

Leadership in paper and packaging: The new talent imperative

Our third survey of industry leaders suggests that firms must become more aggressive in implementing multifaceted talent management strategies. This includes developing a more comprehensive view of both internal and external talent pools and focusing on building thriving cultures that will attract and retain top talent.



Introduction



The paper and packaging industry has seen dramatic changes over time, but arguably never more than over the past decade. In 2013, at the time of our last survey, the economy was rebounding from a recession and executives were focused on growth plans. Now, nearly a decade later, the economy is only just beginning to recover and reshape after a devastating pandemic. In the interim, an increase in private equity investors, a white-hot spotlight on environmental sustainability, and the rapid rise in ecommerce are among key trends creating both challenges and opportunities. Heidrick & Struggles recently surveyed executives across the paper and packaging sector in order to understand how these trends are shaping strategic priorities and talent management practices, as demand for leaders who can drive results continues to intensify.

In an increasingly dynamic market environment, industry executives are concerned about having the talent needed to drive sustained value creation. While those we surveyed are confident in their current leadership, only just over half said they are very or entirely confident their company will have the leaders

needed to succeed in the long term. Even fewer said their leadership development processes are adequate. Attracting talent from outside the industry, especially diverse talent, continues to be a challenge; the majority of firms are in the early stages of establishing and integrating D&I approaches. All this has elevated talent management as a top priority.

Based on our extensive experience across the industry, we believe that, to meet these challenges, leaders must become both more aggressive in implementing multifaceted talent management strategies that include a more comprehensive view of both internal and external talent pools and far more intentional about diversity and inclusion and focusing on building thriving cultures that will attract and retain top talent from within and outside the industry.

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Methodology

Heidrick & Struggles conducted an online survey in late 2020 and early 2021 of 35 senior-level executives in the paper and packaging industry. We surveyed CEOs, CHROs, presidents, general managers, and P&L leaders from public and private companies spanning a wide range of materials including fiber-based, glass, metal, plastics, and rigids and flexibles, as well as printing, converting, and distribution companies.

COVID-19—accelerating the need for change

As in almost every other industry, the COVID-19 pandemic proved to be highly disruptive to paper and packaging operations. Not only did it force employers around the world to implement new safety protocols and remote work wherever possible, it also increased the need to speed digital transformation and put new pressure on commercial teams to innovate. Perhaps unsurprisingly, working from home and ensuring employee safety are the top ways survey respondents said that COVID-19 has affected business operations.

While many respondents saw significant short-term disruptions in operations, often challenging manufacturing to meet urgent demand and shifting consumer needs, a smaller

share, just over a third, of leaders said that they believe production reconfigurations initiated during the pandemic will become permanent. Half as many said that supply chain changes will remain once the crisis subsides.

On the other hand, respondents pointed to several changes will last beyond 2021, with, for example, almost two-thirds reporting that some form of remote work will become the norm, and just over half believing that reworked employee health and safety processes will remain in place. Survey participants also reported anticipating longer lasting changes associated with digital transformation, changing consumer preferences, and culture impact.

Leaders' rankings of disruptors also show a clear shift toward growing digital sales channels.

The impacts of COVID-19 on business operations (%)

■ Question: How has COVID-19 affected your company's business operations?

■ Question: Which, if any, of those changes do you expect to last beyond the end of 2021?

Caused us to allow all or certain employees to work from home



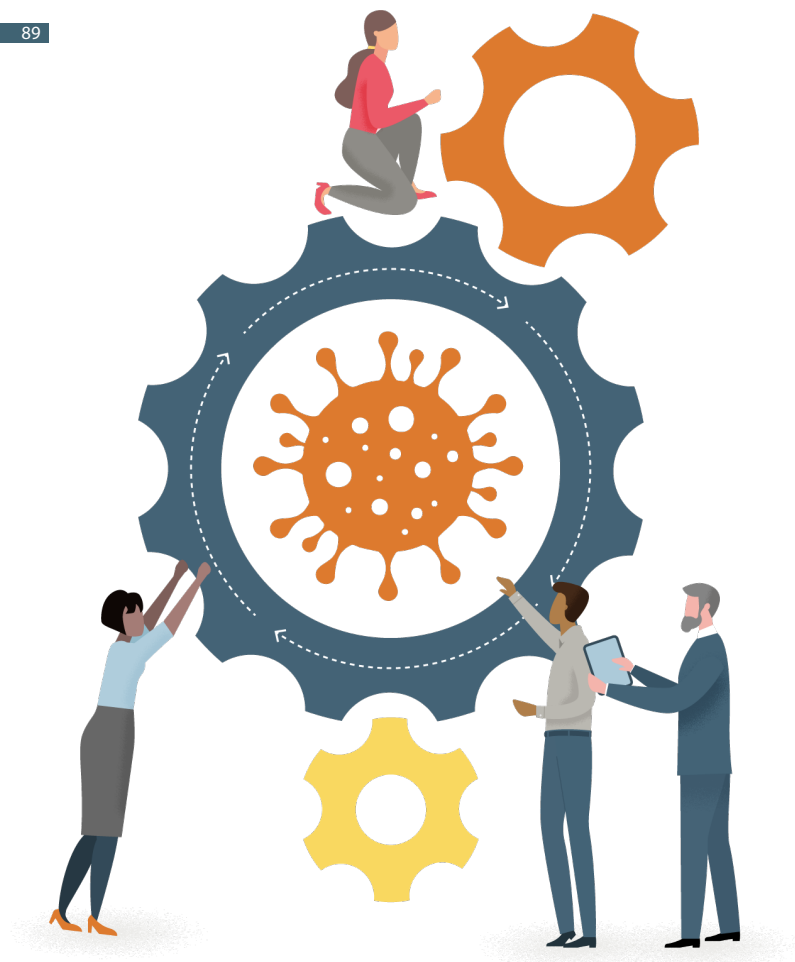
Caused us to rework employee health and safety processes



Caused us to start or speed up existing digital transformation efforts



Note: Selected data



New digital requirements: Work moves online

Leaders from most, if not all, industries, have had to master the video conference. With employees working remotely, many for the first time, firms have been required to rethink the ways they communicate with and lead their teams. Survey respondents expressed concern over employee engagement, team leadership, and the development of high potentials in what most anticipate to be a less office-centered environment post COVID-19.¹ From an operational standpoint, many firms anticipate increased spending on technology to drive efficiencies in manufacturing operations as well as increased use of customer data and analytics to spot trends and support commercial value creation.

¹ For more on Heidrick & Struggles' perspective on building inclusive cultures in hybrid work environments, see Yulia Barnakova, Andrew Jakubowski, and Nedra Johnson, "Digital inclusion: Five considerations for leaders to build on gains and avoid pitfalls in the hybrid world of work," Heidrick & Struggles, May 4, 2021, heidrick.com.

Changing consumer preferences

The ability to better leverage data matters more than ever because some trends that started before the pandemic have only accelerated. The explosive boom of ecommerce and in-home delivery, for example, has hastened the demand from consumers for packaging that is environmentally friendly and recyclable. These demand shifts have implications for competitive strategy as once-profitable segments vanish and new opportunities for value creation emerge. Survey respondents emphasized the need for their organizations to address fast-changing consumer preferences by speeding up innovation efforts and rethinking key markets or products.

Culture to the fore

As leaders in the paper and packaging industry embrace change to thrive amid these challenges, we expect organizational culture to become an increasingly important focus area. Respondents highlighted the importance of aligning culture with strategy. The need to transform and innovate along with rising awareness of environmental, social, and governance factors are likely to drive renewed emphasis on diversity and inclusion, with leaders highlighting progress as a key element of talent recruitment and retention initiatives.



Leadership for sustained value creation

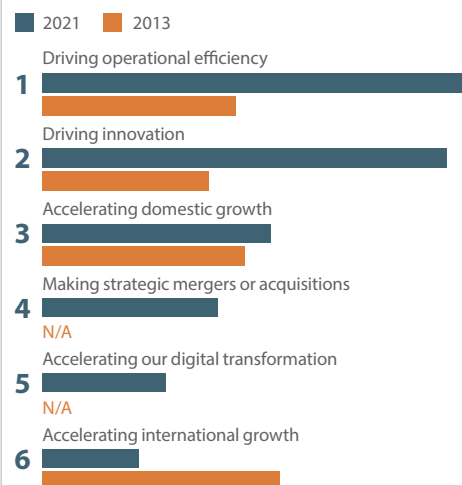
Over the past decade, the paper and packaging sector has experienced an influx of private equity investors as sponsors have seen opportunities to build compelling platforms and have been attracted by the consistent cash flow offered by business models focused on non-discretionary consumer spending. The increase in private equity ownership has contributed to consolidation across the sector and intensified the competition for leaders who can drive sustained value creation. Today, both strategic and financial sponsors are seeking leaders who bring a balance of operational and commercial expertise.

In this context, nearly half of respondents identified some combination of driving operational efficiency, driving innovation, and accelerating domestic growth as their top two strategic goals for the next three years.

This is a significant shift from priorities leaders identified in our 2013 survey, particularly with international growth falling dramatically. Today, companies across the sector face more regionalized opportunities and challenges as they look to drive growth and earnings. Examples include increased state and local restrictions on the use of some products and a continued rise in consumer awareness of product environmental impact. As a result, domestic initiatives are likely to take precedence in the coming years. Strategic M&A remains high on the agenda, as both financial sponsors and strategic buyers look to expand the scale and scope of operations while also looking for ways to consolidate share or expand capabilities.

Future strategic goals: 2021 versus 2013

Question: What are your company's most important strategic goals for the next three years?



Perhaps not surprisingly, attracting, retaining and developing talent was selected as the single most important lever in achieving strategic goals over the next three years, with two-thirds of respondents selecting it as one of their top three priorities. For the first time, environmental and social sustainability cracked the top five, as firms across the packaging value chain look to differentiate their platforms, communicate more effectively with informed consumers, and address evolving needs of brand owners.

This high priority on talent is likely connected to a lack of confidence in the current state of the industry's talent strategy and management; less than half of respondents said that leadership development processes are adequate, and only slightly more than half reported feeling very or entirely confident their company will have the leaders needed to succeed in the long term.



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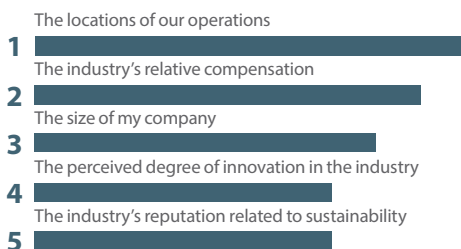
The link between talent and innovation

The sector's need for innovation presents something of a conundrum: most companies need new talent to drive innovation but in order to attract and retain that talent, companies must try harder to be seen as an employment destination. Today's top talent will often inspect not only a firm's innovation capabilities (for example, new product pipeline or annual R&D spending) but also its sustainability track record.

While location, compensation, and company size are familiar barriers to attracting outside executives, survey respondents also cited the perceived degree of innovation within the industry as well as its sustainability reputation as top barriers. This latter group, in our experience, can make the difference in a final decision when someone is considering switching industries. The conundrum is made more acute by the sector's preference for filling commercial, operational, and general management roles from within rather than outside the sector.

Barriers to attracting outside executives

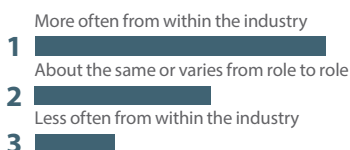
Question: What have been the biggest barriers to attracting executives from outside your company over the past five years?



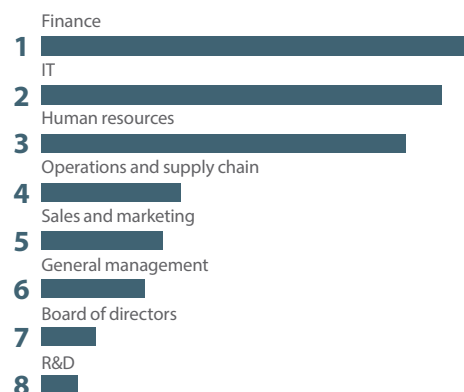
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Candidates and leaders from outside the industry

Question: When you seek leaders from outside your company, do you more often seek them from within the industry or outside?



Question: For which functions do you most often seek candidates from outside the industry?



Limiting the talent pool

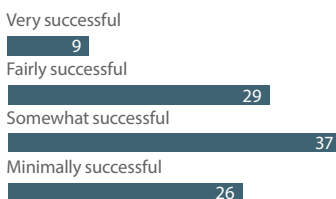
Nearly 70% of respondents acknowledged a preference for sourcing talent from within the industry. When considered by function, staff roles are by far the most common areas in which people are sought from outside the industry.

Furthermore, the majority of respondents said they consider paper and packaging to be in the early stages of attracting diverse candidates in terms of gender and race and ethnicity, and over half reported being in the early stages of establishing a baseline for D&I initiatives.

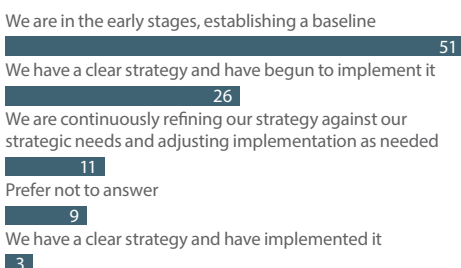
The combination of early-stage D&I with a strong preference for domain expertise suggests that the sector's progress in attracting talented leaders capable of leading transformational change and achieving strategic goals is likely to be slowed until changes are made to talent management practices and culture.

Diversity and inclusion in the paper and packaging industry (%)

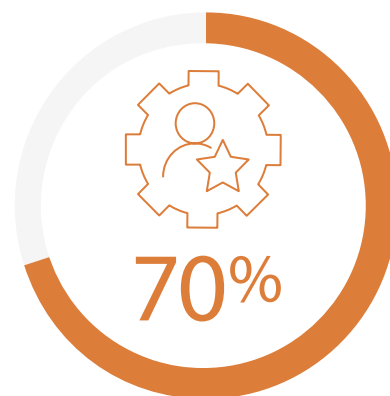
Question: How successful has your company been over the past five years at attracting executives who are diverse in terms of gender, race, or ethnicity?



Question: Which of the options below, if any, best describes your company's current approach to D&I?



Nearly 70% of respondents acknowledged a preference for sourcing talent from within the industry.



Equipping leaders for future success

When identifying which leadership traits will be most important for senior executives in the industry to help companies reach their strategic goals, the ability of leaders to focus their organizations on serving the customer and having a results orientation are recurring themes from our previous surveys. Strategic mindset and agility, including the ability to spot emerging trends, “think around corners” and anticipate potential outcomes, has become part of the DNA that firms seek in their leaders in an increasingly dynamic marketplace.

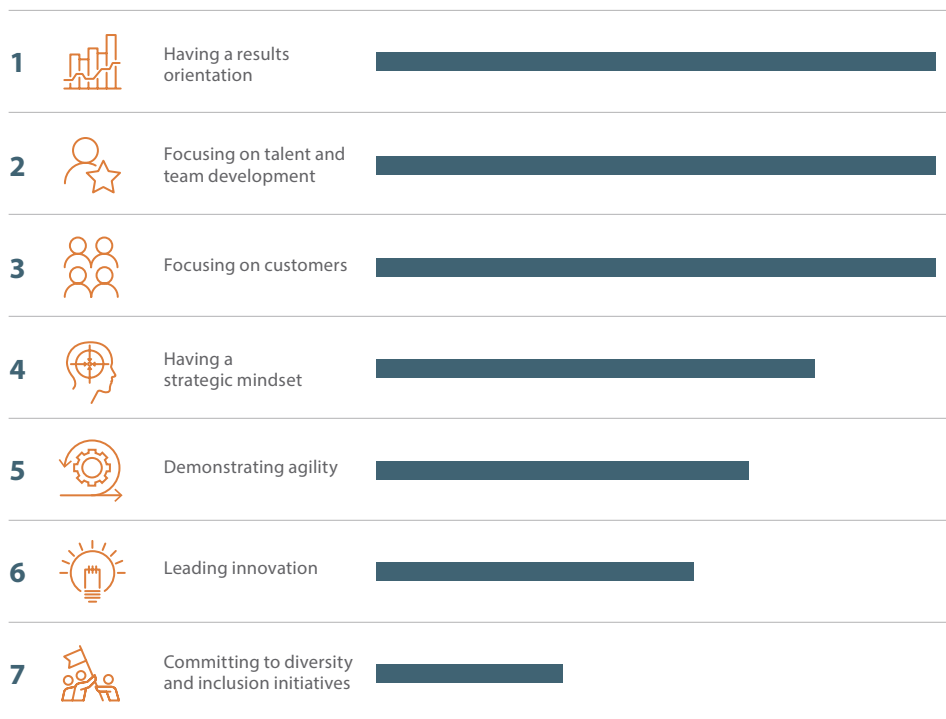
While it is encouraging that two-thirds of respondents believe that the traits they consider the most important are already common among their senior leaders, the high likelihood of planned turnover among current leaders, as many are aging, gives rise to an urgent need for executive development programs. In fact, we are seeing a consistent theme across the industry that team and organizational development is crucial expertise for new leaders. Indeed, the ability of leaders to focus on developing internal talent has become a critical organization success factor. The anticipated continuation of remote or hybrid work is likely to exacerbate this need. Respondents highlighted how much work there is to be done in leadership development: only 3% indicated they have entirely adequate programs and processes in place; nearly 60% reported significant gaps.

Historically, the paper and packaging sector has lagged other industrial and consumer sectors in its commitment to executive learning and development. In our experience, many companies in the sector have prioritized operational and market-facing spending over executive development programs. Industry consolidation has also contributed, with strategic M&A resulting in smaller workforces, as companies retain the people they view as the highest performing, best-qualified leaders. The “top-grading” from these combinations has lessened the perceived need for rigorous assessment and executive development. Moreover, the availability of talent has likely had the unintended consequence of prioritizing domain expertise for key leadership roles.

Survey respondents said the top three areas for improvement in leadership development are high-potential development (including diverse talent), succession and critical role planning, and, of course, improving leaders’ focus on developing teams. Making such improvements will not only help companies develop leaders internally but should also help them recruit new talent to the sector by providing more line of sight on succession and development opportunities.

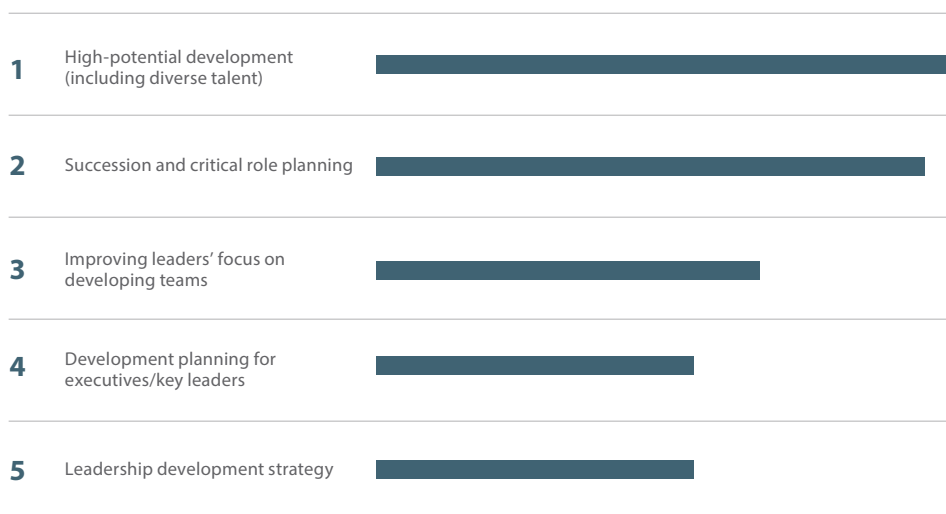
The most important leadership traits for achieving strategic goals

Question: To reach your strategic goals, which of the leadership traits below, if any, will be most important for your company’s senior executives (in addition to specific functional skills)?



Improvements needed to the leadership development process

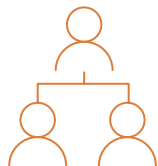
Question: What does your company most need to improve in its leadership development processes?



Cultivating a leadership pipeline

Based on more than 20 years working with companies in the paper and packaging sector, the results of this survey, and our extensive experience across the sector's value chain, we offer recommendations in three key areas.

1



Create a comprehensive view of the talent landscape

Organizations often invest a great deal of time formulating business plans that allocate resources to activities that drive both participation and competitive strategies. Less often, do they put as much attention on the people who will execute strategy and the impact that fit-for-purpose talent can have on achieving results. In our experience, best-in-class talent management involves creating a comprehensive leadership pipeline that brings together recruitment, assessment, development, and other traditionally disparate HR activities. It should include a rigorous and disciplined succession planning process at all leadership levels.

Succession planning in particular has taken on new importance as the sector competes for top talent and navigates an aging leadership demographic. Beyond the obvious preparedness factor, planning matters because top talent, both internal and external, increasingly view a firm's commitment to succession planning as an indication of organizational vitality and commitment to high performance. On the other hand, an executive's track record of team and organizational development is

often evaluated as a pivotal experience when being considered as an external candidate.

Senior leaders in the sector can therefore build a competitive edge if they gain insight into the competitive landscape by maintaining a thorough knowledge of both internal and external talent. Getting there could include efforts such as talent benchmarking and mapping the talent of competitors or other target companies, which some companies in the sector are already doing. Companies will also benefit if leaders broaden their understanding of what constitutes relevant experience, particularly for general managers, senior commercial, and operational leadership roles. Some companies are succeeding by identifying core leadership capabilities and pivotal experiences and using both to identify potential leaders from outside the industry.

Companies should also implement a continuous learning and development program that includes competency and skills development, experiential learning, and coaching. As the sector looks to attract top talent from adjacent industries and best-in-class organizations, candidates may consider leadership and development programs as a factor, enabling those with dedicated programs and budget allocations to become more attractive.

2



Prioritize and integrate diversity and inclusion

Once an aspirational goal, diversity and inclusion has emerged as a critical enabler for organizations to achieve higher levels of performance. Leaders who effectively embed D&I into the fabric of their culture report step-change improvement in key areas.² Other research by Heidrick & Struggles shows that companies that include D&I goals in their business strategies, along with a few other key steps, more often than others see hard

business benefits from D&I.³ In our experience, companies that integrate their D&I initiatives into their overall talent management platforms see the greatest improvement in their ability to attract, develop, and retain diverse talent in terms of both identity and experience, thereby creating a sustainable competitive advantage. Leaders who recognize the power of D&I and its positive impact on industry imperatives such as organic growth, customer-centered innovation, and community involvement will distance their organizations away from those who remain slow to embrace D&I.

² Vivian Hunt, Lareina Yee, Sara Prince, and Sundiatu Dixon-Fyle, "Delivering through diversity," McKinsey & Co, January 18, 2018, mckinsey.com.

³ Krishnan Rajagopalan and Lyndon A. Taylor, *Meeting the Inclusion Imperative: How Leaders Can Link Diversity, Inclusion, and Accelerated Performance*, Heidrick & Struggles, April 30, 2020, heidrick.com.



Align culture with strategy

With change comes opportunity. The old adage, “culture eats strategy for breakfast,” applies to any organization looking to reach new goals and drive transformational change. We define thriving cultures as those that are purpose-driven and characterized by vitality and a growth mindset. The rise of sustainability, the growing need for innovation, and increased consumer awareness are powerful rallying points for paper and packaging companies to redefine their purpose as they look to evolve and grow. A thriving culture can be a significant catalyst for change, and this starts at the top with a willingness of the CEO and the leadership team to establish a compelling vision and purpose. If they can more closely align culture with strategy and desired business outcomes, leaders will have a wonderful opportunity to re-establish the sector’s standing as a destination for top talent looking to grow and cultivate a career.

The rise of sustainability, the growing need for innovation, and increased consumer awareness are powerful rallying points for paper and packaging companies to redefine their purpose as they look to evolve and grow.

Conclusion

In an environment where the pace of change is accelerating, having the best leaders driving strategy and execution through an aligned culture remains a critical component of an overarching approach to creating and managing stakeholder value. The impact of COVID-19 has only further accelerated the need for versatile, agile leaders who drive change and continuously transform their organizations to meet the needs of a dynamic customer base.

A commitment to leadership development combined with opportunity to tackle significant

business challenges posed by a dynamic market will be attractive to top talent. Importantly, the industry has recognized that organizations that get serious about defining their talent value propositions are likely to outpace their peers in their ability to attract and retain top talent. We believe this remains a key strategic initiative for many organizations and will continue to define their ability to capture a disproportionate share of value in an ever-evolving marketplace.

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Industrial Practice

Heidrick & Struggles' Industrial Practice helps industrial companies identify and recruit the leaders they need to succeed in this diverse sector.

Today, leading industrial companies increasingly recognize that the quality of their leadership will make the real competitive difference in a world of globalization, rapidly emerging markets, offshoring, outsourcing, and far-flung supply chains. These companies need innovative global leaders who possess the strategic, operating, and financial skills required to win in this complex environment. They need commercially-focused leaders who can develop distinctive value-added solutions. And, above all, they need leaders who have the ability to make both an immediate impact and a long-term contribution.

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