

## **DO SMALLER COMPANIES DO IT BETTER?**

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By Ron Manners, Executive Chairman  
Croesus Mining NL  
Director, Mannkal Economic Education Foundation  
e-mail [mannwest@ibm.net](mailto:mannwest@ibm.net)  
<http://www.mannkal.org>

### **Introduction**

Peter Reynolds asked me last week to speak on "Why Do Smaller Companies Do It Better".

He didn't mention what we are supposed to do better, so that gives me an opportunity of being non-specific.

We can spend a few moments discussing this topic anyway, before we move on to some general comments on community, politics, and leadership.

Then more importantly to me, I would like to get your input on your own personal concerns regarding our industry (I don't mean about your company, I mean **our** mining industry).

### **Why Do I Want To Know?**

I'm curious to know if I'm the only person concerned about the standard of leadership in our industry, our perceived apathy and the poor image projected.

I've just started an Economic Education Foundation and it will be focussing on such issues with its own Web Page where your personal input will be welcome.

Your feedback tonight should be first-class as you are gathered together for this top level corporate conference deciding on where your Group should be heading in the future and the most effective means of getting there, and sharing this commitment to make the necessary changes.

This means that you should all be at your intellectual peak, if not, then please have another glass of red wine.

As far as the set topic goes, I would like to re-phrase it as a question "Do Smaller Companies Do It Better?".

I'm sure of two things. There are some areas where smaller companies do it better and the second thing is that smaller companies are certainly more fun because of the "hands-on" feeling of having no-one else to credit or blame but yourselves.

I find it intriguing to be talking to the Normandy Group about the merits of smallness.

Although Croesus Mining and the Normandy Group both got started about the same time around 12 years ago, you have emerged as one of Australia's largest

gold producers and Croesus has emerged as one of the smallest, but nevertheless profitable.

We listed in 1986 raising \$2M, nine months later we were eating into our exploration funds with no sign of cashflow so we made the \$20.3M acquisition from CRA of their Forrest Gold interests in the Kalgoorlie region. Perhaps smaller companies use more innovative financing. I recall that CRA wouldn't initially talk to us in the tender process because we had no credit rating and their insistence was that we fronted up with a letter of credit from our bankers.

Westpac were understandably unwilling to give us a letter of credit for \$20M but I asked how much they would charge if we only wanted to borrow a letter of credit for the morning. Their answer was \$25,000 but I had to promise to have it back to them by noon.

That enabled Croesus to be included on CRA's tender list but it was a bit embarrassing when CRA asked to keep the letter of credit. They eventually settled for keeping a photocopy and I managed to get the original back to Westpac at two minutes to noon.

That transaction gave us our first short-life mine, together with a CIP plant and some excellent staff who are still with us today. We've been most fortunate with our key people with four of our seven executive staff averaging ten years service with Croesus.

Since then we have produced from ten open pit mines and one underground mine, paid five dividends to shareholders and after being beaten around the head by Native Title issues we are again moving back into a strong period of profitability where we can look at expanding production through exploration and acquisition.

I've always been a small company person and say that without any sense of apology. I've had many dealings with the large companies and often wonder why the faces keep changing.

Perhaps when smaller companies are in a strong growth mode there seems to be more pressure to grow your own people with the company because you are without that pool of people who are already skilled to take the task to the next level.

Many of us are no doubt more suited to larger companies but I could use the analogy of it being somewhat like a large symphony orchestra with their various well-disciplined sections all carefully orchestrated and well-rehearsed, whereas the smaller company is somewhat akin to a small jazz band where diverse components need to be brought together for indeterminate periods. Each soloist and backing instrumentalist find that their roles and relationships are changing all the time. We never quite arrive at a fixed and final shape but are forever channeling the work in a way that best suits the occasion.

Improvisation and innovation are the foremost keys to successful small companies.

Running a small company is an instinctive experience and I've only been forced to think deeply about this on two occasions.

The first was in 1991 when I was invited to Moscow along with 40 economists, for the Washington-based Cato Institute's "Transition to Freedom Conference" with the aim of explaining capital formation, stewardship of privately invested funds and the rule of law within a system of voluntary exchange, something that most of us here have grown up with, but something that Russia had not seen since 1917.

I note that there are still some economic problems in the former Soviet Union so perhaps our visiting group was not entirely successful.

The other occasion was in 1995 when the Australian Institute of Mining and Metallurgy (AusIMM) asked me to present Croesus Mining at their World Best Practice in Mining Conference in Sydney. Another daunting experience, standing up there with BHP, Anglo, Gencor, and Normandy.

The brief for that 60 minute talk was "How Does Your Company Run and How Do You Communicate From Top to Bottom?". That paper detailed how we stole so many good ideas from other successful companies. AusIMM have published the paper three times and I've got plenty of copies for anyone interested so I won't dwell on that other than to say that it was a useful exercise as it caused me to stop and think about just what business Croesus was in.

We are not in the exploration and mining business, that simply describes what we do. We are in the business of turning ideas into gold bars, profitably.

### **Differences Between Small and Large Companies**

There is anecdotal evidence that only small companies make discoveries, although your Group's recent discovery in Greece puts you ahead of the field in this respect.

I think that the 1992 Mackenzie and Doggett paper "Economics of Mineral Exploration in Australia" showed that small companies make about 40% of the discoveries from only about 14% of total exploration expenditure (confirm figures). I've seen other more recent figures pretty much in line with these percentages.

This philosophy drove CRA to create a small gold company, Forrest Gold P/L and head it with a strong CEO in Rod Sheppard. Forrest Gold was extremely successful in every aspect of its operations and was only sold off as a result of CRA re-assessing its corporate objectives.

One difference between small and large companies, that is stacked against the small end is the effect of external influences on the corporate share price. One example is the serious problem of the hold-up in your cyanide usage approvals in Turkey at your Ovacik project. That only affected your Normandy share price by about 2¢ (approx 1%) because it was just one of your many projects.

On the other hand, when one Aboriginal family had an internal argument which prevented them from completing Native Title negotiations with Croesus Mining, it knocked 25¢ (50%) off our share price.

One interesting aspect of the Australian gold mining scene is that it resembles a game of musical chairs at the moment with small companies getting bigger and many of the larger companies getting smaller.

No doubt companies of all sizes can benefit from adopting the leaner, flatter management styles of the smaller companies and Business Review Weekly earlier this month ran an interesting article showing how the performance of listed family companies has outstripped all the larger strategy-bound listed public companies.

BRW commented "there were plenty of reasons why these companies did well. For a start, it's their money and basically they have a habit of living and breathing their business. Whatever the case, as an investment strategy, they appear to have gone to number one in the latest rankings".

Another difference between small and large companies is that they often adopt different lines on different issues.

Native Title or Wik being one example. It's easier for the larger company to divert their exploration efforts overseas if obstacles are confronted at home. They can thus afford to take a softer line.

They also seem more inclined to leave any controversial issues with their industry organisation, which sometimes gives the impression that there is nobody home.

Another difference is that in larger companies there is a tendency to become compartmentalized and be confined to your "woodwind, string, or brass sections" of the symphony orchestra, whereas in the small company almost everyone is actively involved in the various issues of the day i.e. diesel fuel rebate, State gold tax, Native Title etc. They are involved because they are closer to the outcomes.

We know that in our business at Croesus there is constant focus on that sense of urgency. That sense of desperation that brings out initiative. Nothing focuses your attention like only having three week's ore for the mill.

Fortunately we both need each other. Small companies need big companies and vice versa. The smaller companies will continue to make discoveries that to them are unmanageable and the larger companies will continue to make discoveries that are uneconomic in their hands.

One of the most satisfying aspects of my last 30 years has been the enjoyment and continuing satisfaction of joint venture negotiations. This is the ultimate paradise for negotiators where all parties achieve their objectives and are able to move on to do what they do best.

I would be happy to discuss any of our current first-class joint venture opportunities in Western Australia or New South Wales, with any of you here tonight.

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Now, having done the small company versus the big company bit to death, let's move on.

Just before seeking your input, let's talk about some general issues of leadership or the lack of it within in our industry.

My concern is that as leaders we are not inspiring the new generation of young people coming up through the ranks. They see us, up to our armpits in alligators,

losing most of the issues and in many cases exhibiting an apologetic cringe in our dealings with the media.

Are we apologetic or do we simply feel powerless to influence any outcomes?

Where are our leaders? Where are our heroes?

In a broader community sense, is this related to the all pervasive level of cynicism in our community. The persistent long-term decline in people's confidence in government at all levels?

Australia is at an awkward stage in the decline of respect for our political "masters". It is too late to work within the system, but too early to shoot the bastards.

I'm convinced that professional politicians with their focus on being re-elected, rather than governing, has set us on a dangerous path.

Term Limitations for politicians and the Citizens Initiated Referendum are policies that should be supported at State and Federal Constitutional Forums. Without these two checks and balances, I'm not optimistic at all for our political future.

Our political system is rotting so fast that the dazzling billions of dollars going down the tube don't even register on our "amazement scale" anymore.

There is no public outcry, and this is misinterpreted as apathy by our politicians. They could not be more wrong. The public anger is mounting as crisis point is reached. Crisis point is close as they can't milk any more taxes from us under the existing system so they have opened this dishonest tax reform debate.

I call it dishonest, as nowhere are they talking about reducing government expenditure. We all know that there is only one tax on the people, and that is government expenditure.

Another reason why the tax reform debate is dishonest is that, whilst the objectives of the Australian Tax Office are expressed as "to collect taxes", in general they don't collect taxes at all.

Businesses such as our own, collect the taxes on their behalf. What's more businesses don't get paid for it.

If a goods and services tax (GST) is introduced we must not only collect that as well, but outlay substantial capital expenditure to provide the necessary records. Australian companies already spend around \$4 billion annually for payments to tax agents, accountants, lawyers etc to ensure the tax office gets their due, so here we go for yet another interesting experience.

On the subject of the GST, I haven't heard any outcry from our gold industry on GST being levied on gold coins.

Whilst we are talking about all the gold which will be consumed by the proposed Millennium Gold Coin, we should ask ourselves how many will be sold if a GST applies. Perhaps we will sell a few to tourists but certainly zero to Australians. Gold is like money and you wouldn't swap into any form of money, if it attracts a 12% tax.

Excessive tax consumption is not just a Federal issue as even in WA our own State Government owes almost \$1 billion in accrued leave to WA's 88,000 public servants. People are also asking how a State Government can spend \$27 million annually on airfares.

So; no honest tax reform until we plug a few holes.

\* \* \* \*

OK, so now you've heard my concerns, what about yours?

Once again let me repeat that these are your own concerns, not those of the Normandy Group, nor are they construed to be an opinion of the Normandy Group.

### **Should We Be Pro-Active On Public Issues?**

**(Waterfront Reform, Over-Regulation,  
Tax Issues, Native Title)**

- **Yes**
- **No**

#### **Slide 1**

On the very topical matter of waterfront reform, the mining industry's support for Chris Corrigan's Patrick Group seems to be about as enthusiastic as their support for Charles Copeman when he made his courageous stand on labor market reform for Robe River Iron Ore Company in the early 80's. The whole industry, in fact the whole nation has benefited from his courage but at the time, he was left to hang out and dry in the sun.

About the only coverage of the current waterfront dispute in the mining magazines is in the March 1998 edition of Australian Mining where the minerals industry is warned to "take extreme care of its public utterances over the stoush between the Farmers Federation and the Maritime Union".

"It, therefore must be very wary of overt support of the NFF action, no matter how much it privately hopes it will succeed".

"So for the time being it may be wise for us to sit quietly and take it all in before throwing our hand in".

My own feeling is that our mining companies can't operate competitively in this new global economy unless we have globally competitive port handling facilities. I certainly cannot agree with that magazine article that we should "sit quietly".

What do you think?

Yes = 58

No = 2

### **Audience Response to Slide 1**

#### **Media Contact At Management Level**

- **Encourage**
- **Discourage**

### **Slide 2**

At the Australian Gold Conference in February this year Ian Robertson, the principal of Sunshine Public Relations, gave a most interesting presentation on public relations and the gold mining industry.

He warned that gold mining in Australia is facing a PR problem of massive proportions and stated that it may turn out to be our greatest problem. His comment was that "If you believe you are worthy of political and community support then the time has come for you to stop acting like a group of selfish individuals, and take positive steps, as one cohesive unit, to secure your political and operational futures".

His talk is included in the proceedings of that Gold Conference and certainly worth circulating amongst your team.

My only comment from the Kalgoorlie end is that I'm sick of being about the only guy from the industry who will talk to the media.

It's now got to the stage where I give the media the name and phone number of some other local mining chief and suggest that they ring him for an opinion. Usually the newshound phones back and tells me "they said they're not allowed to talk to the media".

My response to that is to usually ask the newshound to phone them back and ask "What are you doing that you are so ashamed of?".

What do you think?

*Encourage = 56*

*Discourage = 4*

### **Audience Response to Slide 2**

Regarding speaking up for your industry, it was Thomas Paine who said "Those who expect to reap the blessings of freedom must undergo the fatigue of supporting it".

#### **Lack of Profitability**

### (Poor Returns on Capital Invested, Not Globally Competitive)

- **Major Concern**
- **Not Major Concern**

#### Slide 3

In these times of the Asian currency crisis the best thing Australia can do is make sure that we don't become part of the crisis, particularly in our resource industries where we are threatened with strong competition from so many quarters.

Any of you who have noticed the recent ABARE and Minerals Council of Australia Reports would see how Australia's biggest export earner, the minerals industry, is in crisis.

These reports were both conducted before the freefall in commodity prices and the Asian economic and currency crisis. When these are factored into the next reports to be issued, the results will be even bleaker.

A summary of these reports were published in the Feb. '98 edition of Australian Mining and showed the industry at its worst profit level for more than 10 years.

The return of shareholders funds for '96-97 was 2.9% compared with 9.2% in '95-96.

The survey showed that while exploration in Australia has increased marginally, more and more exploration funds are being diverted offshore.

The ten year average growth rate shows the startling figure of 8.6% growth domestically with 17.7% growth for overseas exploration.

If Australia is to get its fair share of international investment, it has to focus on lifting returns by completing long-promised economic reforms and reducing our tax levels to internationally competitive levels. Is this one of your major concerns or not a major concern?

*Major Concern = 58*

*Not Major Concern = 2*

#### Audience Response to Slide 3

**Does The Mining Industry Need To Upgrade Its**

**LEADERSHIP SKILLS?**

- **Yes**

- No

#### Slide 4

I want to make it quite clear that I'm talking about *Leadership* as opposed to *Management*. I feel personally that the Australian resource industry has taken steps to tighten up *Management*, and our greatest challenge now is to focus on *Leadership*.

*Leadership* is different but complimentary to *Management*.

*Leadership* is pro-active change, being able to see, to communicate and then to inspire that vision in others.

*Leadership* is very much an individual skill whilst *Management* is a team sport.

To become leaders, managers need to translate their personal values into calculated action.

The April 1998 edition of Harvard Business Review puts it like this:

"We form our character in 'defining moments' because we commit to irreversible courses of action that shape our personal and professional identities. We reveal something new about us to ourselves and others because defining moments uncover something that has been hidden or crystallize something that had been only partially known. And we test ourselves because we discover whether we will live up to our personal ideals or only pay them lip service".

"They are able to take time out from the chain of managerial tasks that consumes their time and undertake a process of probing self-inquiry- a process that is more often carried out on the run rather than in quiet seclusion. They are able to dig below the busy surface of their daily lives and refocus on their core values and principles. Once uncovered, those values and principles renew their sense of purpose at work and act as a springboard for shrewd, pragmatic, politically astute action. By repeating this process again and again throughout their work lives, these executives are able to craft an authentic and strong identity based on their own, rather than on someone else's understanding of what is right. And in this way, they begin to make the transition from being a manager to becoming a leader."

What do you think?

Yes = 60

No = Nil

#### Audience Response to Slide 4

**Do We Want a More Pro-Active AusIMM?**

**(Seeking Real Outcomes For Its Members)**

- **Yes**
- **No**

### **Slide 5**

Professor, A J Lynch, AusIMM's 1989 President, in that organisation's September Bulletin of that year :

"Why does The Institute refrain from making public comment about issues of public importance in which its members have particular expertise?", and, "Professionals believe, rightly, that any public statement must be factually correct. Issues are complex and difficult to present succinctly and in a readable manner. The dramatic statements and dramatic arguments which are features of the public debate do not fit the disciplined thinking of the professionals," he wrote.

Professor Lynch then argued "There must be change", and "that the Institute is preparing itself to participate forcefully in the public debate".

Unfortunately since 1989 our industry has lost most of the battles whilst AusIMM have still been preparing themselves to enter the debate.

A more recent AusIMM membership survey has re-stirred concern as they find that only 10% of their members are in the 20-29 year age group, and two thirds of the members are older than 40.

The Sydney branch of AusIMM has just completed an April 1998 "Blueprint For Reform" which is to be published in the next Institute Bulletin.

It is a well-reasoned document calling for stronger leadership to drive the reform of the Institute in this changing free-market economic environment.

Do you want a more pro-active AusIMM?

*Yes = 54*

*No = 6*

### **Audience Response to Slide 5**

**Will Commodity Prices Rise?**

**(Next 10 years)**

- **Yes**
- **No**

### **Slide 6**

Before you answer this one, let me tell you about an optimistic economist that I've had the pleasure of meeting. Unfortunately Julian Simon died in February at the relatively young age of 65.

For those who have not heard it before, here is the best story about Julian Simon. In 1980, Mr Simon challenged the popular (and still widely held) view that there were limits to growth, in particular that the earth's natural resources were becoming so scarce that they would become ever costlier. He offered to bet that the prices of raw materials would actually fall. Paul Ehrlich, a fierce critic of further growth, took up the bet. The two men agreed to check the prices of five metals – copper, chrome, nickel, tin and tungsten – in ten year's time. In 1990, as Mr Simon had predicted, all had fallen in price, even without allowing for inflation. Mr Ehrlich paid up in settlement of the modest, but much-publicised, bet, grumbling that it was a "matter of marginal environmental importance".

Marginal or not, it neatly illustrated Mr Simon's contention that the threat of high prices for seemingly essential materials would encourage the search for new supplies or alternatives. His confidence in the ingenuity of mankind to overcome its problems and so progress, is the theme of his most influential book, "The Ultimate Resource", first published in 1981. The ultimate resource, he says is people, skilled, spirited and hopeful people who will exert their will and imaginations for their own benefit, and so, inevitably, for the benefit of us all.

Simon in his most recent 1996 book "The State of Humanity" published by the Cato Institute, made two predictions for the coming century.

One was that "humanity's condition will improve in just about every material way".

The other prediction was that "humans will continue to sit around complaining about everything getting worse". I hope he wasn't talking about us.

Well, now that you've heard how Julian Simon's got it right on commodity prices, what is your opinion?

Yes = 10

No = 50

### **Audience Response to Slide 6**

Well, fellow gold seekers it has been an honor to be with you tonight, thank you for your invitation and in conclusion, I would like to finish with a quote from a fellow called Sutherland :

"The winning of gold from the earth has for long been difficult. But the rewards, in value, in beauty and in permanence, are correspondingly great. Diodorus Siculus in the first century, BC, summarised the matter with all the rhetorical antithesis of ancient writers. "nature herself", he said "makes it clear that the production of gold is laborious, the guarding of it difficult, the zest for it very great, and its use balanced between pleasure and pain".

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