The Value of Business Strategy to the Minerals Mining Sector of Australia – Review and Discussion of the Literature

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Abstract: Centred on organisational development theory (OD) (Burke, 2011; Phelan & Lewin, 2000), this paper discusses the value of business strategy and decision making-basis for managers in the minerals mining sector of Australia. The effects of volatile global market cycles, oversupply conditions and price falls (iron ore) in economic slowdown scenarios are cited challenges that the sector often fails to accurately anticipate or counter. Such economic change has significantly impacted Australia and motivates the presentation of this paper. It aims to assist managers to revisit their business strategy and analyse its applicability in terms of organisational inventiveness and robustness in the minerals mining sector of Australia.

Keyword: Business Strategy, Mining, Decision making

The Background

In comparison to many other countries in the Organisation for Economic Cooperation and Development (OECD), Australia has comparative advantage in mineral resources endowment (Bernard, Redding, & Schott, 2007). Its low population density, habitable climate, skilled workforce and technological advancement form a second set of advantages which enable scale production and project attractiveness in the mining sector (Bernard et al., 2007; Kancs, 2010). In 2012/13 the mining sector accounted for 70% of all exports (Figure 1) and earned AUD$146 billion from iron ore, coal, gold, copper and bauxite (ABS, 2014). Australia’s economic growth slowed down in the last quarter of 2013 and revealed negative effects of over reliance on commodities exports. A drop in demand for iron ore, bauxite, nickel, coal and gold particularly in China, Japan and South Korea resulted in over supply conditions attributed to the continued weakening of global mineral prices.

In the interim period Australia’s metals mining sector has suffered significant investment losses, job cuts, mine closures and postponement of projects which are seen to be damaging to business confidence and capacity utilisation (Mining Council, 2014). This paper aims to assist managers to explore the effects of changes to the mining sector environment and subsequent business strategies dropped, adopted or altered to safeguard and enhance competitiveness.

The mining sector has enjoyed prolonged ‘boom’ periods and this study has found reasons to examine current strategy suitability, risks of strategy complacency and failed pro-activity in creating strategy contingencies (Hamel, 1998; Lewis, Andriopoulos, & Smith, 2014). The mining sector requires new studies to reveal the ‘strategy state-of-affairs’ industry-wide. Findings from such studies should not be a prescription; but rather should provide a starting point to industry foresight.

Strategy Defined

Strategy development aims to assist organisations to achieve superior performance (Michael E. Porter, 1991; Michael E. Porter & Heppelmann, 2014). Strategy will be defined for this paper in terms of management input and influence in business direction, market response and resources use in a given environment (Prahalad & Hamel, 1994). Industry sectors construct strategy meaning relevant to prevailing context (Paine & Anderson, 1977). Strategies in the mining sector are better explained by incumbent managers; whilst academic definitions are acceptable, they have limitations in industry perception and sense making (Ireland, Hitt, Bettis, & de Porras, 1987).

Strategies are adopted constructs and ideas through which individuals or a group of people recognise and define challenges and from which they shape their success. Porter defined strategy “as a way of integrating the activities of the diverse functional departments within a firm” (1991, p. 96). Strategies are “a pattern in a stream of important decisions” (Hambrick, 1982; Mintzberg, 1978). Subsequent behaviours and actions are guided by these patterns or rules, culminating in individual or shared vision (Pfeffer, 1995). The role of leadership and its influence on management actions particularly in optimisation of scope, resources allocation and accountability will be of interest (Toms & Wright, 2002).

The extent to which organisational members share and believe in the vision creates an ideology according to Mintzberg & Waters (1985). Strategies can holistically “guide organizations’ search for problems and solutions” (Hedberg & Jönsson, 1977). This definition implies that strategies vary and depend on perceptions, individual and group coordination within the prevailing
environment or context (Beal, 2000). Success of organisations is therefore directly connected to a dynamic balance enabled by business strategies, shared capabilities and environmental demands (Hamel & Prahalad, 1994; Michael E. Porter, 1991).

Mintzberg posits that the ‘fit’ argument essentially relies on a conscious effort to produce strategies led possibly by chief executive officers in an informal process. Strategies produced can be unique and explicit such that they are completely formulated and then implemented (Michael E. Porter, 1991).

Generic Strategy
Corporations display distinct behaviours towards broad problems of organisational adaptations inclusive of entrepreneurial, engineering and administrative (Hambrick, 2003; Miles, Snow, Meyer, & Coleman, 1978). An in-depth understanding of strategy typologies or the alignment of strategies, structure and processes improves the interpretation of managerial intention (Miles et al., 1978).

There are seen to be five iterative phases of strategy formulation and implementation. These phases include (1) information gathering and analysis, (2) strategy formulation, (3) project planning, (4) strategy implementation and (5) strategy monitoring, review and updating #(Freedman, 2003)#. In this exploration of strategy, environment factors and all five phases mentioned above are further examined in consideration of Freedman’s advice on the ‘genius of implementation (2003). Emphasis is placed on the ability to implement a selected strategy and follow-through in subsequent decisions (Birkinshaw, Hamel, & Mol, 2008). Specific dangers reminiscent of an inability to alter current strategy commitments (inertia), strategy indistinctness, initiative fatigue and impatience stand out in retaining objectivity in the examination of adapted strategies in the mining sector of Australia (Freedman, 1992, 2003).

Strategy can take many forms (Porter, 1980). Cost leadership strategy for example is achieved when a business improves profitability and grow its market share by reducing costs and or lowering prices (Dess & Davis, 1984). Effective management of processes synonymous with lowering waste, use of scale economies and ‘no frill’ products and services support such strategy (Mintzberg & Waters, 1985). Differentiation is achieved when the entire business products/services are made different and appeal to targeted customers better than the competitors’ offering (Hamel & Prahalad, 1994). Differentiation strategies are supported by investment in research and development (R&D), high quality output and well-coordinated marketing. Focus strategies on the other hand are realised through directed business activities to serve a specific niche market with selected products/services (Dess & Davis, 1984). Businesses using the focus strategies are specialists and intimately understand customer needs in that area thereby raising entry barriers for would be new entrants (M. E. Porter, 2008). Strategy straddling is discouraged and blamed for internal dysfunction, poor foresight and lost competitiveness (Michael E. Porter, 1980; Michael E. Porter & Heppelmann, 2014).

Strategy as Direction
Corporations formulate and formalise mission and vision statements to define products or services delivered, targeted customers and unique value propositions (Beal, 2000). The mission statement explains the purpose of an enterprise whilst the vision frames the picture of a desired future position (Bart, 1997). Business strategies are options taken to reach desired goals (Mintzberg, 1978) spelt out in the mission. Using this concept, strategies are influenced by the overarching desire to reach the ‘envisioned’ position (Beal, 2000; Freedman, 1992). Environmental changes are dealt with in the same vein as distracters to the vision whilst strategies are used as tools to retain focus.

Strategy in organisations “set direction, focus effort, define the organization, and provide consistency” (1987). Inevitably businesses failing to generate or follow strategies are likely to suffer incoherent progress, have lower competitive consistencies and surrender success to opportunism (Paine & Anderson, 1977). These organisations are viewed in terms of failed structures, systems and focus to ‘evolve’ their ‘trajectories’ towards ideal destinations (Mintzberg, 1987). The external and internal environments are susceptible to change; whereas focused organisations grasp the evolving future through ‘supreme navigation’ (Hart & Milstein, 1999). Rigid and devoid of re-evaluation, adopted strategies ultimately become invalid and irrelevant to organisations – the very good plan degenerates into organisational paralysis (Mintzberg, 1993).

Leadership is about creating a vision, dynamic fit of value creation, markets and shareholders expectations (Saks, 2006). It is about coordination of people in a structure, allocation of resources, creating super-ordinate organisational values and strategies (Waldman, Ramirez, House, & Puranam, 2001), good leaders help employees see common direction, positively alter behaviours and implore service to organisations that exceeds signed employment contracts (Saks, 2006).

Strategy as a Response
Global competition in mining is sporadic and deserves tailored responses (Phelan & Lewin, 2000). In a coherent argument Mintzberg defended that strategy is a discontinuous process (Hedberg & Jönsson, 1977; 1994). Strategists do not actually stop planning; they are compelled to alter initial goals and respond to new or eventual challenges (Eisenhardt, 1999; Lewis et al., 2014; Mintzberg, 1994). Applicable in this instance is the fact that responses via human behaviour are a direct interplay of perception, cognition and experience (Argote & Ingram, 2000; Felin & Hesterly, 2007). Organisations will change focus and constantly re-evaluate views and consequently strategy (Mintzberg & Waters, 1985).

Whilst Porter argues for distinguished strategic categories such as cost leadership, differentiation and focus (Hambrick, 2003; Michael E. Porter, 1996). the
literature indicates that there are various ways to prosper, but a “handful of basic patterns that businesses can select from in order to achieve their aims” (Hambrick, 2003, p. 116). Strategic response categories will help the exploration of challenges and subsequent strategy similarities or differences in Australia’s mining sector.

Since strategy is also defined as an informed response to changes in the environment (Mintzberg, 1977) meant to protect competitiveness; it follows that understanding and keeping abreast with competitors’ activities is an imperative for organisations in any connected market (DiMaggio & Powell, 1983). DiMaggio and Powell’s (1983) research justifies similarities found in interacting organisations caused by pressure to overcome similar environmental challenges (coercive), interest in best practices (mimic) and through following existing industry standards (normative).

This literature review is informed of the importance of managerial perception of commercial or industry sector stimuli (Boyd & Fulk, 1996). At any point in time, variables such as the environment or organisational capabilities represent different meaning to different people (Paine & Anderson, 1977). Decisions made by individuals will be different and implicit of satisficing, maximisation or optimisation of goals (C. Galbraith & Schendel, 1983).

Strategy as Behaviour
It is human nature to seek simplicity and repetition (Dess & Origer, 1987). Uncertainty can be reduced by strategy (Eisenhardt, 1999). Arguably, strategies are set in the past and help people simplify responses to complex future situations (Michael E. Porter, 1996). It is contended that strategies will degenerate into liabilities without constant adaptations to prevailing situations. The analogy of a horse and blinkers and businesses and strategies cannot be ignored; both will move in a straight line but have hampered peripheral vision (Burke, 2011; Mintzberg, 1987).

Institutionalising behaviour confers advantages to organisations. Distinct culture studies recognise the importance of ‘patterns of behaviour’, direction of effort application and consistencies in perpetuation of goals regardless of personnel changes (DiMaggio & Powell, 1983). The demand for innovation and rapid responses to environmental challenges is contradictory to literature exalting advantages of ‘engrained culture’ and stable organisational structures; rather it is a warning against over commitment to a particular strategy (Hart & Milstein, 1999; Mintzberg, 1994).

Strategy – A Tool for Domination
Hamel posits that management foresight enables organisations to anticipate and service future customer expectations (Hamel, 1998). Organisational foresight enables practitioners to prepare for best alternatives or chart new initiatives and invent value creation methodologies ahead of competitors (Eisenhardt, 1999). Organisations not only try to protect current market share; periods of sustained research and creation of new technologies are followed by patents or secrecy to prolong benefits of enterprise and industry domination.

Strategy and Sustained Competitive Advantage
A study of business strategies involves searches for answers to what gains and sustains competitive advantages (Barney, 1991; Lewis et al., 2014). An in-depth analysis of the current ‘state of affairs’, available resources (finance, time, physical resources and people management processes), the ability to counter threats, pursue and converting opportunities remains central to strategy discourse (Grant, 1991).

The concept of competitive advantage is discussed in terms of how individual corporations seek to assume better positions relative to competition (Flood, Marion, & Matsumoto, 2012; Teece, 1998). Arguably the ever shifting phases of advantages come and pass; organisations set trends in motion and possibly wipe out their peers (Eisenhardt, 1999). Core competencies entail key skills and specific use of resources in sequence, recombination and stretched targets to meet market needs (Grant, 1991; Hamel & Prahalad, 1994). Core competences enable creation of competitive advantages when distinct coordination of resources is repeated to match the context dynamism, improvement or paradigm shift (Mintzberg, 1990; Pfeffer, 1995; Michael E. Porter, 1996). Without specific resources, cognition, skill level or competences, businesses have no ‘table stakes’ to earn the right to play (Hamel & Prahalad, 1994). Similar to a game of poker, businesses are seeking sustained competitive advantage to win and remain winning through products/services distinguished by value, raresness, imitability, and non-substitutability (Barney, 1991).

Whilst strategies confer competitiveness; it is acknowledged that a deeper understanding of firm advantages enables practitioners to tailor practices and behaviour towards protecting unique, value creating and non-substitutable factors (Simon, 1991).

Analysis
Contemporary business organisations are subject to sudden and random changes of context (Hough & White, 2004) which invalidates once trusted strategies and catching organisations unaware (Eisenhardt, 1999; C. Galbraith & Schendel, 1983; Hamel & Prahalad, 1994). Whilst strategy change denotes transitioning from stable into uncertain situations; further examination of this framework in the mining sector of Australia may expose sequencing challenges in information analysis, strategy choice, implementation and loss of direction in individual organisations.

Porter’s generic strategies of cost leadership, differentiation and focus implied that organisations undecided and straddling on any or multiple strategies will not reach high competitiveness (Michael E. Porter, 1980). Businesses with distinguished strategy choice will enjoy advantages conferred by continuity and identity clarity. An examination of the contemporary mining operations in Australia could test Porter’s (1980)
conclusions; whether the sector has distinct strategies and if strategy straddling produces negative or positive performances. With merit, loss of strategy clarity certainly impinges on organisations direction, profit making intentions and should be addressed.

All things constant, businesses and practitioners will have varied performances because of methods used in proportioning scarce resources and risk taking or avoidance commitments (Mintzberg, 1994; Pfeffer, 1995). An in-depth evaluation of the mining sector is imperative to support or refute the importance of resources use and access particularly targeting variations in strategies adopted, ambition and resources ‘stretch’(Hamel & Prahalad, 1994). Perpetuation of Australia’s minerals mining is irrefutably linked to resources leverage and eventually market domination.

The concept of external environment and strategy fit was discussed and supported by Beal (2000) as organisations positioned themselves in a market. Contemporary businesses are facing escalated challenges in globalisation and deregulation where survival and profitability are inadequate end goals (Hambrick, 2003). An industry-wide business strategy review has potential to improve the literature on whether strategy should surpass optimisation, provide domination and flexibility in a dynamic environment different to Porter’s (1980) era.

Environmental scanning was discussed and its importance emphasised in strategic decision making. Information availability and level of analysis creates variations in organisations.

The OD theory argues for organisational members’ interest in finding solutions to solve current problems. This presentation has challenges current practices and provides an opportunity to analyse the coordination of the process of strategy formulation and implementation in the mining sector of Australia. Future performance may be enhanced by a deeper understanding of whether democratic and inclusive sourcing of strategic ideas can work in the mining sector of Australia.

The knowledge management concept is informative in studying strategy choices and contextual variables; most important, how the cognitive limitations of an organisation will determine available knowledge. Currently there is limited literature quantifying the level or targets for environmental scanning or available sources of information supporting decision-making basis in the mining sector of Australia. The human resources available to the sector should be assessed on its ability to confer sustained competitive advantages.

Individual businesses in an interactive industry sector will not exclusively determine strategies used; paradoxically they mirror each other as they seek to remain relevant in that market. Debate on this phenomenon is justified because there is no evidence found (in a preliminary search) on whether such organisational or strategy similarities exist in the mining sector of Australia.

**Conclusion**

The paper reviewed the literature related to strategies, competitiveness and contemporary environmental challenges in the mining sector of Australia. Strategic responses or pettiness in a global context was highlighted against periods of boom and bust detrimental to the viability of Australia’s mining sector. It is acknowledged that increased export value of the sector has exposed Australia’s economy to international downturns. The appropriateness of strategies adopted requires constant re-evaluation using organisational development thinking. The literature reviewed defined strategy and explained its relevance in direction setting, creating customised responses and enabling industry sector dominance. It is anticipated that this paper will improve understanding of strategy-environment connections and enhance future strategic responses for the minerals mining sector of Australia.

**References**


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