

# A new management level in the pulp and paper sector

Authors\*: Marcos Avó  
Ricardo Altmann

*Transformations at companies are common events in the business world, usually as a response to competitive challenges presenting themselves in the context where they are acting. Almost according to a Darwinian logic, the strongest and more adaptable ones survive in competitive, challenging, and mutable environments. In a sector where recently great transformations occurred and others are in process, as the pulp and paper one, the competitive adaptation is striven after by different ways. Among them, one deserving to be highlighted is the improvement of the management practices and culture, aimed at more precise and more powerful decision-making, capable of dealing with the complexity of the sector and its moment. It can be said that among the pulp and paper companies this movement is both a trend and a necessity, having in view the achievement of success on the competitive scenario.*

*The roll of factors and variables featuring the changes in the sector is extensive. The pressures put by the environment and sustainability, the competition at global level, mergers, acquisitions and partnerships between companies, the expectations with regard to paper consumption worldwide, the behaviour of European and Asian markets, Chinese consumption and*

*production, and in the national sphere, the resumption of investments in pulp, the greater regional dispersion of the great players’ plants, and the orientation that the Brazilian companies will give to the paper in the next years are examples of elements that cannot be ignored in the decision-making logic of a large part of the company managers of the sector.*

*In practice, the context for the decision-maker is complex and uncertain, containing more variables, novelties, and fluctuations at stake than usually. To perceive them and to face them, managers need suitable instruments to help them do what is essential in their functions: to reach quality decisions. And by an almost automatic action (or reaction), of competitive purposes, these managers try effectively to develop solutions to their challenges.*

*In this context it can be said that the Brazilian pulp and paper sector is anyhow in the process of raising the management quality level, or else, of “professionalizing” the management of its companies. The professionalized management is that based on a sustainable and shareable logic, clear criteria and data, robust concepts and techniques, definition of roles and decision-making competence (including management), besides consistent internal processes.*

*Such a practice is sometimes understood in a simplified way as the mere engagement of human resources specialized in fulfilling the management functions, or else, for the family-managed companies, as the replacement of family members in the management by external executives. This way of understanding is mistaken! The admission of specialized human resources is a very common means for professionalization, but it does not represent its essence and by far does not synthesize it. On the other hand, it should be stressed that to carry out with quality what the professionalized management demands, good human resources are definitely fundamental pieces – and nothing prevents them from being members of the family controlling the business.*

*Raising the management level of the companies is a phenomenon occurring in different sectors of the economy in certain stages of its history. In Brazil, a recent (or even current) example is the sugar-alcohol sector, which undergoes a process of professionalization directly connected with important changes in its competitive logic, especially as a function of the actual growth and the expectation of the multiplication of the demand for ethanol, associated with new investments in the sector. This phenomenon draws parallels for reflection on what oc-*

**\*Authors’ references:**

Lunica Consultoria - Emails: m arcos@lunica.com.br - ricardo@lunica.com.br

curs and may occur in the pulp and paper sector.

Since 2003, as the first flex fuel vehicle was launched in the country, and as discussions about the use of ethanol in different parts of the world, especially in the form of a mixture with gasoline, began to heat up, the understanding that the segment of alcohol fuel was attractive increased. The expectation that the market would experience a significant growth in the following years gave rise to investments in the expansion of the productive capacity, attracted new players, caused the ghost of the big players of the global energy and agribusiness entering the sector to grow, heated up the search for solutions that would achieve large-scale generation (something fundamental when working with commodities), besides speeding up speculations about mergers and acquisitions... In the same way as with regard to pulp, Brazil has actual competitive advantages in terms of ethanol, as compared to most remaining regions in the world – the sugar cane productivity in our land is significantly higher than that of any other raw material and region for alcohol production, besides the fact that the country is a cellar of technological know-how as a function of the developments made since the '70s. In consequence of all of these elements, such as in the pulp and paper sector, there were significant changes in the competitive logic of the alcohol fuel sector.

Among the consequences generated by this whole turbulence is the pressure put on management professionalization in the entrepreneurial sphere. In this process, many companies of the ethanol sector tried to revise their efficiency of management and to implement new management practices and tools: decision-making

processes with well-defined participants and competences, investment decisions (new plants, expansions...) based on specialized analyses aimed at reducing the risk of the decision, internal transparency with regard to data and criteria used in management, career plans, corporate management solutions... Examples of companies having carried out this type of internal intervention are: Usina Nova América, São Martinho, and Cosan. In addition to this movement, there are factors stimulating professionalization of the sector, such as the fact that Petrobras is announcing massive investments in plants, or verticalization actions, as the purchase of distribution network Esso by Cosan.

Another relevant point to be stressed, which comes as a sort of lesson from the ethanol sector, is that the motivations for professionalization were not restricted, in that case, to the effective improvement to the management, having also had a symbolic character. Many companies of the sector – several of familial origin – tried to equalize their management models to the new competitive language presenting itself.

Professionalization is a common language between high-performance companies, regardless of their size. In a context where mergers and acquisitions may occur with relative intensity (as the pulp and paper and sugar-alcohol sectors), it is important for the established players to be duly prepared. When a large group looks for a smaller one for acquisition, one of its relevant steps in its purchasing analyses is to check on institutionalized professionalized practices. The less "professionalized" its management, the lower the value of the company. In this context, mistakes at the companies are less tolerated – there is

no room any longer for crying inefficiencies and mistakes. Pressure is put on managers to modify their mindsets and the challenge is to do so without losing competences and valuable resources which the companies already reckoned on in their management.

In practical terms, it is possible to predict which are (or should be) some of the focuses of concern of the pulp and paper company managers, from now on to a greater extent, towards making their management a more professionalized one:

**Strategic analysis-based decision-making:** for instance, significant investments and deinvestments should not be made based on intuition and partial analyses. Considering that there is no room for mistakes in investment decisions, the managers should be lucid enough to know that it is worthwhile to spend time and resources with specialized evaluations of the businesses they are thinking about, or the business models they should implement. Moreover, the increasing relationship with other stakeholders (financiers, partners, new potential partners, suppliers, ...) may demand the demonstration and formalization of the logic adopted for decision-making;

**Decision hierarchy solutions:** in the final analysis, it is the definition of responsibilities, roles, and scope along the whole company structure. In the process of professionalization, the definition of decision competencies among all collaborators is fundamental to avoid function overlap, as well as room for meddling between superiors and subordinates. In addition, this is important for a meritocracy culture to be introduced;

**Training and team capacitating actions:** the preparation of the human resources of the company in the different areas is a fundamen-

tal basis for a sustainable professionalization. The decision-making quality is a theme gaining prominence and offers instruments for the managers to implement much of what they are expected to do in processes of professionalization;

**Introduction of competitive and market intelligence areas:** in addition to spot decisions, such type of structure within the company is capable of functioning as an antenna of the external world, filtering information relevant for the company competitiveness, so as to make the performance of the company more competitive;

**Valuation of the company and definition of strategic objectives of the partners:** as a function of the context of mergers and acquisitions, it is reasonable to think that some companies of the sector will be the stage for rounds of negotiation with different parties concerned (larger companies, private equity funds, IPOs...). The professional treatment of the negotiation increases very much the probability of doing a good business and contingently even the value of the company. To have previously carried out a good study of valuation of the company and a discussion about the strategic objectives of the partners is a fundamental aspect in this process.

**Implementation of corporate management solutions:** letting the logic of corporate management grow to maturity may be fundamental for the company to become more efficient and to succeed in making decisions with the quality and at the velocity expected in the new competitive scenario. Furthermore, having implemented a good corporate management solution may value the company in contingent situations of negotiation with potential purchasers;

**New management systems and processes:** management systems

and business processes are focuses that should receive attention of the managers, as they are conditioners (to the good or the evil) of a large part of the management. Solutions should be customized to the company, but they must be also flexible, sober, and intelligent;

**Establishment of HR policies:** meritocracy and more sophisticated HR management tools (as the management by competences) constitute the basis of professionalization and the HR policies should reflect this;

**Growing concern about innovation and technology:** between the managerial advances, innovation and technological improvement (be it in the products or in processes) are more and more expected to be valued. Concern over competitive advantages in the medium and long runs should influence this process;

**To enlarge the vision of future:** reflections at strategic level and on the future of the business, with more robust strategic planning and trying to explore alternative ways, even as a form of risk mitigation, should be a constituent part of the reality, even of smaller companies of the sector.

As a matter of fact, the effective change in the pattern of management of the companies of a sector involves revising the dominating mindset, attitude, and culture in the sphere of the companies. It is a more gradual and complex process than the simple introduction of a new system, of a revision of management processes, or even of a decision-making logic. All of them are useful appliances, which, accumulated and matured in the course of time, form an arsenal of elements of a new body and a new way of conducting the business. Time is fundamental in this process; it is a variable that cannot be neglected by the companies striving for a quality leap in the pattern of their management.

The panorama of the sector shows a diversified set of companies concerning the “level of professionalization” already adopted and the requirements in this direction. Regardless of their size, there are companies more professionalized than others, indicating distinct degrees of lack of “professional” development. Some national companies are already international references for the sector in some managerial areas, but even the largest companies will require new advances, for the context of globalization and changes at international level will demand them.

It is possible to say that the general trend is towards professionalization, which in practice represents a rise in the quality of decision-making and management as a whole of the companies of the sector, as well as a need for more investments and perseverance of the companies in this direction. A context of economic crisis as the present one may be even propitious for reflection on the business model and the improvement to the management instruments. The pressure for changes becomes more manifest and there is room for business optimization. It is a fact that in situations of great intensity of changes not everyone responds at the same velocity and with the same intensity, but it is probable that the slowest ones are destined to be defeated by the competitive challenges of the environment, peopled by other players more capable of developing, in the course of time, resources and differentials qualifying them to survive and to succeed. The investment in actions raising company professionalization may be essential for the victory of the fittest, so that superior results are achieved and competitive differentials are guaranteed and consolidated.