

THE AUSTRALIAN

The challenges facing BHP's new chairman, Ken MacKenzie



Ken MacKenzie, left, with board members at BHP's annual meeting.

ROBERT GOTTLIEBSEN THE AUSTRALIAN 9:27AM June 19, 2017

The role of chairman of the Broken Hill Proprietary Co (BHP) is like no other chairmanship in the country.

In the last three quarters of a century I have seen the role shape the nation as well as what was once our largest corporation but is now our largest non-bank company.

As I will explain later, BHP's new chairman, Ken MacKenzie, faces challenges that none of his predecessors have encountered. But some of his looming tasks will require the new chairman of The Big Australian to learn from the deep history of the role.

When I first began looking at BHP it was headquartered in Essington Lewis House, Melbourne, to remind everyone that Lewis had been managing director between 1926 and 1950. For all of those 24 years Lewis's chairman was his great friend Harold Gordon Darling (son of a former chairman of BHP, John Darling). The Darling family were grain merchants.

HG Darling saw his role as giving Essington Lewis the backing to transform BHP from a Broken Hill miner into one of the world's great steel companies. Essington Lewis also led the industrial defence of Australia in World War II.

When Harold Darling died in the job in 1950 Essington Lewis became chairman for the next 11 years. That started a precedent that was to dominate the company in later decades. But the BHP chairman after Essington Lewis was lawyer Colin Syme who held the post for 19 years. Like Darling, Syme saw his task as running the board and letting the chief general manager, Ian McLennan, manage the company.

Syme was right in backing McLennan, who established the modern BHP. He took the steelmaker into oil via Bass Strait and for a "song" bought from the foolish CSR and its partners the great Mount Newman iron ore deposit. Those two moves transformed BHP.

But when Syme retired BHP reverted to the Essington Lewis precedent and McLennan was made chairman. Like Lewis he became even more powerful as chairman.

When McLennan retired his CEO Jim McNeill had effectively been number two so he wanted the top job and became chairman. Brian Loton was his CEO. (Fred Rich was the original appointment but died before taking the job).

McNeill completed the McLennan transformation, taking BHP into export coking coal and what became Escondida copper. In subsequent years BHP has shed Essington Lewis's steel business but two chairmen---Ian McLennan and James McNeill---- established its current core; oil, iron ore, copper and coal. It is a unique situation.

When McNeill stepped down Brian Loton stayed on as CEO and Jim Balderstone became chairman and developed a very similar role to HG Darling and Colin Syme. Together Balderstone and Loton faced the task of hanging onto to what their predecessors had developed as Robert Holmes a Court attempted to take control of the company. [There are similarities](#) between Robert Holmes a Court and today's Elliott group.

When Balderstone retired the BHP board was reluctant to transfer the role to the CEO, fearing Loton would continue to dominate the company as Essington Lewis, McLennan and McNeill had done when in that role. And so the hero of WMC, Arvi Parbo, was made chairman for two years to give the new CEO John Prescott breathing space. When

Loton became chairman he occupied the role in a conventional way and Prescott ran the company. But when Loton retired BHP made Jerry Ellis chairman in recognition of his role in acquiring Magma Copper.

Then all hell broke loose and the company faced one of the greatest crisis in its history. In the minerals slump Magma became worthless and many other BHP new ventures fell over. Retiring NAB CEO Don Argus and Paul Anderson set about restoring the company's fortunes. Then came the merger with Billiton and Brian Gilbertson was given the task of making BHP a global company. But when Gilbertson tried to shift the domicile to London, Argus showed him the door.

In the years that followed BHP have appointed two global companies' former CEOs to the job — first Ford's Jac Nasser and now Amcor's Ken MacKenzie.

Under Nasser, CEO Andrew Mackenzie undertook a task that no other BHP CEO has really undertaken — converting a giant resources company into an efficient miner.



Jac Nasser.

Fred Rich had similar plans before he died. BHP rival Rio Tinto, thanks to the work of people like John Ralph and Leigh Clifford (he backed a similar revolution as chairman of Qantas) plus the acquisitions of North Ltd's Robe River, has always been a more efficient iron ore miner. It still is more efficient but the gap has narrowed considerably.

Like all chairmen, Ken MacKenzie's first task is to manage the board, but he faces different challenges to Jac Nasser and most other Australian chairmen. Let me list a few if them:

1. He needs to look at the structure of the board. BHP has a very talented set of directors but only one of them has mining experience — Malcolm Broomhead — who is a former CEO of North Ltd but he made his name transforming Orica. Three of its directors won their spurs in oil and gas, as did the CEO. Oil is an important part of BHP but minerals are bigger. The board needs to be stronger in the mining area.
2. Having gone through the cost-cutting phase (there is still more to do) BHP must decide whether it is to return at least partly to the McLennan/McNeill era and be an exciting company. If that's the case it will be investing in new directions either with its existing deposits or new areas that look to be growth sectors — say lithium. Alternatively it can be run as a cash cow which is what the institutions want. BHP's history is of being a growth company but some of its institutional shareholders do not believe BHP now has the talent to do this. They want cash and Elliott Management is fostering this view. MacKenzie and the board must make a decision on whether the institutions are right about BHP's management talent.
3. BHP has a London corporate listing via a separate company. Elliott wants that to end. My examination indicates the move makes no sense for Australian shareholders but BHP needs to look hard and then explain its decision. Almost certainly that decision will be to leave things as they are but BHP shareholders are entitled to know why. And conversely Elliott will need much more detailed arguments if they want to continue the debate.
4. Jac Nasser in his final year as BHP chairman began talking to small shareholders. Overseas institutions that are fickle own some 55 per cent of BHP. Australian institutions are not much better. If the company wants to be anything other than a cash cow then it needs to take its small shareholders with it. Nasser understood this in a way few other Australian chairmen have done. MacKenzie has to decide whether to follow him.
5. MacKenzie will also need to talk to the institutions but both conversations cannot be in detail until the board and MacKenzie have decided what is ahead for the next five years.

6. There will be pressure to split off oil. BHP has been oil and gas longer than export iron ore and copper. MacKenzie and the board must make the call as to whether to stay there. BHP is certainly looking at exiting part of its US shale business. And it needs to explain its reasons very clearly and very loudly. MacKenzie needs to make sure that the decision is in the best interests of the shareholders not the vocal institutions. We saw recently AMP asking for an independent committee to second guess some BHP board decisions. It would be better to ask for a committee to check on AMP and why it lost to self managed funds who took a third of the market. .

7. Finally, while Ken MacKenzie must look at what his predecessors have done, he must put his own stamp on the job.

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