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Mining shareholder value: Institutional shareholders, transnational corporations and the geography of gold mining

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ABSTRACT

The ownership and activism of institutional investors in large publicly traded gold mining companies have re-oriented business strategies toward maximising value for shareholders. This paper examines these strategies in the context of the commodity boom (and bust) of 2003–2015. A study of the activities of some of the largest gold mining companies reveals a re-alignment of their operations to satisfy the yield requirements, investment motives, and risk tolerance of institutional investors. By prying open the black-box of corporate decision-making, the expansion and subsequent contraction of mining activities are shown to have in part been enabled and constrained by the investment appetite of a particular class of investors. The findings make the case for a more situated analysis of corporations, a key but understudied actor in political ecology studies.

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1. Introduction

Speculative interest played a critical role in the expansion of gold mining activities in the commodity boom of 2003–2011—the longest recorded boom since the post-war period (Hilpert and Mildner, 2013). Institutional investors—defined by the US Securities and Exchange Commission as entities with a minimum of US\$100 million in equity assets under management—have placed large bets in different investment channels to ‘ride’ the uptake in the gold price, including through stock holdings in gold mining companies. Gold mining firms drew in institutional investors like hedge funds in their stock registers, shifting their investor base toward more short-term investors. As a key source of money-capital, institutional investors have directly contributed to the funding of gold mining activities through purchases of new stock offerings. As majority shareholders, this positioned them to exercise strategic control over firm management.

The strategies of institutional shareholders diverge from regular shareholders. Whereas typical shareholders follow a passive, long-term, ‘buy-and-hold’ strategy, institutional investors are ‘activist’ shareholders, and are considered to have a shorter-term investment horizon. Within firms, institutional shareholders can exert a disciplining role. Through shorting strategies or by exiting in herds, they can swiftly drive down share prices. This positions them to exercise a ‘voice’ in how companies are run and to propel firms to align company activities toward ‘shareholder value max-

imisation’. In the literature on financialisation, the shareholder value doctrine is considered a key manifestation of the financialisation of the firm. Ideologically, ‘shareholder value’ instils in company managers a notion that the firm is ultimately beholden to ‘shareholders’ as owners of capital over one that weighs the interest of other ‘stakeholders’ in the company (for example, employees) (Dore, 2008: 1105). To maximise shareholder value, companies are expected to prioritise stock price appreciations and rising dividend payments. Stocks and dividends become the indicators of company and managerial performance, instead of traditional measures of product market share. Studies have shown how shareholder value has led to a greater part of company earnings returned to shareholders rather than reinvested in growth (Froud et al., 2000a; O’Neill, 2001; Jacoby, 2008; Pike, 2006; Lazonick and O’Sullivan, 2000).

This paper considers the implications of this shift in the operations of some of the world’s largest gold mining companies. I argue that understanding the internal dynamics of the firm contextualises some of the developments that unfolded in the past decade: aggressive expansion during the boom years followed by mine closures, lay-offs, and the scaling back of mineral operations. These are, at least in part, responses not only to movements in mineral prices but to considerations of shareholder value. Shareholder value maximisation is conceptualised here as a set of strategies that reframe the parameters of mineral extraction, shaping in various ways the possibilities of expansion throughout the mining cycle.

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Yet, financialisation, or more broadly the nexus of mining and finance, has not been given sufficient focus within geography and political ecology studies despite a recognition of its importance. Bridge notes, for example, how “the volatility of mineral investment is a response to not only the notorious volatility of mineral markets, but also to the vagaries of the market for finance capital” (2004: 410). Widely documented within the financialisation literature, capital markets, which have been important sources of financing for gold mining companies since the 1980s, have evolved to include ‘new forces’ that have been described as “much more mobile” (Froud et al. 2000a: 24), “impatient” (Pike, 2006: 204) and “yield-hungry” (Ernst and Young, 2013: 4), as compared to investors of the past—a difference that, as will be argued here, required a realignment of established industry practices toward investor preferences. More systematic research on the changing landscape of mining finance and the internal processes of the corporation is thus warranted and necessary to shed light on their implications for places where mineral resources are drawn.

This study is based on some of the largest gold mining companies headquartered in Canada (Barrick Gold, Kinross, Agnico Eagle, Goldcorp, and IAMGold) with stocks trading on the Toronto (TSX) and New York (NYSE) stock exchanges—the primary listings for mining companies and the main exchanges for raising equity capital for gold in the past decade. These companies have been key recipients of institutional shareholder investments through funds raised in the equities market and display high levels of institutional shareholder ownership. They are also subject to the same disclosure regulations in the TSX and NYSE and follow the generally accepted accounting principles (GAAP) for financial accounting. Within the industry, these companies are also primarily responsible for the production segment of the supply chain and hold several mineral operations spread across different countries and continents. As case studies, they provide a useful lens for analysing the calculations that firms make on growth and geography at different stages in the commodity cycle and for clarifying the role that institutional shareholders have in these decisions.

This paper is the result of 34 interviews conducted in Canada, the UK, and Chile. The list of participants includes industry and financial analysts, company employees, as well as state agents, academics, think tanks, and non-governmental organisations (NGOs) that study and monitor the mining industry. Access to and selection of respondents for elite interviews were facilitated by networking and attendance at key mining conferences in London and Toronto. The use of elite interviews for this research was mainly to: understand how the gold industry has changed over the past decades; to materialise and contextualise the measures taken by firms attempting to maximise shareholder value; and to unravel the considerations behind company acquisition/divestment decisions, explorations, and mine ramp-up and closures, among others. Interview questions were mostly open-ended rather than standardised to ensure a more interactive exchange between interviewer and respondent (see Schoenberger, 1991). This interviewing approach also avoids limiting the respondents to pre-set categories and is sensitive to differentiation—as firms are differentially situated, even for those that belong to the same industry. Respondents were guaranteed confidentiality and anonymity.¹ The interviews were coded and triangulated with data drawn from company presentations at industry conferences, company and industry reports, regulatory filings, proxy statements, press releases, newspaper coverage, and NGO reports. Access to key documents and archival material was facilitated by the move toward greater transparency in the mining industry following stricter regulatory

scrutiny in the mid-1990s. The gold mining sector is also considered one of the most transparent regarding the kind of information it divulges to the public and to potential investors (Butterman and Amey, 2005; South African Chamber of Mines, 2013; Jenkins and Yakovleva, 2006). Data on shareholder ownership was drawn from the 13-F filings by institutional investors compiled in the Nasdaq National Market System.²

The following section situates the paper’s theoretical contribution amid recent work on extractive industries within the fields of geography and political ecology. This is followed by an empirical description of the gold sector and the socio-political conditions that set the stage for a surge in institutional investment in gold mining firms (Section 3). Building on this, I contextualise the aggressive growth undertaken in gold mining activities during the boom years in light of the alignment of finance and industry capital (Section 4). Institutional investors fuelled companies’ growth and expansion on expectations of future rises in stock prices and dividends. As companies subsequently faced lower margins due to higher costs and a lower gold price, the means to maximise shareholder value instilled a more disciplined approach to production and investment (Sections 5). Institutional investors’ conception of geopolitical risk disciplined expansive strategies, with preference for jurisdictions considered mining-friendly or those that met shareholder value thresholds as a focus of investment. I conclude by highlighting the significance of these findings for mining geographies and call for a scaling-up of existing analyses to include financial geographies (Section 6 and conclusion).

2. The financialisation of the corporation: shifting strategies and power relations

Writing in 2003, Ballard and Banks observed that in the ‘stakeholder triad’ of state, communities, and corporations that figure in political ecology studies, the corporation remains comparatively understudied. Anthropological studies, quite predictably, have placed more attention on the struggles and conflicts arising from corporate activities (Ballard and Banks, 2003), while others have preferred the familiar terrain of state-centred approaches typically found in development studies, or indeed ‘resource conflict’ studies (Allen, 2013). In a 2011 annual lecture at the Association of American Geographers, Bebbington (2012: 1153) made a related argument: that a more profound disinterest in the ‘subsoil’ has led to the extractive industry being absent from classic works on political ecology, and even less in geography, despite earlier work by some geography scholars.

Recognition of this gap has yielded a growing literature that encompasses a variety of issues concerning mineral extraction, with socio-political struggles, resource governance, and the environment coming at the forefront of geography and political ecology concerns (see, for example, Himley, 2013; Bridge, 2013; Makene et al., 2012; Martinez-Alier et al., 2010). In keeping with their respective traditions, they foreground the historically-contingent and ‘multi-scalar’ processes that shape extraction. Scaling up also brought renewed attention to ‘non-place-specific’ trends (Bridge, 2002: 377), such as price movements in commodity markets, the availability of financing, and firm strategies, and has re-instated the corporation as an important object of study. Though these studies still remain in the minority, they were born out of a recog-

² 13-F forms are quarterly reports required by the US Securities and Exchange Commission that divulge the ‘long positions’ in equity holdings of institutional investment managers holding at the minimum US\$100 million in equity assets under management. Since 13-F filings are voluntary and do not require institutional investors to provide full disclosure, these should be taken as merely indicative of their investment preferences rather than providing a comprehensive picture of their activities.

¹ Some quotes from respondents have been truncated (i.e. by eliminating company name, respondents’ position, or the name of the mineral project that can serve as identifiers) to ensure this is upheld.

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