Case study: Change management (Structure)

Anglo American is a leading global mining company established in 1917 by Entrepreneur Ernest Oppenheimer. The company which was established in South Africa expanded through merger of different mining fields overtime. They have expanded to Europe and around the world . The company's business has grown and diversified into many other industries. Its products and services include iron ore, nickel and Manganese, coal, copper, platinum, diamonds, polyhalite.

Some observers might assume that Anglo American PLC is a U.S. company, in reality the company has never been American. Instead, Anglo American is based in the United Kingdom but has substantial operations in other parts of the world, most notably Africa, South America, and Australia. The firm is the world's fourth-largest diversified mining company and the largest producer of platinum. It has annual revenues of more than $20 billion, earned $4 billion in profit in 2019, and has around 90,000 employees.

The last several years have been a period of change for Anglo American. The major upheavals started when Cynthia Carroll was appointed as CEO. The *Times* of London expressed shock at the appointment, referring to mining as "an irredeemably macho industry." Not only was she not a man, Carroll was neither a mining industry veteran nor British (she's an American). When her appointment was announced, Anglo's stock immediately dropped $0.80 per share. The dice, observed the *Times*, were "probably loaded against her from the start," and to make her job even more difficult, she was soon forced to embark on a $2-billion efficiency program involving a number of changes guaranteed to rile the old guard of the century-old company. Her whirlwind campaign to cut costs by $450 million in a 6-month period earned her the nickname "Cyclone Cynthia," but many analysts and investors were unimpressed by the savings: Because the entire industry was struggling with high costs during the recession, Carroll's cost-cutting was seen as little more than the logical and obvious strategy to pursue.

Then, the Swiss–British mining company Xstrata proposed a merger with Anglo—a move that would create a $68 billion firm to compete with industry giants like BHP Billiton, Vale, and Rio Tinto. Xstrata said in a statement that it was seeking "a merger of equals that would realize significant value for both companies' shareholders" and cited "substantial operational synergies" that could amount to savings of $1 billion a year in combined costs. From Anglo's perspective, there were drawbacks to the deal—its portfolio was worth more than Xstrata's and would be diluted by a merger of the two—but the appeal to Anglo shareholders was clear: Depending on how the new company distributed the cost savings among its investors, Anglo shareholders stood to realize an increase in the market value of their holdings of 26–37 percent.

Carroll and the Anglo board quickly rejected Xstrata's offer as "totally unacceptable," and in August, Carroll presented both Anglo's mid-year financial results and its argument for remaining independent. Once again, however, the numbers were underwhelming: Because of the global economy, profits were off

69 percent and revenues 38 percent. Anglo investors wanted to know what management was doing to deliver the kind of returns promised by the Xstrata merger, and an analyst at Barclays Capital, Britain's biggest investment bank, announced that "in our view, Anglo American has not yet presented a strong argument as to why a merger with Xstrata is not strategically sensible and value-creating for its shareholders." "Frankly," replied Carroll,

Soon thereafter Xstrata withdrew its offer in the face of resistance from the Anglo board. Anglo, said a company spokesman, "can now move forward and run our business without further distraction." One analyst predicted that Anglo "will likely show a renewed sense of urgency . . . and pull out all the stops to win shareholders over." A few days later Carroll did indeed announce a major overhaul of Anglo's organization design intended to improve efficiency and make the firm more profitable. In making the announcement, she asked shareholders for more time to develop the firm's assets and prove its value as an independent company. "The portfolio changes we have announced," she argued, ". . . will position Anglo American well for sustained, profitable growth in the commodities we have identified as being the most attractive." She also projected that it would take three years to complete the reorganization.

The central element in the new organization design was referred to as *delayering*—eliminating a layer of its structure and reorganizing operations into resource-based units. At the time of the announcement the company was organized into two global product divisions—Coal and Ferrous Metals, each with its own CEO, both of whom reported directly to the CEO of Anglo American. Below the divisional level were Anglo's various global business operations, each dealing with a different commodity (e.g., coal, platinum, iron ore) and each headed by its own CEO and functional support staff. The CEOs of these units reported directly to the CEO of his or her respective division. As a result of what Carroll called "simplification and delayering," these businesses were reorganized into seven "commodity business units" (BUs), each of which is now "profit accountable"—that is, responsible for its own performance. The major criteria for this reorganization were geography and asset status. The platinum unit, for example, is headquartered in South Africa, the copper unit in Chile, and the metallurgical-coal unit in Australia.

In addition, Anglo focused BUs only on its *core assets*—operations that are essential to producing revenue, cash flow, or profit. Going hand in hand with the company's delayering strategy is thus a strategy to divest its noncore assets: Having already shed its interests in gold and aluminum, Anglo also sold its holdings in such commodities as phosphates and zinc as well as a company that manufactures steel products for the construction industry. The decision to delayer and divest, said Anglo chairman Sir John Parker, "represents an important step in creating a more streamlined business, with enhanced focus on operational effectiveness. . . . We have a truly world-class portfolio of assets, and these initiatives further improve our ability to deliver its full potential."

As projected, Anglo American's overhaul was completed in the three-year window. During the years spent changing the firm's organization design, Carroll oversaw a number of new efficiency measures and a reduction in the number of employees from more than 162,000 to around 100,000. Carroll left Anglo American after she finished implementing these massive changes. However, the firm continues to alter its design. Two years later, for example, top managers announced a new overhaul that would result in three large business units, one each for platinum, diamonds, and all other minerals. No timetable was announced for implementation of this next round of changes, however.

Link video-https://youtu.be/4NsjE4eB_Mw, https://youtu.be/uIOv5ottlt4

Case Questions

1. Identify the basic organization change issues at Anglo American.
2. What basic elements of organization design were changed? What elements were probably not changed?
3. What other aspects of organization change can be identified in this case?
4. What issues related to resistance to change did Anglo American most likely encounter?
5. What role does innovation play in a company like Anglo American?

Case updated and adapted from : Griffin, R. (2019) Fundamentals of Management, 10th Ed, Cengage Learning inc., USA.