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*Hony. Chief Editor*

## Sam Walsh: What it takes to be a successful CEO of a large cap mining company

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### Rio Tinto and Sam Walsh

Rio Tinto, founded in 1873, is a British-Australian multinational and one of the world's largest metals and mining corporations. Rio Tinto is the world's second-largest metals and mining corporation, behind BHP. The company has grown through a long series of mergers and acquisitions to place itself among the world leaders in the production of many commodities, including aluminum, iron ore, copper, uranium, coal, and diamonds. Rio Tinto Group is structured as a dual-listed company, with listings on both the London Stock Exchange in London under the name Rio Tinto Plc and the Australian Securities Exchange in Sydney under the name Rio Tinto Limited (and also has ADRs listed in The New York Stock Exchange).

Sam Walsh AO (born 27 December 1949) is an Australian businessman who was elected to the Mitsui & Co board as a non-executive Director on 21 June 2017 and the MA'ADEN Board on 22 October 2020. Prior to this he was chief executive officer (CEO) of London-based mining company Rio Tinto Group, from 2013 to 2016.

Mr. Walsh graduated with a Bachelor of Commerce from Melbourne University and started his career in the Automotive Industry at General Motors in Australia in 1972. In 1973/4 he participated in an Overseas Fellowship at General Motors Institute (now Kettering University) in a work/study cooperative programme in Flint, Michigan, which was the birthplace of GM. This programme which moved him through all major departments (Engineering, Finance, Supply, Vehicle Assembly, IS&T, etc.) with the equal rotation of study in the final year of GMI's Business Administration School. Sam led the team that restructured General Motors in Australia in 1986. In late 1986 he was headhunted to join Nissan Australia where he ultimately had responsibility for all of Nissan's Manufacturing in Australia. During this time, Nissan raised the quality systems and actual performance to allow exports of Australian-made Nissans to Japan. In 1991 he was again headhunted, this time by CRA (now Rio Tinto) to turn around and sell their iron, steel, and aluminium foundry businesses

in Australia, USA, and Chile. In 1994 having ostensibly completed this successfully, he was transferred to the mining side of the business, in iron ore, then aluminum – running the Aluminium Product Group, back to Iron Ore to run this Product Group and then in early 2013 he was promoted to Global CEO.

### Restructuring RioTinto

Clearly restructuring Rio's Iron Ore business (following the restructure of GM in Australia and Nissan Australia), which is the largest cash contributor to the company and very large business in its own right, provided me, with experience and capability to manage the complexity of the total Rio Tinto organization, and the restructuring and repositioning that was required on a Global basis. Mr Walsh credits his numerous community engagements in a wide range of organizations – the Arts, Church, Scouting, Government, that prepared him for the CEO role, learning how to manage many diverse issues of different scale, importance, and urgency, all at the one time.

### On having a mentor

Sam believes that mentors and coaches are vital, to provide independent feedback, wise counsel, and assist in holding one's feet to the fire. By his own admission he was extremely fortunate to have Paul Victor of Vmax, a Doctor of Psychology with a manufacturing background. Paul assisted him particularly as he entered new territory in restructuring, and maintaining the focus on getting the balance right between the present and future business.

### The company performance

The Rio Tinto business, in relative terms, is the strongest of the mining houses. It has the strongest balance sheet, is the most profitable mining business in the world (measured by underlying earnings and cash generation), has substantially reduced costs (by some \$6 billion), working capital (\$3.5 billion), development and sustaining capital expenditure (reduced by a two-thirds), and divested a significant number of non-core businesses (4.7 billion in the last 5 years). The

company has been investing in further Tier One assets in key growth areas of bauxite, copper, and iron ore. Rio Tinto is very well placed going forward to generate significant cash, make meaningful shareholder returns, and continue to grow the business.

### **Rio's turnaround under Sam Walsh**

In his first year at the helm, Walsh brought Rio Tinto's annual earnings to a \$3.7bn profit after the \$3bn loss in 2012. Through a more cautious business development tactic than that of Albanese, the CEO managed \$2.3bn in cost savings – exceeding his \$2bn target – as well as simplifying the business, divesting non-core assets, reducing capital and refocusing the business to what, in his words, matters: “delivering value to shareholders.”

### **Rio Tinto timeline**

- June 9, 2009: Pressure mounts with Chinalco's President Xiao Yaqing after Albanese abandons the \$19.5bn fundraising deal for a \$15.2bn joint venture with BHP.
- April 7, 2011: Rio Tinto takes control of Australian coal miner Riversdale Mining for \$1.1bn.
- November 29, 2012: Rio Tinto announces cost reductions by more than \$5bn over the next two years and lower spending on exploration in an attempt to “roll back” unsustainable cost increases.
- January 16, 2013: Tom Albanese steps down as CEO of Rio Tinto after a \$14bn write down.
- January 17, 2013: Sam Walsh is appointed as the new CEO of Rio Tinto.
- August 8, 2013: Rio Tinto announces operating cost reductions of \$977m and a half-year profit of \$1.7bn.
- January 17, 2014: Rio Tinto breaks company records, producing 266 million tonnes of iron ore.
- February 13, 2014: Rio Tinto unveils a \$3.7bn earnings profit up from 2012's \$3bn earnings loss.

At the beginning of his tenure, Walsh said he would cut exploration and development costs by \$750m – he ended up slashing them by \$1bn, while also pulling capital expenditure down from more than \$17.5bn to \$13bn. However, it remains to be seen whether cutting exploration to this extent is a long-term benefit, as the firm remains overly dependent on iron ore and continues to reign in and divest Albanese's diversification efforts.

Walsh's strategy also involved a bold headcount reduction of 4,000 across the group's managed operations, as well as 3,300 roles leaving the group through divested businesses. Rio Tinto's financial results were also bolstered by strong operational performance as iron ore, bauxite and thermal coal set annual production records.

Finally, Walsh re-shaped the aforementioned aluminium

business by closing, curtailing or divesting six non-core aluminium assets, including the suspension of production at the Gove alumina refinery to focus on more profitable bauxite operations.

### **On leadership**

Sam once jokingly said that the CEO doesn't do any work – she or he does not drive Haul Trucks or operate excavators which creates the pathway for generating cash in a mining company. A CEO, however, works through her or his team, in Rio's case, it was 55,000 employees. Having the leadership qualities that enable you to elucidate the strategy and plan precisely, then communicate, engage, and involve the entire organization in implementing this is essential. Many teams fail in not continuing the process by providing feedback on achievement and celebrating success.

### **The future of the mining industry**

Rio Tinto started an innovation programme called “Mine of the Future” and it was described as the remote operations centers or automated equipment. But the scope changes. Sam says, “Who would have imagined ten years ago that we would be using Big Data to mine the host of data generated by sensors and transducers in our operations to optimize performance across sites and continents?” I expect that the mining industry will look very different in 20 years. After all, mining is enormous logistics operations transporting ore from one side of the planet to another, with a bit of mining and processing attached. Today, who would have thought that Rio Tinto would become the largest shipping company in the world (by tonnes)? The successful mining companies of the future will seek to be in the most attractive segments, and with high-quality deposits, tier-one low cost, and expandable operations

### **Role of the board of directors**

The board's key role is to represent shareholders, who are the owners of an entity, and to set the overarching strategy while reviewing and approving the short-term planning, and monitoring performance by management against the strategy and plans. These days there is a growing emphasis on Governance and Compliance with Legislation and Regulations. Key operating tasks for a board are to propose for shareholder approval, the selection and remuneration of the board members themselves, and the senior management team. In the future, Sam expects that the accountability of directors will increase exponentially as governments attempt to eliminate the poor practice by the worst operating companies, and if this continues and boards are not careful, will fuzzy the line of accountabilities between non-executive and executive director roles.

### **For aspiring mining business leaders**

Sam says: continue to reinvent yourselves. Some people think

that they learned all that they needed to learn at school, at university, or in their early careers – about engineering, management and business. However, the world is a very volatile fast-moving environment, and what worked in the past is not necessarily going to work as effectively in the future. So keep learning without stopping.

### Rio Tinto later

In Mar 2016, Rio Tinto has named its copper and coal division head, Jean-Sébastien Jacques, as its chief executive, replacing veteran Sam Walsh and marking a shift for the Anglo-Australian mining major that has long focused on iron ore.

### Financial results

Rio Tinto's revenues and earnings have grown substantially in 2003–2010, with one of the largest increases attributable to the company's acquisition of Alcan in 2007. Although operating margin is significantly impacted by the market prices of the various commodities it produces, Rio Tinto has remained profitable over its recent history and consistently generated positive cash flows from operations.

Rio Tinto's main business is the production of raw materials including copper, iron ore, bauxite, diamonds, uranium and industrial minerals including titanium dioxide, salt, gypsum and borates. Rio Tinto also performs processing on some of these materials, with plants dedicated to processing bauxite into alumina and aluminium, and smelting iron ore into iron. The company

EARNINGS DATA (IN US\$ MILLIONS)<sup>[3]</sup>

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Gross sales revenue	9,228	14,530	20,742	25,440	33,518	58,065	44,036	60,323	60,537	50,967	51,171	47,664	34,829	33,781	40,030	40,522	43,165	44,611
Underlying profit before tax	1,968	3,017	7,094	9,719	9,947	15,977	7,860	20,577	13,214	9,303	10,217	9,305	4,540	5,100	8,627	8,808	10,373	12,448
Underlying net earnings	1,382	2,272	4,955	7,338	7,443	10,303	6,298	13,987	5,826	(2,990)	3,665	6,527	(866)	4,617	8,762	13,638	8,010	9,769
Cash flow from operations	3,486	4,452	8,257	10,923	12,569	20,668	13,834	23,530	27,388	16,450	20,131	18,896	12,102	11,368	16,670	15,655	19,705	21,822
Operating margin	19%	24%	37%	42%	34%	32%	17%	36%	23%	18%	20%	20%	13%	15%	22%	22%	24%	28%

also produces other metals and minerals as by-products from the processing of its main resources, including gold, silver, molybdenum, sulphuric acid, nickel, potash, lead and zinc. Rio Tinto controls gross assets of \$81 billion in value across the globe, with main concentrations in Australia (35%), Canada (34%), Europe (13%) and the United States (11%), and smaller holdings in South America (3%), Africa (3%) and Indonesia (1%).<sup>[29]</sup>

### SUMMARY OF 2008 PRODUCTION

Product	Amount	World ranking
Iron ore	153.4 million tonnes	2nd
Bauxite	34.987 million tonnes	1st
Alumina	9.009 million tonnes	2nd
Aluminium	4.062 million tonnes	2nd
Copper (mined)	698,500 tonnes	4th
Copper (refined)	321,600 tonnes	N/A
Molybdenum	10,600 tonnes	3rd
Gold	13 tonnes (460,000 ounces)	7th
Diamonds	4 tonnes (20.816 million carats)	3rd
Coal	160.3 million tonnes	N/A
Uranium	6,441 tonnes (14.2 million pounds)	3rd
Titanium dioxide	1.524 million tonnes	N/A, but at least 3rd
Borates	610,000 tonnes	1st[7]

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