



VALMET & IMD: FORWARD-LOOKING LEADERSHIP DEVELOPMENT



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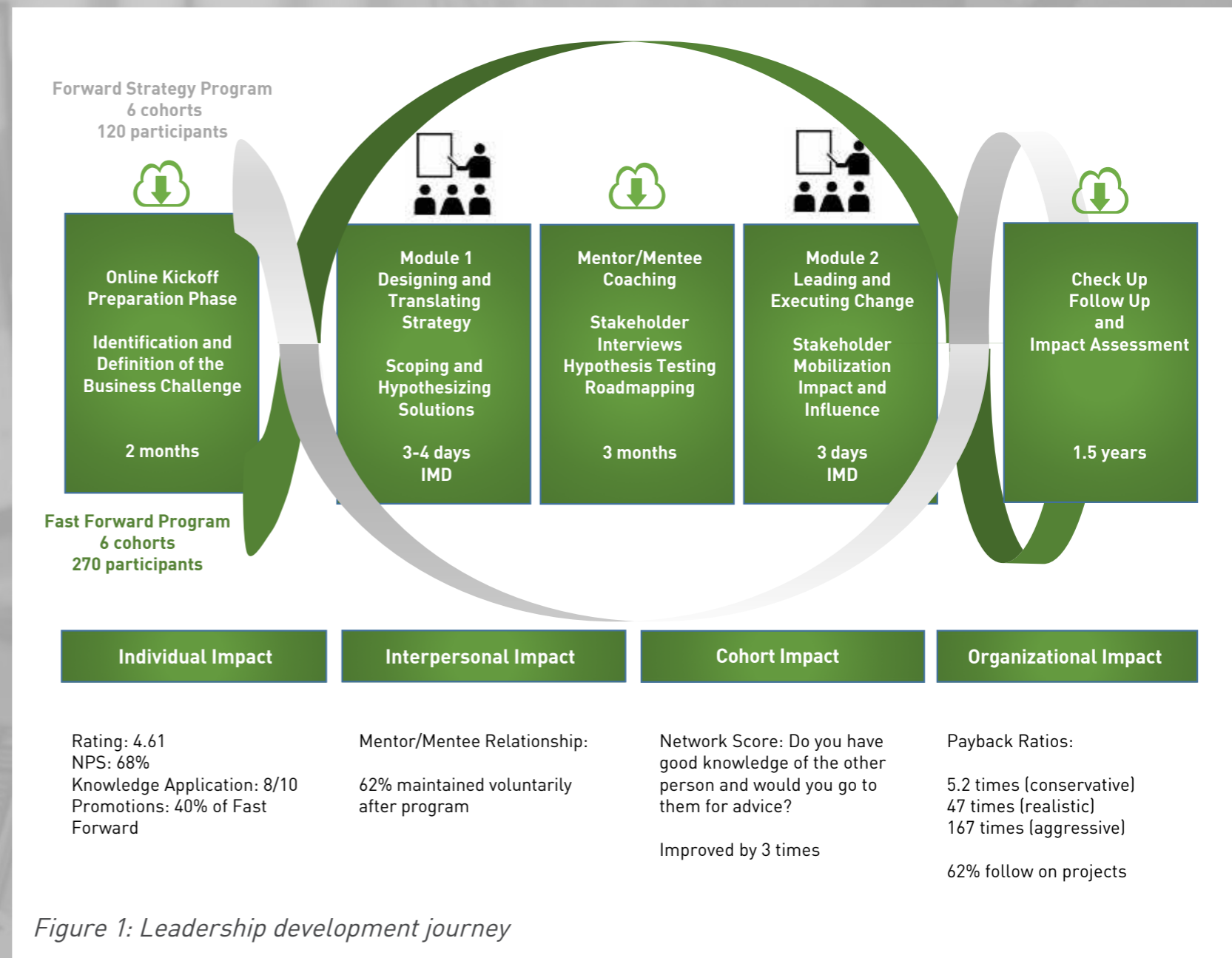
EXECUTIVE SUMMARY



In 2014, Valmet – a new organization born out of a de-merger in a seemingly unsexy, unwanted industry of capital equipment and services for the pulp, paper and energy industries – sought to make the most of its leadership development programs. How? By turning the company into a **confident, forward-looking** technology front-runner where the leaders truly saw how they could execute their part of the strategy with real impact.

Valmet partnered with IMD, a top-ranked business school, to co-create a unique leadership development journey that helped it build capability and confidence at four levels: **individual, interpersonal, cohort** and **organizational**. This journey was developed around six critical design principles: creating two programs in parallel for senior managers and high potentials with connections between the two; mentoring of high potentials by senior managers; building around the participants' individual business challenges; addressing or resolving these challenges in each session; ensuring CEO and Executive Team support and sponsorship; and measuring impact on all levels throughout the process.

The journey exceeded the expectations set out at the beginning, not simply based on impressions and testimonials but in terms of **real impact**. Not only were individual capabilities built, but also 62% of the mentoring relationships continued well beyond the end of the journey; cohort networks improved by over three times because of the program, and substantial financial impact was achieved (between 5 and 167 times depending on the definition). Overall, by early 2018 Valmet had outperformed the Helsinki OMX and Global Industrials index by 62% since the end of 2014, and it was on its way to reaching its stated 8%–10% EBITA targets by 2020.



INTRODUCTION



For many years, large organizations have been spending considerable time and effort on improving the leadership capabilities of their managers. It is easy to understand why: Leadership development has always been ranked as a significant human capital issue. Yet, the outcomes have been less than satisfactory. Why? Because impact generally falls far short of expectations for four main reasons:

1. Lack of context (little customization to the real needs of the organization)
2. Dubious connections between reflection in the classroom and the challenges facing leaders
3. Not truly shifting mindsets or behavior
4. Not really measuring any results.¹

When Valmet and IMD partnered in 2014 to develop and deploy leadership programs for their senior managers and high potentials, they both had these criteria in mind.

What follows is a story of both the strategic and leadership development challenges that Valmet faced in 2014, which led to a forward-looking leadership development program between Valmet and IMD. It was truly customized to the needs of the organization, created the necessary links between theory and practice, led to a change in mindsets and, finally, resulted in significant financial impact.

¹ Gurdjian, Pierre, Thomas Halbeisen and Kevin Lane. "Why Leadership Development Programs Fail." *McKinsey Quarterly*, January 2014.



Valmet is the leading global developer and supplier of capital equipment, automation technologies and services for the pulp, paper and energy industries. Its vision is to become the global champion in serving customers in its industry. Valmet's 12,000 professionals work closely with clients all over the world and are committed to moving their performance forward – every day. The company has over 200 years of industrial history, but it was re-born out of the de-merger of the pulp, paper and energy arm of the Metso Group in December 2013. Valmet's net sales in 2017 were approximately €3.2 billion.



IMD is a top-ranked business school, expert in developing leaders, transforming organizations and creating immediate and long-term positive impact. IMD custom programs are co-created with a select group of innovative global organizations to address their specific performance objectives. These tailor-made programs help companies to build new capabilities and address their most significant business challenges. The programs blend academic expertise with hands-on implementation and are designed for learning and business impact.

THE CHALLENGE



In 2013, Metso spun off its pulp, paper and energy capital equipment and services arm to create Valmet, a name already well known in the industry. It was a stressful time for the newly formed company given that its performance was significantly below the industry standard. Its key metric for success, EBITA, was at an all-time low of 2.1% (compared to Metso's 12.8%) and its ROCE was -4% (compared to 18.6% for Metso). Overcapacity in China, a shift to smaller sized machines, a radical decline in demand in paper, and a shift to coal heating rather than bio-energy boilers turned into Valmet's perfect storm. The company had to not only restructure quickly to give it some breathing room, but at the same time come up with a new name, establish a head office and fill the needed positions and create a belief in the company's future. It was clear that Valmet was the "ugly sibling" of the now-separate organizations. Yet, beneath these disappointing results was a company that was a leader in its field – being either number one or two worldwide, depending on the technology. Furthermore, although the organization's confidence was at rock bottom, there was hope that the future could only get better – especially in the board, tissue, energy and pulp businesses.

Following widespread participation in discussions about Valmet's future, the company settled on its mission, strategy, must wins and vision as its way forward to build up the organization's confidence in the future (see Figure 2). At the same time, the company announced a €100 million savings program to return it to more comfortable financial territory.



Figure 2: Valmet's mission, strategy, must wins and vision

Despite this savings program, the company still decided to invest in leadership development.

In early 2014, the Valmet HR organization initiated a review of what was required to support the strategy of the organization: What capabilities were lagging and required development? A steering group of members from the businesses, functions and areas identified four critical areas that needed to be part of the learning journey:

- A strong link to strategy and the must wins
- Ownership of each program by the respective business or function, not by Talent Management alone
- Use of a variety of learning methods
- Networking opportunities.

Most importantly, there had to be a significant learning and monetary impact.

CEO Pasi Laine gave his full support to the effort right from the very start.



Let's keep values and must wins present in our everyday life.

We've had a very good start as Valmet and have improved and grown in many areas. I know that behind our success is a lot of hard work driven by our engaged and development-oriented people. As we move forward, I'm pleased to unveil the first step in creating our global learning portfolio – which is rooted in our strategy, match our values and support our must wins.

We are committed to developing our talent and believe that investing in our people is an investment in our future. I am confident that our unique talent development portfolio will support our growth and help us drive strategy execution and the implementation of our must-wins.

Pasi Laine, CEO, Valmet





Valmet approached IMD to develop programs for its high potentials (Citius, Altius, Fortius – renamed Fast Forward) and senior management (Forward – renamed Forward Strategy). The learning challenges were as follows:

INDIVIDUAL LEVEL

The program journey had to ensure that senior management and the high potentials had the necessary underlying capabilities to address their must wins and other implementation challenges. The mandate was to learn by doing rather than by assimilation. Some critical individual capabilities were:

High potentials:

- Driving business success through operational excellence
- Driving change
- Driving innovation
- Strong self-awareness and team dynamics
- Focus on a Valmet business challenge.

Senior management:

- Understanding the changing world
- Leading innovation
- Examining strategic alternatives
- Measuring strategic risks and making best choices
- Leading strategic change
- Enabling and inspiring the learning and development of others in the organization.

INTERPERSONAL LEVEL

How could senior managers transfer their deep skills and tacit knowledge in a structured and repeatable manner? Furthermore, how could Valmet break the glass ceiling between senior managers and high potentials and fluidify the connections between these two levels? In Valmet's eyes, these questions came together as the to-be-defined "meeting point" between the two programs.

COHORT LEVEL

Given that the successful completion of a capital or service project (such as a mill rebuild) involved more than 30 different stakeholder groups, the ability to nurture and develop an organizational support system or network was a critical success factor. As such, the programs had to maximize the level of networking and communication across different boundaries – geographic, business and functional.

ORGANIZATIONAL LEVEL

Finally, Valmet HR wanted the organization to have a common language that reflected Valmet's must wins of customer excellence, process excellence, leader in technology and winning team. It equally insisted on a clear return on the investment.



Julia Macharey
Senior Vice
President Human
Resources, Valmet

THE COMMITMENT



IMD had a long-standing relationship with Valmet and Metso dating back to around 1993. It delivered a suite of top-team retreats, area management meetings, as well as senior executive and executive programs from 2005 up to 2012, just prior to the de-merger of the two companies.

One amusing consequence of this long-standing relationship was that the head of Talent Management for Valmet had, during this time, spent the equivalent of more than a year on campus in Lausanne, Switzerland and could be considered part of the IMD family. As such, the level of trust between the two organizations was significantly high, which was one of the reasons why Valmet threw the challenge of developing two programs – potentially simultaneously – IMD's way.

Originally, the company had considered going with two business schools for the two programs, but it was interested to see how IMD would tackle the coordination and integration challenges by taking on both. IMD took up the learning design challenge with gusto, committing to the following design criteria to make it work:

1. Developing two programs, one for the senior management and one for the high potentials, all of whom would follow multi-modular journeys **simultaneously**, with some sessions being run independently and others all together.
2. Using mentoring as the source of competitive advantage by personally connecting one senior executive participant with two high potentials.
3. Building the two programs around the participants' **business challenges** to connect their role and journey to Valmet's strategy and must wins.
4. Making sure each session was applicable to or helped resolve the participants' business challenges.
5. Ensuring the program had CEO and Executive Team (ET) support and sponsorship. The CEO kicked off every cohort, and at least three ET members came to the final presentations of the 45 business challenges.
6. Measuring impact along the four levels at different points in time.



“I have seen so many leadership programs where there has been no real impact. That is why I started looking for a new method and approach. High Potentials needed to have a window and a real connection to senior managers and the strategy to find new insights and energy. I started thinking of renewal, networking, experience sharing and shadowing from a totally new perspective when the idea of a meeting point and learning together came up! I remember the first process of drawing it – it just seemed so challenging! And yet, I knew that only IMD could make it happen.”

Hilikka Alatalo-Korpi

Former Head of Talent Management, Valmet

...to deliver the opening words)
t will you do with the rest of the afternoon?

THE L&D INITIATIVE

IMD

GET MORE FEEDBACK
MUST WIN FOR NESTLE
TARGET COSTS
ON TIME - ON BUDGET
BENCHMARKING
PILOT
CHANGE REQUIREMENTS
COMMUNICATIONS
NEED TO ACCEPT CHANGES
TRAINING
BENEFITS: PRODUCTION CUSTOMERS

THREE SERIOUS
TO HEAVY
MIND
CRISP
TEAM
NOT ONE

GULLO
THANK YOU
IMPORTANT FEEDBACK
ADVERTISE
PILOT COUNTRY →
SHARE EXPERIENCE
- DATA
NEED TO BE
WINNING



The programs were renamed Fast Forward for the high potentials and Forward Strategy for the senior management as a way to connect to Valmet's corporate motto: Forward. In each of the six cohorts, approximately 45 nominated Fast Forward and 22 Forward Strategy participants undertook the two-module six-month journey together. We started with separate online kick-off sessions to explain the development journey approximately six weeks prior to the program. Then, prior to Module 1, in addition to the readings and surveys, the Fast Forward participants each developed their specific business challenge, which had to be linked to at least one of the must wins. Across all cohorts, the approximately 250 challenges were broken down as in Figure 3.

During this same period, the Forward Strategy participants not only completed surveys and prepared the readings and their own strategy challenge but also learned about mentoring. Research shows that mentees who have regular conversations with a mentor typically improve their decision making, take into consideration a greater number of stakeholders in the change process, smooth their adjustment to a new role and improve their network. Furthermore, the Forward Strategy participants had the intrinsic satisfaction, as mentors, of helping their Fast Forward mentees by sharing with them their knowledge and experience;

they also gained insights into developments on the ground and new technologies. Some Forward Strategy participants had felt quite uncomfortable about taking on this mentorship role, not sure how

they might share their experiences with participants from another geographic area or function; however, the uncertainty and stress were greatly reduced through online coaching.

Summary by Must Wins (horizons inferred)
(Number of business challenge initiatives)

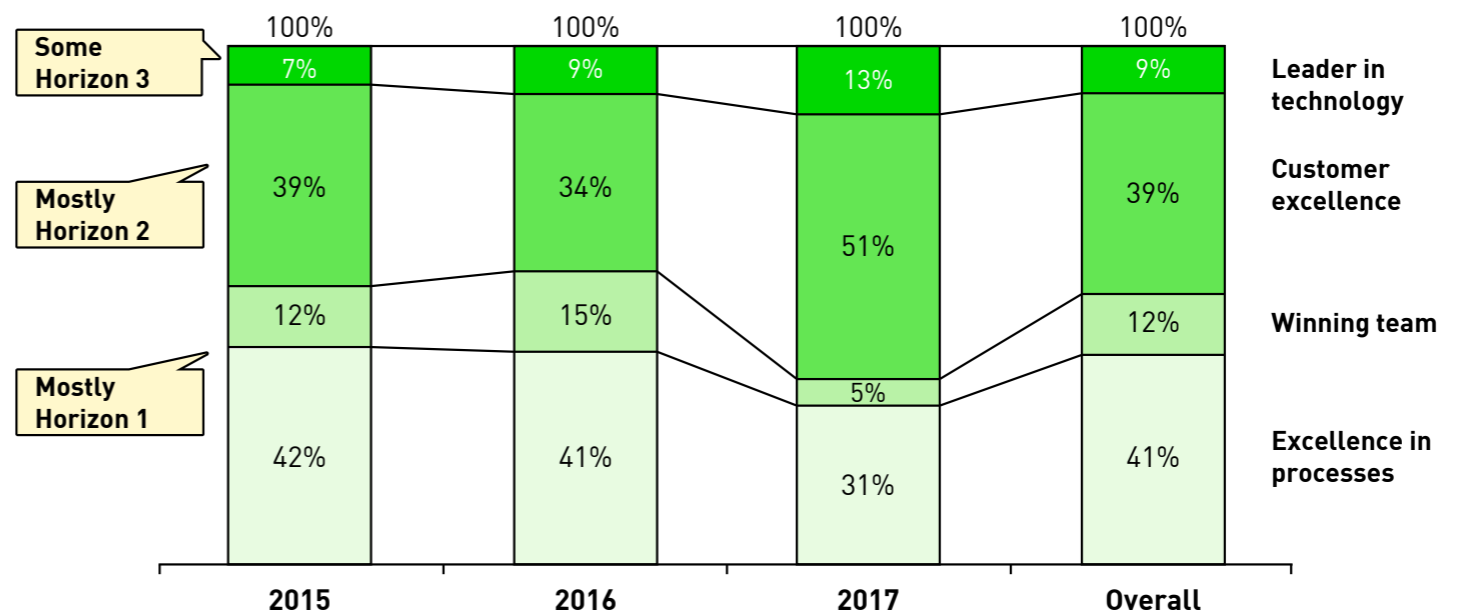


Figure 3: Summary of business challenges by must wins



The theme of the three- to four-day Module 1 focused on **designing strategy** for the senior management and **translating strategy** for the high potentials. We dedicated several sessions to bringing the two groups together to learn important tools such as structured problem solving or innovation deep dives and how to apply these to their business challenges. Furthermore, we developed the module to not only maximize the level of interactions among the participants but also deepen the relationship between mentor and mentee to build trust.

Between the modules, the participants had approximately three months during which they worked on their individual business challenges. They had specific milestones to achieve along the way and had pre-scheduled times to discuss various points with their mentor, such as potential improvements, who they could speak to within the organization, and how they could obtain approval and resources allocated to the project. Prior to these discussions, IMD provided coaching support to the mentors to suggest ways to improve their coaching strategies. Essentially, this meant that lessons learned were applied immediately. Finally, we expected the challenges to be approximately

90% complete prior to Module 2 so that during the module, the participants could focus on presentation delivery and initiative implementation.

The theme of the second module was on **leading change** for senior management and **executing change** for the high potentials. Once again, we dedicated several sessions to bringing the two groups together to learn and apply specific skills, such as communication tactics for making change happen. We brought in actors and actresses to help the senior management on their own executive presence. This was immediately shared with the high potentials, who were practicing their presentation delivery to members of the Executive Team. Clearly, an underlying message was to flatten the organization from the high potential to the senior management to the ET.

The participants departed with renewed confidence, energy and enthusiasm for the next steps and willingness to see their business challenges through to the end. We left it up to the mentor-mentees to decide whether they wanted to continue with their newly formed relationships.

THE IMPACT





Overall, about 400 Valmet leaders (about 3.5% of the total employee base) participated in the program, where the lessons could potentially cascade to another 20% of the organization. So, what was the impact? Many organizations use the Kirkpatrick–Phillips five-level evaluation model, which focuses on (i) reactions, (ii) learning, (iii) application, (iv) results and impact, and (v) return on human capital investment.

However, we found that these levels were focused on either the individual or the organization, not on the interpersonal or cohort levels of analysis. We thus decided to measure impact:

- on the **individual level** through capability development,
- on the **interpersonal level** through mentoring,
- on the **cohort level** through networking,
- on the **organizational level** through return on investment.

INDIVIDUAL LEVEL

Over the six cohorts, the average overall rating of the programs was 4.61 (on a scale of 1 to 5). This rating was not the highest in the school. Participants clearly found some parts of the program more challenging and “painful,” but that was considered part of the process.

As normal practice, IMD also surveys participants six months after a program to assess their willingness to recommend the program to others (NPS score), their ability to use the knowledge from the program, and whether they believed they had become better leaders. The NPS score after the program was a respectable 68% – higher than the average NPS score of all custom programs delivered at IMD. The average score regarding the ability to use the knowledge and their views on whether they had become better leaders was approximately 8/10.

Finally, in terms of leadership succession, 40% of the participants in the Fast Forward program had moved into positions of higher responsibility.

“Sometimes the ideas popping up were very ‘painful’ since they forced us to reflect on our own personality but also the culture in our organization. I feel that I learned a lot. I feel more empowered, have even more courage, and have a clearer target for my future goals. I feel grateful that I had the chance to join this program and meet all these people.”

Fast Forward participant

“For me it was kind of an eye opener. We leaders make the difference. I know that of course, but somehow this intensive program gave me the courage to implement and challenge things that I would probably not have done without this program.”

Fast Forward participant



INTERPERSONAL LEVEL

Approximately 62% of the senior manager participants maintained a bond with their mentees after the program – a great sign that the effects of the program were filtering through the organization. Valmet Talent Management developed its own mentoring program as a result, and many of the Forward Strategy alumni signed up.

“With my business challenge preparation work, I found that it was not possible to deal with every aspect; I had to choose the most important one that really affects the business. Looking back, it was quite simple, but the process of refining the topic was long and tough. During this process, there was enormous help and feedback from mentors and colleagues.”

Fast Forward participant

“Really good experience and an honor to help my two mentees develop. This is an excellent approach, and it embodies so many positives that I feel we, as a company, need to continuously nurture and develop. I am very positive about Valmet’s future/outlook when being part of such a course and seeing the great talent we have (seniors and juniors).”

Forward Strategy participant

“The IMD program was exceptional. The hands-on approach and learning was new to me and I work to give others that kind of response.”

Forward Strategy participant

“Overall the program was really valuable. The topics were relevant and topical and the idea of mentor–mentee was genius.”

Forward Strategy participant

“I have become more aware of my employees’ fears of presenting and worked with them more closely on the matter. My desire is for them to have a better experience as a leader.”

Forward Strategy participant

“The business/strategy challenge is essential in connecting pieces together. Mentor division/selection for each project is important, so that there is a natural link/interest to the topic. Thank you for a good learning experience!”

Forward Strategy participant

COHORT LEVEL

We measured the cohesiveness of the network before and after the program. Network cohesion measures the degree to which participants would go to each other for knowledge and advice. The average network cohesion score before the program had started was approximately 16%.

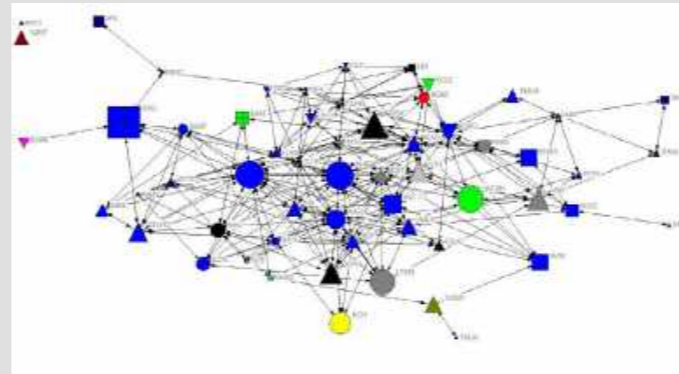
During the program, we ensured that the participants across both groups had opportunities to meet, discuss and interact with a variety of neighbors in the classroom, different team members in the breakout assignments, and various lunch and dinner partners to their left and right.

After the program, we wanted them to be able to reach out to others from the program if they had an issue on a relevant topic. They could contact their legal colleagues if they had a contract issue; they could connect with their finance friends if they had a capital budgeting or forecasting issue; they could obtain help from their HR buddies if they had a performance evaluation issue. Indeed, the network cohesion score by the end of the program was over three times higher than the original score.

Over half of the possible connections could now be made as a result of the program. Indeed, many of the comments showed that the participants could not believe what a deep set of connections and friendships – where they could truly count on each other – could be developed in such a short time.

Do you have good knowledge?

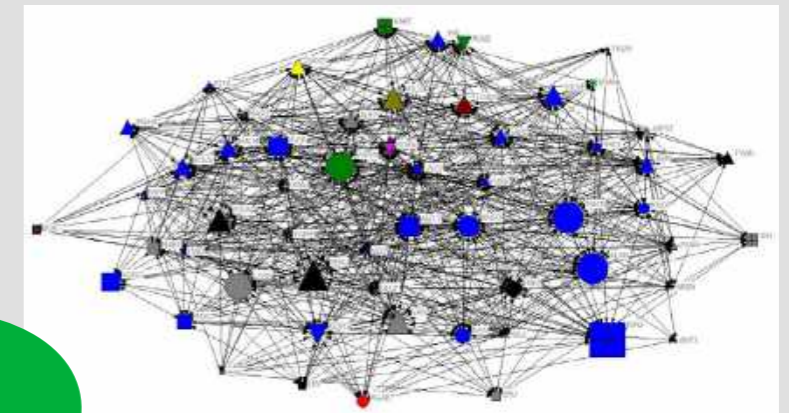
BEFORE



Cohesion average over cohorts:

Any knowledge: 28%
Good knowledge: 16%

AFTER



Cohesion average over cohorts:

Any knowledge: 80%
Good knowledge: 51%

**NETWORK
IMPROVED
BY 3X**



ORGANIZATIONAL LEVEL

It is common knowledge that return on investment is difficult to measure because much of the financial impact is still to be realized. We thus decided to focus on a range that went from a conservative measure of benefits (which was sent to the Dow Jones Sustainability Index) to a more aggressive measure, with, of course, a few in between. Our calculation for each of the measures was as follows:

$$\frac{\text{Sum of Individual Benefits (conservative up to more aggressive)}}{\text{Investment in the Program (cost of the program, accommodation and opportunity cost of participants)}} \times \text{Perceived \% Contribution of the Program}$$

Investment in the Program
(cost of the program, accommodation and opportunity cost of participants)

The most conservative measure only considered those projects that resulted in immediate impact (already booked) and that would not have taken place in the absence of the program. Approximately 52% of the business challenges would not have been initiated without the program. The payback ratio (based on a 44% response rate) of those projects alone was approximately 5.2 times.

The most aggressive measure took the net present value of the projects including the residual value six years out. This approach produced a payback of approximately 167 times. While this amount seems huge, some of the projects – whether revenue generating or cost saving – had significant potential, an early indication that they were heading in the right direction. Even with the more moderate measure, not including the residual value six years out, the payback ratio was approximately 47 times.

In addition, 62% of the participants mentioned that follow-on projects and ideas had come out of the business challenge, which indicated that the investment in the program created additional optionality that would not have existed without the program.



Hanna Heikkila
Vice President
Talent Management,
Valmet

LESSONS





Going back to the original question of how to make the most out of the leadership development program in turning Valmet into a confident, forward-looking technology front-runner, there are several lessons we can take away:

1. If the strategy and must wins have already been set, then any leadership development program needs to be intimately connected with the capabilities that the organization needs to nurture and build to achieve those objectives.
2. Running programs for senior managers and high potentials simultaneously allows for the development of strong mentoring support and tight networking relationships, which can last for many years after the journey. It also helps flatten the organization by bringing these two levels as close as possible in a non-judgmental, non-evaluative environment.
3. By coming to the program with individual business challenges, the participants can immediately connect their role to the company's strategy and must wins and drive strategy execution. Furthermore, the results of these individual business challenges can be aggregated to assess the overall financial impact.
4. The Executive Team must be intimately involved in the journey to show their support and to create high-level motivation and buy-in for the whole journey.
5. Impact can be measured and seen along several levels of analysis, including individual, interpersonal, cohort and organizational.

THE IMD TEAM



**James Henderson**

Professor of Strategic Management,
Original Designer of Both Programs
and
Director of Valmet Forward
Strategy Program

**Charles Dhanaraj**

Professor of Strategy
and
Global Leadership Program Director
of Valmet Fast Forward

**Duncan Coombe**

Professor of Leadership
and Organization Development

**Polina Bochukova**

Learning Manager

The Valmet programs' intricate design, flawless delivery (at least after the third running) and significant impact did not just happen by chance. They were the result of an immense IMD effort -choreographed by a core team of four and coordinated by an extended team of at least ten others.

Thank you to all!

