



How the globalisation and financialisation of mining Majors affects linkage development with local engineering and technology suppliers in the Queensland resources industry

Rachel Parker*, Stephen Cox

Queensland University of Technology, Australia

ABSTRACT

The development of linkages between multinational resource firms and their local upstream suppliers in engineering, technology and knowledge services is an opportunity for mining regions to avoid the resources curse and to satisfy sustainable industrial development goals. However, lead firms operate within the political-economic context of globalisation and financialisation, which affects their strategies and management practices and their contribution to the development of local supply chains in the resources sector. This paper explains how lead firms in the resources industry in Queensland, Australia are influenced by the agendas of global financial markets. These agendas drive metrics based procurement practices and a short-term focus in relations with local suppliers, which ultimately impedes the ability of supplier firms to penetrate global value chains and limits the broader economic development benefits of resource extraction.

1. Introduction

The development of linkages between multinational resources firms and their local upstream suppliers in mining equipment, technology and services (METS) has been recognised as an opportunity for mining regions to satisfy sustainable industrial development goals (Dietsche, 2014; Morris et al., 2012). In order to achieve a 'social licence' to operate, resources firms are expected to 'share the benefits' of resource extraction and achieve 'enduring community value' (Söderholm and Svahn, 2015; Fordham et al., 2017). One mechanism through which sustainable development and benefit sharing can be achieved is through the diversification of the supply base towards higher value added technologies and knowledge intensive services. Lead resources firms, which play a central coordinating role in global resource production networks (Phelps et al., 2015), can potentially become 'hubs' that form strong backward linkages with METS suppliers, stimulating their growth and transforming regions towards more complex economic activities (Arias et al., 2014). However, it is not inevitable that resource extraction will lead to diversification of the broader economy.

In the context of mining regions, the concept of a mining enclave represents a critical perspective on the relationship between lead resources firms and local METS suppliers. Mining enclaves are characterised by weak productive linkages between lead resources firms and the local economy, a high reliance on linkages outside the local regions,

limited development of productive activities beyond narrow paths of industrialisation, leading to long-term economic vulnerability (Arias et al., 2014; Phelps et al., 2015). The development of mining enclaves resonates with the broader concept of the resources curse, in which heavy dependence or concentration of economic activities in resource extraction and processing leads to sluggish economic growth, economic volatility linked to the proclivities of commodity prices, and the 'dutch disease' in which commodity based economic activities 'crowd out' other sectors of the economy by exhausting capital and human resources and rendering industrial and agricultural sectors uncompetitive in international markets through high currency exchange rates (Badeeb et al., 2017; Rehner et al., 2014). While the concept of the 'resource curse' has typically been used to refer to national level economic effects of resources booms, negative economic growth effects can occur in regions focused on extractive industries. A regional resource curse can arise from a loss of capability due to concentration of economic activities and labour demand in mining (Fleming et al., 2015). However, it is not inevitable that regions or nations experience negative economic consequences of resource development. Many resource rich regions and nations have experienced growth and development opportunities linked to the resource sector (Arvantis and Weigert, 2017).

It therefore remains important to determine the factors that influence whether regions become mining enclaves or successfully develop a broad and more advanced industrial base alongside, and connected to

* Corresponding author.

E-mail address: r.parker@qut.edu.au (R. Parker).

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mining. Increased attention has been given to political and institutional factors that affect whether resource abundance translates into resource dependence (Brunnschweiler and Bulte, 2008) including authoritarian institutional structures, corruption, the absence of the rule of law, local cultural and political practices (Lawer et al., 2017) and the significance of governance frameworks in influencing Corporate Social Responsibility (CSR) practices (Andrews, 2016).

However, there has been only limited attention given to the role of management practices and firm strategy in influencing the development of diversified local supply chains in the resources sector. The practices of lead resources firms are influenced by the broader political-economic patterns of globalisation and financialisation of contemporary corporations (Milberg, 2009; Foster and McChesney, 2012). Whether processes of local industrial development accompany intensive resource industry activity may be influenced by the management practices and strategies of lead firms whose organisational structures are increasingly globalised and financialised. As Morris et al. (2012) noted,

“locally incorporated lead firms are more deeply embedded in the local economy, have greater familiarity with local suppliers and customers, know their way around the institutional infrastructure and, crucially, they are more committed to local development than footloose foreign owned firms” (Morris et al., 2012, p. 411)

This is well demonstrated by the case of Zambia, in which linkage development was a central component of Zambia's industrialisation strategy during the period of nationalisation. A variety of state policies supported the growth of the supply base including preferential sourcing, import substitution industrialisation and collaboration along the value chain between research institutions, training bodies, lead firms and suppliers (Fessehaie, 2012, p. 445). This strategy shifted following privatisation and globalisation of the resources industry in the 1990s. Foreign owned lead firms introduced arms-length supply chain management techniques that resulted in a decline in manufacturing and a loss of depth in value-added segments of the supply chain (Fessehaie, 2012, p. 446). The strategic behaviour of global resources firms is therefore an important influence on the development of backward linkages which achieve economic diversification (Contractor et al., 2010; Morris and Staritz, 2014).

The impact of financialisation is also explained by Morris et al. (2012):

“Firms which are affected by shareholder value structures or which raise their funds on short term markets may have little patience with long term local supplier or customer development” (Morris et al., 2012, p. 411).

Lead publicly listed resources firms are highly financialised, representing some of the highest levels of capitalisation on global stock exchanges. Krippner (2005) has shown that non-financial corporations (such as resources corporations) increasingly compete, not just in commodity markets, but in financial markets to attract and retain investor interest in their stock. There is an increasing tendency for firms to deliver on financial analysts' assessment criteria by reducing costs, because value creation activity, or innovation, is much riskier and has a longer time horizon (Lazonick and Mazzucato, 2013). Innovation risk is particularly high in capital intensive industries with complex production processes such as mining, in which step-change technological change is long-term and costly. In addition, in many industries, price competition has eliminated the capacity to generate profit through price increases (Milberg, 2009), rendering a focus on costs of even greater necessity. This is particularly apparent in the resources sector following recent commodity price declines. The heavy drive towards cost minimisation and risk aversion has significant implications for the development of long-term productive linkages with local METS suppliers in mining regions.

This paper contributes to understandings of how globalisation and financialisation drive the strategic orientation of lead resources firms

and affect the creation and growth of linkages with local METS suppliers in Queensland, Australia. Queensland is in the world's top five regions for the production of lead, zinc, bauxite and silver and is one of the largest seaborne exporters of coal in the world. Queensland has a substantial METS capability, which would indicate a possibility for economic diversification to occur alongside minerals exploration and processing. There is a significant representation of METS firms in Queensland (Austmine, 2013). However, this paper suggests that the global organisation of production in lead resources firms and the strong influence of financial market logics are undermining the potential for linkage development and diversification of value chains.

2. Method

This paper is focused on the case of the Queensland mining industry which accounts for 7.3% of gross product and fifty-nine percent of the State's exports. Coal is a particularly important commodity. Queensland accounts for fifty percent of international trade and one eighth of global production in metallurgical coal (coking coal used in iron and steel making) and fifteen percent of internationally traded thermal coal (used in energy production). Coal production taking place in 2015 occurred in 41 open-cut and 13 underground mines. After coal, base metals are the most significant sector in Queensland's mining industry including bauxite, copper, gold, zinc, lead, and silver (Department of Natural Resources and Mines, 2017).

The METS sector is the major group of local supplier firms to the lead resources firms. Austmine, the national industry association representing the METS sector, has reported that there are around 149 METS firms in Queensland for whom mining firms are their major customers and eighty-five percent of these firms have some involvement in coal.

We utilised two main data sources for this research. The first was the major financial newspaper in Australia, the Australian Financial Review (AFR), which reports market trends. The AFR was used as an information resource on corporate activity and market trends and was searched through the digital database Factiva. Other publicly available documents produced by major consultancy organisations that track mining industry trends and public institutions such as the Australian Securities Exchange and the Reserve Bank of Australia were also utilised and are cited below. The information obtained from these sources was used to track major corporate developments and obtain data on industry concentration and capitalisation.

The second source of data was thirty-seven semi-structured interviews. Thirty-four interviews were conducted with managers of firms of a variety of different sizes for whom the mining industry is their major customer or sector of operation. Of the thirty-four firm interviews, one was with a mining industry investment firm, four were with the CEO/CFO or procurement manager of mining firms and two were with procurement managers from Engineering, Procurement and Construction Management (EPCM) firms. The remaining twenty-seven interviews were conducted with supplier (METS) firms. In addition to the thirty-four firm interviews, three interviews were conducted with industry experts: one from a mining focused research institution with investment experience and two from government. Firms were selected from a data base that the research team generated from directories of various industry organisations such as Austmine (the peak industry association for supplier firms in the mining sector in Australia) in addition to internet searches. Firms were selected for interview if they had at least 15–20 employees. Around three-quarters of firms had Australian headquarters. Some of the interviews were attended by more than one representative from the firm, therefore 41 representatives participated in the interviews. Interview questions focused on the nature of the relationships between Australian METS firms and their customers, how firms ‘win work’ locally and globally, how firms negotiate to capture revenue for their product/service, firm capabilities and technologies, and the competitive strengths and weaknesses of the

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