

BHP tries again

New BHP chief executive Mike Henry aims to do what none of his predecessors have achieved.

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Henry is the eighth chief executive in 23 years at the world's biggest miner. Despite a lot of talk about how they would make a difference, none has bequeathed an acceptable operating model to his successor.

In his first formal outing to address the company's earnings, Henry replaced the big picture material that had typified many of his predecessors' presentations with a stronger operational emphasis. The stylistic change comes with an implied criticism of the performance of Andrew Mackenzie, the recently retired head of the company.

BHP's business backdrop, characterised by Henry as displaying slowing rates of growth and commodity demand, means having to redouble efforts to get as much as possible out of the existing asset base.

"A greater proportion of value growth is going to come from an unrelenting focus on being great at what we do", according to the new boss.

At one level, BHP has become a much simpler business to understand. Gone are the deliberately complex charts favoured by Marius Kloppers that emphasised an intricate spread of commodity exposures supposedly designed to best manage risk. Equating stability and strength with diversity, as Kloppers did, is no longer thought sensible. Nor is Kloppers' "deep diversified inventory of growth options" deemed the source of success.

The trimmed back BHP is now focussed on iron ore, copper, metallurgical coal and oil and gas. Even that exaggerates the commodity complexity since iron ore accounted for 70% of the company's profit in the second half of 2019.

It is easy to conclude that a preoccupation with what Henry describes as "pulling the big levers" fostered operational sloppiness. Henry himself more or less confirmed the operational neglect. He contrasted his role with that of Mackenzie who he described as having restructured the portfolio to establish "some strong foundations".

Henry said he needed "a different focus than the focus you have when you are putting the foundations in place in the first place". He went on to describe his focus as "very much around how we get everybody

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aligned through the organisation and pulling in the same direction focused on frontline operational outcomes".

When asked to cite examples of how he intended to improve operational performance, Henry referred repeatedly to the way supervisors managed their responsibilities. Supervisors had to be up-skilled. Their numbers had to increase. And their jobs had to be more site focussed. There had been too many contractors at

BHP sites, according to the new CEO. On his reckoning, only 30-40% of the workforce were permanent employees, making it hard to build a unifying culture.

Henry did not give any indication of the size of the value impact of his management style changes. No doubt, if operational improvements are to be the principal source of value enhancement in the future, pressure will mount to publicly set targets and report against their achievement each quarter. It is hard to see him escaping that demand much beyond an initial honeymoon with investors.

Under Mackenzie, BHP had sought to carve out a leadership position on action against climate change, but Henry's comments about decarbonisation gave out mixed messages.

Henry's restated commitment to the company's social policies was not driving decisions to stay in or leave carbon intensive businesses. Henry characterised thermal coal as a low priority and "if there is an opportunity for us to exit at value, we would entertain that", he said. But thermal coal accounted for an insignificant share of 2019 revenue.

BHP's attitude to metallurgical coal contrasts with his willingness to quit the thermal coal business. Metallurgical coal is different because the cost curve is steeper, there are no immediate substitutes, it is a more material part of the business and has better supply-side fundamentals.

Similarly, Henry wants to stick with oil and gas for the practical reason that "it is an attractive business that fits with the portfolio".

Henry was asked whether his approach to decarbonisation could be seen as cynical. He more or less conceded limits to how far social policies should drive a business. He was hopeful that investors would tolerate his involvement in the carbon economy as a trade-off for "our strong view on climate change and taking the actions that we take round our operational emissions footprint".

Henry acknowledged that BHP needed "to create more options in future-facing commodities". He identified the sources of these options as being "both within our existing footprint, as well as through securing more resources through exploration and early-stage entry".

Size is BHP's great strength as well as its perennial burden. Being big confers security and guarantees investor access, while making meaningful growth hard to achieve. Henry was asked whether he would prioritise "moving the needle" or focussing on high-returning assets without regard to size. He came down firmly on size as the primary choice.

But even that decision, however clear-cut it might sound, leaves the company in a strategic no-mans' land: he cannot simply order his people to build a new Escondida in the way Jeff Bezos might opt for another giant logistics centre.

Without acquisitions, BHP would have negligible interests today in iron ore, copper, coal or oil and gas. Despite its historical reliance on acquisitions, Henry downplayed their future role in his strategic thinking

referring to "having felt the pain of big acquisitions timed at the wrong point in the cycle".

"We definitely do not want to be there again," he said, adding: "There is going to be a much bigger focus on early-stage entry and exploration".

Henry is evidently aware that the strategic decision making at the big Australian has rarely been impressive.

One test of Henry's leadership will be whether he can avoid the historical pitfalls and hand his successor a well performed company neither in urgent need of restructuring nor requiring operational rejuvenation. That would make him unique among the leaders of the past three decades.

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