

The two success factors of exploration - Number #1

Mining News - Viewpoint > Strictly-boardroom
29 January 2019 - Allan Trench, John Sykes

STRICTLY Boardroom reckons there are only two things that drive successful exploration – here's the first.

SB has been asked to speak to the exploration team of a large miner next month with a view to guidance on what makes for successful exploration management practice. Having read myriad papers and reports on this topic over the years, indeed decades, as well as some practical experience in the role, your scribe still has some reservations about precisely what to say that is not simply 'motherhood management mantra'.

The reservations hail from the fact that the prevailing view of an exploration success formula has not changed that much in the last 50 years: Select the right ground, do win-win commercial deals, if in doubt then drill more holes than peers, and give left-field controversial thinking every chance to rise to the surface - backing unconventional ideas whenever they emerge.

That lot can be simplified into two metrics - which form the backbone of any management practice.

The two things are to 'do the right thing' and then to 'do things right (with credit to management legend Peter Drucker for that counsel¹). Put another way, companies have to choose 'where to play' and then decide 'how to win' - this time acknowledging Procter & Gamble².

This week we discuss the former objective - to '**do the right things**'. Next week, we'll consider '**doing things right**'.

What has disappointed SB in years of reading is that our industry has failed to rise above the 'do it my way' discourse that inevitably gets trotted out when an experienced explorer recounts their successful approach in hindsight.

Often the advice is to 'get boots on ground' - which is of course a no-brainer - but is also contextual.

Getting boots on ground in the South Australian Stuart Shelf in search of the next Olympic Dam is unlikely to succeed. Those same boots however will have significant impact when deployed in areas where the rocks actually reach the near-surface.

The propensity of the next generation of explorers to want to stay in the city and play with computers is often lambasted. But playing with computers of course forms a critical part of modern exploration best-practice. Computer 'games' in exploration can be one of the 'right things'.

A further failing of our industry has been to ascribe success to a single person when a discovery eventuates. This is understandable of course - as everyone likes a simplified perspective, especially in recounting management success - but such 'hero worship' of past explorers is something of an insult to the teams that sat around them, to their successors - and also to the corporate decision-makers too, who 'do their bit' towards eventual success.

Given that your scribe has only one hour to speak on the topic next month - inevitably the summarised counsel comes down to some form of 'to do list'. As a list, the summary inevitably suffers from an over-simplification trap. Similarly, any to-do list underplays the complexity of management, where the strategic challenge is typically to resolve paradoxical choices rather than strictly follow a scripted recipe.

Nevertheless, here is the working copy of the success factor - to '**Do the Right Things**'

1. 'Over-invest' time in ground selection.

The temptation to avoid here is to 'just get on with it', too early, in conceptualising the next discovery. Ground selection involves a lot of desk-top research, which is often undervalued within corporations as 'dead time'. The opposite is of course closer to the truth. We posit that prospectivity and mineral endowment analyses remain under-utilised, albeit that they still remain emerging 'geo-economic' disciplines (especially in the mining/metals domain, less so in mainstream oil and gas exploration).

2. Do whatever it takes to stay funded.

For juniors in particular, sometimes the key decisions as to where to acquire ground and to drill will not perfectly fit the corporate 'textbook'. Nearology is a contentious but salient example - with juniors risking being seen to 'mine the market' rather than being a 'serious explorer' - but inevitably maintaining investor interest requires a sprinkle of populist decisions.

Purists will push-back on this counsel to sometimes depart from a textbook, focused search as a junior (we await your emails) - but a purist approach to exploration for a junior risks excessive dilution. A junior who can maintain investor interest and trade properties for profit is not a pure explorer - but lives on - hopefully without billions of shares on issue - to continue the search for a company-making discovery.

The same constraints are less relevant to majors conducting exploration - where the pitfalls of excessive dilution via an expanded capital structure are far less acute, though conducting 'unpopular' exploration can still cause problems further up the hierarchy, and in turn have a similarly poor impact on funding.

3. Communicate constantly - especially 'upwards'.

Industry legend Roy Woodall, former exploration director at Australian miner WMC (subsequently acquired by BHP) was once asked what a young geologist should learn to be successful. His answer was to learn to communicate ideas upwards with great skill. That counsel still applies whether you are a young professional or an older one. An exploration team that cannot communicate effectively in corporate circles is lacking in a key skill - and risks becoming irrelevant.

4. Create solutions - rather than seeking 'charity'.

Exploration needs to 'pay its way' in companies whether large or small. That means divesting key projects at a profit that don't meet corporate needs - and on occasions exiting at a loss - but quickly - before excessive commitment-bias kicks-in. Managing 'failure' is just as critical as is managing success - and in practice even harder.

5. 'Irrationality' is the new rational - Seize the day

Circumstances change rapidly. New technologies and commodity market shifts in demand and supply can make previously 'irrational' search for deposit types rational over time. Many companies fail to realise the changing external world fast enough and stick to their guns - missing emerging opportunity. This applies as much to commercial arrangements as it does to technical targets.

If your CFO says 'we shouldn't joint venture with a junior because we had a bad experience a decade ago when we last tried it' then you are suffering from an overdose of 'rationality', in this case erroneously anchored in the past (to the extent, that in this example one could rationally argue the CFO is being irrational).

Commodity markets move fast. What is out-of-season this year in the Periodic Table 'fashion stakes' actually means opportunity. The same goes for geographies (Mongolia is out, the Paterson is in, etc.) and exploration (and financial) technologies. It is superficially 'irrational' to chase commodities that are 'down' - and also irrational to chase hot commodities at the top of the market cycle - but both have a role to play within a portfolio. The key is to be sufficiently self-aware as to the prevailing situation to make forward-thinking choices.

That's it. No doubt given scarce time to prepare just a few words to present, your scribe has missed additional key issues - so you are cordially invited to put us right!

Next week we'll consider the challenge to '**Do Things Right**'.

In the meantime, have we risen above 'motherhood' counsel: Perhaps not? We'll continue to work on it!

Good Hunting.

Allan Trench is MBA Director and Professor at the UWA Business School, a non-executive director of several ASX-listed minerals companies - and the Perth representative for CRU Consulting, a division of independent metals and mining advisory CRU Group (allan.trench@crugroup.com).

John Sykes is undertaking a multidisciplinary doctorate at the Centre for Exploration Targeting, UWA and a sessional lecturer on the MBA programme at UWA Business School. He is also a strategist for MinEx Consulting and a director of Greenfields Research, both consultancies specialising in the analysis of mining and exploration across the base, precious and specialty metals sectors. (john.sykes@greenfieldsresearch.com).

1 - <http://sourcesofinsight.com/management-is-doing-things-right-leadership-is-doing-the-right-things/>

2 - <https://www.amazon.com.au/Playing-Win-Strategy-Really-Works-ebook/dp/B00AJVJ1HI>