83
Dividends Per Share	.524	0.586364	0.640909	0.7036	0.75

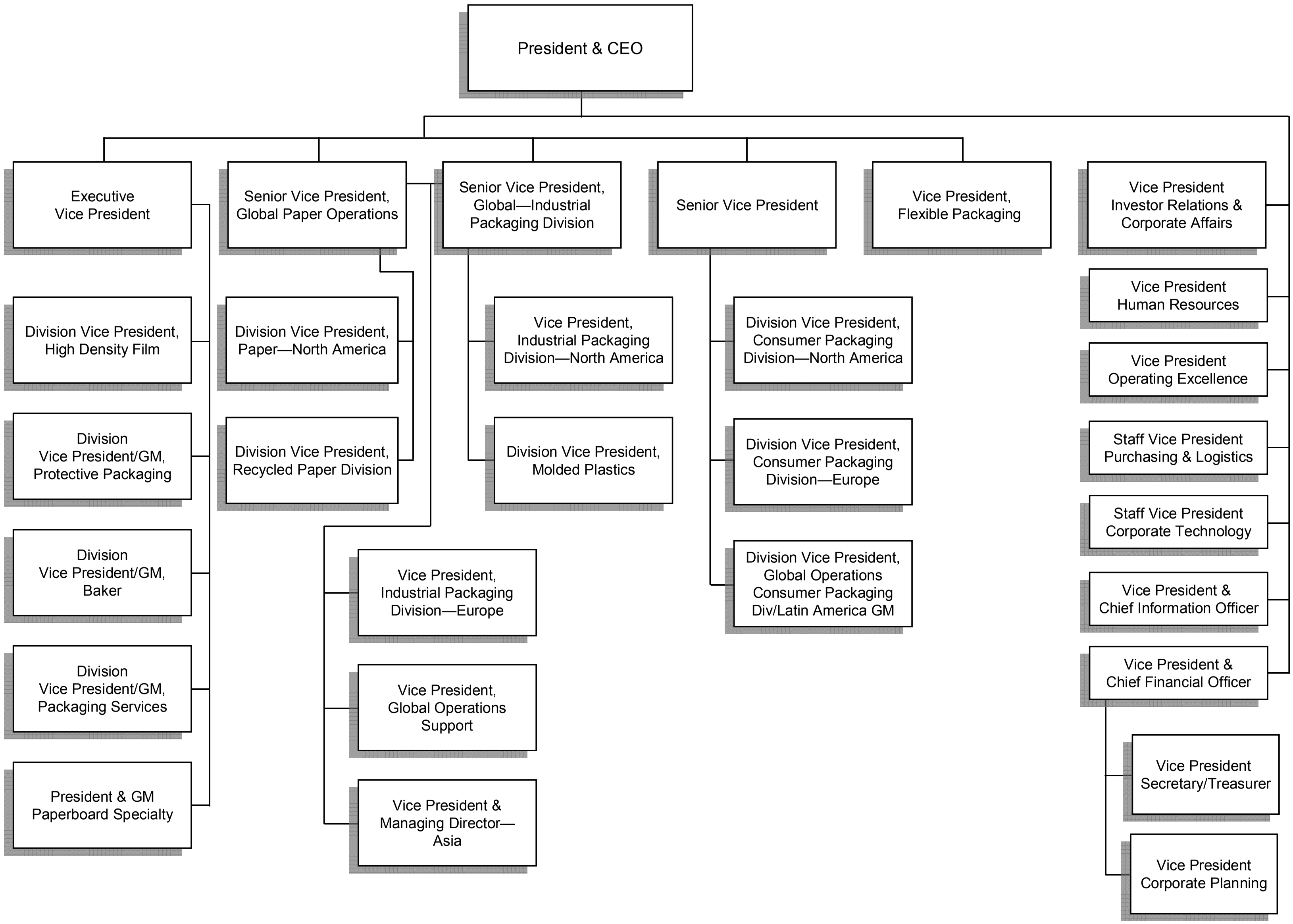
Source: Sonoco.

Exhibit 1b Sonoco Products Relative Quarterly Stock Price Performance, January 1990–June 2000



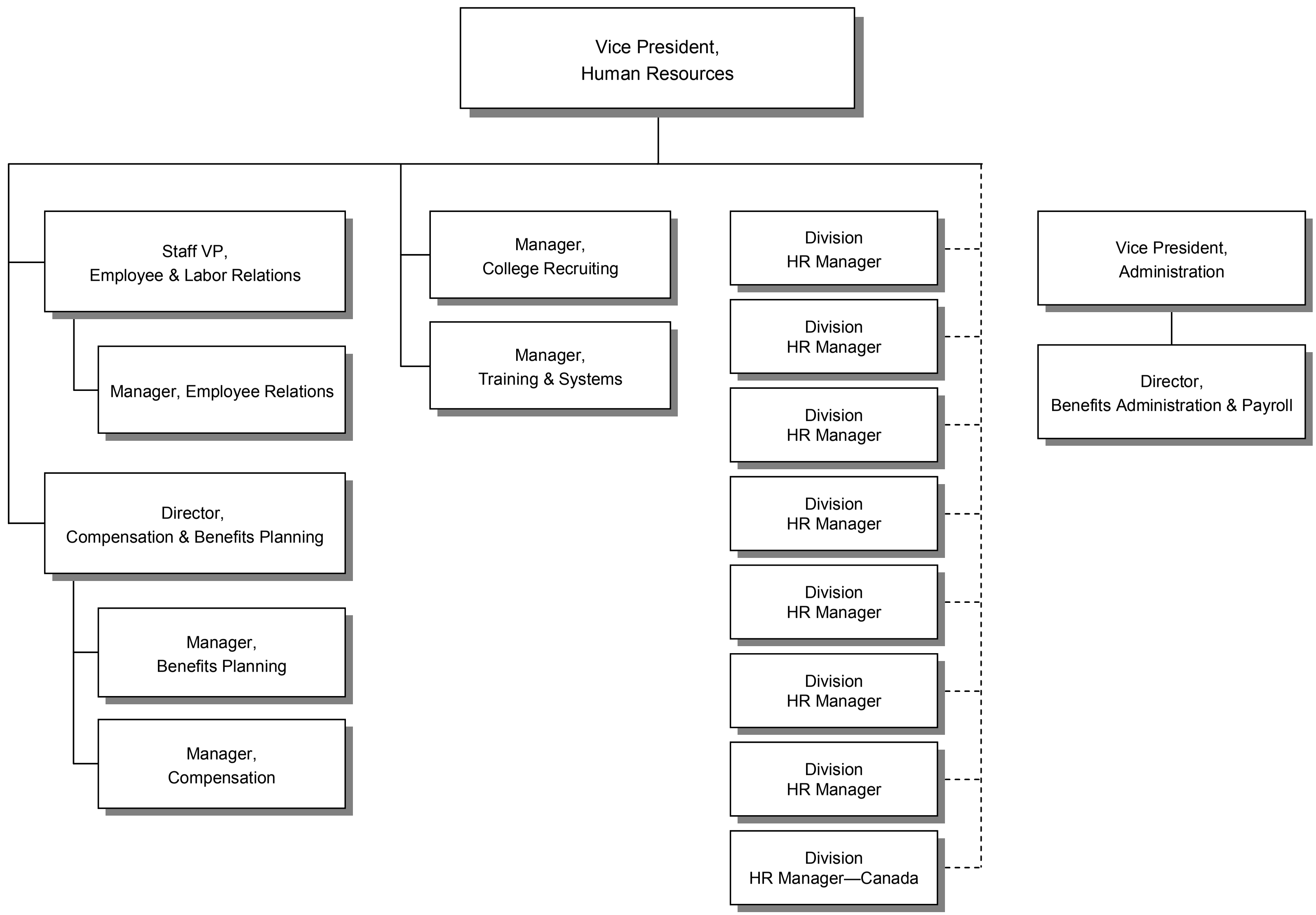
Source: Thomson Datastream.

Exhibit 2 Sonoco Organizational Structure, 2000



Source: Sonoco.

Exhibit 3a HR Organizational Chart, May 1995



Source: Sonoco.

Note: There were no HR managers for international operations in Europe, Asia, South America, or Australia/New Zealand.

Exhibit 3b HR Corporate/Division Breakdown

Corporate		Division	
Position	**Number of People**	**Name of Division**	**Number of People**
VP/Admin Asst	2	Paper/IPD	21
Employee Relations	5	CPD	8
Compensation	5	Flexibles	4
Organizational Development	1	Protective Packaging	2
Benefits	7	Plastics	3
Staffing	1	High-density Film	2
HRIS	5	Baker	1
	__	Packaging Services	1
Total	**26**	**Total**	**42**

Source: Sonoco.

Exhibit 4 Cycle of Performance Evaluation System

Key Initiatives—Vision 2000

↓ ↓

Competencies (How work gets done) **Objectives** (What work gets done)

↓

Performance Planning

↓

Development and Career Plans **Performance Coaching and Feedback**

↓

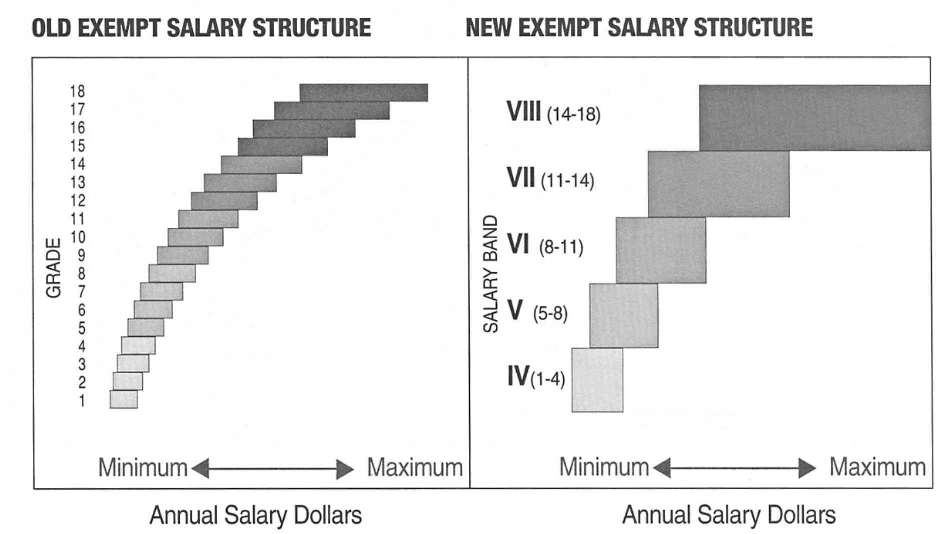
Performance **Review**

↓ ↓

Pay/Promotion Decisions **Succession Plans**

Source: Sonoco.

Exhibit 5a Sonoco Old and New Salary Structure



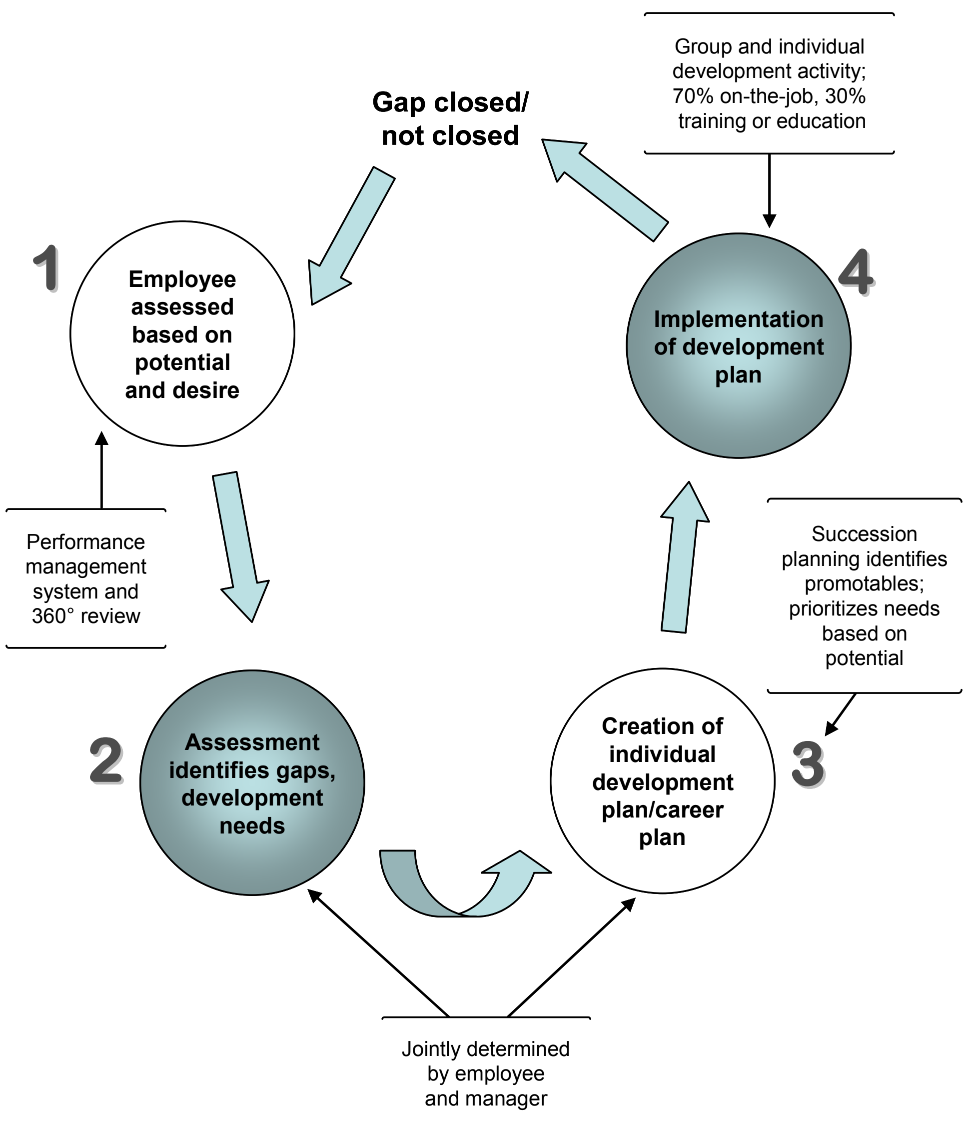
Source: Sonoco.

Exhibit 5b Sonoco's Old and New Merit Award Programs

Old Merit Increase Program	New Merit Award Program
Individual merit-increase dates were spread throughout the year.	All individual merit awards have a common effective date.
System-generated salary increase guide automatically determined suggested individual increases.	Managers for each unit/department must make award decisions.
Fostered entitlement mentality. Focus tended to be on amount of increase.	Reflects market-based strategy. Awards based on salary level relative to market and individual contribution. Larger variation in awards is possible based on performance. Some employees may not receive awards.
Restricted increases based on compa-ratio and performance rating.	Allows for wider discretion in the award process within budgetary constraints.
General increase budget based on applying compa-ratio and performance rating of all employees to merit-increase guide chart.	Awards pool for each unit/department based on market surveys and competitive conditions.
Primary focus was on paying at or near salary range midpoint for all people and all jobs in a range.	Primary focus is to recognize individual contributions while considering market guidelines for pay for a particular job.
Merit increases that deviated from the norm were considered exceptions.	Considerable variation in the amount of individual awards is considered normal and desirable.

Source: Sonoco.

Exhibit 6 Sonoco's Development Model



Source: Sonoco.

Exhibit 7 HR Timeline of Activities, 1996–2000

Date	Action
January 1996	First **HR Council** Meeting
February 1996	Letter from Hartley to Executive Committee regarding standardization of Sonoco's **Performance Management System**
March 1996	Corporate HR Communication of Sonoco's New **Performance Management System**
April 1996	Sonoco begins creation of a **development** process and leadership guidelines
July 1996	Implementation of Sonoco's first corporatewide task force to focus on **diversity** issues
January 1997	Implementation of Sonoco's salary band **compensation** program
August 1997	Implementation of **Performance Management Master Training** Process
Fall 1997	**Succession-**planning action steps and candidate pool analysis
November 1997	Initial audit to determine use of new **Performance Management System**
December 1997	Next steps in **development** of Sonoco's leaders
December 1997	**Fully integrated systems approach for all HR processes:** Lotus Notes, PMS, 360 systems, OPAL Development, PeopleSoft, and Succession Planning/Organization Reviews
January 1998	New electronic-**360** process selected for next implementation
February 1998	**Communication linking HR strategic process** to Sonoco's people, culture, and values in support of business objectives

Source: Sonoco.

Exhibit 8 Linking the HR Processes with People, Culture, Values, and Business Objectives

I. PERFORMANCE PLANNING AND FEEDBACK

Practice 1: Organizational Core Competencies

Practice description:

Four core competencies have been identified which describe the critical behaviors required of all Sonoco people; additional leadership competencies have been defined for Sonoco's top leaders. These have been incorporated into performance management.

Annual review of core and leadership competencies ensures alignment with Sonoco's business and growth objectives.

Practice 2: Performance Management

Practice description:

Integrated performance planning and feedback system with strong employee development component.

Based on objectives and Sonoco's core/leadership competencies.

Streamlined training to reinforce key concepts and introduce changes intended to simplify the process.

User-friendly, online performance management form.

Separate nonexempt performance management process designed for administrative and support staff.

Practice 3: 360° Reviews

Practice description:

Provides supervisor, direct report, peer, and customer feedback on performance, based on core/leadership competencies and integrated with performance management.

Conducted online for employees around the world. Easy to use from any company computer.

II. IDENTIFICATION AND SELECTION OF TOMORROW'S LEADERS

Practice 4: Career Development and Planning

Practice description:

Individual Career Planning

Employee career discussion occurs as part of the performance management process. Employees have the opportunity to communicate and receive feedback on individual career interests.

Organization Reviews

Utilizing data from the performance management career plans, annual company reviews of all personnel are held to identify top performers and potential leaders.

Annually, the executive committee also holds in-depth reviews of companywide bench strength.

III. THE DEVELOPMENT PROCESS

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

Practice description:

Development on the job

Creation of learning experiences on the job to accelerate development, including participation on ad hoc, standing, natural, or cross-divisional teams.

Online performance and learning (OPAL)

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

Resides on Sonoco's SONOnet and can be accessed from any computer.

Practice 6: Centers of Excellence for Learning

Practice description:

Companywide training opportunities that reinforce achievement of business strategies.

Sales and Marketing training

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

Team skill development

Training to support and facilitate successful implementation of Process Breakthrough/ Process Advancement initiatives and productivity initiatives.

- Facilitator training
- Team management skills

IV. THE DEVELOPMENT PROCESS

Practice 7: Rewards and Recognition

Practice description:

Compensation opportunities, which reward individual performance and facilitate career movement and development, are linked to achievement of company growth objectives.

Broad banding

Broad compensation zones to permit maximum flexibility for compensation of individual achievement and career development moves.

Centennial Shares

Awarding 100 stock options to all employees worldwide to create ownership in the company, heighten awareness of critical business issues, and align employee and shareholder interests.

V. COMPENSATION

Practice 8: Global Workforce Diversity

Practice description:

Aimed at achieving a more diverse, but fundamentally collaborative, workforce. Focus on valuing differences and increasing workforce diversity. Improving quality of work life through family-friendly policies and more flexible work schedules.

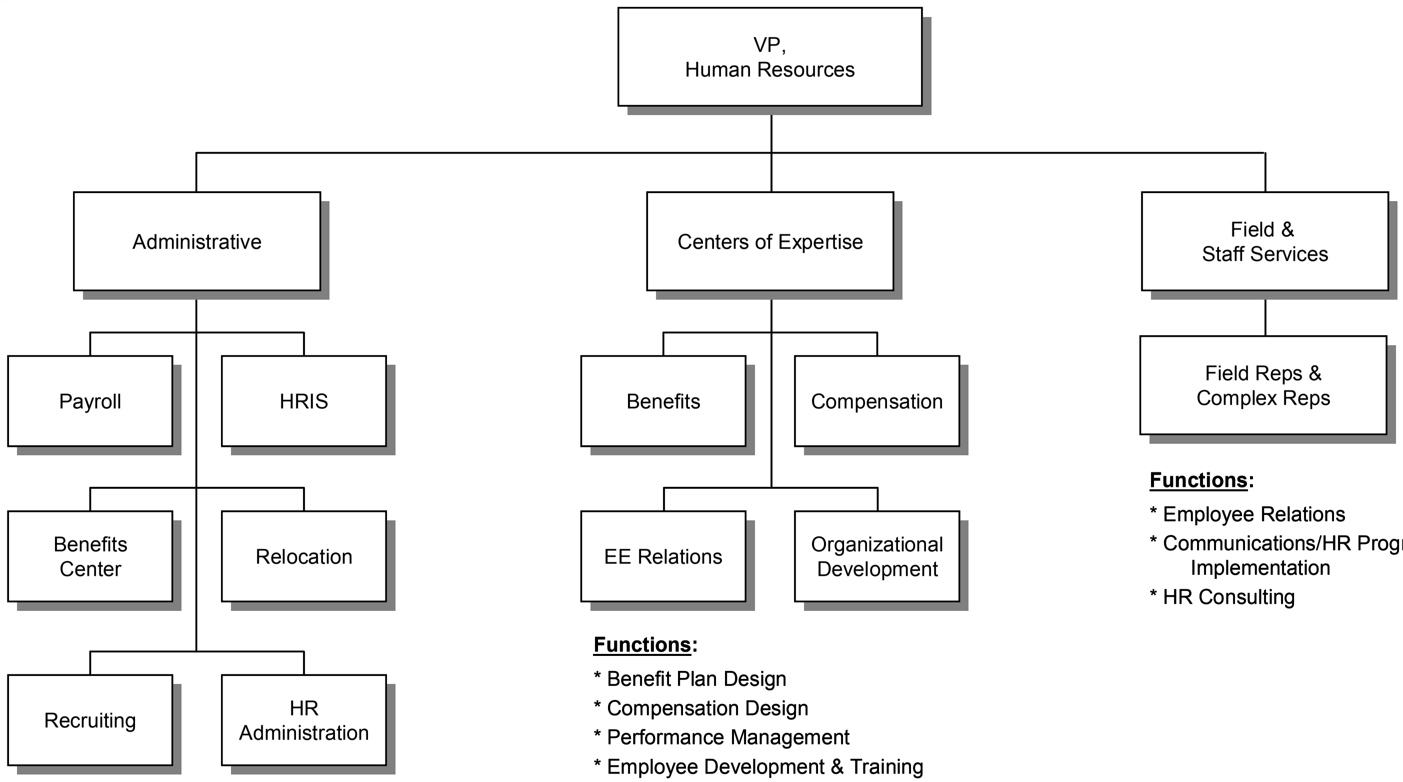
Semiannual review of progress toward achievement of established goals.

Increased emphasis on global diversity issues through inclusion of diversity competency in the 360° reviews for the management committee.

Source: Sonoco.

Exhibit 9 Organizational Restructure Options

Option I—Centralized



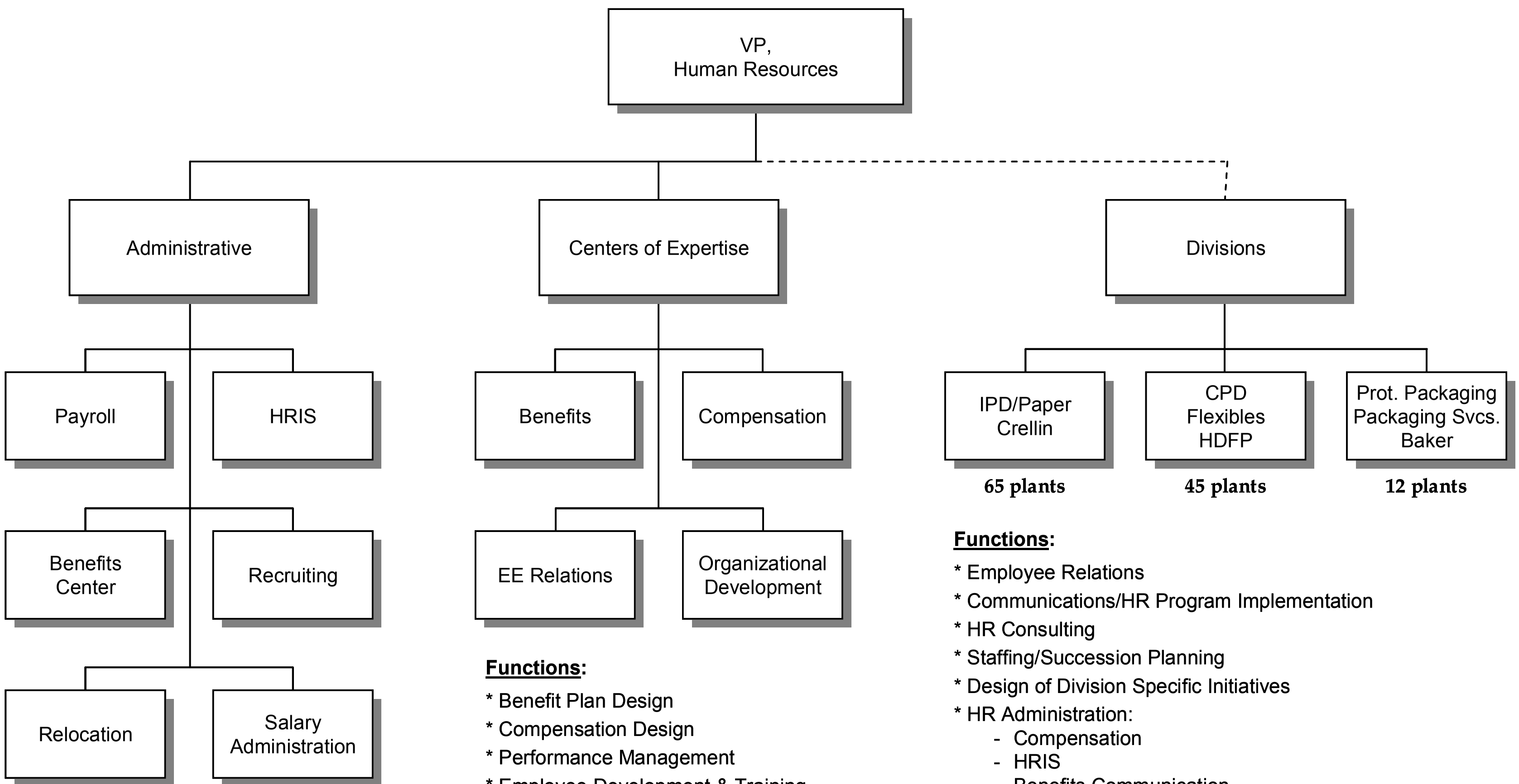
Functions:
* Benefits Administration
* Payroll
* HRIS & Database Management
* Relocation
* Recruiting
* HR Administration:
  - Compensation
  - HRIS
  - Benefits Communications
  - Personnel Programs

Functions:
* Benefit Plan Design
* Compensation Design
* Performance Management
* Employee Development & Training
* Succession Planning
* HR Systems Development/Six Sigma
* Employee Relations Programs
* Policies/Practices Design
* Legal Compliance
* Design of Division Specific Initiatives

Functions:
* Employee Relations
* Communications/HR Program Implementation
* HR Consulting

Exhibit 9 (continued)

Option II—Hybrid



Functions:
* Benefits Administration
* Payroll
* HRIS & Database Management
* Relocation
* Salary Administration
* Recruiting

Functions:
* Benefit Plan Design
* Compensation Design
* Performance Management
* Employee Development & Training
* Succession Planning
* HR Systems Development/Six Sigma
* Employee Relations Programs
* Policies/Practices Design
* Legal Compliance

Functions:
* Employee Relations
* Communications/HR Program Implementation
* HR Consulting
* Staffing/Succession Planning
* Design of Division Specific Initiatives
* HR Administration:
  - Compensation
  - HRIS
  - Benefits Communication
  - Personnel Programs

Source: Sonoco.

Endnotes

[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.

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[11] "Experts Debate What Really Sells a Package," *Paperboard Packaging*, July 1, 1998.

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

[13] Nancy Brumback, "Packaging Needs Are Changing as Boomers Age," *Supermarket News*, August 16, 1999.

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

[15] Gavin Williams, "Internet, E-Commerce Pose Challenges to Packaging," *Packaging Technology & Engineering*, June 1, 1999.

[16] Ibid.

[17] "Experts Debate What Really Sells a Package," *Paperboard Packaging*, July 1, 1998.

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

[21] Ibid.