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Planning for failure

Deliberate analysis, planning and focused execution have had their day, according to the strategy think tank within Boston Consulting Group (BCG).

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Earlier this year, senior thinkers at BCG laid out new guideposts to success for the modern company (The new Logic of Competition, March 22). They identified "five new imperatives of competition that will come to the forefront" in the 2020s.

Efficiency and quality, however desirable, are no longer sufficient sources of business advantage. The executives most likely to win in the next decade will understand that the nature of competition has changed "from a predictable game with stable offerings and competitors, to a complex, dynamic game that is played across many dimensions", according to BCG.

Of course, BCG has an incentive to continually reinvent the attributes needed for business success or, at least, redesign their packaging. Without the sources of business success appearing to change, at least occasionally, the corporations most able to pay hefty consulting fees would never seek outside counsel.

The BCG emphasis on learning organisations capable of "shaping malleable situations, adapting to uncertain ones and surviving harsh ones" is hardly new.

Within my own experience, over 20 years ago, Foster's Brewing Group, then a top-10 Australia industrial company, characterised itself as a learning organisation - BCG's new idea - as a way of refocussing its culture on what was needed for commercial success and strategic reorientation. Learning how to learn was the theme.

Within the mining environment, BCG's supposedly innovative focus on business ecosystems echoes the philosophy behind moves by MIM Holdings, Metallgesellschaft and Teck in the 1980s to collaborate to maximise the benefits

from their disparate skills.

Whether or not the revised BCG template is new or simply relabelled, today's mining industry embraces a form of strategic planning the BCG gurus now consider past its prime.

The mining industry has considerable scope for operational adaptability but much less leeway at a strategic level. Old habits are hard to shake. Whether it is BHP planning on steel demand rising for another decade or an exploration minnow betting the house on lithium, the preponderant tendency is for companies, urged on by investors, to hold definitive views about the future.

> **The unplanned proximity of alternatives allowed these companies to appear strategically smarter than they actually were**

Circumstances also play a role. Talk of nimbleness and adaptability could easily fall on deaf ears in an industry confronting long lags between mineral discovery and production, financial outcomes dominated by macroeconomic cycles and large, sometimes multi-generational, capital commitments.

No-one could reasonably disagree with the BCG prescription that "mining companies need to develop value creation strategies that will deliver attractive returns throughout the cycle, independent of commodity prices". As strategic advice goes, however, this may be no more realistic than expecting Nancy Pelosi to proclaim, upon reflection, that Donald Trump is the best president the US has ever had, after all.

Glimpses of strategic flexibility, from time to time, are often no more than happenstance.

My September 19 'From the Capital' column drew attention to the good fortune experienced by Indonesian lateritic nickel miner Nickel Mines when Tsingshan Holdings, the world's largest stainless steel producer, moved in next door. Unplanned, independent decisions gave the Australia company the chance to vault into the echelons of large metal producers.

A few weeks earlier, I had discussed how BHP has been able to embrace the role of nickel as a battery metal only because it had failed to hive off its nickel business unit when BHP leaders decided it did not fit the profile of future winners.

Among recent Australian corporate successes, including Pilbara Minerals and Kidman Resources, good fortune has played an outsized role.

Pilbara Minerals is now carving out a prominent position in the global lithium supply chain. No-one asks what happened to the "major copper/gold project in PNG" acquired by the company in 2012 to position it, in the words of the directors at the time, as a leading minerals explorer and developer focused on discovering world-class gold deposits. Nor is there any enquiry about its earlier Indonesian iron sands endeavours.

Also now forgotten is the attempt to develop the Tabba Tabba tantalum deposit in the Pilbara. That commercial disaster was abandoned after repeated delays and a falling out between the project partners.

Only then did the Pilgangoora spodumene deposit loom as a larger option. Lithium found Pilbara Minerals rather than the other way round.

Kidman Resources directors entered 2016 saying they were transforming the company into a mid-tier gold producer, having recently acquired two properties in Western Australia. In reviewing the acquired data, Kidman geologists became aware of spodumene bearing pegmatites on the properties.

Kidman chief executive Martin Donohue was initially adamant that the company would retain its primary focus on gold and look to find a separate way to extract value from any lithium resource. Kidman directors obstreperously threatened this writer with legal action when, in a Mining Journal column, I questioned whether the company would be able to resist abandoning its gold plans in favour of the battery metal.

Fast forward three years and, having eschewed thoughts of gold, Kidman directors had fully positioned the company in the lithium space when they received a A$776 million (US$525 million) takeover bid.

Investors now want more Kidmans. Companies are wondering how they can replicate the genius of Pilbara Minerals.

No matter the size of the companies, some of the best corporate makeovers of recent years could be construed as little more than dumb luck.

That said, these examples do contain common features and lessons about the sources of success. Eventual success, in each case, was built on prior failures or misjudgements about the future and, then, having alternatives.

Call it adaptability, strategic learning, serendipity, good fortune or plain dumb luck, the unplanned proximity of alternatives allowed these companies to appear strategically smarter than they actually were.

'Planning for failure', the awkward strategic lesson conveyed by these examples, will prove a hard to explain game plan for investors still keen to hear definitive views of the future.

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