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**Assessing Investment Rationale:
The Case of Anglo American Corporation in
Latin America**

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Abstract

This thesis assesses the investment decisions and investment behaviour of the Anglo American Corporation in Latin America and Africa. It focuses on the question of ‘why’ Anglo chose to invest in Latin America and how it went about choosing one country over another. It is an historical, ideographic study that explores the role of personalities, institutional, political and corporate culture and wider national and regional political criteria in Anglo’s investment decision process.

The research shows that Anglo’s investment decisions were based on more than financial cost-benefit returns. Indeed, the importance of maximising financial outcomes – best described by the ‘rational choice’ paradigm – provided the initial impetus for investment. But there was more to it in Anglo’s case. Politics and organisational concerns and culture were implicitly part of Anglo’s decision making. Political criteria have become increasingly entwined with business decisions in less developed countries where medium-to-long-term stability is questioned. This advances the notion of ‘bounded rationality’ in decision making, which includes an array of political and policy considerations in a developing world investment setting.

Internal politics, leadership and organisational culture also influenced the company’s investment decisions. They were key in leading Anglo to Latin America, and central to the decision not to invest further in Zambia in 2001. The combination of these influences is described in this study as ‘composite investment decisions’: an integration of endogenous and exogenous factors.

The research traces Anglo’s progress in Latin America from inception into Brazil in 1973 through the growth of accumulated investment assets reaching US\$5 billion in 2004. Anglo’s investment decisions ensured that it retained its position as a market leader in Latin America and the world of mining over a thirty-year span.

Explaining why and how these investment decisions were made is a story until now never told that should inform academia, business analysts, multinational companies and policy-makers.

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The process of intellectual development undertaken this research study drew me into a long and fulfilling journey (of self-discovery, among other things) that stretched from South Africa to Latin America and the United States, and from the University of Cape Town to the University of California, Berkeley. It was a journey that was supported, enriched and – in some cases – facilitated by a number of individuals who not only made it possible, but also encouraged me every step of the way. I am eternally grateful to them all.

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Secondly, my family. They have always encouraged me to take the road less travelled and instilled a sense of conviction that has allowed me to spread my wings and pursue my wildest dreams. Cuan, my brother, has helped me to see another perspective of the world and was an essential antidote when I was caught up in my own mind and needed to see the world for what it was – which was a lot less serious than I had imagined. My father has been a solid rock of support who seemed to embrace my new academic endeavours with as much vigour and enthusiasm as I myself did. My mother is an exceptional person, and few people have the depth and human understanding that she has. She always believed in me and made me believe

in my own abilities. This research study is dedicated to her. David and Michelle stood by my parents (and us) and made them the special people they are today. I thank them for that.

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Berkeley, June 2007

For my Mother,
who never stopped believing in me, who shared my interest and fuelled
my passion for Latin America.

And Frida and Tony,
who epitomise those free-spirited artists that help make this world an
interesting and wonderful place.

"The irony of life is that when you finally acquire wisdom it is too late to apply it."

(Gabriel Garcia Marquez, 'Love in the Time of Cholera')

Chapter 1

Introduction: The Essence of Investment Decisions¹

1.1 Introducing the research theme

Why do firms invest? How are foreign direct investment² (FDI) decisions made? Who makes these decisions?

This thesis examines these three questions in describing and analysing the process that led to the expansion of the Anglo American Corporation (described hereafter as ‘Anglo’) of South Africa into Latin America in the 1970s. This decision led to Anglo becoming the largest mining company in Latin America. Anglo’s investments altered the destiny of the company, changing it from an African-centric operation to a global player.

The case of Anglo in Latin America is presented here as an idiographic study, the story of why and how a multinational corporation decided to shift its investment focus from Africa to Latin America. It is a story that has not yet been told.³ It is the story of personalities, institutional, political and corporate culture, and wider national and continental political criteria. This history shows that investment decisions are made on grounds other than a financial cost-benefit analysis. For Anglo, politics were implicitly part of the rational decision-making process. However, this is not unusual. The political environment has, for a mining company, profound relative significance, given the long-term investment return

¹ The term ‘essence of decision’ was used in by US President John F. Kennedy. Graham Allison later based the title of his groundbreaking analysis of the Cuban missile crisis and decision-making models on these words.

² This term is defined in detail in the Appendix to this chapter.

³ Some references to Anglo’s presence in Latin America have been published in the popular press and mining magazines. *Optima*, the magazine published by Anglo American, is one such source in particular. But, to date, the comprehensive story of Anglo American in Latin America (its entry and how it prospered) is yet to be told in its entirety. See for example Pallister, D., Stewart, S. & Lepper, I. 1987. *South Africa Inc.: The Oppenheimer Empire*. South Africa: Media House Publications; Gregory, T. 1962. *Ernest Oppenheimer and the Economic Development of Southern Africa*. Cape Town: Oxford University Press; Jameson, B. 1990. *Goldstrike! The Oppenheimer Empire in Crisis*. Great Britain: Hutchinson Business Books; and Duncan Innes’ 1984 study, *Anglo-American and the Rise of Modern South Africa*. Johannesburg: Raven.

horizons, where deep shaft mines can take more than fifteen years to show a profit.⁴ This horizon and their physical onshore nature has encouraged mining companies to engage with local politics and the communities in which they operate; and to consider long-term questions of stability in making these investment decisions.⁵

1.2 Background to the case-study

By its entering into Brazil in 1973, Anglo launched what would become the most lucrative regional mining investment initiative in the company's global operations. Latin America, or more specifically South America,⁶ emerged as a popular (though perhaps initially unlikely) alternative to Africa for the company's investments in base and precious metal mining.

The Anglo American Corporation was founded with British- and American-based capital in 1917 by Ernest Oppenheimer. By the mid-1920s Anglo American had already begun diversifying its operations beyond the borders of South Africa. It had also become the largest shareholder in De Beers Consolidated Mines, marking the start of a long and intricate relationship that – combined – formed one of the largest and most influential mining houses in the world.

While copper from Zambia made up a significant amount of Anglo's returns in its early years of expansion, the company only began to truly internationalise its investments and operations in the 1960s with the purchase of Hudson Bay Mining and Smelting Company in Canada. Its international expansion then accelerated in the 1970s following the nationalisation of the Zambian copper industry, which ironically, given subsequent events outlined in this study, provided sufficient capital for large offshore investments. Anglo was compensated £95 million for the acquisition of 51 percent of the copper mines by the Zambian government.

⁴ This is the investment return expectation on South African gold mines for instance.

⁵ It is thus questionable whether countries with onshore mines are more stable than those with offshore ore for this reason. This is suggested as a further area of enquiry, but one that is beyond this particular study.

⁶ The term 'Latin America' is often used to describe the general region, while 'South America' is most often used to describe the geographical area or continent. This study focuses exclusively on Anglo American in South America, but generally refers to this area as Latin America. There are times throughout the study where South America and Latin America are used interchangeably. While a study with a geopolitical orientation might require a greater distinction between the two, a clear distinction between these two concepts is only important if specified at any particular time.

This capital was used to establish the Minerals and Resource Corporation (Minorco), which – while independently run from Luxembourg – was essentially Anglo’s offshore international acquisitions company. Anglo American and De Beers accounted for nearly 70 percent of the company.

Minorco’s first major investment was in Latin America. In 1975, Minorco financed the acquisition of a 49 percent stake in the Brazilian mine Morro Vehlo. From this Anglo American of Brazil (AMBRAS) and later Anglo American South America (AMSA) were established. This launched Anglo’s region-wide investment drive across Latin America. By the early 1990s AMSA had become one of the largest mining groups in Latin America. By 2005, its accumulated assets exceeded \$5 billion.

By the early 1970s Anglo was the undisputed leader of South African business. It was by far the largest diversified mining company in South Africa (and Africa). But while it was clearly a corporate entity with a diversity of interests and obligations to shareholders, Anglo still retained a very particular South African-centric image and appeared to straddle a position somewhere between a large corporate organisation on the cusp of international expansion and a family-controlled business. This perception prevailed even as Harry Oppenheimer⁷ pursued his ambition of launching the company abroad and fulfilling his vision of Anglo becoming a leading multinational mining house. These dynamics shaped Anglo’s decision-making process and investment rationale. The combination of diversity of interests, the various personalities that influenced the process along the way, and the intersection of political and commercial influences finally resulted in a decisive investment decision that took Anglo to South America, where the company and its affiliates grew and prospered.

1.3 Why this study?

By the mid-1970s, Anglo comprised one of the big five on the South African stock-exchange along with Barlows, Johannesburg Consolidated Investments (JCI), Gencor and Goldfields. Together these firms comprised more than eighty percent of the value of the Johannesburg

⁷ Harry Oppenheimer was the son of Sir Ernest Oppenheimer, who founded Anglo American Corporation of South Africa in 1917. After the death of his father in 1957, Harry Oppenheimer took over the reins of Anglo American until 1982, when he stepped down as chairman in favour of Gavin Relly.

Stock Exchange (JSE). Indeed at the peak of the gold price in the 1980s, the value of the Anglo listing alone made up more than half the JSE's value. This was a reflection of the company's success, the nature of the South African economy and the political dynamics at the time. Exchange control regulations made it difficult for companies to invest outside of South Africa, a regulatory noose that had gradually been tightened by the independence of 'black Africa' and the (at least part) nationalisation of multinational mining operations, notably, for Anglo, in Tanzania, Zaire/Congo and Zambia. The result was increasing diversification into other sectors, creating mining houses involved in everything from newspapers to property, paper to construction.

Anglo's history and structural attributes – a family-centred and founded business, prominent in the controversial mining sector, but with a diversity of industries within its investment portfolio, and intimately involved in local and regional politics in South and Southern Africa – provided a fascinating example of a South African mining company or multinational operating in Latin America. Anglo was by far the largest South African-based company and is still synonymous with South African business and mining interests around the world. It was a pioneer of South African investment in Latin America and carved a path of success that many companies in South Africa and elsewhere have tried to follow.

Given the highly politicised nature of its South African base and thus of Anglo's operations in the mining sector, from the outset it appeared unlikely that investment decisions were based solely on comparative advantages⁸ in natural resources. As will be illustrated, choices were made rather according to competitive advantage.⁹ A better understanding of this concept as an investment rationale emerges from this study. Ironically such a 'competitive advantage' is a function, too, of the circumstances the investment target states found themselves, demanding a more competitive, friendly, stable investment climate as their principal advantage for attracting investors. For example, one consultant study cited during the course of this research, noted that for the same type of mine utilising similar extraction equipment and methods and the same cost to port, the comparative ore grade required for the same profit

⁸ Comparative advantage, in the classical sense, is a fixed or static advantage based on the endowment and accessibility of natural resources.

⁹ Understood in this context as country-specific factors influenced by the political economy of the investment environment. Competitive advantages allow a country to influence investment rationale by reducing risk and providing favourable criteria for investment. This concept is explained and further contextualised for this particular case-study in chapter 3.

was 0.7 percent in Chile, 1.4 percent in Peru and two percent in Brazil. This was due the hidden financial costs, notably taxes, employee social benefits, and import tariffs payable by the investor.¹⁰

The study of Anglo's investment decisions in this thesis is thus structured around themes and issues – as opposed to problems and hypotheses. Key questions to be addressed throughout include:

- Why did Anglo decide to invest in Latin America?
- How were countries chosen; or, more specifically, why was Brazil chosen as a point of entry? And, in later years, what made Chile the country of preference?
- What factors and dynamics – both internal (organisational structure, culture and personalities) and external – shaped these decisions, and how were the decisions ultimately made?
- What were the results, firstly for Anglo and secondly for mining investments in Latin America and Africa (in the Anglo context)?

The study additionally explores alternative approaches or drivers of investment based on competitive advantage. In so doing, this complements theoretical efforts to understand investment behaviour, yet adds practical policy relevance instructive to countries formulating and implementing investment strategies.

In doing so, this study makes three special contributions.

First, it provides a unique historical account of Anglo American. This was made possible by my background as a Latin American researcher at a South African-institution¹¹ enjoying long-term relationship Anglo. This afforded a range of contacts within Anglo and the related policy field both in South Africa and Latin America.

¹⁰ This was a point made by Mark Venning, a long-time Anglo employee and now private consultant, who has operated in this sector in the Latin American region since the mid-1990s, in a discussion held in 2007.

¹¹ I was the Latin American researcher at the South African Institute of International Affairs (SAIIA) from 2002-2006. This position was partly funded by the Anglo American Chairman's Fund. However, I do not and have never had a direct financial link with Anglo America.

Second, in highlighting the role of institutional culture and politics in decision-making, the case of Anglo investing in Latin America is of special importance to policy makers. It offers a historical basis on which policy-makers can assess how policies and incentives may be negatively or positively adjusted to influence investment decisions.

Third, in the realm of theoretical appreciations of decision-making, the case-study illustrates how politics is part-and-parcel of a ‘rational choice’ investment decision-making model – beyond traditional economic rationale.¹² This is further explained below.

1.4 Linking theory and practice

As suggested above, the range of factors and variables that influence the process is so broad and diverse that it would simply be naïve to assume a single paradigm or approach to assessing or understanding the essence of the process of making investment decisions. It is for this reason that case-study methodology is well suited to explore and evaluate the diversity of potential issues available. For example, decision-making in the field of economics has traditionally assumed the classical approach of the ‘the (rational) economic man’¹³, which is relevant to this particular study of Anglo American and international political economy (IPE) studies of decision-making in general, but is, for the most part, incomplete. There is a broad range of factors that need to be included to augment the ‘economic’ point of departure, reflecting the multidisciplinary nature of an IPE perspective in an encompassing analysis of investment decisions and investment behaviour.

The opaque nature of decision-making was best described by John F. Kennedy as follows:

The essence of ultimate decisions remains impenetrable to the observer – often, indeed, to the decider himself There will always be the dark and tangled stretches in the decision-making process – mysterious to even those who may be most intimately involved (Allison & Zelikow, 1999:i).

¹² Rational choice model in explaining economic behaviour assumed that individuals choose the best outcome based on utility maximisation – in other words, the extent of the *payoff*. See, for example, Allingham, M. 2002, *Choice Theory: A Very Short Introduction*. Oxford: OUP; and Arrow, K. 1987. ‘Economic theory and the hypothesis of rationality’, *The New Palgrave: A Dictionary of Economics*. London: Palgrave.

¹³ This refers to the classical interpretation of economic behaviour, which is purely goal orientated with individual maximisation. This assumes that individuals as economic actors operate in a logical and ‘efficient seeking’ manner.

Others¹⁴ have described the ‘dark and tangled stretches in the decision-making process’ more concisely as the ‘black box’. The interpretation of this complicated and dynamic process requires multiple paradigms and perspectives, which will consider or incorporate a range of scientific and less-scientific approaches and explanations.¹⁵ This provokes a discussion around the concept of rational choice behaviour and bounded rationality, which is addressed in some detail in chapter 2 and throughout the study.

This ‘black box’ of decision-making in Anglo encapsulates a broad array of potential factors, the interpretation of which requires various inputs associated with models based on rational choice and individual action, organisational culture and behaviour, and recently developed theories on the political–policy interface in organisations.

These decision-making models help to explain the investment decisions that were made by Anglo, which in turn offers a unique opportunity to explore nuances in investment behaviour or decision-making itself by expanding on those models developed in the fields of political studies and foreign policy analysis. The theoretical aspects associated with decision-making and investment will be elaborated on in greater detail throughout the study and particularly in chapter 3, which also considers more closely, economic criteria, commercial requirements and political dynamics in the theoretical construct that supports investment decisions and the associated investment behaviour of a multinational corporation (MNC) like Anglo.

It is this aspect of decision-making – to understand and explain what happened and why it happened, and thus span the divide between actual events and theoretical explanations, using contextual insight and knowledge (with empirical evidence) – that is at the core of this study and a principle theme running throughout the research.

¹⁴ These would include James March, Raymond Vernon and, in particular, Herbert Simon.

¹⁵ Allison and Zelikow (1999:x–xi) refer to these alternative perspectives (though complementary in many ways) as the views of artists versus scientists.

1.5 Explaining the time frame: 1973-2004¹⁶

The time frame for this study is 1973 to 2004. This provides a thirty-year period of analysis during which time Anglo entered Latin America, and its investments grew to become among the largest and most diversified in the region. Anglo's investments were spread across various countries and sectors. Yet, despite this diversity, mining remained a primary interest (and was still concentrated in Brazil and Chile), and in the early 1990s, Anglo was the largest mining company in the region.

During this period dramatic changes swept across both Latin America and Africa. Countries in Latin America underwent various changes: from civilian to military and back to civilian rule; in Africa, the independence of states from colonialism was paralleled by a process of economic nationalisation to a *status quo* of liberal reforms concomitant with the end of apartheid and white rule in South Africa in the early 1990s.

This time frame can be divided into two periods. The first period, from 1973 to the early 1990s, was characterised by Anglo's initial entry into Latin America and its steady growth up until 1994. During this period, dramatic political changes in South Africa and a radically changing investment environment in Southern Africa influenced Anglo's outlook and operations. This initial period of entry and growth in Latin America also coincided with the first phase of the international expansion of the company.

While its investments in South Africa grew in an increasingly isolated economy, Anglo actively pursued investment opportunities abroad, ironically employing the capital realised from the Zambian mine nationalisation. It was a period of significant change in the company's international and corporate strategy, and marked the start of its global agenda and the aspiration envisaged, first, by Harry Oppenheimer and later by former chairmen, like Gavin Relly and Julian Ogilvie-Thomson, the latter of whom took a personal interest in Latin America.

¹⁶ See the Appendix of chapter one for chronology of Anglo American's development and international expansion into Latin America.

Economic and political developments in Latin America, most notably the adoption of liberal and investment-friendly policies, and perceived political stability in the wake of populist regimes, altered general perceptions of the region and strongly influenced Anglo's investment decisions. This started with a series of dramatic events from the *coup d'état* in Chile in 1973 to hyperinflation in various countries across the region (notably Brazil and Argentina) in the early 1980s, but resulted in region-wide democratisation and market-friendly economic reform in the late 1980s and early 1990s.

During this period Africa was characterised by high levels of political and economic volatility, and increasing isolation from the global economy. This context, further explained in chapter five, helps to illustrate the rational nature of the choices made by Anglo.

The second period, between 1994 and 2004, saw tremendous growth in Anglo's assets in Latin America. It was a time characterised by significant change, both within Anglo and the external political economy in which it operated. The most significant development was the political transition in South Africa, which evolved into a post-democratic phase with significant economic reforms and a slow transfer of economic and political power in the country.

In the rest of Africa, democratic transition and market reform also took place in many countries. It was also during this time that Anglo experienced its most significant shift in corporate strategy, which saw an international reshuffling of assets and operations that began toward the end of the 1990s and was still underway in 2004. Prominent among these was its London listing in 1999 and the concurrent strategy to refocus Anglo as natural resources giant rather than a diversified South African conglomerate.

Local political developments in South Africa have been intricately intertwined with Anglo's strategic ambitions and operations. Following a deeply strained relationship with the National Party government in the apartheid years, Anglo was a staunch advocate of the democratic transition in South Africa. The company was involved in various discussions that facilitated business participation in the process. Anglo's expanding investment in the 'new' South Africa demonstrated its commitment to the macroeconomic policies and objectives, notably its black economic empowerment (BEE) initiatives. In 1996 Anglo completed the biggest

BEE deal in South African corporate history through the sale of interests in Johnnic and JCI to the National Empowerment Consortium and Africa Mining Group.

But in the years that followed, Anglo came under severe criticism. This revolved around the company's 1999 London listing, which essentially listed it as a British company; its perceived lack of enthusiasm for investment prospects in South and Southern Africa, notably in Zambia; and its apparent public criticism of the volatile South African business environment. Many of the decisions and statements made by Anglo have been justified as a necessary restructuring of business interests and assets, disposing of 'non-core' assets and acquiring new 'core' businesses. This followed a strategic review of Anglo operations, manifesting in further involvement in South America. Anglo justified these changes as part of its rationalisation, modernisation, convergence and new strategic approach to its global operations, all of which were essential in maintaining its global competitiveness.

Between 1994 and 2004, in their emergence from the social and economic unrest of the 1980s, Latin American countries projected an impression of relative macroeconomic stability and moderate growth. Political stability was secured through widespread democratic practices. Countries in Latin America – notably Chile – embraced political and economic reforms allowing them to compete effectively in international markets and created an environment with institutions equipped to attract sufficient FDI and ensure sustainable future growth. In particular, some countries developed a competitive advantage over others.

Commodity prices have also influenced Anglo's investment decisions. Such prices, in particular, fluctuated dramatically during the period under study. This partly, along with wider political considerations, explains the decision of the investment in Chile's Disputada mine over Zambia in 2002,

1.6 Structure and chapter breakdown

The thesis is divided into seven chapters.

Chapter 1 (The Introduction) introduces the research topic and describes the purpose of the study. It lists some of the important questions to be addressed and the issues that are analysed

and in so doing addresses the ‘what’ and ‘why’ questions of the research subject. It provides a brief introduction to the theoretically and contextually relevant aspects of decision-making and the investment rationale, and briefly describes the aims and objectives of the study.

Chapter 2 focuses on the ‘how’ question of the research study. It builds on the issues and themes introduced in chapter 1 by further expanding on the purpose of the study through a detailed description of the method of investigation undertaken. Chapter 2 details and explains the case-study methodology used, with reference to congruency and process tracing. Some attention is given to the importance of triangulation, which is essential in adding validity and greater formality to qualitative research of this nature. This chapter also lists the variables that are assessed and the potential influence or causal inference they might have on the empirical study. There is reference to the multilayered and multidisciplinary nature of the methodology used to evaluate the empirical case being studied, which helps to ensure a more comprehensive and dynamic understanding of and insight into Anglo’s investment behaviour in Latin America.

Chapter 3 describes the theoretical construct of the study. It explains the logic of discovery and confirmation first introduced in chapter 2 by identifying, describing and explaining existing theoretical paradigms associated with decision-making, and advancing these in the development of approaches that are more applicable and relevant to the empirical contribution and analysis that follow. Chapter 3 also includes a less-detailed description of investment theories and behaviour in the pursuit of a theoretical framework that more adequately describes the investment environment in developing countries and fits the Anglo case-study, thus providing a better explanation of the essence of investment decisions.

Chapter 4 applies the process tracing methodology by tracking the development of Anglo American and Anglo American South America. It traces the investment drive of the company into Latin America from the time of its entry into Brazil in 1973, and describes the investment growth and expansion across the region. The data and unique sources of information (particularly private interviews and discussions) help to provide a detailed and illuminating explanation of Anglo’s regional investment strategy for Latin American between 1973 and 2004. The chapter also illustrates the nature of decision-making within the organisation, with special reference to the role of key individuals who held together a

diversity of interests within Anglo and ensured decisive and effective decisions that were often based more on intuition than on strategic planning.

Chapters 5 and 6 describe and analyse the external attributes of the investment decision. Chapter 5 provides a broad overview of the political economy environment of investment in Africa and Latin America. It helps to contextualise, from a continental and regional perspective, where Anglo was operating, the alternative choices it had available and the investment decisions that it had to make. Chapter 5 essentially lays the foundation for chapter 6 by providing the backdrop of political and economic determinants of investment in both regions as an extended introduction to the more specific examples of Chile and Zambia.

Chapter 6 provides a case-study within a case-study. In this chapter, the case of Anglo in Chile is compared with potential alternatives in Zambia. The chapter assesses the investment environment in both countries and the circumstances under which the company entered South America and, in the case of Zambia, withdrew from the country. This chapter essentially describes the important exogenous and country-specific factors and variables that directly or indirectly influence investment decisions. Building on the issues identified within chapter 5, it continues to investigate the subject of investment decision in a process that is relevant to investment rationale, but is particularly instructive for policy makers developing a comprehensive and targeted national investment strategy. Chapter 6 also provides a detailed insight into an apparent split within Anglo between the so-called 'old' Anglo and 'new' Anglo, the latter of which appeared to have assumed a more rational approach through its choice of a more cost-effective option in Chile.

Finally, chapter 7 concludes the study by revisiting the key questions raised in chapters 1 and 2. It offers an explanation to why and how Anglo American invested in Latin America, and highlights the importance of contextual factors in decision-making in this instance. It also highlights additional areas for future related research and analysis.

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Chapter Two

Outlining the Methodology

2.1 Introduction

A study of Anglo provides an opportunity to explore the investment rationale and organisational decision-making of a major South African company. The story of Anglo American in Latin America – and the investment decisions that took the company there in the first place and helped it grow and prosper across the region – is one that has never been told and analysed.

A qualitative approach to this research is adopted. Qualitative research has traditionally relied less on statistical evidence and more on aspects of human behaviour and personal interpretation. It places greater emphasis on aspects such as personality types, intuition and various other influencing forces of a less measurable nature, all of which played a significant role in the Anglo decision-making process. Such a qualitative approach searches for reasons and provides explanations and understanding using both primary and secondary resources and the insight of the researcher. These characteristics underpin the research process, offering the most appropriate methodological approach for this analysis. As one prominent scholar of qualitative methodology states: ‘Qualitative researchers take pride in discovery and portraying multiple views of the case’ (Stake, 1995:64). This type of research does not rely on numerical, quantitative evidence. Rather, data is captured and accumulated through secondary literature and an analysis of historical and archival materials, general observations and evidence from similar cases and, importantly in this case, primary material through intensive interviews (King, Keohane & Verba, 1994:3–4).

Each interview is different, and is often less structured, with individualistic insights, unlike in survey questionnaires. While quantitative methods and statistical analysis may not be the foundation on which the analysis is based, empirical data certainly can – and does – is used to complement the qualitative case-studies. This certainly is true in the case of Anglo’s investment decision-making processes, such as in the choice of Chile rather than Zambia in the early 2000s. The level of analysis – on the individual and at the corporate levels – will

contribute to the determination of the relevance of the role of these actors and the institutional culture as to why these decisions were made.

Anglo's case is thus, as noted, an ideographic study that explores and illustrates the history of the company's investment behaviour in Latin America. It describes a sequence of key developments in Anglo's investment choices. This single-case approach, using Anglo as its subject and, its investment decisions as the dependent variable, utilises the within-case methodologies of process tracing and congruency (Sprintz & Wolinsky-Nahmias, 2004:22). Such a method is ideal for tracing links among plausible causes of investment, factors that influenced decisions and the outcomes that emerged. They therefore help to satisfy two crucial goals of the research: firstly, providing a causal explanation and, secondly, drawing a descriptive inference (King, Keohane & Verba, 1994:34).

This chapter describes further these methodological attributes. In so doing, many of the 'how' and 'why' questions often associated with qualitative research will be addressed. In so doing, the thesis modestly suggests that 'process tracing' is a useful method to interpret the 'black box' surrounding the decision-making process by placing Anglo's organisational decision-making at the centre of analysis and tracing it (and interpreting results) over a select time period (George & McKeown, 1984:35). Case-study methods are ideal for meeting both scholarly requirements of knowledge advancement and linking the issues to real world relevance. These enable, also, a greater understanding of the role of *independent variables* – the nature of decision-making processes, corporate culture, exchange control regulations, South African politics, personalities, and so on – which led Anglo to make its decision to invest in Latin America.

2.2 Research design to understand investment rationale

The discipline of international political economy (IPE) straddles international relations and economics, and politics to a lesser degree. This trifurcated nature has influenced the development of formal modelling or traditional approaches to research in this field.

Thus the tools available to the IPE researcher for understanding and interpreting decision-making processes are scarce (King, Keohane & Verba, 1994:18). Such a case requires

triangulation – best understood as data capture through multiple sources, procedures and strategies – on various levels, including data sources, theory and methodology (Stake, 1995:101–19). This helps to ensure consistency, validity and (through design) an appropriate structure and parameters for the research.

Faced thus with the prospect of researching investment rationale and the decision-making process, it is tempting to assume an informal approach: linking investment choices to the market based on the premise of rational choice theory or the rational behaviour of the ‘economic man’. This is the traditional essence of IPE and investment behaviour. However, this may overlook nuances in investment behaviour – notably around institutions and people. For the Anglo case-study is rich in personal experiences and intuitive choices. This is clear from the interviews conducted and discussions held with characters that add real substance to the narrative of investment decision-making in Anglo and its operations in Latin America. These personal insights form an important and rich contribution to the research and enhance the story of the rationale behind the investment process.

King, Keohane and Verba, who are great advocates of scientific methods and inferences, aptly describe these types of additions and their important contribution as follows:

Furthermore, it is often difficult to believe that these [historically important] events were inevitable products of large-scale historical forces: some seem to have depended, in part, on idiosyncrasies of personalities, institutions, or social movements. Indeed, from the perspective of our theories, chance often seems to have played a role: factors outside the scope of theory provided crucial links in the sequence of events (King, Keohane & Verba, 1994:10).

Integrating such contributions require a sound methodological footing to structure the research. Here the case-study approach of process tracing, complemented with in-depth historical and contextual explanations and data, provides a useful research framework. In so doing, this research is informative to the broader context of investment behaviour in the field of IPE.

2.3 Key attributes of qualitative research

Given the nature and source of the data, and the personal interpretation of the research and its findings, a qualitative methodological approach for assessing Anglo's investment rationale in Latin America was adopted. According to the literature on the subject,¹⁷ qualitative research – and case studies in particular – strives to construct meaning out of actual experiences. To achieve this, the researcher has to separate the subjective in building an objective tale and analysis.

While quantitative researchers rely on empirical evidence and strict statistical constructs, which are often regarded as having greater scientific validity, qualitative researchers place greater emphasis on the context in which the events take place and draw on a deeper understanding of human behaviour, and the rationale behind behaviour and decisions. Neuman describes the two general approaches as follows: 'Quantitative researchers are more concerned about issues of design, measurement and sampling. Qualitative researchers are more concerned about issues of richness, texture and feeling the raw data ... [and with] developing insights and generalisations out of the data collected' (Neuman, 1997:122); and: 'Qualitative researchers emphasise the human factor and the intimate first hand knowledge of the research setting' (Neuman, 1997:126). Stake simply describes quantitative research as a process of enquiry for making explanations, and qualitative research as a process of enquiry for promoting understanding (Stake, 1995:42–48).

But researchers are not confined to using one or the other; they are not mutually exclusive. On the contrary, the quantitative and qualitative approaches seem to complement each other. For example, most case-study methods like process tracing and congruency would benefit from an enhanced statistical dimension. The combination helps to 'expose' and 'overcome' the weaknesses of 'stand-alone' methods, which is clearly beneficial to the deeper research agenda. Such 'methodological pluralism' improves the link between scholarly contributions in research and instructive policy relevance and application (Sprintz & Wolinsky, 2004:370).

¹⁷ See for example Flyvbjerg, B. 2006. 'Five Misunderstandings About Case-Study Research.' *Qualitative Enquiry*, Vol. 12, No. 2, April. George, A. & Bennett, A. 2005. *Case Studies and Theory Development in the Social Sciences*. Cambridge, Mass.: MIT Press. King, G., Keohane, R. & Verba, S. 1994. *Designing Social Inquiry: Scientific Inference in Qualitative Research*. Princeton: Princeton University Press. Odell, J. 2001. 'Case Study Methods in International Political Economy.' *International Studies Perspectives*, Vol. 2. Travers, M. 2001. *Qualitative Research through Case Studies*. London: Sage.

For this case-study, limited use of statistical evidence is made. Greater emphasis is placed on qualitative procedures and approaches that consider a range of variables and perspectives, including organisational behaviour and culture, the role of personalities both within and outside of the organisation, and the stated strategic objectives of Anglo. In addition, various exogenous factors related to politics and policy that contributed to competitiveness are identified which played an important influencing role in the investment decisions of the company. Such a case-oriented approach relies heavily on the interpretation of individuals and information gathered through private interviews and privileged access to company records and literature on the subject. These offered a particular insight into the strategic decision-making process of Anglo American.

2.4 Contextualising the case-study

Case-studies have become a popular descriptive agent and tool of analysis in the field of international relations. They have been used extensively to ‘develop and critique’ theories in areas ranging from conflict studies to IPE (Odell, 2001:161). As a methodology, case-studies are widely criticised and often misunderstood. But for the purpose of investigating Anglo’s investment decisions and experience in Latin America, this approach offers the ideal scope for investigation. Indeed, it is this opportunity for contextual analysis, behavioural insight and breadth of observable implications that make case-studies ideal for such holistic and in-depth investigations (Tellis, 1999:1), rich in analysis and data sources.

Case-studies typically involve a ‘detailed examination of an aspect of a historical episode to develop or test historical explanations that may be generalisable’ (George & Bennett, 2005:5). While this description may not necessarily match the example of Anglo – where the aim of the study is not necessarily toward testing historical explanations for general or comparative application, -- it does offer a historical example that traces key events, decisions and experiences over a thirty-year period between 1973 and 2004. This may have wider relevance to Southern Africa and Latin America, offering insight into what policies are attractive to investors and why – as the case-study within this thesis of Anglo in Zambia illustrates.

The example of Anglo American involved a great deal of prior fieldwork to determine the relevant research questions that needed to be addressed. In such a process, research tends to follow the intuitive path, as described above (Yin, 1993:5). An historical explanation of Anglo's investment behaviour emerged from a sequence of events that led to a particular outcome – first decisions, then investments and, finally, economic growth in South America. The methodology followed simply explains the sequence (highlighting key decisions that were made) by referring to relevant investment theories and concepts together with understandings of organisational behaviour, and by examining causal mechanisms. The variables selected and the causal relationship help to explain the logical outcome. This type of case-study was described first by Lijphart as 'interpretative' and later by Eckstein as 'disciplined-configuration' (Sprintz & Wolinsky, 2004:22).

In this particular case, the unit of analysis or 'dependent variable' is Anglo's investment decision. The data gathered serves to explain Anglo's investment rationale, and the role of 'independent variables' in influencing this decision. Other units of analysis (which Yin refers to as 'embedded units') help illustrate and track investment decisions and trends in more specific areas like Zambia and Chile, so that this particular 'case within a case' represents a more focused example of the broader investment trend in the relevant regions and continents (Yin, 1993:47–49).

2.4.1. The importance of triangulation and process tracing

Most of the common concerns around case-study research can be overcome through triangulation. As a key principle of case-study research, triangulation helps to ensure consistency, accuracy and unbiased case selection. It can take place on various levels and at different stages of the study (Stake, 1995). Triangulation generally refers to the consolidation of data sources, theory and various methodologies, but is most commonly associated with data and ensuring that each source delivers the same or comparable results (Yin, 1993:69).

Process tracing provides a structured and detailed methodology that identifies the causal mechanisms (existing between the cause and effect) between independent and dependent variables. These causal mechanisms are the essence of case-study research, which links observable implications to the theory (Bennett, 2004:22). For Anglo, these observable

implications would include a range of endogenous and exogenous factors. One exogenous factor may be the impact of nationalisation policies on the investment rationale of the company. How did these policies influence Anglo's decision-making and entice the company to invest elsewhere? This should be assessed within the stipulated time period with reference to company-specific and external criteria, all of which are captured through the tracing of possible (theoretical) causes and practical outcomes (George & Bennett, 2005:6).

Process tracing is most often associated with historical studies, but offers a deeper and more analytical interpretation of historical events (with greater explanation) than ordinary narratives, through the use of detailed archival material and in-depth interviews, using qualitative as opposed to quantitative data. The sequence of events is relevant from a contextual point of view. This contributes to the general goal of case-study research: 'Bringing theory closer to what really goes on in the world' (Checkel, 2005:2).

Through a unique ability to draw theory and data together in a systemic and informed way, process tracing is well-equipped to constructively test and build on rational choice and bounded rationality in organisational decision-making, and to assess the relevance of structural realism to the case of Anglo American. This, once again, helps develop a greater understanding of the decision-making process of investment behaviour and to decipher the 'black box' around this issue.

Process tracing¹⁸ -- a method which attempts to identify the intervening causal process between an independent variable (or variables) and the outcome of the dependent variable – thus offers a method that helps to ensure the triangulation of data, theories and influencing variables. In the case of Anglo's investment decisions, these stringent requirements associated with triangulation help to draw on the contextual analysis and adjust it to allow for the consideration of additional and alternative variables for theoretical evaluation throughout the study. Such standards and considerations will ensure that a structured and systemic case-study is vigorously explored, analysed and interpreted. This, in turn, will ensure that the study achieves high scholarly standards through empirical insight and relevance.

¹⁸ See for example, Alexander L. George and Andrew Bennett, *Case Studies and Theory Development in the Social Sciences*, (MIT Press, 2005); *Qualitative Methods: Newsletter of the APSA Qualitative Methods Section*, Vol.4, No.1, Spring 2006; Jeffrey Checkel, 'It's the Process Stupid! Process Tracing in the Study of European and International Politics' *Arena Working Paper No.26*, University of Oslo, 2005.

2.4.2 Identifying the dependent and independent variables

The dependent variable assessed is Anglo's investment decisions in Latin America. Developing a deeper understanding and clearer interpretation of this through empirical analysis is at the heart of the study. It is analysed from a variety of perspectives using a range of internal and external factors – referred to in methodological terms as independent or explanatory variables that vary in the degree of influence they have over the dependent variable or, simply, the impact they have on the investment decisions of Anglo.

This ability to influence the dependent variable and the outcome of the investment decision is referred to as causal relevance. A detailed case-study (such as this one of Anglo American in Latin America) and process tracing, helps identify the causal mechanisms that exist between the independent and dependent variables (the cause and effect). These casual mechanisms are then established through observing the linkages and implicating the theory appropriately (King, Keohane & Verba, 1994:75–88).

The independent variables that have been identified as having an impact on Anglo's investment decisions include:

- the role of personalities and the driving force of champions in the organisation. Leadership is an important dimension of this variable;
- organisational structure, behaviour and culture;
- global strategy (relevant to investments);
- world metal prices;
- the comparative advantage of existing (and accessible) natural resources;
- political leadership and the political climate; and
- economic policies (notably policies of nationalisation or regulation versus liberal reform).

These variables are relevant to Anglo's investment behaviour and decision-making, and to the exploration of paradigms relating to the role of comparative and competitive advantages in investment rationale.

2.4.3 The role of congruency and detailing process tracing

The decision-making process around Anglo's investments in Latin America, a single case-study relying more on behavioural insight than statistical and comparative data, is a typical example of a within-case causal inference. George and Bennett describe within-case methods as an alternative to multiple and comparative case studies that focus on the causal path of a single case, whereby an outcome of the dependent variable is consistent with the theoretical proposition and thus indicative of a causal relationship (George & Bennett, 2005:178–79). The congruence and process-tracing methods are the most common and appropriate forms of within-case methods used to develop and assess causal inference. With a slightly different departure and focus, these two methods can both be used in a single study to emphasise different aspects of the research and assessments.

2.4.4. The congruence method

The congruence method offers a useful point of departure for theoretical exploration and testing. In traditional applications and studies, the research procedure begins with a theory that through investigation and evaluation is assessed in terms of its ability to explain and predict real case phenomena based on certain initial conditions. It requires less data and implies greater flexibility (George & Bennett, 2005:181–84).

While the research procedure in this study did not follow the conventional linear path described above, the method is nevertheless useful in the general assessment of investment behaviour and decisions. For example, Anglo's decision-making process was no doubt influenced by a number of variables, some of which may have carried more weight than others. Congruency can help establish the role of beliefs (organisational and individual) in this process, as well as develop or test deductive theories, such as rational choice, that may rely on structural realism. This is particularly relevant to the case of Anglo, where organisational decision-making took place under a certain leadership structure, which was politically sensitised and increasingly driven by a global strategic focus. Such a scenario seeks a deeper understanding of the so-called 'black box' that epitomises decision-making. This also applies to exogenous factors that may have either influenced the company's

decision to seek alternatives in South America as a result of positive factors in new potential investment locations or, likewise, negative factors in Africa. Congruency distinguishes between those 'push' factors from Africa and the 'pull' factors in South America.

Congruency essentially tests the strength and significance of inference by establishing if the independent variable is a necessary condition for the outcome of the dependent variable, as well as the degree of importance it carries in the outcome. Three aspects of congruency are important to the causal inference of the study. Firstly, if it is spurious, congruency between cause and effect (or between the independent and dependent variable) is artificial and carries no significance to the study. Secondly, causal priority refers to the direct dependency of the dependent variable on the independent variable, which is lacking if the independent variable in question is merely intervening and not wholly responsible for the effect when another independent variable is present. Finally, causal depth indicates whether the independent variable (and the cause) is a necessary condition for the effect of the dependent variable. This is often the case when there are a number of independent variables that contribute to the effect (George & Bennett, 2005:185–86).

2.5 Research procedure and data collection

While congruency is ideal for assessing the initial relevance of a theoretical explanation, and thus does not necessarily require enormous amounts of data and background information, process tracing generally involves greater depth and more stringent requirements. The analytical explanation that process tracing delivers assesses specific links along a chain of events or path of investigation. George and Bennett insist on the necessity of choosing an appropriate variant of process tracing that fits with the causal process being investigated. In the Anglo Latin American case-study, a path-dependent historical process appears to be the most appropriate (George & Bennett, 2005:220–21).

It is clear that data availability and reliability is the most serious constraint of process tracing. The method requires a rich assortment of data sources that include literature (both current and historical), archival and private documents, in-depth interviews and discussions, and general observations based on personal intuition and interpretation. Access and use of these data sources contributed to the strength of the Anglo case-study.

From a personal and analytical perspective, I was well placed to conduct such a research undertaking. As a Latin America researcher, I have studied and tracked political economy developments around the region from a South African base over an extended period of time. My research and travels to Latin America and other parts of the world have helped develop a broad network of contacts in the private and public sector, as well as in academia. This has provided me with privileged access to relevant information, and to people involved in policy work and those possessing an intellectual and practical interest in understanding what attracts investment. Over this time, I have accumulated substantial literature and research data on (or related to) the subject of Anglo's investments in Latin America and the rationale behind them. Most importantly, I have met with leaders, policy makers and practitioners, all of which have provided a unique insight into the story behind Anglo's decision to invest in various locations across South America.

This access helped secure reliable and accurate information. In methodological terms, this occurred through the triangulation of data and sources and the broad range of alternative insights, opinions and analysis – both from within Anglo and outside in the host countries. A list of data sources is detailed with specific strengths and weaknesses of each source in chapter 2, Appendix II, which is relevant to this particular case.

2.5.1 Semi-structured interviews and discussions

In maintaining the nature and ethos of the study, interviews were semi-structured, with many of them being closer to less-formal and open discussion. This was the preferred style for the interviewees, who appeared to favour an open discussion, which allowed for a narrative insight into the process and the necessary flexibility to include contextual and personal memories that may have otherwise been lost in more formal interviews. It also allowed for an important dimension of the research to be included in the analysis: the odd vignette of some of the characters interviewed. It is clearly apparent that Anglo's investment rationale was often shaped by the 'larger than life' characters that were at the helm of the organisation at different stages of its history. These individuals came from a certain background – English public or South African private schools, an Oxbridge education. Most were lifetime Anglo employees, working their way up through the system, first as management trainees (a system

of recruits created by Harry Oppenheimer that brought five talented, young individuals into Anglo annually, and exposed them to the various aspects of the company), and many served as the personal assistant to the chairman. They were deeply ingrained with an Anglo corporate culture; indeed, they became and perpetuated the culture and ethos of the institution. Many of these interviews and discussions extended into deeper follow-up discussions and e-mail exchanges over the extensive research period.

The list of people interviewed ranges from previous heads of state and Anglo executives to business consultants and academic thinkers. Each offered a unique insight into the events and phenomena under investigation, which greatly enriched the study. The list of interview sources is attached in the appendix to this chapter (Chapter 2, Appendix III).

The basic structure of the interviews followed a rough format of open-ended questions that encouraged a great deal of elaboration and personal insight. Two separate questionnaires were used. The first was applicable to the non-Anglo individuals interviewed, who are in the main Latin American experts. The second questionnaire was designed for Anglo representatives, or those who were formally with the company. The basic set of questions, around which others were generated, is included in chapter 2, Appendix IV.

2.5.2 Literature diversity and depth

Literature was used for the initial stages of the investigation process and in preparation for the interviews conducted. In the post-interview stages of the research, much of the literature was revisited using updated versions (if available) to complement the research findings from the interviews. Apart from general theoretical and analytical academic material, extensive use was made of in-depth reports and focused studies by international agencies. This included various mining reviews and regular research and indices released by the United Nations, World Bank, World Economic Forum, Economic Commission for Latin America and the Caribbean, Business South Africa, mining chambers and various lesser-known organisations with information and data on investment, competitiveness and other political economy dynamics. Government data and company annual reports were also used.

Despite the diversity of literature sources used, an acknowledged weakness of the study lies in the fact that little or no contemporary literature dealing directly with Anglo in South America or South African business relations in Latin America was available for detailed reference or assessment. But, by the same token, this research is intended to contribute to the limited literature and studies available on this particular topic.

2.6 Advancing explanations

Case studies often do not fit the traditional format of research report writing, since they are structured less around a research problem or hypothesis than a set of themes, issues and definitive stories or events. The study unfolds from a conceptual structure wherein the case is well defined (Stake, 1995:123–31).

The decision-making process and investment rationale of Anglo in Latin America follows Stakes' description, given above, and is a case characterised by a range of endogenous (company-specific) and exogenous variables and defined by their interaction in the context in which the events played out. It is within this context that key themes are developed for analysis.

The central question based on this theme of Anglo's investment decisions in Latin America would therefore be: Why did Anglo invest in Latin America and what factors influenced these decisions?

Existing literature and research suggests three reasonable explanations. These, which are revisited throughout the study and discussed in greater detail in the final chapter, are:

- Firstly, there is the narrow macroeconomic rationale, based on the premise of rational choice and the economic man. Political criteria are occasionally cited in this conventional approach to investment, but it is traditionally centred on a cost-benefit factor analysis that seeks profit and efficiency maximisation.
- Secondly, there is the issue of internal or organisational political jockeying. This involves a decisional game of diverging and converging personal interests, which fits the

description of Allison's organisational behaviour and political models discussed in chapter 3.

- Finally, there is the issue of the role of leaders, values and perceptions, where intuition, historical memory and group thinking (organisational culture and personality) processes have a significant influence on organisational behaviour and decisions. These characteristics are described in the conceptual and theoretical evaluation that takes place in chapter 3, and contextualised further in chapter 4, which deals directly with the Anglo investment experience. The politics of investment and the role of institutions in the external environment are also relevant here.

These themes are explored throughout the thesis.

2.7 Conclusion

The case of Anglo's investment decisions in Latin America provides an opportunity to investigate a complex decision-making process by the leading mining company in South Africa and a significant political player in the country and sub-region. Anglo's position and status in the region – and the array of factors at play in its decision-making process – make it an interesting and relevant example of investment rationale in the field of IPE. The use of congruency and process tracing ensure that objective contributions toward a theoretical understanding or interpretation of the case are adequately met.

The world of decision-making is usually opaque. The theoretical models used to explain decisions and the rationale behind the decision-making process are widely contested and often broadly generalised across a variety of fields. The rational choice model provides the original orthodox explanation of decision-making. But, as will be made clear in the subsequent chapter, while it may provide a simple and compelling explanation of the rationale behind decisions, it is insufficiently equipped to describe the complexities of actual cases where there are multiple actors and a range of diverse variables where bounded rationality prevails.

While 'rational choice' does seem to describe Anglo American's investment activities to a large degree, it does not provide a complete explanation of the Anglo experience and should certainly be supplemented with additional factors and insights relevant to the decisions that were made. It is clear that decisions were influenced by the internal dynamics of the company (including personalities, leadership, organisational structure, culture) as well as variables that are exogenous in nature (from international metal prices to politics and policy). Process tracing helps draw this diversity of factors together, which adds contextual insight to the theoretical interpretations of Anglo's investment decisions. This provides a more comprehensive and clearer understanding of the decisions that took place and the story of Anglo in Latin America that unfolded.

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Chapter 3

The Relevance of Theories of Investment Behaviour

3.1 Introduction

KA Froot poses the question: 'To what extent is the increase or decrease in FDI in these modern times explained by traditional theories of investment and competitiveness?' (1993:1)

Indeed, assessing 'How' and 'Why' companies make decisions is an imprecise science, especially for those operating in developing country settings, partly the result of an absence of study and resources, and partly due to the embryonic nature of this science, especially in the field of development economics and international political economy. Hence the Anglo case-study is useful, not only in informing why and how companies make decisions, but what contribution this can make toward building on existing knowledge of corporate behaviour and investment activity through the research findings from this previously undocumented analysis of Anglo in Latin America.

As noted in the introduction, the notion of 'economic rationality' is the usual point of departure for such a study: By this, individuals are expected to act in a logical and efficient manner, and where choices are made in a goal-oriented fashion involving one selection over another (Simon, 1997:72). This assumes that individuals pursue a very particular course of behaviour, foregoing alternative options or choices based on value and factual judgements (Simon, 1997:3-4).

Experience and research shows that this is a far cry from the true nature of so-called 'rational behaviour', or at least the behaviour of individual decision makers in the real world. As Simon states: 'It is impossible for any single, isolated individual to reach any high degree of rationality' (1997:92). Simon goes on to suggest that it is not rationality that determines behaviour, but rather irrational and non-rational variables that are inevitable parts of the behavioural environment. It is these elements, and the way the individual or group accommodates and uses them in his/her/their decision-making process that truly defines behaviour (Simon, 1997:323-24). This was the starting point from which Simon developed

his concept of ‘bounded rationality’ in order to incorporate less-calculated and non-quantitative factors that always existed on the periphery of rational behaviour, but were rarely given much credence in the behavioural explanation.

In contrast to the classical assumption of *comprehensive* rationality – behaviour that is ‘centrally controlled, completely informed and value maximising’ (Allison & Zelikow, 1999:53) – *bounded* rationality recognises and identifies the limitations of knowledge and access to information, which are at the source of decisions and the selection of one alternative over another. Bounded rationality does not aim to refute rational behaviour, nor does it suggest that individuals are wholly irrational beings in their decision-making process (Forest & Mehier, 2001). As mentioned earlier, and in Simon’s words: ‘The quality [of the decision] will depend on the environment that bounds the area of rationality of the person making the decision’ (Simon, 1997:325). The Anglo case-study illustrates the importance of corporate and other cultural factors along with more rational choices – such as the investment environment, ore grades, tax regimes, political dynamics – shaping the investment decisions.

Julian Ogilvie Thomson, the former chairman of Anglo American plc, highlights the challenge of determining how and why decisions are made: ‘As with most things,’ he said, ‘Anglo American’s entry into Latin America happened by chance.’¹⁹ Ogilvie Thomson was describing an intricate part of decision-making in business that is often overlooked by analysts. This is the role of factors that are not measurable or do not have obvious explanations, and include variables such as chance, coincidence, personal input and historical memory (White, 2007:10).

But Ogilvie Thomson’s words highlight a more profound characteristic of the decision-making process that took Anglo to Latin America, distinguishing it from the norm of rational behaviour. What is described here relates to the human characteristics of emotion and intuition – sometimes referred to as ‘gut feel’ -- often neglected by rational behaviour theory.

This chapter explores endogenous (or organisational-specific) and exogenous factors that shaped Anglo’s decision-making process within the context of theories and models of

¹⁹ These were the words Julian Ogilvie Thomson used to start a discussion on the reasons behind Anglo’s entry into Brazil and Latin America. The discussion was held in Johannesburg in December 2005.

decision-making. A section of this chapter is also dedicated to a brief analysis of investment theory. In particular, it explores the concepts of competitive and comparative advantage, placing this in the context of investment decisions and the role of external influences in shaping these decisions.

3.2 Models of decision-making

Graham Allison's *Essence of Decision* provides an overview of decision-making models, illustrating the evolution of decision theory from a model hinged on rational choice, through organisational decision-making, to finally one that is applicable to organisational behaviour (of the political kind) and emphasises the role of 'decision-making individuals' within the organisation. This is referred to below as the government-politics model.

The works of Herbert Simon, John Commons and James March stress different aspects of decision-making contributing to decision theory, especially organisational behaviour. Integrating these perspectives can establish a clearer understanding of the idea of a 'black box' model associated with investment decision-making. Emphasis must be placed on the multidisciplinary nature of these models and the additional research contribution that has been made.

Given that the investment decisions made by Anglo were determined by a small group of individuals, each with different interests and preferences,²⁰ and that Anglo was an important political actor in Southern Africa at the time, Allison's 'governmental politics' model in the context of an organisational decision framework is applicable. This could be adapted to a more commercially driven, though politically sensitive corporate arrangement, with an emphasis on contextual specifications (for particular countries, locations or scenarios). March articulates this as: 'Decision-making in organisations has been seen as involving multiple actors with inconsistent preferences, [i.e.] this is a political system' (March, 1988:5).

²⁰ The example of Anglo's disinvestment from Zambia and the subsequent growth of its investment in Chile, which will be discussed in great detail in later chapters, illustrates this point most clearly.

3.2.1 The rational actor model

Allison's rational actor model is a neoclassical explanation of behaviour. The core assumption is optimal behaviour, where decisions are unashamedly goal-directed and based on key preferences that seek to maximise results or outcomes from the alternative choices available. From an economic perspective, rationality goes hand in hand with efficiency (Allison & Zelikow, 1999:13–18). It is a powerful concept and tool for understanding individual and organisational behaviour, most useful in empirical studies that seek a simple explanation of the link between purpose and action (Allison & Zelikow, 1999:49).

The rational choice model simplifies the explanation through its basic logic and sets the scene for more detailed research and explanations around the essence of decisions. It is a useful starting point for and an essential contributor to advanced empirical interpretations and theoretical explanations (Forest & Mehier, 2001:602).

3.2.2 The organisational model

Most²¹ decision theory thinkers would argue that bounded rationality and organisational behaviour are inextricably linked and explain each other. March and Simon are, for example, credited with advancing thinking beyond classical economic orthodoxy by introducing organisational structure and culture into behavioural and decision-making analysis. Simon focused particularly on administrative behaviour and its repercussions, which can be extended to an investment decision paradigm. March argued that organisational activities and on-the-ground operations shape the organisational culture. This influences the investment rationale and priorities of a company. The common perspective held by Simon and March is grounded on a rules-based hypothesis with a clear organisational logic that is distinct from the generally accepted rational choice model (Allison & Zelikow, 1999:147).

Organisations shape the decisions of individuals. Individual decisions are adapted to organisational objectives. Organisations address the key issues of efficiency and uncertainty, bridging the divide between expected rational behaviour and reality. This suggests that the

²¹ This group would include Herbert Simon, James March, Graham Allison among others.

concepts of ‘bounded rationality’ and ‘organisational behaviour’ are closely aligned with day-to-day realities.

Allison’s second model, the organisational paradigm, introduces ‘significant limitations and essential supplements’ to the rational actor model. Information is key to the decision-making process, and the factors influencing this information, both internal (such as experience, procedure and leadership) and external (such as institutions, policy and politics) are crucial (Allison & Zelikow, 1999:163–66).

3.2.2.1. The composite decision process and the organisation

The ‘composite decision’²² is a useful concept that helps to describe the process and nature of organisational decision-making. It suggests that decisions in an organisation are never made by a single individual. Decisions are instead processes that can be traced through the formal and informal communication channels of a company (Simon, 1997:305–7). But, as the name implies, it is the components of the composite decision process that are most influential. The concept can accommodate the Anglo case – incorporating the internal components such as authority and leadership, culture, intuition, identity and loyalty, as well as various external factors.

Decision-making in an organisation is usually pre-determined by influence. The most obvious form of influence in an organisation is authority. Authority can be defined as ‘[t]he power to make decisions which guide the actions of another’ (Simon, 1997:179). It is also said to give the organisation its formal structure, and secures co-ordinated behaviour in a group. These criteria ensure effective decision-making by determining the initial environment that allows for other forms of influence and secures the input (and involvement) of others with specialised expertise or technological importance. Such input is important in investment decisions in the resource extraction industry, and certainly played a role in the case of Anglo’s activities in Latin America, where information pertaining to comparative resource

²² The composite decision process is a term that aptly describes those decisions that are influenced by a range of related and (apparently) unrelated factors, which are both endogenous and exogenous in nature and origin. .

advantages needed to be determined and the socioeconomic and political environment where the company would be operating had to be better understood.

Closely linked to organisational culture are organisational loyalty, identity and training. While the objectives and values of an organisation may be initially exercised through authority, these values are 'gradually internalised', as an individual in the organisation acquires an 'attachment' that guarantees some consistency between personal objectives and those of the company. Simon refers to this as an 'organisational personality' (Simon, 1997:278). Encouraging group cohesion through loyalty and identity can improve and hasten the decision-making process.

A concept related to authority and relevant to the case of Anglo is 'group mindset' (also referred to as 'group mind' by Simon). This refers to deep-set co-ordination and unity within the organisation, a function of individuals and corporate culture, background and leadership, binding individuals, authority and the corporation. (Simon, 1997:178). In Anglo's case, Harry Oppenheimer, the chairman and dominant force behind the organisation during a substantial part of the period under review, articulated a clear vision for and method of international expansion that was embraced at the organisational level. The cognitive persuasion of Anglo was aligned almost exactly with Oppenheimer's own personal thinking. This ability to stimulate a type of 'groupthink' in an organisation adds a new dimension of influence to organisational decision-making, whereby superiors (like Harry Oppenheimer) are able to use preferred methods of suggestion or persuasion, instead of the use of command hierarchy (Simon, 1997:180).

Corporate identity is another factor which binds an organisation and cements decisions. The similar background and corporate upbringing of Anglo executives as outlined in the previous chapter, assisted in establishing a particular 'Anglo' mindset and attitude. As in other corporations, this commonality is reinforced not only by a similar 'weltschaung' but also by the way in which individuals dress and speak, setting a model of 'appropriate behaviour' (Allison & Zelikow, 1999:155).

The literature dealing with organisational culture in relation to behaviour suggests an interesting conflict with efficiency: 'Sometimes the cultural routines clash with the criteria of efficiency. Efficiency often loses' (Allison & Zelikow, 1999:155). Key decisions can help

shape the organisational culture and ultimately define a company (like Anglo). Operational activity, the result of the decisions that were made, also shapes and reinforces this culture. Allison refers to 'field-based learning' (Allison & Zelikow, 1999:154), which is relevant to Anglo's operations in Latin America, where the cultural dynamics and mode of doing business were a far cry from the traditional Anglo-Saxon style that had come to characterise the company since its creation in 1917. This new environment fed into the Anglo corporate culture and certainly shaped the organisational culture of AMSA over the years, and the interests of the 'on-the-ground' operators in South America were derived (especially in the initial years) from the decisions made at head office in South Africa. However, some reciprocity did emerge. The cultural dynamic and interest were also strongly influenced by locally employed executives, especially in later years.

It seems that Anglo – despite its strong internal cultural orientation and external perceptions thereof – paid a great deal of attention to on-the-ground efficiency, emphasising the need to manage local dynamics more effectively and empower local employees adequately. By contrast, a company preoccupied with its own culture tends to focus on its relationship with the industry or sector rather than a geographical location. In such a case, organisational culture 'overrides local diversity, rather than responding to the unique demands of one or another workplace' (Allison & Zelikow, 1999:157).

Organisational loyalty raises some concerns when members start to identify themselves with particular departments, areas or factions of the organisation ahead of the company itself. This can create serious (unhealthy) rivalry and erode broader decision-making for the company as a whole. An example of this was the obvious rift that developed between those in Anglo who favoured expansion in Africa, based largely on historical and even emotional factors, and others pushing for greater international diversity, particularly those with a keen eye on Latin America. This was the so-called internal rivalry between the 'old Africa hands' and the 'new Anglo' as epitomised by the Anglo American South America executives. AMSA operators viewed themselves as a somewhat distinct entity to the rest of Anglo, at times displaying a loyalty toward AMSA that superseded their affiliation with Anglo.

Training clearly goes hand in hand with organisational loyalty and identity. By preparing the individual member to reach 'organisationally accepted' decisions alone (based on a standard form of reference), it serves to eradicate unnecessary elements of authority and encourages

greater internally driven forces of influence in the organisation. Such 'indoctrination' of values (Simon, 1997:13) was necessary in the case of a large organisation like Anglo that was extensively diversified both geographically and operationally. This effective training and implementation, in turn, served to instil a specific culture and work ethic into the ranks of the company.

Research indicates that organisations and institutions shape individual decision-making and create a higher degree of rationality. Such influence is not only transmitted by the organisation in question, but also by various external organisations, institutions and agencies that contribute to and, in some cases, determine the broader political economy of the operational environment. North (1997), Porter (1998) and others have stressed the importance of institutions in establishing a rational and reliable economic environment, which can ensure stable expectations and a realistic degree of predictability. This is an important component of composite decisions.

3.2.3. The governmental-politics model

The key role of individuals and multilevel politics – crucial to the process and applicable to the case of Anglo – encourages a further evolution of decision-making theory. Allison's governmental-politics model incorporates some of these less-measurable attributes.

In terms of this model, individuals in an organisation, participating as a group, are players in a central game of politics. This involves a subtle style of bargaining or jockeying that takes place within a circle of central players leading the organisation. The governmental politics model focuses on those individuals engaged in the decision-making process and their bargaining position in the organisation (Allison & Zelikow, 1999:255–56). This influences the decisions that are made.

March also describes the 'business firm' in terms of a political coalition. He argues that decision models of complex systems require a revision of existing conventional firm-driven theory, based more on political concepts than the accepted economic rationale. In much the same way as Allison's governmental politics model applies to and describes a business organisation, so March conveys a very similar perspective, depicting the executives of the

firm as political brokers who are actively negotiating and bargaining for internal and external issues and objectives. The political coalition seems a more appropriate description of the structure and allocated tasks of the firm than that often proposed by classical economic theory. One example March uses is a view of the stockholders as citizens in a political system. They have various (diverse) demands that set some constraints on the organisation (coalition) and its members, but their role in policy formation and other functional activities is small (March, 1988:102–15). Such an approach certainly therefore considers the multi-disciplinary and multi-participatory nature of decision-making common in business organisations.

Both Allison's and March's models, and experience indicate that no organisation or decisional scenario is free of some degree of political influence. Individuals deal with this difficult and often subliminal variable in different ways. The impact of politics and the bargaining process on decisions and outcomes ultimately depends on key individual attributes like personality, character, leadership and intuition. Allison likens this to a game of chess, where the pieces are expected to be moved according to a particular strategic outcome or as a result of organisational routines and procedures. However, very often the chess pieces are in fact moved as a result of 'power and performance of proponents and opponents' in the bargaining game (Allison & Zelikow, 1999:256). Some of the leading decision makers would also argue that the very same chess pieces are moved according to 'gut feel' or intuition and chance, which introduces the elements of experience, leadership and responsibility into the decisional equation.

The role of *intuition* and *chance* – two separate elements that are linked through personality and experience – is rarely seriously considered in decision-making models based on rational choice, but clearly played a very important part in Anglo's investment rationale in Latin America, especially in the initial decision to enter Brazil, which should be regarded as different to the subsequent investment decisions made in Latin America, once Anglo had been there for a number of years and was more familiar with the environment.

Emotion is a determinant of intuition. Intuition is often contrasted with conventional analysis, as it is based more on 'gut-driven' personal judgement than on careful calculations. But intuition (dependent on experience and personal insight) and calculated analysis should not be contrasted with each other, for they are actually complementary aspects of decision-

making. While analysis does add a high degree of credibility to the process, personal judgement is often needed for rapid (or on-the-spot) responses. This also applies to the element of chance. Intuition recognises important opportunities and is able to maximise these by converting the factor of surprise into ‘informed surprise’ (Simon, 1997:123–39). This was clearly the case for Anglo in a relatively unexplored Latin America in the early 1970s.

Harnessing these – what appears to be at first glance – divergent characteristics requires leadership and a unique personality type. Usually companies, considering the high risk and precious knowledge around investment rationale in resource extraction, seek a champion or leading figure, with the unique character traits, good judgement and intuition needed to drive and navigate the process. In the case of Anglo, this came in the form of first Harry Oppenheimer (mostly in terms of the general international investment expansion) and later, and more prominently in the realm of activities in Latin America, Julian Ogilvie Thomson. Ogilvie Thomson is regarded as the catalyst for Anglo’s advent and growth in South America, and is often credited²³ with the company’s initial and long-term success in the region.

Leading corporate personalities are also instrumental in creating and sustaining (or changing) organisational culture. Their presence (and memory even after they are gone), which is staunchly representative of the company’s values and ideals, stimulates a loyalty toward the organisation that is often difficult for outsiders to understand, and lasts a lifetime for its members. This is particularly evident in the Anglo case, and may actually be a distinguishing characteristic of the company, given its somewhat unusual and perhaps unique structure and development from a family-run business to a multinational mining giant that has diversified into various industries and markets (with great success) and yet retained unquestionable dominance in its home country of South Africa.

Arrow highlights the problems associated with an increasing number of participants in the decision-making process, which inevitably results in a range of autonomous interests and thus makes it far more difficult to reach a common rationale. Collective preferences are generally distorted in favour of the most dominant member or the one with the highest authority. This,

²³ See for example Lyle, B. 1993. ‘The Story of AMSA.’ *Optima*, October. Those involved Anglo in South America all attribute much of the company’s early success the leadership and strategic thinking of Ogilvie Thomson.

in most cases, is formalised (and the associated problems overcome) in a principal–agent relationship, where the principal is the clearly identified decision maker and seeks the advice of agents in making decisions and taking action. The role of the agent is to provide additional information and ‘faithfully’ represent the principal (Allison & Zelikow, 1999:271–73). If this is the case, consensus or a common rationale can be reached in accordance with the interests and preferences of the principal.

AMSA enjoyed a high degree of decisional independence, and given the relationship of its executives with the Anglo head office (known as ‘44 Main Street’) in South Africa, a multilevel principal–agent relationship may be more appropriate. In this case, a principal may assume the role of an agent under different circumstances or at a different level of decision-making. AMSA did, after all, at first have its own chairman, and later a president of the Latin American organisation. Guy Young, the former chairman of AMSA, and Patrick Esnouf, who succeeded him, both had a high degree of decisional independence, especially with regard to operational issues. But both also made regular trips to South Africa (and in later years London) to participate in more profound decisions under the principal leadership of the chairman of Anglo plc.

3.2.4 Blending models

Thus the case of Anglo in Latin America does not accurately fit any of the existing models of investment decision-making behaviour. Instead, it represents an amalgam of various models, an organisational-governmental-politics model to use Allison’s terminology.

This is partly a result of the multidisciplinary and multi-participatory nature of decisions reached. The behaviour of some firms may be relevant to governmental decision-making (March, 1988:114–15), because it tends to highlight the importance of political criteria over fixed investments and their long-term implications, which are elaborated on in more detail later in the thesis. These organisations, as Anglo clearly demonstrates in its experience, certainly do no function in a political vacuum. They are often important and active political players in their respective home and host countries.

Integrating the insights and perspectives of the various models has resulted in a more complex and powerful paradigm for assessing (and interpreting) investment rationale. The rational actor model provides a basic logic and point of departure for policy and theoretical analysis. This is followed by the organisational structures and routines that add a higher degree of complexity in assessing inputs into the decision-making process. And finally, the third model – the governmental-politics model – emphasises individual preferences and interests in an organisation, with due consideration for political dynamics that tend to characterise the environment inside and outside the organisation (Allison & Zelikow, 1999:392–402).

3.3 The external component of composite decisions

There is a vast amount of literature exploring the realms of investment theory and the impact of exogenous factors on investment rationale.²⁴ But, a better understanding of these factors and how they influence investment flows adds substance and greater meaning to composite decision-making – and the empirical example under investigation. They assist in explaining the ‘push’ and ‘pull’ factors behind FDI, contextualising investment decisions in a political economy.

Neoclassical theories address investment behaviour in the developing world rather inadequately (Wells, 1983:13), but important political and economic factors clearly do motivate the investment behaviour of MNCs like Anglo, and these should be understood in the context of developing countries (Billet, 1991:6).

²⁴ Some of these studies include: Billet, B. 1991. *Investment Behaviour of Multinational Corporations in Developing Areas: Comparing the Development Assistance Committee, Japanese, and American Corporations*. New Brunswick: Transaction Publishers, Caves, R. 1982. *Multinational Enterprise and Economic Analysis*. New York: Cambridge University Press, Dunning, J. 1993. *Multinational Enterprises and the Global Economy*. Wokingham: Addison-Wesley, Feenstra, R. 1998. *Facts and Fallacies about Foreign Direct Investment*. Washington: NBER, Froot, K. A. 1993. *Foreign Direct Investment*. Chicago: University of Chicago Press, Kline, J. M. 1992. *Foreign Investment Strategies in Restructuring Economies: Learning from Corporate Experience in Chile*. Westport: Quorum Books, Stopford, J. & Strange, S. 1991. *Rival States, Rival Firms: Competition for World Market Shares*. Canada: Cambridge University Press, Vernon, R. 1971. *Sovereignty at Bay: The Multinational Spread of US enterprises*. New York: Basic Books, Inc, Wells, L. T. 1983. *Third World Multinationals: The Rise of Foreign Investment from Developing Countries*. Cambridge, Mass.: MIT Press.

The purpose of the following section is to provide a brief insight into specific external investment criteria influencing an organisation such as Anglo. This will, in particular, examine the influence of the political and policy environment.²⁵

3.3.1 'Comparative' and 'competitive' advantage

There are external – or *exogenous* – components which form part of composite decisions. Studies²⁶ indicate that certain competitive factors and environmental criteria, whether state-driven or based on specific institutional support, are important determinants of investment rationale.

With globalisation the local political climate and policy regimes have become a more influential determinant of investment. Countries are also competing on a different level for resources that are perhaps less tangible – such as managerial skills – and less obviously linked to investment output. Billet refers to these 'less static' criteria as 'dynamic socio-economic attributes', which he divides into skilled labour and political stability (Billet, 1991:111). The relative importance of raw materials derived from the land – so-called 'comparative advantages' – has fallen dramatically in determining the competitiveness of recipient countries, while factors such as capital and technology have risen (Strange, 1993:203).²⁷

The behaviour of firms and their need to diversify risk, which has become a necessity facilitated through the liberalisation of capital flows, raises a number of interesting questions on various levels around competitiveness and decision-making for MNCs and governments

²⁵ The external factors of composite decisions such as political stability, policy, institutions and the dynamic socio-economic attributes (in essence, competitive advantages) will be elaborated on and illustrated in subsequent chapters.

²⁶BSA (Business South Africa). 2003. Breaking through the Economic Growth Barrier: Opportunities and Obstacles. South African Capital, Investment and Employment Issues: An International Comparison. Johannesburg, IMD. 2005. World Competitiveness Yearbook (1989–2004). Switzerland: IMD, Kline, J. M. 1992. Foreign Investment Strategies in Restructuring Economies: Learning from Corporate Experience in Chile. Westport: Quorum Books. Ritzen, J., Easterly, W. & Woolcock, M. 2003. On 'Good' Politicians and 'Bad' Politics: Social Cohesion, Institutions, and Growth. Washington, DC: World Bank, Rodrik, D. 2000. 'Institutions for High-Quality Growth: What They Are and How to Acquire Them.' National Bureau of Economic Research, Working Paper No. 7540, February.

²⁷ Michael Porter makes the same point in the development of his model of competitive advantage.

competing for investment. Traditional theories fail to explain all these features and variables related to FDI flows. Such flows are increasingly a result of a more integrated global economy, with large MNCs that are actively participating and investing in a range of industries and countries that vary in their political and economic landscape, trajectory and outlook (Froot, 1993).

*Neorealists*²⁸ would maintain that the activities of MNCs are being directed by government policy and the influence of other stakeholders embedded in the system. They insist that despite the growing importance of non-state actors in international relations, governments still set the rules. In a global economy of free markets and free flows of capital (investment), policy is the instrument governments use to deal with the forces of globalisation and to interact with or participate in the global economy. Some would even argue that government policy determines the nature of MNCs' activities around the world and shapes the relationship between the state and these companies (Gilpin, 2001:298–300). This would suggest that government behaviour and policies strongly influence the investment decisions of firms. While such decisions may be based on traditional comparative advantages related to natural resource endowments and other factors of production, the real influence governments have is through political behaviour, policy and strategic incentives, all of which contribute to competitive advantage.

Comparative advantage has been traditionally the advantage created through possession and availability of resources. By comparison, a country, by virtue of its political stability, favourable economic policies or market-friendly environment has a competitive edge over another country, by having a more secure and favourable commercial environment. Competitive advantage is essentially the ability of a country to reduce risks and costs by improving its operating environment. Such advantages can be regarded as independent variables, which can play a large part in influencing the choice of investment between two countries (or regions) that are equally endowed with natural resources. (BSA, 2003:iii–iv).

Globalisation has also altered comparative advantage by uncoupling international firms from the factor endowments of a single nation. Raw materials for production are available globally (at standard international prices) and are increasingly accessible from various locations on

²⁸ Robert Gilpin is a particularly strong proponent of this perspective.

comparable terms. Other conditions make these countries more or less favourable to investors, making the country or industry more or less competitive in attracting FDI and MNCs to their locations (Porter, 1998:12–15). For investors, competitive advantage can be manipulated, i.e. it can be changed by government policy, technology and innovation, while factor-based comparative advantage remains relatively unchanged or constant.

Studies suggest that political policy, and political stability in particular, is a strong determinant of FDI, while specific economic policies and incentives seem to be more closely associated with portfolio investment (Ahlquist, 2006:681–704). This highlights the growing importance of long-term political factors in attracting FDI, especially in the developing world.

One study conducted by *Business South Africa*, assessing comparative and competitive advantages worldwide, competitive advantage was identified as a variable that tended to be created rather than inherited. It includes factors such as technology and innovation, skilled human capital, communication infrastructure, and supportive institutions and services. Companies seek destinations that have an abundance of competitive advantages, where sound macroeconomic management, trade liberalisation and market competition are the minimum investment requirements (BSA, 2003:iv). The roles of the economic environment, institutions and policies are crucial in creating and sustaining the competitive advantage of companies in the international arena.²⁹ Porter puts it simply as follows: ‘Competitive advantage ultimately results from an effective combination of national circumstances and company strategy’ (Porter, 1998:578).

Porter goes on to emphasise the importance of differentiation as a means of creating competitive advantage. Again, this involves a variety of variables, including decisive investment decisions and a clear global strategy that configures or co-ordinates a firm’s global activities, with an emphasis on market access and minimising operational costs. In the case of Anglo, a strategy of operational configuration was undertaken in an effort to diversify its activities to several nations (beyond Africa and into Latin America). In this case, Porter would argue that the decisions made were (at least partly) geared to spread the risk of

²⁹ This applies to the competitive advantage of host nations and home nations alike.

operating in a single location and in a narrow set of commodities, minimising exchange rate risks and basic supply risks and avoiding – as far as possible – political risk (Porter, 1998:56).

Porter has summed up the factors behind competitiveness in his ‘mutually reinforcing diamond of competitive advantage’ (Porter, 1998:72). The diamond is a system made up of four factors, whereby the state of one contingent has an effect on another. The four determinants of Porter’s diamond include: factor conditions (or factors of production); demand conditions; related and supporting industries; and firm-specific issues (strategy, structure and rivalry). Porter suggests two additional variables integral to shaping competitiveness: governmental politics and policy. Chance events are also important but are most often out of the control of the firm or the government. These include wars, external political developments, new inventions and natural phenomena. Governments, on the other hand, can create and implement policies to consciously influence one or more of the determinants, which will have a direct impact on the investment decision (Porter, 1998:73). Governments or government-supported institutions are able to create a more competitive environment by way of efficient deployment of resources, thus creating an operating environment conducive to effective business practice.

Porter sees the role of government as one of many influencing factors and describes it as ‘inevitably partial’ (Porter, 1998:128). Porter places a great deal of faith in market-driven changes ahead of policy-induced reforms. His analysis also tends to focus on economic and managerial or operational issues, with little mention of politics or national competitive success related to political economy dynamics, with constant reference to the need for innovation and liberal policies.

Aside from being categorised as a neo-liberal, another criticism of Porter’s analysis is his concentration on countries in Europe and Asia that have already achieved a certain level of development and established a basic social infrastructure and political stability, or at least an environment geared for active institutional support. He therefore tends to emphasise economic criteria and suggests minimising economic risks, while avoiding political risks altogether. This is not realistic in other parts of the developing world, where resource extraction is prevalent. This is especially so in Africa and Latin America, where between 1973 and 2004 political risk was a reality and needed to be managed or evaluated in terms of the cost repercussions it might have had on returns.

This aspect (or criticism) of Porter's analysis ironically seems to emphasise the importance of political criteria and institutions. It should be stressed that government (as an institution) and its policies, and political stability in general are the most important external factors in the composite decision process and are key when it comes to the FDI decision-making process undertaken by companies like Anglo.³⁰

3.3.2 Institutions and investment rationale

Douglas North, the 1993 Nobel Laureate for economics, revolutionised conventional economic thinking through his work on institutional economics. He describes institutions as 'constructs of the human mind' (North, 1991:107) and 'humanly defined constraints that shape human exchange' (North, 1991:3). He notes (1991:118):

Institutions provide the basic structure by which human beings throughout history have created order and attempted to reduce uncertainty in exchange. Together with the technology employed, they determine transaction and transformation costs and hence the profitability and feasibility of engaging in economic activity.

Institutions reduce uncertainty and therefore alter the 'playing fields' on which classic economic theory is based, allowing for a higher degree of rationality through greater clarity of choices and decisions. They are possibly the most important external component of the composite decision of a firm, and a strong determinant of the environmentally attuned concept of bounded rationality.

The theory of institutions complements neoclassical economic theory by adding an element of *structure* or *relative certainty* largely absent from traditional theory. It introduces a new dimension to economic thinking and analysis that reconciles differences between economics and other social sciences, along similar multidisciplinary lines as those mentioned. It considers other criteria (or variables) outside of the standard set focusing on economic performance, awarding greater relevance to politics, culture, social dynamics and even human

³⁰ See Chapter 3, appendix II for an illustration of Porter's diamond system, augmented to depict exogenous factors of composite decisions.

behaviour. Such variables have a direct impact on decision-making and competitive advantage alike, as in the case of Anglo in Latin America. Institutions therefore contribute substantially to the competitive advantage of both nations and organisations.

North identified critical flaws in neoclassical economic theory, consistent with the issues highlighted by Simon and March before. According to North, neoclassical theories fail to understand the true nature of human co-operation and co-ordination, and he describes the wealth-maximising or optimal nature proposed by rational choice theory as overly simplistic and a 'discouraging perspective' of human behaviour (North, 1991:13).

A central tenet of institutional economic theory is that institutions influence, and are influenced by, human behaviour and the environment. It reveals a new and alternative approach of assessing economic motivation and environmental dynamics. In contrast to rational choice theory, which focuses purely on wealth maximisation as a human motivation, the values of altruism and adequacy in human behaviour have a place in new institutionalism.

Institutions create an environment characterised by regulated patterns of human interaction through rules and procedures, and even help to shape culture, ideas, ideologies, beliefs and general behaviour, which add structure and a higher degree of certainty to the environment. This also supports the role of organisational loyalty highlighted in earlier sections (North, 1991:11–26).

3.3.3. Institutions and competitive advantage

The right set of government institutions and policies can reduce transaction costs. This in turn reduces the costs of production, making a location where there are functional institutions more competitive than others. It is a positive exogenous factor in decision-making.

Social structure and values contribute to these institutions and can reinforce predictability for decision-makers. This includes 'informal' factors of ideology, religion, culture, social behaviour and interaction, all of which can have an impact on the political and economic environment of a country and therefore influence competitive advantage.

‘Formal’ rules and procedures, on the other hand, are institutionalised and exist to facilitate political and economic exchanges. Contractual enforcement is an essential prerequisite for economic progress. The lack of institutional infrastructure or traditionally accepted institutional behaviour in developing countries has resulted in a comparatively higher cost of enforcement there. An ambiguous legal doctrine and uncertainty around business conduct make the presence of third party enforcement essential in order to secure information and to validate the terms of contracts. However, the methods used to monitor economic exchanges and enforce contracts are often vulnerable to manipulation and corruption by those in power, who may coerce rules and regulations to suit their own personal interests, at the expense of society. Here a lack of effective and efficient institutions can increase the cost of production and doing business in less developed countries, lowering FDI attractiveness. Thus the efficiency and stability that institutions provide to an economy make them a ‘critical key’ to economic success and progress (North, 1991:69).

3.4 Conclusion: Convergence in the essence of investment decisions?

The case of Anglo is best explained by the use of the organisation-governmental-politics model, where influences on decisions range from personalities and corporate culture to the bottom line.

The case of Anglo and its investment drive in Latin America also suggests another important point in terms of models associated with investment rationale and decision-making in general: contextual insight and knowledge of the surrounding socioeconomic, political and institutional environment, together with the nature of the individuals and organisation involved, are important in understanding any decision in a specific situation (March, 1994:vii). Anglo epitomises the context-specific dimension of investment decision-making analysis and decision theories more broadly. This case illustrates the need to blend a diversity of theoretical interpretations together for a more comprehensive and clearer understanding of investment rationale with real-world relevance.

Using a combination of models and references to theory-based research, one is able to gain a clearer picture of the so-called ‘black-box’ around decision-making and the ‘essence of investment decisions’ and its associated behaviour. A multi-disciplinary and multi-

participatory approach is emphasised. This helps to explain the investment rationale of Anglo, and has reference to understanding the investment rationale of MNCs in general.

While classical rational choice behaviour may not provide the best or most balanced explanation of such decision-making, it provides a foundation from which subsequent models have emerged, the assumptions of which are based on the original rational actor model. Rational choice theory has gradually evolved into a concept of limited or bounded rationality, describing how decisions are made rather than how they ought to be made, with the notion that individuals are 'intendedly rational', seeking outcomes that suffice and are not necessarily optimal (March, 1994:9).

Bounded rationality is the essence of organisational decision-making. It is also the central tenet behind a more comprehensive model that emphasises political dynamics and individual inputs, which ultimately influences the decision-making process in a more empirical setting. This model advances the concept of composite decisions, which is most applicable to investment decisions generally and to the case of Anglo in particular.

Composite decision-making is clearly a dynamic and complex process that is influenced by a range of causal factors, both endogenous and exogenous, ranging from organisational attributes to individual inputs and politico-economically oriented variables.³¹ To incorporate all these elements into a single decision theory is somewhat ambitious and not entirely realistic, especially with respect to investment decisions, where the diversity of individual characteristics (value and factual judgements) and external motives is potentially endless.

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³¹ See chapter 3, appendix III for an illustration of the composite decision and the various factors that influence it.

Chapter 4

A History of Anglo in South America, 1973–2004

4.1 Introduction

Despite its size and importance, the activities of Anglo American South America (AMSA) have not been researched in any depth. Those interested in Anglo American Corporation tend to focus on its dominance in the South African economy or its exploits around the African continent. Few have acknowledged the company's entry and steady growth across the Atlantic over the past thirty years. This growth has made AMSA a powerful force in the Latin American mining industry and one of the largest investors in the region. The company has not only helped modernise the mining sector in South America, but has reaped the benefits of the rich diversity of minerals and metals across the region, which has become one of Anglo's most profitable regional ventures.

The obscure structure of the company, the history of foreign investment from South Africa (in general) and how it was conducted during that period, and Anglo's nature or culture of doing business abroad have also contributed to the relative anonymity of AMSA. This not only created a very high degree of autonomy from the Anglo American Corporation, but also instilled a strong sense of 'ownership' within AMSA, which made it appear to be more locally based than foreign. AMSA reflected an example of where the Anglo corporate culture was compatible with local cultural habits, which had interesting and very positive consequences. These dynamics certainly influenced the decision-making and investment rationale of AMSA and Anglo more broadly.

The AMSA experience is one that was defined by a range of variables both internal to Anglo (and AMSA) and external in the realm of political economy and, in particular, the investment domain. Apart from certain positive cultural dynamics, and AMSA's unique approach that helped cultivate healthy relations and a strong understanding between the 'Anglo way' and business practice in Latin America, the roles of individuals and strategic partnerships in the region were key to the company's investment rationale. These partners and intuitive individuals helped AMSA to navigate its way successfully across the region and interpret the

comparative and competitive advantages that were shaping the external environment and the set of investment decisions processes at the time.

This chapter traces the process of investments and associated decisions that were made, which led Anglo to South America and motivated its growth across the region over a thirty-year period. Available literature covering this process is scarce and incomplete. That which does exist provides little or no explanation of the rationale behind Anglo's unexpected entry into and investment drive in the region. However, the interviews and detailed discussions that were conducted during this study reveal relevant aspects of the AMSA story that were previously undocumented. This illustrates an interesting story worthy of detailed interpretation. The story of AMSA provides an important example of investment rationale and decision-making relevant to the South African and Latin American business context.

4.2 The birth of the Anglo American Corporation

The Anglo American Corporation was founded on 25 September 1917. Ernest Oppenheimer (later Sir Ernest Oppenheimer), who was 37 years old at the time, raised £1 million of capital from the United Kingdom (UK) and the United States (US) to exploit the vast potential of gold deposits in South Africa. Despite the foreign capital used, Anglo was widely seen to be the first South African-based mining house formed to develop deep-level gold mines on the Witwatersrand in South Africa (Spicer et al, 1996:409).

The amount of capital raised was neither astronomical nor insignificant at the time. However it was not the size of the investment that captured the world's attention, but the source of finance and associated names from the US behind the capital formation of the new company. In particular, Herbert C. Hoover, the mining financier and later American president, met with Ernest Oppenheimer in London, and was a prominent figure behind the US capital that helped create Anglo. It was the first time American investment had been involved in the rapidly growing South African mining sector. In the London press, it was described as the start of a new epoch of investment on the South African Rand (Gregory, 1962:3–19).

Ernest Oppenheimer had both the skills to bring together a diversity of investment interests from around the globe, and a unique ability to 'deal and negotiate with government' and

secure important deals and transactions that helped drive Anglo forward in the company's early years (Gregory, 1962:17). Many ascribe Anglo's initial success (despite a number of challenging circumstances in the political economy at the time) to Ernest Oppenheimer's array of business and social talents, which were essential in dealing with the diversity of investors in the somewhat difficult extraction industry environment (where government, investor and public interests rarely concurred) and his ambitious will to expand well beyond South Africa. This ambitious – even audacious – character trait turned Anglo from being a 'relatively junior ranking mining house' into a respected player in just a few short years (Pallister et al., 1987:29). It is a characteristic that was reproduced in his son, Harry Oppenheimer, after him, and remained engrained in the company culture long after Sir Ernest was gone.

4.2.1 Anglo American and De Beers

In 1926 Anglo became the largest shareholder in De Beers Consolidated Mines, the already well-established diamond giant. This marked the start of a long and complex relationship that saw the two entities intricately intertwined in various mining activities. Combined, they eventually formed one of the largest mining houses in the world. Anglo American–De Beers, which was synonymous with the Oppenheimer name, was (at its core) a family-run business that developed various joint projects and consortiums with other mining houses and host governments around the world, and in Africa in particular.

The intricate cross-holding between Anglo and De Beers finally came to an end in 2001, when De Beers was de-listed and its 32.5 percent holding in Anglo was distributed among its shareholders. Meanwhile, Anglo increased its share in De Beers from 35 percent to 45 percent, and a contract for the management of De Beers was granted to the Oppenheimer family (<<http://www.angloamerican.co.uk/about/comphist.asp>>).

These developments significantly altered the nature and composition of the South African mining sector. It marked the start of a new era of mining in South and Southern Africa (which drew commentary from around the world) and was essentially part of a broader rationalisation process undertaken by Anglo which altered not only its management and operational structure, but also the nature of its accumulated assets and investments that spanned the globe. This process, which played an intricate part in the company's investment

decisions and international operations, will be discussed in great detail throughout this chapter.

4.2.2 Expanding beyond South Africa's borders³²

By the late 1920s Anglo had begun its expansion beyond South Africa. Success in South Africa (initially in gold mining) allowed the company to diversify both geographically and in terms of its activities into various industrial operations. Anglo's exploration activities in Zambia, which were some of the first pursued outside of South Africa and date back to 1924, made it one of the key developers of the famous Zambian copper belt (then referred to as the Rhodesian copper belt) (Pallister et al., 1987:43). It was also the start of a long political and economic relationship on the African continent where Anglo (and the executives in particular) assumed a role well beyond merely investment, where leaders like Harry Oppenheimer straddled both the public and private sector, deeply involved in the sociopolitical dynamics of individual countries and the continent at large.

Zambia became a core location for Anglo base metal operations. It has, ironically, been at the centre of the company's global expansion debate and investment strategy for reasons ranging from capacity-building and global base metal production to decisions based on the political and economic policies of the country, and even sentimental affinities held by key decision makers in the executive toward the country.

The nationalisation of the Zambian copper mines at the end of the 1960s forced Anglo to seek alternative sources of base metals elsewhere and provided capital for the creation of the Minerals and Resource Corporation (Minorco), an offshore company that Anglo used for international acquisitions. Minorco's start-up capital was in the region of £95 million, which was the amount Anglo was compensated with when the new Zambian government acquired a 51 percent stake of its Zambian subsidiary (Pallister et al., 1987:84–85). Although it was independently managed, Anglo held 46 percent and De Beers 23 percent of Minorco (Spicer et al, 1996:413).

³² Much of this section is based on interviews, discussions and e-mail exchanges with Julian Ogilvie Thomson, Guy Young, Michael Spicer, Mark Venning and Greg Mills, who were either working, have worked or have been involved with Anglo American Corporation and Ernest Oppenheimer and Son over the years.

When the Zambian mines were privatised in the 1990s, Anglo re-entered the country with the intention of taking up mining operations again and expanding investments across the copper belt. However, a decision was made to disinvest from Zambia in 2001–02, which was followed shortly after by the acquisition of Disputada (later named Minera Sur Andes) in Chile. This was a controversial decision in both the operational context (especially given the subsequent surge in copper prices) and in terms of the political interpretation around Anglo's commitment to Southern Africa. Chapter 6 deals intimately with the 'Zambia versus Chile' issue, but it will also be discussed briefly from the Anglo perspective later in this chapter.

However, despite its successful expansion north of the South African border, Anglo's vision as global player logically sought alternatives beyond the relatively small African economy. The first Anglo American investment off the African continent was in Canada in 1961. Following some exploration activities in Australia, Europe and North America, Anglo acquired the Hudson Bay Mining and Smelting Company, which essentially marked the start of the company's international expansion.

More than ten years lapsed before Anglo followed up with its second major international acquisition. In 1975, using capital raised by Minorco, the company acquired a 49 percent stake in the Brazilian gold mine, Morro Vehlo. This would be the start of a long and prosperous investment relationship that would span the entire South American continent and involve a diversity of industries.

Anglo's expansion into Latin America also brought with it the creation of new 'Anglo' companies that were geographically defined, and that epitomised the nature of the company's international expansion, which seemed to emphasise a high degree of geographical specialisation. Such an approach would support the assumption that investment expansion was, to a large degree, determined by the nature of the political economy of a particular geographical location and the company's 'on-the-ground' capacity of expertise developed there. Shortly after the move into Brazil, Anglo American Corporation of Brazil (AMBRAS) was formed. With activities and investments broadening out across the region in later years, AMBRAS became Anglo American Corporation of South America (AMSA). These subsidiaries were later dissolved (starting in the late 1990s) during the rationalisation process, when the management and international structure of Anglo was redefined according to commodity lines, as opposed to the geographical classification of operations used before. The

regional model, it was felt, was dated and was thus replaced by what is referred to as the ‘new global model’. Debate around these changes and the most appropriate approach for the Latin American region continues today.

This shift in international operations and strategic management along resource commodity lines, which follows the structure of other large global mining giants like Rio Tinto and BHP Billiton, took place at the turn of the new millennium, shortly after the formation of Anglo American Plc. In May 1999 Anglo American Corporation of South Africa (AACSA) and Minorco combined to form Anglo American Plc, and listed on the London Stock Exchange. This was the climax of the rationalisation process, which saw Anglo delisting from the Johannesburg Stock Exchange and essentially becoming a UK company. In South Africa, the government and general public interpreted this less as a cold business decision that enabled Anglo to better manage its diversity of international interests than a clear expression of Anglo’s lack of confidence in the country. But the reality is that a majority of Anglo’s investments are still in South Africa, where it continues to invest today. The long, intricately intertwined history it shares with the country, and landmark headquarters of South African business at 44 Main in Johannesburg, have helped to retain the perception that Anglo is still very much a South African company. It is for this reason that Anglo (and other companies that have followed a similar path, notably SABMiller) is considered and referred to as a company of South African origin.³³

4.2.3 Balancing growth with political activism

Anglo has, over the years, continued to grow, despite political adversity. From its early days, the company was seen as an opposing force to the ruling Nationalist Party government in South Africa. This began while Sir Ernest was at the helm. When he died in 1957, the transition in terms of operations and strategic vision to his son was seamless. But Harry Oppenheimer introduced a greater political awareness in the company with even more outspoken opinions than those expressed by his father during his twilight years. Harry

³³ This description was first used by Mark Venning, a South African business consultant based in Chile, during one of the many interviews conducted with him between 2003 and 2006. Venning was previously with Anglo American Industries in Brazil and Chile.

became a leading force of the official political opposition³⁴ and often shared his so-called ‘unpopular views’ in international forums. In April 1970 he told the *Melbourne Herald*:

I realise I am living in a country which politically is a failure. But somehow we are surviving. It is a nasty sort of survival and I often wonder what will happen in ten years time. South Africa could be wiped out; its rulers are so damned bloody-minded (Pallister et al., 1987:66).

The nature of the South African political economy certainly had a long-lasting impact on the Anglo operation. From the 1960s and into the 1970s, the closed economy in South Africa forced Anglo to diversify beyond mining, spreading its interests into every sphere of the South African economy. Despite the clear animosity between the Anglo leadership and the regime in power in South Africa, the two grew increasingly dependent on each other. Anglo became a comparatively amorphous conglomerate (many believe to the detriment of its mining operations), and tensions emanating from a divergent political agenda with the ruling government encouraged the company to pursue opportunities abroad.

But these tensions and Harry Oppenheimer’s split agenda between public and private life did not detract from Anglo’s growth and progress. In fact, if anything, it added a dynamism and international perspective that helped the company cope better with the economic realities of South Africa and the African continent, and contributed to its overall success. By the 1980s, Anglo was a multibillion-dollar MNC and the undisputed force behind South African business (and arguably behind the South African economy). The group as an international whole included over 600 companies, employed (by some estimates) 800,000 workers worldwide and had amassed a formidable range of resources, most of which were in South Africa (Pallister et al., 1987:4). This added tremendous political leverage to the company, which allowed it (or at least the leadership) to operate at a separate level to conventional businesses in South Africa at the time. The fact that the company was truly international and Harry Oppenheimer was an internationalist to the core gave it a different perspective on the situation in South Africa and certainly helped it identify the true dangers and concerns associated with the political climate of the country. Such concerns, no doubt in response (at least partly) to political risk aversion, contributed to the investment decisions that were made

³⁴ Harry Oppenheimer was also a member of parliament for the official political opposition.

(especially from the 1970s onwards), which saw Anglo diversify its interests to multiple locations around the world.

But political activism did not end with Harry Oppenheimer. His successor as chairman at Anglo America, Gavin Relly, shared the qualities of his predecessor in his ability to straddle the world of politics and business. The unique combination of a refined political insight and astute business practice and experience on the African continent, together with the weight of Anglo behind him, encouraged Relly to undertake the most controversial political role played by the company to date. In 1985 he opened a dialogue with the banned African National Congress (ANC) leaders in Lusaka, Zambia, to discuss the economic future of South Africa. Actively involved in Angola, Zambia, Zimbabwe and a number of other locations off the African continent, Anglo felt well placed and competent enough to facilitate this exchange (Pallister et al., 1987:101).

Such a bold step reflected the true intentions and sentiment of Anglo, which was, by this time, already certain of the impending changes in South Africa. The company's open support for these changes gave the process greater economic support and commercial confidence in the future. It was a position the leadership of Anglo could afford to take, given the knowledge that the company was the voice behind business and indispensable to economic growth in South Africa. By this time, Anglo's operations were diversified around the globe. Well-established and with interests growing rapidly in Africa and Latin America, clarity around the political future of South Africa was an important consideration for the company's international investment decisions, since the option to invest in the country's future prosperity or pursue lucrative options in new (more stable) locations was now a pressing reality.

4.2.4 Anglo American's decision-making core

During this time and through all these dramatic changes in the political and economic landscape in South Africa and abroad, the company retained the style of leadership and organisational culture that had defined its nature and ethos since 1917. This in turn defined its decision-making process and thus determined Anglo's investment drive abroad.

The structure of Anglo has always been somewhat unusual. It was a family-founded business that had grown and developed into a MNC and mining house of global magnitude. However, in the 1970s and 1980s, the company diversified well beyond mining in geographical locations on every continent around the world. Still, key strategic decisions were essentially in the hands of a few core individuals, and the ultimate decision-making process ended with one person – Harry Oppenheimer.

Unlike other MNCs, Anglo did not have a regular chain of command from the top downwards. Decisions were sent to an executive committee of fifteen individuals that would meet at least once a week. There was an investment committee, which, in theory, had to clear any projects over US\$50 million. But in reality, all major investment decisions were made by a small core group of individuals, and if an individual or ‘project champion’ was part of this core or had influence in this group, a particular investment decision was endorsed.³⁵ Group cohesion and the culture or mindset instilled by strong leaders such as Oppenheimer and, in later years, Relly and Ogilvie Thomson after him together were a key to successful and decisive decision-making.

The core or the ‘inner cabinet’ (as it has been referred to by David Pallister and others) during the late 1970s and early 1980s was made up of key Oppenheimer family members (notably Harry Oppenheimer and his son Nicky) and ‘extended’ family members, some through marriage – Hank Slack and Gordon Waddell – and Gavin Relly and Julian Ogilvie Thomson, who were trained in the characteristic Anglo mould as Harry’s personal assistants. There was an additional layer of decision makers around the core, which included board members of E Oppenheimer & Son, a company established by Sir Ernest in 1935 (Pallister et al., 1987:16–18).

The importance of integration among the executive committee of Anglo, the ‘first layer’ of board members of E Oppenheimer & Son and the inner cabinet core increased in the late 1980s and 1990s. This was when the company grew and diversified at a rapid rate and the political economy dynamics became increasingly complicated, necessitating the additional input of advisors and agents in the decision-making process. At the turn of the millennium, as

³⁵ Much of this was confirmed by Tim Wadson, the former technical director at Anglo American, during an interview with him in Cape Town in May 2006.

the company underwent dramatic restructuring, integrated decisions and group cohesion become even more crucial.

Throughout the period of investigation (1973–2004), integrated decisions and group cohesion was made possible by the fact that the inner cabinet were also members of the E Oppenheimer & Son board and often also sat on the Anglo American executive committee. Harry Oppenheimer retired from the chair of Anglo in 1982 at the age of 74. In 1984 he stepped down as chairman of De Beers. His worthy successors were Gavin Relly and Julian Ogilvie Thomson, respectively. Ogilvie Thomson would, in later years, succeed Gavin Relly as chairman of Anglo America, where he was a significant force in the international expansion of Anglo assets, particularly in Latin America. Both Relly and Ogilvie Thomson continued to seek the advice of Harry Oppenheimer for many years after he had given up the helm. His insight and experience in some of the more sensitive issues of business and politics were invaluable. Harry Oppenheimer therefore remained a key influencer and motivator of investment decisions in Anglo for many years after he had officially left the management.

4.3 Anglo's entry into South America

Anglo first entered Latin America in 1973.³⁶ The company had been exploring a number of opportunities in Brazil, where the economy was booming and which was regarded by many as the emerging market giant of the future (similar to China today). While the exploration activities of other potential investors were focused more on base metal prospects in the country, it was evident that there was great potential in Brazilian gold deposits, where the geological environment appeared to be very similar to the Witwatersrand, an area where Anglo had developed unique expertise in deep-level mining. The gold price, in the meantime, was increasing after the gold standard had been abandoned, and this offered enormous potential for the underdeveloped gold mining sector in Brazil.

However, the investment environment in Brazil was still tainted with uncertainty, following a period of nationalisation that had left the mining sector without any foreign investment and in desperate need of rehabilitation. Indications from the military government did suggest

³⁶ Following a visit by Tim Wadson, who later became technical director, Anglo American was first invited into a joint venture in a copper mine in Peru in 1967. But a change in government and political instability in that country interfered and drove Anglo away. Gold mining prospects in Brazil a few years later seemed far more appealing.

renewed commitment to the development of the mining industry, which had been identified as a vehicle for long-term investment and economic growth in the country, but the policies were yet to be clarified, as were the government's strategies for general economic development in the country. One example – particularly constraining for foreign investment – was a law that required investors to enter the country with a majority Brazilian shareholder. But despite this, Anglo was eager to get into the Brazilian (and Latin American) market and sought an appropriate partner that reflected its own values and ambitions.

It was under these circumstances, in which economic optimism was clouded with some policy uncertainty, that Anglo acquired a 49 percent stake in the Brazilian gold mine, Morro Velho. The acquisition took place shortly after Harry Oppenheimer had travelled to Brazil in 1975 to meet with President Ernesto Geisel.

Morro Velho, situated in the state of Minas Gerais, was the oldest gold mine in Brazil. It had been in operation for nearly 140 years and was in desperate need of modernisation and the technical expertise Anglo was prepared to offer. The acquisition of Morro Vehlo took place more than two years after Anglo's initial entry into Brazil, when Dr Mario Ferreira, who was Portuguese-speaking and had a basic understanding of the local culture, was sent to establish Anglo offices in Rio de Janeiro (Lyll, 1993:24).

With its vast experience in deep-level gold mining in South Africa, Anglo quickly identified opportunities in Brazil in the early 1970s, where it clearly had a competitive advantage over other potential rival investors. However, various factors, including adverse labour union activity, some localised political instability, a congressional enquiry into Anglo's proposed investment, and the slow reform of certain policy and legislative acts related to FDI and the mining sector, delayed Anglo's investments in its first mining operation in Brazil until 1975. By that time, Anglo had been in the country for a number of years and had not only identified mining opportunities and established offices in Rio de Janeiro, but had also found a suitable partner in the form of Bozano Simonsen. Mario Ferreira persuaded Anglo to acquire a small share in Cia Bozano Simonsen (CBS), the holding company of the Bozano Simonsen group.³⁷

³⁷ Mario Ferreira was a close friend of Julio Bozano and Mario Simonsen, the founding partners of Bozano Simonsen, which became Anglo American's primary partner in South America. Simonsen proved to be an invaluable partner for the group in the early days. When Anglo American first decided to enter Brazil, Simonsen was minister of finance, and carried a great deal of influence in both the political and business spheres. His

This partnership helped it to establish the necessary business and political support essential for effective operations in Brazil and (in later years) the broader region.

Few at the time realised that the small Anglo office opened in Rio de Janeiro, the relatively small company that was then called Anglo American Corporation do Brasil Limitada or Anglo American of Brazil (AMBRAS), and the Morro Vehlo gold mine would be the start of the most successful region-wide business venture undertaken by Anglo. Within seven years, Anglo had invested an additional US\$220 million dollars in the country, modernising Morro Vehlo and acquiring another mine (Jacobina), which boosted Morro Vehlo's output dramatically to 10 percent of Brazil's total gold production (Pallister et al., 1987:181).

In the years that followed, AMBRAS – mostly in conjunction with its trusted partner, Bozano Simonsen – invested heavily in a number of projects across Brazil, from gold and copper to petrochemicals and phosphates (Lyall, 1993:27).

Opinions differ as to what the sources of prosperity and success for Anglo operations in Latin America were, especially in the earlier years. But some reflection on the experience of Anglo in the region reveals an interesting success story, which is the result of a combination of factors, both internal or company-related (as a result of leadership and key individuals behind the decision-making process, and the operational culture or nuances in its Latin America operations) and external (those factors related to the investment environment and the timing of these investments around the increasing gold price). All these contribute to what was referred to in earlier chapters as composite decisions, which take into account the range of company-specific criteria and individual dynamics, external political economy factors along with comparative advantages and commodity prices.

Anglo relied heavily on the intuition of specific individuals (Mario Ferreira) and the political and strategic direction of outside partners (Bozano Simonsen) for its initial establishing phase in Brazil. It is also clear that the company made a clear decision to create a separate entity with a local face, AMBRAS, which was intricately interwoven with Bozano Simonsen's operations and a number of other locally based companies. This created a low profile, which

optimism around Anglo American's influence in Brazil, and particularly its technical input, ensured a positive outcome to the congressional inquiry.

it retained for all the years of operation in Latin America, and a strong localised representation or image. But, despite AMBRAS's autonomous image, the core leadership from Anglo made regular visits to Brazil and were the ultimate decision makers behind large investments. It was this combination of strong leadership (both in South Africa at Anglo headquarters and on the ground in Latin America) that enabled cohesive decision-making between AMBRAS and Anglo. This, along with the so-called 'Brazilian' local dynamism is one source of success and company trajectory in the region.

4.3.1 The Hochschild Group and the birth of AMSA

Those involved in Anglo's entry and expansion in Latin America all tend to place a great deal of value on the trusted and reliable partnerships the company nurtured from 1973. At its initial inception, the partnership with Bozano Simonsen, which, it must be added, was based very much on personalities and strong personal relations among key individuals like Mario Ferreira, Julio Bozano, Mario Simonsen, Julian Ogilvie Thomson and Harry Oppenheimer – not to mention the mutual respect among these individuals – was crucial for political and commercial acceptance in Brazil. Simonsen's significant presence and influence in Brazil helped Anglo navigate its way through the political economy landscape in which it operated and guided the group through rapid investment growth.

This growth resulted in a second significant partnership with the Hochschild Group. The Panama-based Hochschild Group was controlled by a trust established by Maricio Hochschild and was characterised by a very traditional style of doing business (Lyall, 1993:30), which would no doubt have appealed to the Anglo style of business practice at the time. It had investment interests across the region – mostly in mining, but in some diversified industries as well – and AMBRAS was ready to expand its operations.

Anglo's expansion in Latin America began in earnest at the end of the 1970s and early 1980s. The Hochschild Group identified strongly with Anglo and was impressed with its approach to the region. After a few minor business engagements, it offered AMBRAS the opportunity to acquire an interest in its extensive South American operations. This was finally concluded in 1981 with Anglo's 40 percent acquisition of Empresas Consolidadas Sudamericanas (ECS) SA – the Hochschild Group in South America.

Less than two years later, Anglo acquired the remaining 60 percent.³⁸ The real value of the deal essentially doubled Anglo's investment interests in the region and redefined its presence in Latin America.

The diversified nature of the Hochschild operations forced Anglo to restructure its South American interests into a new holding company, which was called Anglo American Corporation of South America or AMSA. AMBRAS continued to manage the Brazilian operations on a level beneath the umbrella of the AMSA arrangement.

The acquisition of ECS added a range of diversified interests to the Anglo portfolio in Latin America, which was previously confined to Brazil. Anglo had long been looking to enter Chile more aggressively, eager to tap into the base metal prospects that the country had to offer. One of the Hochschild assets was the large copper mine, Montos Blancos, which essentially launched AMSA into a long and fulfilling relationship with Chile. Chile is today the largest recipient of Anglo investments in the region, attracting over US\$3.3 billion of investment from the company and accounting for some 15 percent of its net operating assets (Barber, 2004:24). Anglo's long and prosperous relationship with Chile will be discussed in greater detail later in this chapter. A further discussion of the relative attraction of Chile compared with copper rich Zambia, and its key motivational attributes relevant to investment decisions, follows later in chapter 6.

Most significant of all, the partnership with the Hochschild Group encouraged AMSA to explore the region with confidence. Anglo was aware from the outset of the political and economic complexities of individual countries with resource potential in the region. Africa had prepared it for risk management. The company had grown accustomed to considering a range of diverse criteria in its pursuit of investments and partnerships throughout South

³⁸ The first 40 percent acquisition was purchased for US\$130 million. Three years later, the remaining 60 percent was acquired for US\$90 million. While this certainly was a very good deal for Anglo American, and was fundamental in the company's regional expansion, it was a transaction based on trust. Those that negotiated the deal with the trustees of the Hochschild Group recall the caution and due diligence that was taken to ensure that Anglo American 'was the right company to sell to'. This was the nature of business in Latin America at the time and illustrates the environment where Anglo American operated and thrived due to the combination of a strong corporate culture and the adoption and deep understanding of local cultural and business dynamics in Latin America. It was an environment in which leaders like Ogilvie Thomson were well suited, where business decisions and partnerships were based largely on personalities and trust. Such personalities drove Anglo American to new successful highs across the region.

America. Peru, for example, was said to have the greatest mineral potential in South America. But political instability and security problems kept new investment prospects out of the country until Alberto Fujimori came to power in the 1990s. Argentina, meanwhile, under its complicated federal system, hamstrung the development of its mining sector through a differentiated system of policies and legislation from province to province, which created an environment of uncertainty and inconsistency for potential foreign investors. Anglo only entered Argentina in 1981 as part of its broader regional acquisition in the Hochschild deal, and this operation was still relatively small compared to other investments around the region.

Most of the ECS investments were concentrated in base metal operations around the region. This was important to Anglo, considering that prior to the nationalisation of the Zambian copper mines at the end of the 1960s, copper accounted for up to a third of the company's profits. Anglo operations had grown significantly more concentrated in gold mining, and this single-commodity approach posed a risk in terms of price fluctuations. The company, in its global strategy, was therefore eager to complement its core gold mining activities at the time with base metal operations, and South America certainly offered a wealth of opportunities in this ambit of mining (Spicer et al, 1996:412).

This certainly was one of the reasons why Anglo considered Brazil and Chile to be the best investment alternatives in South America. Brazil, with a combination of mineral and base metal components, and Chile, with enormous copper deposits, had the natural resource potential necessary for the initial attraction. Both countries had undergone and emerged from a process of economic nationalisation followed by successful reforms, and while democracy did not exist in either (democracy was a rarity in the developing world at that time), political and social stability prevailed. Most importantly, both countries could guarantee a high degree of legislative and operational certainty with policy continuity, which created an environment that was comparatively less risky than other locations in Latin America (and Africa). Douglas North would say that Brazil and Chile had better institutions than the others, critical for a more reliable, efficient and predictable investment environment.

Politics was paramount. One former Anglo executive described Brazil and Chile as having ‘put the revolutions behind them’, which was indicative of a favourable investment environment relatively free of social unrest or the threat of nationalisation.³⁹

Finally, AMSA’s involvement with the Hochschild Group helped it diversify its activities in Latin America beyond mining. This tended to fit the company’s South African approach to business. Given the nature of the business environment and economic climate in Latin America at the time (the late 1970s and early 1980s), which required not only the forging of strong partnerships and the acquisition of various local companies to penetrate the market beyond Brazil, Anglo was forced to diversify its activities into a range of alternative industries. Weak financial institutions, somewhat erratic monetary behaviour and complicated exchange controls forced companies like Anglo to buy into a range of (sometimes unrelated) business interests.

For this reason (and through ECS), Anglo found itself involved in a number of disparate industries, from a banana flakes company in Ecuador to fertilisers and petrochemicals in Argentina. These secondary interests accumulated to the point where the company dedicated an entire office in Latin America to diversified industries. As these investments grew, Anglo American Industries in Latin America began to pursue independent investment interests, and, with the likes of Mondi (a subsidiary of Anglo in South Africa), undertook major investment projects in areas such as paper and pulp.

But Anglo’s core interests are and always have been in mining. Toward the end of the 1990s, Anglo began to consolidate its interests and focused more exclusively on the mining sector. It was around this time that AMSA was recognised as the largest mining company in Latin America, with a growing accumulation of assets that exceeded US\$1.5 billion. This should not have been much of a surprise, given that in 1996 Anglo was the largest mining-based group of companies in the world, with a market capitalisation well over US\$15 billion (Spicer et al, 1996:409).⁴⁰

³⁹ This comment was made during a private discussion the former Anglo executive in April 2006.

⁴⁰ Anglo was also the largest producer of gold, platinum and diamonds.

Despite its prominence, AMSA managed to maintain a relatively low profile and was widely perceived as a local company. Experience had shown that such an approach helped avoid destructive confrontation with government and civil society groups around Latin America.⁴¹

4.3.2 Developing an operating style for Latin America

Having operated in Africa for over fifty years, Anglo was aware of the impact of politics and policy on mining investments in developing regions. Mining, after all, is a highly politicised activity. It is a long-term engagement that involves surface rights, which are essentially property ownership rights, and this is a sensitive issue in any sociopolitical environment, particularly in the developing world, where legislation is poorly defined and institutional support around these issues rarely exists.

For this reason, Anglo moved cautiously in Latin America, always conscious of the political and economic dynamics of the country and broader region in which it was operating. Guy Young, the former chairman of AMSA, identified three very important characteristics of the company that shaped the investment decisions made and clearly contributed to the enormous success of Anglo in the region:⁴²

- Anglo chose reliable, like-minded and capable partners with political influence that were already well established in Latin America. This helped to diversify Anglo's activities in terms of its business interests and geographical presence in the region. It also allowed the company to learn about the business culture and operating environment over a lengthy period of time, while also providing investment security.
- From the outset, AMBRAS, and later AMSA, assumed the identity of a Latin American company. It kept a low profile and avoided the image of a large foreign investor (or MNC) that had a majority stake in various mines around South America. Anglo maintained this image, despite the fact that by the end of the 1980s and early 1990s it had become the largest diversified mining company in Latin America.

⁴¹ Large multinational copper extraction companies from the US (Anaconda and Kennecott), which were operating in Chile prior to the nationalisation at the end of the 1960s and early 1970s, and suffered serious consequences as a result of excessive sectoral dominance and exposure, were one of many examples of this.

⁴² This is based on an interview in April 2006 with Guy Young, who was the chairman of AMSA from 1986 to 2000.

- AMSA maintained that it could only establish a stable and permanent presence in Latin America by developing local skills and talents. It created a sense of ‘ownership’ among local staff and management, and developed a unique company culture that was based on the Anglo corporate culture and adapted to the Latin American environment.

The role of personalities and the importance of building a broad range of relationships with governments on a regional scale has already been mentioned but should not be underestimated. Governments value relationships, and from relationships, transactions will emerge. Business is all about transactions. This approach, which is essentially a carefully crafted balancing act championed by highly committed and skilled individuals that are intimately involved in government–business relations, characterised the Anglo regional model in South America. Those decisions makers involved in AMSA’s investment growth in the region were sensitive to political dynamics in the individual countries and the region at large. The AMSA leadership was widely regarded as ‘experts on Latin America’, was well-versed in Latin American politics, and was confident to deal with an array government and politically sensitive issues personally. While Anglo’s global model has changed in recent years (shifting away from the regional divisions), it is broadly acknowledged that this approach was key to its success in the region, especially in the earlier years.⁴³

This illustrates the point made in chapter 3 around operational activity and organisational culture. Most observers would agree that AMSA seemed to assume a style or character of its own, unified and even somewhat independent of the rest of the Anglo group. AMSA adopted the mode or culture of doing business in Latin America through what Graham Allison called ‘field-based learning’. Therefore, despite Anglo’s strong organisational culture, which extended across the Atlantic divide, on-the-ground operators in AMSA seemed to take on an odd blend of Anglo and Latin American organisational culture, which brings with it local empowerment and greater participation in decision-making, and thus on-the-ground efficiency through its response to the unique demands of the working environment.

In Anglo’s process of rationalisation (undertaken toward the end of the 1990s and early in the new millennium), its regionally arranged global model gave way to the commodity lines that

⁴³ Philip Baum, the chairman and chief executive officer of Anglo Ferrous Metals and Industries, articulated this point about government–business relations in a discussion held in July 2006.

characterise other international mining companies of a similar size, with greater emphasis on a standard organisational culture, instead of one with nuances from region to region. However, as Allison and Zelikow (1999) warn, when cultural routines clash with efficiency, efficiency usually loses.

This is an ongoing debate within Anglo between the so-called ‘old Anglo’ group, who generally support the older system of a regional geographic structure with greater emphasis on individuals and localised expertise, and the ‘new Anglo’ group, who have modernised the model according to the internationally accepted norm for resource extraction along commodity lines. Those who were previously involved in AMSA tend to believe in the old model for Anglo’s Latin American operations. This was the model that worked for Anglo before, which created a unified and independent entity in Latin America and differentiated AMSA from its rivals in the region. It was an approach that fitted well with the Latin American business dynamic and established an appropriate and workable investment rationale for the company, and – most importantly – delivered impressive results.

4.3.3 Anglo’s growth and prominence in South America

In 1975 Anglo’s Latin American investments were in their infancy. It had acquired a 49 percent stake in Morro Velho and opened an office in Rio de Janeiro. Total assets in Brazil amounted to roughly US\$150–200 million. Within five years, the company’s investments in the region grew to nearly US\$700 million. It was during this time that AMBRAS (in partnership with Bozano Simonsen) acquired the remaining 51 percent stake of Morro Velho; undertook a massive modernisation and exploration drive to support the Morro Velho operations, which saw the acquisition of another mine (Jacobina) along with a variety of complicated cross-shareholdings of projects country-wide; and, most importantly, began negotiations with the Hochschild Group. By 1985, AMSA investments in South America were in the region of US\$1 billion. As the mining sectors of Argentina, Chile and Peru opened yet further, AMSA’s investments grew to US\$1.5 billion in the mid-to-late 1990s.⁴⁴

⁴⁴ These investment figures are notoriously inconsistent. Given the amorphous organisational structure of AMSA and Anglo American in general, and the extremely complex relations and cross-shareholdings of companies and projects associated with AMSA spread across Latin America, complete accuracy would be impossible. These figures are at best calculated estimates based on figures released in annual reports and Anglo American publications (like *Optima*), as well as those retrieved from the individuals interviewed, which were mostly based on memory or roughly scribbled notes.

According to its 2005 *Annual Report*, Anglo assets in Latin America at that time amounted to US\$5.1 billion. The value of Anglo assets in South Africa around the same time was US\$19 billion, and US\$4.1 billion in the rest of Africa. In the early 1990s, AMSA was ostensibly the largest mining group in South America, with more than US\$1 billion in assets and employing well over 10,000 people.⁴⁵ But these investments have grown significantly since then, following the general trend in Latin America, as countries reformed their mining and hydrocarbons sectors. Today, Anglo's operations in the Americas account for over 40 percent of the company's total earnings: far more than South Africa, which currently contributes around 30 percent.⁴⁶ Latin America is by far the largest growth area for Anglo operations worldwide (Campbell, 2004:16).

In terms of sales, in 2004 Anglo was ranked as the second-largest mining company in Latin America after BHP Billiton Plc. It was in thirty-first position of the top non-financial transnational corporations in the region, just ahead of Phelps Dodge. BHP Billiton, which is one of the three largest iron ore producers in the world (alongside Rio Tinto and Companhia Vale Rio Doce) and holds a 57.5 percent share in Escondida – the world's largest copper mine – is by far the largest mining company in Latin America, with sales exceeding those of Anglo American by nearly US\$2 billion (ECLAC, 2006: 42 & 94). Chapter 4, appendix I illustrates the size of Anglo American relative to other multinational mining giants.

New investments in Argentina, Colombia, Peru and Venezuela have added considerable diversity to the Anglo pool of investments in South America since the mid-1990s. But it is the nature of the investments, and their sustainable flow, that is more relevant than the quantity. This is particularly true in the case of Chile, which has managed to attract continued investment from Anglo for more than twenty years. Today this investment exceeds US\$3 billion.

With base metals regaining their prominence and becoming the main earner in Anglo's operations portfolio, Chile has grown even more important to the company. In 2004 copper

⁴⁵ Some estimates suggest that Anglo American employed close to 30,000 workers across Latin America around this time.

⁴⁶ Anglo American operations in the Americas include its Latin American interests, plus the Hudson Bay Zinc operation in Canada.

accounted for as much as 66 percent of its base metal earnings, and over 71 percent of this came from Chile (*Business News Americas*, 2006).

Anglo's commitment to Chile was best demonstrated in 2002, when it chose to invest a further US\$1.3 billion in the country through the acquisition of the Disputada mine (now Minera Sur Andes). This was shortly after the company had decided to abandon the Konkola Deep project in Zambia: another copper mine with enormous potential.

However, the decision has proven most beneficial to the 'bottom line' returns. In 2004 alone, Minera Sur Andes made an astonishing 48 percent return on the purchase cost of the mine. The decision to increase investments in Chile was based on the existing trends and experiences of operating in that country, as well as the anticipated surge in the copper price. Chile has traditionally been a lower-cost destination with an easier operating environment. Anglo realised that it would be able to enjoy immediate returns on its investment in Chile, while the same could not be said for Zambia and many other richly endowed though problematic locations around the globe. Policy attributes, coupled with institutional and structural reforms (which clearly exist in Chile), need to be better understood for the creation of a competitive investment environment that will continue to lure the much-needed investment offered by companies like Anglo. After all, it is such an environment that helps companies like Anglo maintain a competitive advantage over international rivals.

These external attributes, important in the overall composite decision and relevant to policy makers looking to lure and influence investment rational, will be assessed in detail in the next two chapters dealing with political economy dynamics in African and Latin America, and specifically with the Chilean and Zambian investment environment in the context of Anglo.

4.3.4 AMSA's first significant failure: The bid for CVRD

Companhia Vale Rio Doce (CVRD) was a Brazilian state-owned company that was privatised in the late 1990s and was one of the largest iron ore producers in the world. Apart from iron ore, CVRD had a range of business interests (mostly in the mining sector) across the region. From the early days it developed a healthy relationship with AMSA, which it saw as a sound partner for copper exploration in Brazil, Chile and even Zambia later in the 1990s.

CVRD was to be privatised in 1998 as part of the neoliberal economic reform programme undertaken in Brazil at the time. It would attract the largest flow of FDI in Brazilian history. Its size and the strategic nature of its operations made it politically important, surrounded by strong nationalist sentiments. However, given the nature of these operations, the diversity of CVRD's activities across the region (mostly in Brazil) and the vast array of expertise it had developed, the potential of an AMSA–CVRD amalgamation – the two giants of the region at the time – was enormous. It was particularly relevant in terms of building capacity in iron ore production, which is 'the most heavily mined and used mineral on the planet' (ECLAC, 2006:96).

Anglo identified the global importance of CVRD early, and AMSA joined the bidding process for CVRD as part of a consortium with Brazilian-based Volte Antrum. As would be expected, it was a highly politicised matter, which brought to the fore national interests and issues related to sovereignty, which ended in a somewhat bitter loss for the Anglo-led consortium to a rival called Valepar, which was a consortium composed almost entirely of Brazilian interests (Citibank and the George Soros Fund were the notable exceptions). Valepar's bid of US\$3.2 billion was accepted over the Anglo-led initial offer of US\$3.07 billion, with little consideration given to the value-added potential and skills enrichment that AMSA had to offer, as well as the obvious synergies between CVRD and AMSA operations.

Guy Young, who led the Anglo bid, maintains that the CVRD bid was a 'watershed moment' that would change Anglo and mining in South America forever.⁴⁷ Most Latin American analysts and AMSA employees tend to agree. Had the AMSA-led consortium won the bid for CVRD, the combination would have created (by far) the largest mining company in the world, with an unparalleled capacity in base metal production and new capabilities in steel production, and with a global empire based in Latin America. The combined skills and synergies between AMSA and CVRD would have given it unprecedented exploration capacities and resource management through existing networks on a global scale.

Since it was privatised in May 1998, CVRD has undergone enormous expansion, diversifying both its activities and its geographical operations. Where previously its assets were heavily

⁴⁷ This was a point Guy Young strongly emphasised during an interview with him in Johannesburg in April 2006.

concentrated in Brazil (around 90 percent of its assets were in that country), CVRD now has exploration offices in more than ten countries around the world (including South Africa) and is rivalling some of the largest steel, coal and manganese producers. CVRD still dominates iron ore production in Brazil, which is the world's second-largest producer after China (ECLAC, 2006:95).

Rumours emerged more recently (in February 2004) of a potential merger between Anglo and the now private CVRD. Good relations between the executives of the two companies persist, and the potential synergies in the rich array of global interests are unquestionable. Such an amalgamation would benefit both companies enormously.

But nothing ever came of the rumours. They only served to highlight the first serious rift in Anglo's cohesive international investment rationale, which had for so long integrated decisive decision-making with effective (and successful) results.

While the loss of the CVRD bid may be blamed on a range of external forces, and political lobbying in particular, the Anglo group appeared to be divided on the decision around this large acquisition in Brazil. The AMSA team were convinced of CVRD's potential and fully committed to the bid. Meanwhile, a separate faction (the old Africa hands in Anglo) believed that Anglo's future growth lay elsewhere – notably in Africa – and that large investments of this nature (at the end of the 1990s) should be allocated to the reawakening African continent, where many countries were reforming their mining sectors and a similar wealth in base metals (to that of South America) existed. This division ostensibly resulted in a slow and poor decision-making process plagued by hesitation, which ended in a victory for Valepar over AMSA.

Therefore, one might go so far as to argue that the poor support given to the decision and bid to acquire CVRD was the result of political jockeying or even a severe rift in Anglo. It exposed the different factions or opposing groups within the company – the 'old Anglo' group versus the new, and the 'African-focused Anglo' group versus those in favour of broader international diversification (with growth and greater autonomy in Latin American in particular).

More than one Anglo executive has commented on these dynamics. It seems that the CVRD bid certainly had a champion in the form of Guy Young, who drove the process with relentless commitment and vigour. It is said that at the meeting in London – where the decision to enter the bidding process was finally concluded – those opposed to acquiring CVRD clearly outnumbered those in favour in the relatively small group of decision makers around the table. But despite this, at the close of the meeting, Julian Ogilvie Thomson, who was chairman of Anglo at the time, apparently concluding by saying that they were in agreement, and that the company would move forward with the bid for CVRD. Nobody challenged this decision or Ogilvie Thomson's authority, and AMSA went forward with the bid, led by Guy Young, but lacking the unanimous internal support the company had enjoyed following previous significant decisions that were made throughout its history.⁴⁸

There are others who maintain that the failure of the Anglo bid was a result of Brazilian 'chauvinism', that a foreign bid would never have succeeded at such a sensitive time in Brazil's own privatisation process. Hence the discretionary time given to the alternative (Brazilian-led) bid to muster the necessary finance and be selected in preference to Anglo. Whatever the case, the failure showed that there were both internal and external limits to Anglo's Latin American ambitions, and also illustrated the failure of most to foresee the subsequent commodity boom which has leapfrogged the price of CVRD since the bidding drama.

The result of the CVRD bid altered decision-making in AMSA and Anglo in general, the results of which were evident in subsequent investment decisions made in Chile and Zambia. By this time (2001–03), the Anglo structure had changed and the investment rationale was no longer divided along geographical lines (or the company's geographically defined entities like AMSA), but rather based on operational feasibility and commodity divisions. The composition of Anglo's commodity basket or its spread of interests along commodity lines was most important, which is essentially not much different to the one that existed before, as this is one of the factors that motivated Anglo to explore a diversity of options in Latin America in the first place. Base metals had regained their prominence in Anglo's basket of commodities, and the price boom between 2002 and 2004 made it the group's top earner.

⁴⁸ This information is based on comments made (in confidence) by Anglo American executives interviewed in 2006 and 2007.

4.4 Conclusion: The AMSA experience and lessons for investment rationale

El Dorado, as the legend goes, was a mythical city of gold located somewhere in South America. It inspired a great deal of exploration around the continent, all in search of the endless wealth and mystique behind the legendary story.

In the 1970s, when the story of El Dorado or the idea of enormous potential mineral wealth may have been the only certainty around South American mining, Anglo (with De Beers) was already recognised as one of the largest and most reliable mining companies in the world. It was one of the few companies capable of unleashing the resource potential in developing countries (like those in South America), where much of the terrain was still relatively unexplored. The relationship was ideal and the potential enormous. Anglo had the capacity and technical competency to discover a new concept of El Dorado and benefit from its early entry status in this next phase of Latin American mining.

Anglo always had international aspirations that extended well beyond the shores of Africa. But the fact that it was a South African company added a political stigma to its international image, and it was not always widely accepted as a result of the apartheid policies of the pre-1994 South African government. Meanwhile, the progressive nature of the Anglo leadership – particularly Harry Oppenheimer – resulted in an often strained relationship with the political elite in South Africa. A high degree of political involvement characterised the business practice and investment decisions of Anglo in Africa from early days. The South African Nationalist Party government loathed Harry Oppenheimer and Anglo, and this no doubt contributed to the group's relentless pursuit of investment opportunities abroad.

These 'push' and 'pull' factors – from South Africa to other resource-rich locations around the world – was one of the many important dynamics in Anglo's investment rationale. It was a somewhat delicate scenario that the company learnt to deal with rather effectively, which confined it to certain investment locations that were either convinced of its clear distinction from South Africa or unperturbed by the association, and in desperate need of Anglo's superior technical expertise and capital. It instilled a very particular approach to investments abroad that was as much discreet as it was complicated by partnerships and sources of capital. South America proved, to all intents and purposes, an ideal haven for Anglo.

Minorco, essentially Anglo's offshore company responsible for foreign acquisitions, raised the capital to enter Brazil in the early 1970s, but the role of individuals like Julian Ogilvie Thomson in driving the process is acknowledged repeatedly by those who were involved. He took a special interest in the region, based on a vision and personal relationships forged with like-minded counterparts in Brazil and, later, other countries in South America. Ogilvie Thomson first led a reconnaissance mission to Brazil in 1972, and from then developed a special interest in and personal affinity with the region.

Michael Spicer, the former executive director of Anglo American South Africa, suggested that Anglo's decision to enter Brazil was not necessarily based on risk diversification or a clear intention to 'get out of Africa'. Rather, it was a model underpinned or characterised by personal relations and shaped by individuals. This, to some, may seem very different to Anglo's strategic globalised model that exists today.⁴⁹ However, what Spicer is essentially describing, according to Allison's terminology, is an organisational-governmental-politics model of decision-making – as discussed in chapter 3.

An organisational-governmental-politics model is a good description of the structure around decision-making in Anglo at the time. It aptly describes the process that led the company to South America in the first place and was clearly influenced by a range of individual and organisational factors that dynamically participated in an ongoing bargaining game within the firm, as well as the external 'push' and 'pull' factors that motivated its decisions. The model thus emphasises contextual relevance to the decision-making process.

Most importantly, though, the investment decisions that were made between 1973 and 2004 were almost entirely in the hands of a small core group of people. The cohesion in this group, based on trust, experience, mutual respect and confidence, spilled over to the next 'layer' of decision makers and was reflected in Anglo's strategic investment approach and the relationships it nurtured in Latin America over the years. Key personalities held this group together, despite a diversity of interests (political, economic and personal) that spanned the Atlantic. When the cohesion waned and structural changes ensued in the late 1990s, as the company 'evolved' from the 'old' to the 'new Anglo' – represented by a new, alternative

⁴⁹ This was based on a discussion with Michael Spicer in December 2005.

style of leadership – certain investment decisions became openly contentious within the company. Anglo had entered a new phase in a different world, and the investment decisions that were made around CVRD and Disputada reflected these fundamental changes

According to Gregory, the role of the state and its impact on business was ‘emphatic’ even in the 1950s and 1960s. As he noted, ‘A great deal turns upon the nature of the government provided and upon the principles by which policy is directed. In developed and developing countries alike, the over-all relations between government and business have become, and are becoming, ever more complex, difficult and delicate. The most obvious points of contact lie in the fields of taxation and of monetary policy In effect, during the last 60 years the business world has been facing a constantly more emphatic challenge to its autonomy and its right to exist. The state and its organs possess vast powers to modify the nature of the environment in which business must operate and the terms upon which it is to be allowed to conduct affairs In Africa the challenges to business (and the business leader) are even more far reaching.’ (1962:3)

Government–business relations seem to be an age-old phenomenon, and ones that will continue to influence the political economy well into the future. Despite neoliberal efforts to curb the influence of the state on business activities, it is clear that, especially when it comes to investment rationale, it is not a question of whether there is state intervention in the economy or not, or the degree of influence that the state has, but rather the nature of the state’s involvement that is most important and the ability to forge healthy relations between the state and business. This was a point highlighted in chapter 3, which was lacking in Porter’s assessment of national competitiveness.

The experience of Anglo in Latin America is an illustration of how the influence of the state can be managed effectively and even used by a foreign investor to improve its competitiveness relative to global rivals. In the early 1970s, when Anglo first decided to enter Latin America, the investment environment was by no means ideal. But compared to other resource-rich locations around the world, the perceived costs and relative risk of investing in Brazil demonstrated a more favourable option, given the enormous potential of the country (and the broader region) and the reform efforts that were under way following a period of adverse state intervention and nationalisation. As Patrick Esnouf, AMSA’s former chairman, has argued, ‘The region has seen huge swings and changes over this period [1973–2004] and

investors have certainly had to be alert and flexible. This region was not always what you see today – the attitude to foreign investment has changed, political systems have changed, and economies are run differently than they were in, say, the 80s. ... I think as a company we have been intrepid and brave: few have stayed the course in South America as we have’ (cited in Barber (2004:26–27)).

The company, perhaps unknowingly at times, navigated its way around Latin America based on political economy dynamics more than traditional comparative advantages in natural resources.

Some countries in the region – notably Argentina and Peru – have been less accommodating to foreign investment, and this is reflected in the relatively minor presence of AMSA there, despite the mining potential that clearly existed in those countries. Anglo has only recently begun to expand its operations in those countries through additional exploration activities (in the 1990s), as the policy and legislative environment grew more accommodating to mining investment. More currently, Anglo’s ‘Greenfield’ operations are most prevalent in Colombia, which has gone to great lengths to alter its poor image as an unstable political economy, following years of conflict and insecurity.⁵⁰

While Anglo was, as suggested by Ogilvie Thomson, ‘by chance’ drawn to the attractive and manageable environment in Brazil and the rest of South America during the 1970s and 1980s, on the other side of the Atlantic the company was confronted by a range of operational challenges from state-led nationalisation, which crippled its copper production in Zambia, to widespread instability and insecurity that displayed little policy continuity or political transparency, and an increasingly hostile South African government. It is little surprise that Anglo (and the leadership in particular) seemed to find a greater political and cultural affinity with countries in South America at the time, where, despite certain cultural differences, a traditional style and consistency of doing business among the elite (familiar to Anglo) persisted. In terms of government relations, these countries’ willingness to open their mining sectors to FDI, and their clear commitment to sensible and sustainable economic policies was

⁵⁰ This is based on an interview with Chris van Tienhoven of AngloGold Ashanti Argentina, in Buenos Aires in December 2005.

an attractive 'pull' factor that encouraged ongoing investments from Anglo over an extended period of time.

Meanwhile, the politically averse and severely challenging operating environment in Africa provided sufficient 'push' for Anglo to seek alternative mining opportunities elsewhere and to pursue its natural ambition as a truly international mining giant, constantly striving to improve its competitive and strategic capabilities, and above all achieve maximum profits.

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Chapter 5

The Political Economy of Investment: An Overview of Africa and Latin America

5.1 Introduction

The following two chapters (chapters 5 and 6) describe the external attributes associated with decision-making. They assess some of the political economy dynamics that shape the investment environment and influence investment rationale.

The chapters are linked, and provide some insight into the politics and policy behind investment strategy and the results that followed over the period of investigation (1973–2004). However, this chapter provides a foundation and regional or continental context for the chapter that follows, which examines more closely the policy environment in Chile and Zambia and the story of Anglo in those countries.

A broad overview of foreign investment and the related political economy in Africa and Latin America provides the necessary contextual background to the basic environment, and identifies the relevant dynamics and variables associated with investment strategy and decision-making. This also gives an indication of the investment and economic performance – along with empirical data – over the thirty-year period under investigation, which considers a broad array of factors often compared by investors in Africa and Latin America.

It becomes apparent throughout these chapters that politics plays a far greater role in investment decisions, and with regard to FDI in particular, than some economists and policy analysts of a classical inclination often acknowledge. Certainly, economic reforms are important – and have been emphasised throughout this research study – but a stable political foundation is a crucial base for the implementation of new reforms and progressive investment policies, and a crucial determinant of investment rationale. It is true that political criteria pose nothing new in investment decisions and theories. But these have never assumed the centrality that is apparent in this empirical study, which deviates somewhat from traditional location investment theories.

Democracy with functioning institutions has evidently carried a far greater weight in the investment decisions of Anglo and MNCs in general. This chapter will show how democracy and open economics has had a positive impact on the flow of FDI in developing countries in general. The range of factors associated with this supports the less-rigid approach to decision-making, described in chapter 3 as bounded rationality.

This chapter tends to invert the research question somewhat, by asking: What policies can be changed or implemented in order to influence investment decisions and attract FDI? This is an important perspective to ascertain for a deeper and more complete understanding of the investment rationale in Anglo and MNCs in general.

5.2 The investment environment in Africa and Latin America

Foreign investment is an important determinant for economic growth and development in developing countries. However, the response to foreign investment has, at best, been mixed in both Africa and Latin America since the early 1970s. The sentiment of ruling governments is reflected by their policies and environmental dynamics, some of which have embraced the role of foreign investment in the economy and others that have rejected the notion. But recent trends, following a period where adverse investment policies and political instability were clearly to the detriment of economic progress, reflect a new era of 'FDI awareness', where policy designs are increasingly conducive to attracting and retaining FDI. Investment strategy is, after all, a long-term relationship between investors and government characterised by a high degree of reciprocity and influence over each other. This influence is evident in the investment decisions that are ultimately made.

Developing countries have experienced a dramatic increase in FDI flows since the 1960s (Hale, 2004:18). This is particularly true for the period starting at the end of the 1980s until 2000–01. The average annual FDI flows in the developing world increased more than ten-fold between the mid-1980s and 2000. This can be attributed to widespread economic reform and large-scale privatisation programmes, which opened economies and previously state-run industries to foreign investment. The wave of political democracy across the board was also a

key factor. Most of this FDI in the developing world, and the exponential increase between 1980 and 2000, was concentrated in Asia and Latin America, and not in Africa.

Africa currently captures less than 10 percent of FDI flowing to the developing world, which is well below its peak in 1976, when it accounted for 28 percent of the developing world's total. Latin America and Asia, meanwhile, account for around 30 percent and 60 percent of FDI flowing to the developing world, respectively. This correlates with the low levels of economic growth and output in Africa compared to higher growth rates in Latin America and Asia since the 1970s (UNCTAD, 2005).

5.2.1 Africa's dismal investment record

Africa's failure to attract sustainable and reliable investment is well known and widely documented. Between 1974 and 1994, a period referred to by Robert Schrire as 'the lost years', a range of political, economic and security factors (both internal and external) resulted in disastrous policy implementation that was characterised by widespread nationalisation, corruption, nepotism and, ultimately, investment withdrawals (Schrire, 2006:33–36). With little investment and a lack of local finance and capacity, Africa's economic growth and performance spiralled to new lows.⁵¹

Africa's annual FDI inflows between 1970 and 1990 averaged just above US\$1.5 billion. This was a period characterised by the nationalisation of key industries, notably the mining industry. In the early 1970s, FDI in Africa was concentrated (almost exclusively) in the mining sector. Anglo was a prominent shareholder and driver of this industry, and monopolised mining in countries like South Africa and Zambia. With government nationalisation, which was implemented in an effort by African governments to gain ownership of their countries' natural wealth in resources, FDI flowed out of African countries in search of better alternatives in other locations. Latin America (or, more specifically, South America) was one such location, apart from the usual safe havens in the developed world. This happened to coincide with Anglo's international expansion and entry into Brazil, and it can thus naturally be assumed to have influenced the group's investment decisions at the

⁵¹ Africa only managed to maintain a reasonable level of investment throughout the 1970s due to a large stock of FDI from the 1960s.

time. Meanwhile, in Africa, low levels of investment resulted in a decline in resources, finance and capacity, and ultimately a deterioration of industries and output.

Toward the end of the 1980s and early 1990s, many countries in Africa underwent economic and political reform. Policy makers undertook massive liberalisation and privatisation drives in an effort to encourage and reintroduce the foreign capital needed to rejuvenate core industries. Resource extraction was at the top of the list.

As a result of progressive reforms, which started in earnest in the 1990s, inflows of FDI averaged US\$6.2 billion annually throughout the 1990s. This figure peaked at close to US\$20 billion in 2001, but dropped again with the global slowdown in subsequent years.

During this time, Anglo was exploring alternatives and opportunities in both Africa and Latin America, where it was by now well established. Africa did hold a greater historical affinity for the company, where it had contributed significantly to the initial development of the mining sector across the continent many years earlier and was eager to be involved in this next phase of development and growth. Zambia was a particularly special case. Anglo had a long history in that country (stretching back to 1924) and, apart from being intricately involved in the political economy on all levels, it would be accurate to claim that the company was the key catalyst behind the development of the Zambian copper belt, which became the economic lifeblood of the country. Anglo had a sense of ownership toward mining in general on the African continent, which certainly influenced its sentiment and investment decisions with regard to new or dormant activities emerging in the 1990s.

Despite the notable increase of FDI in the 1990s and the surge of investment in more recent years, the reaction to economic reform and subsequent inflows has been relatively slow when compared to other developing regions. This is a result of the adverse political and economic environment that persisted in Africa, despite the abovementioned reforms. Critics argue that poor policy and weak governance continued to hamstring Africa, which was also plagued by conflict and social instability in some parts, coupled with severe underdevelopment and poverty across the continent. The lack of public-sector control or a more transparent and participatory policy procedure in an effort to lower risk and create an appropriate and predictable incentive structure for attracting foreign investment has been interpreted as governance failure in Africa (UNCTAD, 2005:21).

This seems to support the point made by Ahlquist with regard to investment theory, and the distinguishing characteristics of portfolio and fixed investment in particular (as mentioned in chapter 3), that political stability and democracy are most important (more so than economic policy and incentives) for long-term FDI (Ahlquist, 2006:681–704).

It also reflects the classic case of poor institutional support resulting from the absence of proper institutional development that should coincide with macroeconomic reforms involving market liberalisation and privatisation. North and others insist that such institutional support is essential if reforms are to be carried out effectively and in their entirety (North, 1997). The lack of visible and effective institutions in Africa has undermined the reform process, their absence exposing a clear lack of confidence by investors in the new policies being implemented and the political leadership behind them. While a relatively healthy business environment was created, weak government institutions and political instability failed to instil the necessary confidence required for large inflows of FDI.

The African investment experience shows that history is important. Nationalisation of industries has a long-term negative impact on FDI attraction, especially in resource extraction industries. Not only have nationalisation initiatives proven ineffective, inefficient and unproductive, leaving entire industries in ruin, but, in addition, policies of nationalisation and expropriation of assets leave a deep imprint on the psyche of the investor. This was evident in the case of Africa, where, despite liberal reforms and changes in the political regime, the stigma of nationalisation remains and companies were still reluctant to enter into a long-term investment relationship following the nationalisation of operations twenty to thirty years earlier.

The above point raises an important issue relevant to investment rationale in Africa and elsewhere, which revolves around the pertinent responsibility of the state and the role it should or should not play in attracting and retaining FDI. This tendency throughout the 1970s and 1980s to retain ownership of ‘national assets’ and protect strategic industries for the sake of sovereignty ultimately crippled industries and entire economies. Experience has shown that countries that embrace more liberal policies and allow for alternative styles of ownership and control over assets tend to enjoy a larger inflow of FDI and a general increase in output and revenue as a result of efficient and effective production. Policy continuity and economic

stability go hand in hand with political stability. Those countries that nationalised and expropriated ‘national assets’ all experienced a severe drop in production and profits. Many of the industries are yet to recover completely from the setbacks they suffered as a result of capital scarcity and the lack of technology input following nationalisation policies in the 1970s and 1980s.⁵²

Meanwhile, across the Atlantic, similar governments with an equally interventionist inclination in South America most often chose a more moderate style of intervention that encouraged foreign investment and, in the case of Anglo, offered an alternative to Africa.

5.2.2 Latin America’s mixed experience

Latin America has always been a significant recipient of FDI in the developing world. Its vast supply of natural resources and treasure trove of mineral and base metal deposits have ensured constant inflows of FDI into primary activities and the commodity sector. Despite some diversity, the most significant investments remain in natural resources and extraction (or related) industries, including mining, steel, hydrocarbons and gas, petrochemicals, and agribusiness. The largest inflows followed the process of liberal reforms, which coincided with improved political stability and transparency, and the privatisation of large state-owned enterprises (SOEs) in the late 1980s and early 1990s. This, incidentally, was the period during which Anglo’s investments in South America grew substantially and the company was drawn into large privatisation bids such as CVRD in Brazil (Vargas Llosa, 2005:153–54).

During the 1970s, a period marred by political dictatorships and social instability, Latin America’s FDI inflows averaged a little over US\$3.2 billion per year. Compared to developed world averages, this was low, but during this period Latin America accounted for more than 53 percent of developing world FDI flows. Asia and Africa’s share of developing world FDI was 29 percent and 17.4 percent, respectively.

⁵² Historical memory is a powerful tool that governments can and have used to manipulate investment decisions. This has been (largely) detrimental across Africa, while conversely effective in countries like Chile in Latin America, where, if negative memories and experiences existed, they were remedied through appropriate policies.

While annual averages of FDI flows to Asia increased exponentially in the 1980s and 1990s, Latin America experienced only a moderate increase of FDI in the 1980s, followed by a six-fold boost in the 1990s. During the same period, Africa's share of FDI flows in the developing world dropped to 10.1 percent in the 1980s and 5.1 percent in the 1990s. By 2001, when reforms first began to impact on investment, Africa's share rose to nine percent. But by this time both Latin America and Asia had surged ahead, accumulating 40 percent and 51 percent, respectively (UNCTAD, 2005:22).

FDI has always played a significant role in the Latin American political economy. The region has generally followed the traditional phases of development and investment, starting with factor-driven investments – drawn in by the wealth of natural resources – but it later adopted very specific policies (geared for FDI) and political changes that played a significant role in investments. Countries like Chile identified the importance of a healthy mix of policy continuity (with guarantees) and stability early on. But it is also important to note that substantial inflows of foreign investment only took place in Chile once political democracy had been established, i.e. more than fifteen years after the neoliberal reforms of President Augusto Pinochet were first proposed. This is an issue that clearly has an impact on investment decisions of companies like Anglo, which perceive political democracy in a country as indicative of transparency and general stability. The case of Chile illustrates this point well, and it will be elaborated on in more detail in the chapter that follows.

The Latin American investment environment was influenced most by the alternating role of the state from highly interventionist (though, in most cases, avoiding nationalisation) in the 1970s to an almost total withdrawal of state involvement from several strategic industries in the 1980s and 1990s, as the region underwent a profound process of liberalisation and privatisation. The position of the state has recently evolved into a more delicate role of policy intervention in sectors where free market principles have not worked in the way that they were initially envisaged.

In 2004 Latin America attracted over US\$61.5 billion of FDI (US\$37.7 billion of which was in South America). The region therefore attracted about 24 percent of the total FDI flowing to

the developing world, and only eight percent of the worldwide total,⁵³ placing it roughly on a par with China. This is well below the figure for the FDI boom at the end of the 1990s, when at its peak Latin America accounted for over 40 percent of FDI in the developing world, and in 2000 attracted nearly US\$98 billion of FDI. Between 1993 and 1998, seven of the top fifteen developing country recipients of FDI were from Latin America. Following a period of FDI decline at the turn of the century, the region began to regain some of its appeal to foreign investors in 2004 (ECLAC, 2006).

Despite the varying degrees of state intervention (from country to country) and the cyclical investment behaviour prevalent in the region, the overall investment climate and FDI flows have proven vastly better than in Africa. Accumulated FDI stock in Latin America amounted to around US\$724 billion, while in Africa the accumulated FDI stock barely reached US\$150 billion by 2004 (UNCTAD, 2005/6). Latin America certainly does appear to have developed a better investment climate than in Africa – albeit through a long process of trial and error. Most countries in Latin America are (increasingly) promoting an environment of policy continuity that promotes stability and security for FDI. This progress is reflected in some of the investment results in Latin America when compared to Africa. But both regions still lag far behind Asia, which appears to carry a significant competitive advantage through a combination of innovation, market and labour flexibility, and improving institutional support.⁵⁴

5.3 Mining investment in Africa and Latin America

Mining is a key industry in both Africa and Latin America. It is also one of the largest recipients of FDI. In 2004 Latin America attracted the largest regional mining investment in the world. The region accounted for 35 percent of global mining investments, which amounted to US\$36 billion. Africa, which attracted US\$15 billion of mining investments in that year, was third after Latin America and Oceania (Mining Journal, 2005). A combination

⁵³ This has decreased from 12 percent in the 1980s and 10 percent in the 1990s, which may indicate that the region is starting to be sidelined in the face of global investment patterns, and suggests the need for nuanced approaches to attracting investments and creating a competitive investment environment. Investment data indicates that Chile is clearly ahead of the curve in this regard.

⁵⁴ Chapter 5, appendix I provides a table of the global distribution of FDI flows during the period of investigation.

of liberal economic reforms and an increase in demand for metals and minerals starting in the late 1990s has led to a significant increase in mining investments and the expansion of existing operations in Africa and Latin America (ECLAC, 2006).

Apart from internal, country-specific and policy-led criteria, international market conditions have been a key determinant of investments and investment decisions in Africa and Latin America. For the most part, there has been a relatively close correlation between a sure expansion of demand and production growth. But when gaps emerge, speculation ensues and this brings about fluctuations in investment flows and mining activity.

In addition to the cyclical behaviour and associated vulnerability of the international mining sector, which has an obvious negative impact on the investment rationale of mining companies like Anglo, the share of mining products in world trade has fallen steadily over the past thirty years. In 1970 trade in metals and minerals accounted for seven percent of world exports. By 1996 price fluctuations had driven these exports down to just three percent of the world total. During the 1990s the price of nearly all mining products – especially base metals – dropped sharply. The price of copper fell by 40 percent between 1990 and 1998 (Sanchez Albavera et al., 2001:45–49). It reached a low of US\$1,319 per ton on average in 2001, before it began to recover in 2002. This disrupted and delayed investments in Africa and Latin America, which have escalated in more recent years. The period of 2001–02 ironically coincided with Anglo's withdraw of interests from the Konkola Deep project in Zambia and subsequent acquisition of Disputada in Chile, both copper mine projects. Low copper prices and high exploration costs at the time no doubt added considerable pressure to the decisions that were ultimately made. In hindsight, given the subsequent surge in copper prices from 2003, it would have been ideal to acquire both.

Mining investments and the decisions that precede them are profoundly influenced by 'multilevel' dynamics. In particular, sector-specific issues and broader factors related to policy and political economy attributes of the nation and region in which the investment is located all play a part. Everything from mining codes and incentives to the role of the state and the state's support for new and expanded operational opportunities can and will influence mining investments. Given the long-term nature of mining investments, consistency is key. In terms of macroeconomic and political considerations, leadership, stability, transparency and

healthy business–government relations that will deliver transactions and reciprocal benefits are essential.

The effective role of the state is crucial. Mining is a sensitive industry, since it involves surface rights, which are essentially property rights. This infringes upon a diversity of issues ranging from national sovereignty and ownership of embedded natural resources to social dynamics and the impact of mining on localised communities and socioeconomic developments in general. All these external attributes or variables influence investment decisions or form part of the composite decisional process. It is these external factors of the composite decision that have delivered very different results in terms of investment in Africa and Latin America over the past thirty to thirty-five years. They will be discussed in more detail in the specific case of Anglo in Chile and Zambia in the next chapter.

5.3.1 Africa

Resource extraction industries have been the primary driving force behind economic growth in Africa since the late 1990s. Reform and privatisation of the mining sector across Africa (notably in Ghana, Mali, Tanzania and Zambia) coincided with an upswing in demand for commodities and a subsequent surge in prices. This has encouraged foreign investors to explore new opportunities in Africa, and existing operations are pursuing ambitious expansion plans, as mining codes and legislation guarantees a more-secure investment environment. Anglo has been at the forefront of these initiatives.

But such optimism around mining has not always existed. Africa seemed to be doomed by a ‘resource curse’ where for nearly three consecutive decades the continent was unable to truly capitalise on the wealth and potential it possessed. Post-independence nationalisation drives in key base- and precious-metal-producing countries like Zambia and Ghana were a backlash reaction to foreign-owned entities that had exploited the natural resources of those countries for many years. This resulted in capital flight, as foreign investors sought safer havens elsewhere. With investment withdrawal, the mining industry (and the state-run enterprises running the operations) was starved of capital, resources, skills, knowledge and experience. They were thus unable to perform at previous levels of efficiency and output dropped significantly, which had disastrous repercussions on the economy (UNCTAD, 2005).

While the mining sector in Africa seemed to survive the 1970s on accumulated FDI stock, a combination of external factors (low metal prices, depressed markets and global economic instability) and an adverse investment climate underpinned by economic uncertainty and political instability (or, in many cases, conflict) brought little or no investment to Africa. Output levels continued to drop, resulting in the near demise of mining in many African countries as stocks depleted and existing mines deteriorated to the point of closure. The South African mining industry was the obvious exception.

By the early 1990s it was clear that the situation had to change and the mining sector needed to be rejuvenated. Learning from the experience of other resource-rich regions around the world – notably those in Latin America – policy makers recognised the need to use mining and related activities as the principle means to attract FDI and make them a champion for growth and development across the continent. These policy makers also realised that African countries were now competing for scarce supplies of FDI with counterparts from other developing regions that had developed a far more competitive and stable environment conducive to long-term investments. This ‘awakening’ is described in the UNCTAD report, *Economic Development in Africa: Rethinking the Role of Foreign Direct Investment in Africa*:

It is against this backdrop that policy makers in Africa were encouraged to liberalise and privatise the sector and provide increasing incentives in order to attract potential investors, thereby competing among themselves as well as against countries in other regions such as Latin America, which had embarked on a similar strategy somewhat earlier and where generous incentives were already in place (UNCTAD, 2005:40).

Mining reform, in its broader interpretation, was geared to address the poor policies that had crippled the mining sector for nearly thirty years; orchestrate changes in the overly interventionist role of the state; reintroduce Greenfield operations; and develop technical capacity, infrastructure and consistent energy supplies to sustain cost-effective operations.

Mining deregulation initially started in the 1980s with the support of the World Bank, which pledged its commitment to the commercialisation and privatisation of SOEs. This was a very slow process that eventually evolved toward capacity building, the development of the private sector and FDI attraction in the 1990s. The primary intention was to alter the role of

government and the way it perceived the mining industry. The aim was to instil an economic or commercially efficient rationale in the governmental mindset as opposed to the previous view that saw mining as an important political and strategic instrument that would thus capitalise on productive output, healthy tax revenues and employment generation (UNCTAD, 2005:41).

But history and adverse political economy dynamics have left Africa with the stigma of a high-risk mining location. Drastic changes were therefore required. In order to attract the necessary foreign investment (in a scenario where large amounts were required, with slow returns and exorbitant entry costs), important criteria such as a stable legal and fiscal framework, contractual stability, a functioning fiscal regime, profit repatriation and access to foreign exchange had to be guaranteed (Campbell, 2004:17). Most investors, including those decision makers in Anglo, agree that such criteria can only be truly guaranteed under a transparent political democracy and where political stability has already been established.

Ghana was one of the first countries to embrace a rigorous reform process. But by the late 1990s nearly forty countries across Africa had published a range of mining reforms. This symbolised a clear momentum across the continent. With each phase of reform building on the previous phase, and along with the critical mass of accumulated countries undergoing simultaneous structural adjustment, credibility and confidence were added to the process undertaken across Africa. The support of the World Bank and initial investments from established African players – notably Anglo – also added credence to the new mining regime adopted (UNCTAD, 2005:42).

African countries tended to focus first on deregulation (or state withdrawal) and later predominantly on immediate responses like tax regimes and royalties. In this regard, for example, South Africa is described as very similar to those countries in Latin America with liberal investment regimes, like Peru and Chile. These countries have or are currently negotiating new tax regimes that will include fixed or *ad valorem* royalties payable on an annual basis. Meanwhile, other countries in Africa lag behind, but are making a concerted effort to reach these levels.

Under current circumstances, such adjustments in the mining sector demand an enormous amount of negotiation and bargaining, especially considering the price of commodities, the

profits that mining companies are able to generate and the enormous amount of investments that MNCs have committed themselves to over the long term. As mentioned above, metals and minerals are considered a national asset, and the exploitation of these by a foreign company is often seen (politically) in the context of national sovereignty. This perception often drives national governments, which are the owners of the embedded natural resources, to seek maximum gains from investors extracting their resources for company profits. The result is the ongoing tax and royalty debate, which inevitably arises numerous times during a long-term investment relationship that is characterised by fluctuations in prices and profits.

However, despite moderate success and an increase in investments in various countries, critics argue that African policy makers have been short-sighted in their construction of reforms across the continent. It seems that clear linkages between mining (and related investments) and the economy are limited. While a boost in the mining sector has brought with it government revenue through various taxes and export earnings, some believe this is far lower than it should be, considering the long-term developmental challenges facing the continent.

The backlash in the 1960s and 1970s, which encouraged widespread nationalisation, was partly a result of a clear absence of development imperatives tied to mining investments and the resulting adverse effects on the environment and society. Africa's investment environment still lacks good institutions capable of enforcing regulations and ensuring that social and environmental standards are upheld. While mining does bring enormous benefits to Africa, the costs associated with environmental and social damage should be minimised. It has been suggested that a more 'holistic' approach to attracting FDI be explored, one that incorporates wider developmental objectives and thus integrates mining more intricately into the macro and micro economies of a particular country (UNCTAD, 2005:51–52). Balancing all this with a favourable set of FDI policies (that improve their standing when compared to competing nations with similar locations) is the key challenge facing African policy makers

5.3.2 Latin America

Latin America's increase in mining investments and boom in activity preceded that of Africa. It seemed to be geared in anticipation of the enormous demand that is currently driving commodity prices upward and generating economic growth in resource-rich regions across

the world. In the last twenty-five years, Latin America has increased its output of mining products significantly, which has made it the primary source of supply for those rapidly industrialising nations (mostly in Asia) in need of natural resources. From 1990 to 1998, Latin America's share of world copper output grew from 25 percent to 39 percent, gold from 9.6 percent to 13 percent and zinc from 17 percent to 22 percent (Sanchez Albavera et al., 2001:49–51).⁵⁵

Apart from the obvious increase in metal prices, the surge of investments and mining sector growth in Latin America is widely attributed to the regional trend toward economic liberalisation, which encouraged freer trade and eliminated barriers to foreign capital flows, the deregulation of mining concessions, the modernisation of the mining sector and the rules and regulations governing operations, technological advances, and more secure mining rights (Sanchez Albavera et al., 2001:5).

Some argue that the most significant development that brought an increase of FDI to the mining sector was the reduced role of the state in the development of the mining sector, which allowed private investment to carry out this function instead. While this may, to some degree, be true, in Chile, which is the most successful recipient of mining investments in the region, the state still controls almost 50 percent of mining activities, while in Argentina, where the state has apparently been rolled back almost entirely, FDI flows have been slow to materialise. The case of Anglo once again illustrates this point.

Following a period of nationalisation in the 1960s and early 1970s, the new political leadership (mostly military dictatorships after a string of socialist and populist governments with disastrous economic consequences) in resource-rich countries such as Brazil and Chile sought to change their image and the negative impression of FDI in their countries. In the mid-1970s the Chilean economy was in a state flux and was in desperate need of FDI to resume productive output in the mining sector, which had declined dramatically, but which was nonetheless the life-blood of the country. Brazil, meanwhile, was seen by the international community as the awaking giant with enormous potential in terms of market size and diversity, and an abundance of natural resources. The gold price was on an upward

⁵⁵ Chapter 5, appendix II illustrates Latin America's share of mining production in 1990 and 1998.

trajectory and Brazil had large gold deposits.⁵⁶ The military governments of both Brazil and Chile recognised the need to develop their mining sectors using skills and capital from abroad. But while there was still extensive state involvement, with SOEs controlling the majority of the sector, barriers to entry for foreign investors decreased significantly and FDI was encouraged through various reforms and incentives that started in the 1970s and continued throughout the 1980s and 1990s. It was during this time that many MNCs entered the region, despite the fluctuations in international metal prices. Anglo was one of the so-called 'new generation' of multinational mining houses to enter South America through Brazil.

In terms of reform and amendments to mining legislation, Chile, which has become the champion of mining investment and development in Latin America, was the first to implement changes through the Decree Law 600 (DL-600) in 1974. This served as an investment incentive by protecting foreign investors constitutionally (Foreign Investment Committee, 1991). By 1983 most reforms in Chile were in place, which encouraged early entry into the Chilean mining sector.

Amendments to mining legislation and reforms in general ensued in other countries across Latin America (notably Argentina, Brazil and Peru) in the late 1980s and early 1990s. In the case of Brazil, several amendments to the Mining Act were made from 1967, which provided varying degrees of incentives to investors. But the investment in the mining sector (especially in the case of Peru and Argentina) has been attributed to the downsizing of the state and the increasing role of investment in the mining sector through the process of economic liberalisation.

In the case of Brazil, the privatisation of state-owned mining giant CVRD at the end of the 1990s brought in the largest investment in the country's history, and also served to further liberalise the industry and add international competition. This, it has been said, changed the entire mining sector, not just in Brazil, but in the region as a whole.

⁵⁶ Between 1970 and 1975, the gold price increased by more than 400 percent, from US\$35.94 to US\$161.06 an ounce.

Countries in Latin America have included a special section for investment incentives in their mining legislation, though many of these incentives are not exclusive to mining, but apply to investments in general, such as Chile's DL-600.⁵⁷ Such incentives are structured in such a way as to lower the perceived 'cost of investment', especially over the longer term, and thus help provide a more competitive investment location over rival nations competing for FDI.

Other initiatives, such as trade and investment agreements, which allow inputs and equipment freer entry into the host market, and policy reforms around taxes and royalties have also been designed to attract investments through improved cost structures. Latin America is far more advanced in these areas than other developing regions, especially Africa. Chile has the second-highest number of bilateral trade agreements in the world (after Mexico) and is constantly upgrading and broadening these ties, as it strives for greater global economic integration.

According to various studies and surveys, Latin American tax regimes in the mining sector are some of the most competitive in the world. Measured according to the potential rate of return under the various tax constraints encountered through mining investments and activities, Latin America is ahead of any other mining region in the world, including Africa. The Fraser Institute in Canada recently ranked the impact of Chile's tax regime on exploration investments in sixth position out of sixty-four jurisdictions, and if other criteria are accounted for, such as quality of ore, wage costs, infrastructure, mineral potential and policy potential, Chile ranks in first position (McMahon & Cust, 2006). Other Latin American countries are not far behind as they constantly look to improve their competitiveness in attracting mining investments, and existing reforms begin to take effect.

5.3.3 The distinguishing characteristics of the Latin American mining environment

Reforms in Latin America have been geared to minimise the entry and operational costs of investment and thus maximise the returns over the long term. While Latin American countries have managed to establish low-cost investment locations compared to countries in

⁵⁷ The DL-600 guarantees free repatriation of capital and profits, and an income tax burden of not more than 42 percent for ten years for investments of over US\$5 million. For investments exceeding US\$50 million, the guaranteed tax burden of 42 percent is extended to twenty years, therefore encouraging long-term investments (Sanchez Albavera et al., 2001:24) This is discussed in detail in chapter 6.

Africa, the reforms and processes followed are not much different to the structural adjustments carried out in Africa. However, the results have been very different, with Latin America attracting vastly more investments than Africa over an extended period of time.

This highlights two important distinguishing features evident from the Latin American experience. Firstly, the timing of mining reforms and investment policy changes was important. This is best illustrated by the example of Chile in Latin America. The early movers that managed to reform and prepare the industry for the commodity boom through exploration expenditure and institutional development were able to reap the rewards far more quickly and effectively than the others. Investments began flowing in during the 1970s and dramatically increased in the 1990s. While other countries in Latin America lagged behind Chile in this regard, they were still ahead of most African countries, which were embedded in a quagmire of nationalisation policies far longer and began their reform programmes later and at a far slower (and sometimes reluctant) pace. This allowed Latin America to first capture a majority of the planned exploration expenditure worldwide, as well as the subsequent FDI flows. In 1998 Latin America captured nearly 29 percent of exploration budgets, while Africa (where reforms were only starting to take effect) captured about 17 percent (Sanchez Albavera et al., 2001:60).

The second distinguishing feature, which is seldom (if ever) quantified, is the impact of political economy dynamics and, importantly, prevailing political stability. While most policies and reforms relate to this through amendments of mining acts or legislative adjustments, it is important to note that political stability in Latin America coincided with or preceded macroeconomic reforms, but the same cannot be said for Africa. This laid a foundation of political and social stability on which the various phases of reform could be built.

The nature of the political economy in Latin America created a greater sense of confidence for investors in the region compared to the environment in Africa. Through an extended period of economic reform (starting with Chile in the 1970s), Latin America created an impression of continuity and consistency in the policy domain. Political transition established democratic governance and ideals, which introduced a strong sense of transparency in the policies implemented across the region. Early transition also helped to establish and develop functional institutions that were able to offer support to investors. This all contributed to the

creation of a favourable investment location in Latin America over that of Africa, where in the 1980s and 1990s the continent was still grappling with core elements of democracy, widespread instability and even civil conflict in many resource-rich countries. Latin America simply offered a safer, more integrated and stable political and economic environment for long-term investors and operators.

5.4 International dynamics and metal prices

Mining investments and the decisions that drive them are naturally underpinned, in the first place, by international demand and supply of resources and world metal prices. Base and precious metal prices are notoriously volatile, and are influenced by a range of additional criteria at the local, regional and international levels. This has motivated investors to pursue particular metal prospects in times of price hikes of that commodity or in anticipation of an increase in demand and thus of prices. It has also encouraged companies like Anglo to diversify from single-commodity production or to avoid over-reliance on the returns and profits of one metal or mineral.

The period 1973–2004 was characterised by huge fluctuations in metal prices. Gold, which was Anglo's largest earner and most important mined commodity, increased in price from a low of under US\$36 an ounce in 1970 to over US\$613 an ounce in 1980. This surge in the gold price granted Anglo significant earnings for further investments in both Africa and Latin America (or Brazil at the time). But by 1985 the price of gold had nearly halved again to US\$317 an ounce. By 2004 the gold price was averaging close to US\$410 an ounce, and Anglo had diversified into other metal markets in an effort to curb the effects of the volatile gold price.

Copper has also carried significant importance in Anglo's global mining production, and it has been at the centre of the debate around mining in Africa and Latin America, given its prevalence in both regions. The copper price is also one of the most volatile of all metals traded.

Throughout the 1970s the relatively low copper price failed to inspire investors to invest significantly in commodity production worldwide. From 1973 to 1980, copper increased moderately from US\$1,805 per tonne to US\$2,165 per tonne when it reached its peak. The price started climbing once again toward the end of the 1980s, but only managed to reach US\$2,810 in 1989, before spiralling downward through the 1990s, coinciding with Zambia's reform process. This drop in price hampered anticipated FDI flows in that country. By 2001 the copper price had reached a new low of US\$1,319 per tonne. This, once again, coincided with Anglo's withdraw from Zambia, the details of which are addressed in chapter 6.

The copper price finally began to recover in 2002, and by 2004 it had broken through US\$3,000 a metric tonne and was on a strong upward trajectory. This, no doubt, encouraged Anglo to increase its investments in copper production and certainly influenced the decision behind the Disputada acquisition in Chile.⁵⁸

5.5 Conclusion

An analysis of the investment environment in Africa and Latin America clearly indicates that politics and policy are increasingly becoming key determinants of FDI in the developing world. Nowhere is this more so than in the extraction industry, where technological advancements have enabled MNCs to pursue natural resource deposits in the most difficult geographical locations and transport the extracted resources anywhere in the world. Political stability, and favourable economic policies and legislation, backed up by solid institutions, distinguish one resource-rich developing country from another, and will ultimately determine which countries attract FDI and which fail to do so.

Despite their common wealth in natural resources, Latin America and Africa have progressed very differently over the past thirty years. Latin America has attracted far more FDI than Africa, and this has contributed to higher economic growth with broad-based infrastructure and human development that exceed the levels in Africa. Political and economic instability are factors – among many – that have hampered FDI inflows and development in Africa.

⁵⁸ Chapter 5, appendix III provides a table of annual average gold and copper prices from 1973 to 2004.

Between 1990 and 2003, average annual growth rates in Asia, Latin America and Africa were six percent, 2.7 percent and two percent, respectively. FDI inflows between 1991 and 1996 averaged US\$59.5 billion per year in Asia, US\$27 billion per year in Latin America and just US\$4.6 billion per year in Africa. This is a clear reflection of the link between FDI and economic growth in developing regions (UNCTAD, 2005/6 World Investment Report, 2004)

While the principal objective of governments in attracting FDI is to promote economic growth, development and structural change (by improving key socioeconomic faults such as inequality, poverty and service delivery), investors seek a location that offers the lowest possible costs with the highest returns (CUTS, 2003:31). Integrated markets and globalisation add to the dynamic nature of investment flows and contribute to the investment rationale of MNCs. This phenomenon has become increasingly important in mining.

However, global strategies are nothing new for companies operating in this sector. These companies (like Anglo) have explored metal and mineral deposits in a diversity of locations around the world for many years. They are initially drawn to a particular destination by existing or potential resource deposits. But the cost of operating and market access (or proximity to an export market) ultimately determines the nature of investment. With a standardised international price for commodities, location factors and government policy play an important role in the cost considerations and global strategy of investment for mining companies. Coupled with the developmental priorities of government, the aim is to converge the interests and priorities of the investing company and the recipient country in such a way that socioeconomic benefits coincide with the global strategy of the company, which also ensures that it maintains a competitive advantage over rivals. In this way, government policy and strategies of development and modernisation can serve to improve the competitiveness of a company, which in turn provides the sustained investment necessary for socioeconomic development in a reciprocal fashion (Sanchez Albavera et al., 2001:54–55).

Mining competitiveness initially depends on natural intrinsic factors such as the availability, quality and geographical location of metals and minerals, as well as metal prices. These fixed or uncontrollable variables have been referred to in earlier chapters as the comparative advantage that exists in a country. Other factors that contribute to the access costs of these natural resources include the availability of infrastructure and related services, such as ports, energy, communications and related policies, which contribute to the competitiveness of a

national environment. In addition to this, there is a dynamic interrelationship between the prevailing natural conditions and the degree of stability in a country, which causes competitiveness to vary over time. In the case of mining, which involves a long-term commitment that is affected by short-term, price-sensitive rigidities, investments depend on a range of local and exogenous factors (Sanchez Albavera et al., 2001:44).

Conventional ways of assessing competitiveness according to natural endowments and pricing policies are insufficient in the case of mining. These need to be complemented by long-term political economy factors (that indicate degrees of stability) and the influence of modernisation and technological advances, which often minimise or manage the influence of natural or comparative advantages and expose new opportunities that were previously unavailable. In this way, countries and their national investment strategies can influence the investment rationale of MNCs like Anglo by creating favourable externalities in the composite decisions that are made. The case of Anglo American in Latin America illustrates this point.

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Chapter 6

Anglo American's Investment Choices: The Cases of Chile and Zambia

6.1 Introduction

Between 2001 and 2003 significant decisions were made by Anglo to withdraw investments from Zambia and substantially increase them in Chile. The rationale behind these decisions was based on a broad array of factors ranging from the low international copper price and technical cost-to-return ratio of some of the mining operations in question, to dramatic changes in the company's internal structure and the perceived political and policy environment in which it was operating. Some of the internal and company-specific attributes were discussed in chapter 4, and the broader environmental or regional context was outlined in chapter 5. This chapter evaluates specific exogenous motivational factors or variables that were particularly relevant in Anglo's decision to disinvest from Zambia and invest in Chile.

Consistent with the methodology of a 'within-case study', the example of Chile provides specific empirical evidence that depicts the broader case of Anglo's decision-making process. Anglo's experience in Chile and Zambia illustrates the intricate nature of policy and contextual issues associated with investment in the developing world context. In particular, competitive advantage (especially political stability and policy continuity) and strong institutional support are increasingly important and certainly played a role in Anglo's investment rationale in Chile and Zambia.

Assessing the investment choices between Chile and Zambia in a policy context inverts the research subject and the issues that were evaluated and analysed in previous chapters. However, as suggested in chapter 5, such an approach adds greater understanding to the concept of investment rationale by providing a perspective 'from the other side' and helps to bridge the divide between theory and empirical relevance. Investment strategies are made and shared by the investors (like Anglo) and countries seeking investment alike.

While chapter 4 applied a ‘process tracing’ technique to evaluate Anglo’s history and experience in Latin America (focusing on the company’s internal attributes), this chapter will investigate key external variables and assess their relevance to the investment decision-making process around the question: Why did Anglo invest?

6.2 Investment strategy in Chile: From restrictive to facilitative

‘In the case of Chile, the fundamentals of economic policy are those of a social market economy favouring private ownership of resources as well as private management and initiatives, where the market is the basic mechanism for allocating resources to productive purposes, and where the state fills a subsidiary role in functions not inherent to it.’

(Banco Central de Chile, 1984:9)

Chile offers by far the most successful case of economic reform in Latin America, from near collapse in the early-1970s to a consistently high-growth state by the late 1980s. The reform process undertaken stretched over a number of years and phases, advanced well beyond the obvious macroeconomic reforms associated with investment (which were initially directed at the mining sector), and placed a strong emphasis (in later years) on institutions and infrastructure to support ongoing market reforms and economic modernisation. This was certainly not the norm among developing countries at the time, and especially in Latin America in the 1970s and 1980s. But Chile broke ranks with its neighbours (and the general perception around economic development and foreign investment in developing countries) and ‘tied its fortunes’ to market-driven economies (Kline, 1992:23).

The Chilean experience reflects a simple process that improved the competitive advantage of the local investment environment through a collaborative political transition with targeted economic policies that emphasised stability, continuity and transparency. Clear policies were implemented in a stable political context that favoured and facilitated FDI. Chile therefore developed a healthy reciprocal relationship with investors and shaped the strategic investment decisions of multinational corporations including Anglo.

This national investment strategy certainly is instructive for other countries undergoing similar restructuring. According to Carbo, Luders and Spiller, some of the positive lessons

that can be derived from the Chilean experience – applicable to the general application of reforms in other countries – include the following (Carbo et al., 1997):

- There is an important sequence of reforms. Basic structural reforms to re-establish macroeconomic balances must precede efficiency-enhancing reforms and privatisation. The process is a long one that requires due diligence and patience from both the practitioners and policy makers in the economy.
- The timing of efficiency-enhancing reforms is important (following structural reforms). Such reforms comprise a dynamic process that requires other reforms to run simultaneously. This ensures that the maximum mileage is achieved from each of the reforms implemented.
- Good policies must be complemented and supported by good institutions. This enhances the former's credibility, and ensures the appropriate response in terms of investment and supply. Solid institutional support helps to achieve and sustain stability, efficiency and a competitive investment climate.
- Predictable policies encourage private sector involvement, which is necessary for tangible results from economic reforms. This includes a fair tax regime, basic property rights and various clear-cut incentives. Again, continuity is key.

While such reforms are crucial in attracting and facilitating FDI, a more detailed and interdisciplinary analysis of the Chilean experience does suggest that the Chilean success story was about more than just economic reforms. The case of Chile reveals a far deeper and holistic investment strategy that focused on the investment decisions before the actual investment. This fresh approach to investment introduced a range of political, social and behavioural issues in a multidimensional approach that has become a leading example of investment policy in Latin America and the developing world.

6.2.1 The Chilean investment attraction strategy in the 1970s

In the early 1970s Chile emerged from a period of varying degrees of state intervention. This was in response to the prominence of MNCs in the country, where, at one stage, in the late 1950s and early 1960s, two US MNCs – Kennecott Corporation and Anaconda – dominated the Chilean copper industry. Subtle policies to 'Chileanise' certain strategic sectors in the mid-to-late 1960s, which was essentially a slow nationalisation process through negotiation,

was followed by radical state control and expropriation of assets after the election of Salvador Allende in 1970. Foreign investment dropped dramatically and the Chilean economy edged to the point of crisis (Skidmore & Smith, 1997:128–35).

But the so-called ‘Marxist policies’ of Allende were short-lived, as a violent coup d’état led by General Augusto Pinochet on 11 September 1973 brought about dramatic political and economic change in the country. Pinochet embraced free market capitalism, which was managed by a young group of economists, famously called ‘the Chicago Boys’ as they had been trained under Milton Friedman at the University of Chicago (Kline, 1992:1–13). There is no denying the fact that the military takeover in 1973 brought about a paradigm shift in both the political and economic spheres of the country.

The results of the new policies were not immediate. The dramatic swing from highly restrictive policies to foreign investors was at first viewed by foreign-based MNCs with some scepticism. Expropriations just a few years before had burned deeply into the minds of foreign investors (Klein, 1992:xiii), and the new regime was determined to alter this perception. But as Chile would come to realise over many years of reforms and adjustments – all geared for integration and market access – changing the minds of investors, which essentially involves a direct attempt to influence investment decisions through external attributes, takes years of perseverance and a comprehensive blend of political and economic factors. Chile only started reaping the rewards of progressive investment strategies once the political situation (political democracy) had caught up with the well-entrenched economic reforms and policies, which is when investment results truly materialised.

Despite the slow start, various structural reforms were set in place and the military government openly committed itself to foreign investment, recognising it as the source of growth and modernisation in the Chilean economy. Materialised and authorised investment finally began to increase in the late 1970s, following years of stagnation during the initial military period. In 1978 materialised investment exceeded US\$300 million (300 percent more than just a couple of years earlier), and authorised investment had rocketed to US\$1.8 billion (Kline, 1992:16).

In terms of investment strategy, Chile under the military dictatorship can be divided into two periods, the first between 1973 and 1982 (when a severe economic crisis struck the country)

and the second from 1983 until the advent of democracy in 1990. But a few particular policies and approaches geared toward investment facilitation characterise the entire period between 1973 and 1990. These revolved around key issues such as transparency, ownership and control, as well as a strong awareness of international standards and expectations in the realm of investment and the local operating environment.

These were crucial issues for foreign investors pursuing opportunities in developing countries at the time. Clear ownership and control of assets were an anomaly in developing countries (and Latin America in the 1970s). When Anglo invested in its first mine in Brazil (Morro Vehlo), it was permitted to acquire a maximum of 49 percent of the operation, despite the government's 'openness' to foreign investors. This caused some hesitation in its decisions at first, as Anglo was accustomed to having majority control over its investment activities. However, as described in chapter 4, a capable partner and a subtle reshuffling of asset shares a few years later neutralised any doubts associated with the control and management of operations in Brazil.

Chile assumed a very different approach. Following the period of nationalisation and expropriation, which ultimately came at a great cost to both the country and investors, the establishment of a stable and fair tax regime and – more importantly – guarantees against future expropriations were the most pressing concerns for foreign investors. Chile placed very few restrictions on foreign investors, emphasising the ownership issue and the equal treatment of local and foreign investment. It therefore shifted its focus with regard to investor performance, which coincided with individual MNCs' international performance and competitiveness. This 'results-oriented approach' consisted of a range of initiatives that were institutionalised through a few simple policies and reforms that had impacted on the country's investment strategy and certainly influenced the investment decisions of Anglo, which entered Chile in the late 1970s and early 1980s, just as these policies were well implemented (Kline, 1992:225–45).

6.2.2 Key policies, instruments and decisions

Kline identifies five key policies and initiatives behind the successful Chilean investment model (Kline, 1992:23–41). These were:

1. the internationalisation of the economy;

2. Foreign Investment Decree Law 600 (DL-600);
3. Chapter XIX debt-to-equity swaps;
4. the privatisation of state enterprises; and
5. democratic transition.

Combined, they laid the foundation of the Chilean investment strategy and reciprocal relationship between the Chilean state and foreign investors. While they were all based on the core principles of ownership and liberalisation, the DL-600 was one policy instrument in particular that truly distinguished Chile from other countries at similar stages of development or transition.

The Chapter XIX debt conversion programme, which was implemented in 1985 following the crisis in 1981–82, was part of the second phase of reforms, and is said to have complemented the DL-600, which was implemented in 1974. While the Chapter XIX programme was successful - responsible for up to 46 percent of FDI flows between 1985 and 1990 -⁵⁹ the DL-600 favoured mining investments in particular due to the long-term nature and complexity of mining projects. These projects traditionally required the necessary guarantees and a fixed tax regime most closely associated with the DL-600 more than immediate and impressive incentive packages (Kline, 1992:29). The DL-600 helped convince Anglo and others to invest in the long-term prosperity of Chile.

The DL-600 is the centrepiece of investment policy and related legislation in Chile. It was implemented in 1974, but real results only took effect toward the end of the 1970s. It was designed to address the concerns of foreign investors, and was very effective at doing this.

The Central Bank of Chile summarises the basic principles of DL-600 as follows (Banco Central de Chile, 1984:10):

- Free market access granted to foreign investors, subject to prevailing legal provisions. The choice of activities and subsequent development are open and flexible, left to the judgement and discretion of the investor who has control and management over the project;

⁵⁹ The DL-600 was responsible for the other 54 percent of the FDI during that time.

- Non-discrimination between domestic and foreign investors. The Statute is based on objective norms, with Chilean legislation, regulation and procedures equally applicable to all investment;
- The rules and contractual framework, with investor rights and obligations, are fixed and available in advance. They are impersonal and automatic and are thus not determined by a rigorous negotiation process, but rather rely on a standardised, non-bureaucratic procedure.

Most importantly, these rules and regulations of the DL-600 are constitutional and involve a binding contract between the state and the investor that can only be altered or nullified with the consent of both parties.

The DL-600 focuses more on consistency and investment security than favourable incentives. One example is the income tax rate associated with the statute. Currently at 42 percent (following an amendment from 49.5 percent in 1992), it does not appear to be impressively low when compared to other tax rates around the region and in other mining locations around the world. But investors engaged in long-term mining projects seek guarantees and security more than anything else. It is for this reason that the Chilean investment ratio (particularly in FDI and mining operations) far outstrips competing nations in the region like Peru and Argentina, which may have offered impressive incentive packages at some point, but, for the most part, could not ensure political and economic stability or guarantee policy continuity.

6.2.3 Internationalisation, democratisation and continuity: Cornerstones of success

Chile was committed to international integration from the early days of market-driven reforms, which was partly in response to the severely restrictive state-led approach adopted prior to the coup. This meant that the timing of the reforms was well ahead of its counterparts in the region and even other developing countries around the world. Chile was therefore able to establish greater clarity and consistency well before other countries competing for similar trade and investment flows, and advanced through the various phases of development and styles of investment sooner than the others.

For this reason Chile, from early on, became the first-choice location for exploration activities and, with success and positive experiences, MNCs reinvested and grew their operations substantially between 1973 and 2004. The internationalisation of the Chilean economy suited the investment strategy of Anglo, which clearly believed in the Chilean model and thus increased its investments substantially from the 1980s, but especially in the 1990s and into the new millennium.

While MNCs like Anglo certainly benefited from the competitive location, Chile viewed the input of MNCs as an important component of economic development in the country, since they not only provided much-needed capital, but were also an important source of technology and expertise. The development and advancement of the mining sector would have been impossible without companies like Anglo. Codelco, the state-run entity that controlled 75 percent of the Chilean copper output in the 1980s, was hugely inefficient and lacked the capital and skills to develop and benefit from the potential wealth in the country. In the 1980s Codelco owned 30 percent of the metal and mineral resource land, but mined only four percent of it. Through joint ventures with various MNCs (including AMSA), Chile was able to realise its potential by capitalising on the world's largest copper reserves to also become the largest producer (Kline, 1992:46–49).

Policy continuity and political stability have been instrumental to investment growth in Chile. At the time of political transition in the country, the democratically elected regime assured the investment community that it would maintain the favourable investment policies they had grown accustomed to and would not revert back to the populist approaches that had crippled the Chilean economy twenty years earlier and many other economies across the region in more recent years.

Such continuity reinforced the confidence in the country and attracted more investment than any reforms or economic initiatives implemented during the military dictatorship. Political democracy seemed to introduce greater political stability in a system more familiar to foreign investors, where there was a higher degree of transparency. It also made it clear that Chile as a country and a people had embraced a market economy and welcomed the role of MNCs in the economy.

Finally, the economic costs and political risk of investing in Chile were substantially diminished through the policies and attitude of the state, and this strongly influenced the investment decisions of Anglo in the 1990s and particularly in 2001 and 2002, when prominent copper mine projects (La Disputada and Konkola Deep) on two different continents became available for acquisition and exploitation.

6.3 Zambia's investment path

Many parallels can be drawn between Chile and Zambia, not least in terms of their dependency on copper as a foreign exchange earner and the key role played by foreign MNCs. But the dismal economic record and investment strategy (or lack thereof) in Zambia is in stark contrast to the Chilean experience. The decisions made by the Zambian government and its relationship with foreign investors between 1970 and 1990 were the direct opposite of those in Chile at the time. And the results speak for themselves. Unfortunately, even when Zambia did enter into a process of liberal economic reforms, this was an insufficient tool to bring about any significant and immediate improvements. Most importantly, the political structure (and sentiment) and institutions in the country were ill-equipped to deal with market-oriented changes, and most certainly could not encourage or guarantee investment policies and a functional investment environment that would be profitable to MNCs. Zambia was therefore unable to positively influence the investment decisions of foreign investors, and Anglo in particular.

6.3.1 The political economy of investment in Zambia

Zambia gained independence from Britain in 1964. Like Chile, the copper industry (and thus the economy) was largely controlled by just two multinationals: Anglo American Corporation and American Metal Climax. By 1969 the government of President Kenneth Kaunda had entered into a process of nationalisation and state control, with majority ownership of mining projects in the country ceded to the state-run Zambian Consolidated Copper Mines (ZCCM).⁶⁰ Kaunda consolidated his political power and declared a one-party system that

⁶⁰ This period, ironically coincided with nationalisation and expropriation efforts in Chile, first through the 'Chileanisation' period of President Frei and later full-blown state control under the Allende administration.

retained state-oriented economic policies in the country until multiparty elections took place in 1991 (Saas, 1987:7–17). The results were disastrous.

Apart from obvious political constraints in the country, the Zambian economy was characterised by ongoing instability, incomplete policy implementation, vast shortages of capital and skills and gross inefficiencies in SOEs. This, along with adverse international and regional dynamics (including a severe drop in copper prices) drove the economy to new lows as per capita income dropped by five percent annually between 1974 and 1990 (World Bank, 2006).

The situation in the country did not favour or inspire FDI of any kind. That which did exist previously (like Anglo's investment) fled to alternative locations in Brazil, Chile and elsewhere. Without foreign investment and expertise, copper production grew increasingly inefficient and the mines were unable to develop or modernise in any way, and ultimately became dilapidated and unmanageable. Copper production dropped from 720,000 tonnes in 1969 to just 300,000 tonnes thirty years later, and Zambia slipped from being the fourth-largest copper producer in 1970 to twelfth position in 1996. By the turn of the millennium, ZCCM had accumulated close to US\$1 billion in debt. This, and a combination of local and regional environmental factors (from poorly developed infrastructure to political conflict and corruption), together with technical difficulties that had been compounded by the lack of capital investment in the mines over a thirty-year period, made Zambia one of the highest-cost copper producers in the world. Despite efforts to reform, it was certainly not an investment location of choice among foreign mining investors, whose global investment strategy and decisions were open to an array of alternatives with more favourable cost-to-profit ratio options and far less political risk over the medium to long term.

Once multiparty democracy was established in Zambia in 1991 and the country entered into liberal economic reforms under the leadership of President Frederick Chiluba, it was assumed that structural adjustments and especially a profound privatisation process would result in the rapid inflow of foreign investment. But the Zambian government underestimated the complexity of issues composing the external attributes that influence the decision-making process of investors.

After nearly thirty years of a one-party rule and an opaque economic system, political stability and policy continuity were certainly not guaranteed overnight, especially considering the dearth of capital and extent of socioeconomic challenges facing the country. Corruption was rife and the institutional infrastructure was grossly unprepared (and lacked the capacity) to deal with the vast amount of investment and negotiations required to rejuvenate the dysfunctional copper industry. Most importantly, the mines and basic infrastructure (roads and communication) had deteriorated to such an extent that the cost of operating in Zambia and the basic start-up costs of mining were so high (and the price of copper at the time so low) that it made very little business sense to enter the country. What is more, the high risk associated with operations in Zambia made it nearly impossible for a single entity to assume full responsibility without partners or international organisational development assistance. Others highlighted the security risks associated with transporting the copper ore to ports in neighbouring countries.⁶¹ The costs and risks associated with Zambia were simply too high in 2000 and 2001 for many to justify large-scale Greenfield investments in the copper industry, especially when considering the alternatives on offer elsewhere and the low price of copper at the time. Anglo withdrew from Zambia in 2002, committing its resources to other operations and locations, notably the acquisition of the Disputada mining complex in Chile.

6.4 Anglo American in Chile and Zambia

Anglo had a somewhat unique relationship with both Chile and Zambia, but for very different reasons. Zambia was the first country outside of South Africa where Anglo explored mining opportunities. It was instrumental in developing the famous copper belt, which would become the mainstay of the Zambian economy. Anglo was by far the most influential commercial entity in Zambia and was intricately involved in the political economy of the country – and even its foreign relations.⁶²

⁶¹ Tim Wadson, a former technical director at Anglo, who described himself as one of the ‘champions’ for Anglo in Zambia and who tried to influence the decision-making in favour of Zambia, provided an anecdotal description of all these factors that detracted from the investment appeal of Zambia during an interview in May 2006. He also emphasised the security concerns and theft *en route* to the ports, which seemed to be increasing despite costly measures to combat this.

⁶² The leadership in Anglo, and Harry Oppenheimer in particular, was a conduit for dialogue between Zambia and South Africa in times of bilateral and regional tension.

Even after the nationalisation of the mining industry in 1969, Anglo retained a small share, waiting on the periphery to re-enter the country in force. It was one of the first companies to re-enter Zambia and quickly acquired 27 percent of ZCCM when it was privatised in the 1990s, which was part of an effort to ensure the acquisition of Konkola Deep. From the Zambian perspective, Anglo's investment was expected to boost the country's output from four percent of world supply to 10 percent, and to extend the life of the Konkola Deep mine by thirty years. For Anglo, Zambia carried significant symbolic value, and those interested in increasing investments in the country (even though the calculated returns were far from profitable) were sentimentally linked to the country.

Chile, on the other hand, represented the alternative and even rational side of business and investment for Anglo. It did not carry the same nostalgia that many of the 'old guard' from Anglo harboured toward Zambia. From the time it first entered Chile (following the partnership and acquisition of ESC) at the end of the 1970s, Anglo's investment experience there was highly profitable. Its healthy returns and stable investments grew progressively through the 1980s and 1990s, and the latter eventually exceeded US\$1 billion by 2000 as the company began to dedicate more resources toward copper production. Recent figures indicate that the group has deployed about 15 percent of its operating assets to Chile, making the country one of the largest recipients of Anglo investments in its global portfolio (Barber, 2004:24).

Anglo has entered into a number of joint venture partnerships in Chile, including significant projects with Codelco, the massive state-owned mining company, and a healthy relationship has clearly existed between Anglo (as an investor) and the Chilean government, based on high degrees of reciprocity and mutual agreement. Chile presented a logical investment location where Anglo was – after twenty years – well established and accustomed to the operating environment in the country.

6.4.1 La Disputada *versus* Konkola Deep

In 2002 the opportunity arose for Anglo to make its biggest investment yet in Chile through the acquisition of Compañía Minera Los Disputada: the company that owned and controlled the Disputada mine and its affiliate mines and operations. This would be a significant

addition to Anglo's growing list of assets in Chile and an important contribution to the group's share of global copper production.

Disputada was first purchased by the oil giant Exxon for a total of US\$113 million in 1978 when the mine was close to bankruptcy and in desperate need of a capital injection. But it took ten years and an additional US\$750 million to develop the mine before operations became profitable. In 1989 Exxon invested an additional US\$400 million to increase the capacity of Los Bronces, a facility that is part of the Disputada complex (Kline, 1992:50–51).

It is widely acknowledged that Disputada (and other mining complexes in Chile) required foreign investment to become an efficient and cost-effective world-class copper producer. Codelco, or any other local entity, would never have had the capital or the staying power to continue to pour in investment over a decade of losses up until 1990. But the Chilean government provided a great deal of support throughout this period through political and economic stability and various tax incentives. It also partnered with private organisations to develop infrastructure (and especially a port) in the remote regions where the mines are located. This ensured that the entire chain of operation – from extraction to export – was safe, easy and efficient.

By 2002, when the copper price had again dropped to new lows, Exxon had grown wary of mining operations and, like other global oil companies at the time, decided to shed its mining assets. Disputada was in perfect condition (following years of development and capital investment) and ready to continue with large-scale production, a fact that had not gone unnoticed by the AMSA executive, who had been eyeing it for some time. After a somewhat rigorous process that spanned more than a full year, Anglo America eventually won the tender for Disputada, outbidding Codelco with an offer of US\$1.3 billion. Disputada was renamed Minera Sur Andes, and the acquisition brought Anglo's total annual copper production up to 600,000 tonnes (Barber, 2004:31).

The combination of mineral potential and a favourable operating environment certainly made the decision to acquire Disputada far easier (and more logical) - even if copper prices at the time were down. These factors and the subsequent surge in copper prices and demand from Asia (and China in particular) resulted in healthy returns soon after the acquisition. As mentioned in chapter 4, Minera Sur Andes recovered nearly 50 percent of the purchase price

of the mine in 2004 alone. This is an astonishing result that is rare in the world of mining investments and was a reflection of the decision-making competency displayed by the AMSA executive.

Meanwhile, in Zambia, Anglo had started securing mining projects during the 1990s (shortly after the first set of reforms were implemented) and was in the process of concluding the deal for the largest and most important copper producer, Konkola Deep.⁶³ The company appeared eager to regain the dominance it had held in the country prior to independence.

In March 2000, Anglo American, through its 50.9 percent-held subsidiary Zambia Copper Investments (ZCI), acquired 65% of Konkola Copper Mines (KCM) – which in turn acquired the Konkola and Nchanga divisions and the Nampundwe pyrite mine from Zambian Consolidated Copper Mines, thereby becoming the largest copper mining operation in Zambia. The cost to ZCI was US\$30 million up front, with a further US\$60 million payable in installments from 2006. Moreover, KCM was committed to capital expenditure over the first three years of US\$208 million and, subject to the availability of finance and the prevailing copper price, to the development of the Konkola Deep mine. Anglo's strategic plan was then to run the existing mines, smelter and tailings assets at a profit and ultimately to treble production to 200,000 tonnes per annum through US\$600 million additional investment in the Konkola Deep mine.

But little under two years later, Anglo pulled out, publicly saying support for its Zambian copper operations was not justified in the face of the unavailability of third party finance and low metal prices.

Anglo's decision to 'go back' (after the 1970s nationalisation) to Zambia in 1998 has thus to be seen in terms of the context of the decision to build Konkola Deep as a viable high-grade copper mine. To do so, other companies would have to run the existing mines in Zambia; but when the Zambian government turned down Anglovaal's \$1 billion bid (on the advice of their London-based consultants pushing for a higher price), there was no other buyer who would do so. Hence Anglo agreed to take over the related mines for a 'nominal sum'. At the same

⁶³ Most of this information is based on various discussions and interviews between 2005-07 with senior Anglo executives involved in the Konkola Deep deal.

time, while Anglo was successful at bringing down the operating costs in Zambia (from some US\$1,20 per pound to below US\$1 per pound, the company remained a very high cost copper producer), the copper price ‘tanked’⁶⁴ making the Konkola scheme look less profitable and also, in the context of the size of Anglo at the time, risky. For it must be remembered that Anglo was a much smaller (ten times smaller compared to 2007 values) company then – a \$10 billion company – attempting what would be the best part of a \$1 billion project. It was also unsuccessful in attracting another investor (CODELCO of Chile was touted as a possibility) or to loaning the money required. Thus to undertake the Konkola project, Anglo would have had to issue additional equity.

The above reasons all contributed to a ‘bottom-line’, rational choice decision made by Anglo to pull out of the Zambian deal and purchase Disputada in Chile instead. Even so there were reasons for being in Zambia in the first instance, and other reasons, too, why Chile was both a rational and irrational choice. In each case, external factors and organisational dynamics played a part. These organisational dynamics, which are often described simply in terms of the ‘old’ Anglo and the ‘new’ Anglo, were at the essence of the company’s decision-making during this particular period.

6.4.2 The rationale of the ‘old’ Africa hands

The 1998 decision to return to Zambia was driven by individuals – including Jack Holmes, Tim Wadson and, ironically (given his role in driving the Latin American investments), Julian Ogilvie Thompson – who had all ‘cut their teeth on Zambia’. At the time, Anglo constantly portrayed its advantage as its African experience and location. It ‘could operate in an African backyard’ where other companies would fear to tread.

But the London listing in 1999 and, a year thereafter, Tony Trahar’s ascendancy to the CEO’s position, changed matters. No longer did Anglo want to be seen as an African company as it regularly and constantly maintained itself in its Annual Reports, quite the opposite. It wanted to put distance between itself and Africa, a motive especially of those in London who were

⁶⁴ According to Tim Wadson, the former Technical Director at Anglo, the company needed the price of copper to be a minimum of US\$95c per pound for it to be a feasible or just break-even investment. With these costs major losses around Konkola Deep were a virtual certainty. The copper prices then fell to a low of US\$1,300 per metric tonne (or US\$59c per pound).

sensitised to African risk aversion of the London analysts. There was thus a pressure to get out of Zambia, and to no longer play the sort of ‘benevolent benefactor’ type role that Anglo had traditionally undertaken in Africa, being an operator in a community-setting providing more than just a mining operation but a support system. And no doubt, too, Trahar wanted to put his own stamp on things. All this was part of the change from ‘old’ to ‘new’ Anglo, from an African conglomerate to a global mining multinational.

But, paradoxically, the decision to go for Disputada, which was similarly expensive when viewed against the size of Anglo of the time, also, too, went against market trends. While the analysts were at the time advising Anglo to get out of base metals and into precious commodities, Trahar moved in the opposite direction, sensing that if the copper price would move higher Anglo would ‘make it big’. There is no doubt that the Chilean deal was cleaner, however, with few of the social and political encumbrances of Zambia, and with all of the policy upsides in terms of investor attractive packages. Put another way, while there were still concerns about the copper price, with the Chilean deal, Anglo knew what it was getting. With Zambia and Konkola, not only was Anglo uncertain about how much it might ultimately have to invest in the mine itself, but it was dealing with a government who felt that the price paid was too low and it had been swindled out of its own natural resources, with all of the issues of political complexity and management that this entailed. This would emphasise the need for Anglo to engage with and invest heavily in the community to maintain a secure operating environment.

The ‘old’ Africa hands were nostalgically clinging to a memory and a time when Anglo was an Africa-centric corporation and certainly at the centre of the African mining dream. They felt that – given the company’s history in Zambia – the additional community investments and higher cost of operating there was a small price to pay in order for Anglo to regain its previous status in the country and region. But the new guard had come in and had implemented a more rational approach to decision-making, based less on personalities, personal relations and ‘gut feel’.

6.4.3 Lessons from the Zambia Experience

The Zambia experience illustrates that, operational expertise and perceptions aside, there are also costs – and thus risks – which are much higher in Africa than in Latin America, even though these vary across the mining spectrum.

For example, with iron ore, copper and coal, transport costs – and infrastructure – are critical given the huge volumes and low product price per tonne. This remains perhaps the biggest challenge for geographically isolated and infrastructure degraded countries like the Democratic Republic of Congo and Zambia. With lower volume mining industries such as diamonds and gold, there is less need for a large infrastructure. A diesel generator can supply the necessary power, and the output can be flown out. By comparison, locations throughout Chile - a principle base metal producer - are never far from the coast given the country's geography, making it easier to develop the infrastructure and transport these bulk loads by road to the ports.

Critically, the Zambian operation was comparatively high-cost and high-risk compared to alternatives such as Disputada. Whereas Disputada was an existing operation, Konkola had to be developed from scratch, and its viability was dependent, too, on the supply of cheap electricity. Thus 'why Disputada' and 'why not Konkola' was thus in part a tough-nosed commercial decision made at a time when the copper-price was low. The Disputada decision may have been coincidental to the Konkola pull-out, but it also indicated that investment alternatives are not Africa-bound, especially for a company such as Anglo manouevering to become a foremost extractive industries' player on the global front.

Indeed, perhaps a more significant question in the light of what has happened to the world copper price since 2002 and the potential for a sustained 'super-cycle' in world commodity prices driven ostensibly by Chinese demands, is will Konkola attract new investment and, if not, why not?

This would indicate that improving infrastructure and reducing transport costs can make a difference to investment decisions, an important point for strategic planners and policy makers in Africa. Yet the commercial viability of these endeavours is only partly in the power of African states and their leadership, given that they depend to an extent on

extraneous factors such as commodity prices and geography. Importantly, not only does Africa's leadership have to recognise the role these issues play in investment decisions, but they need also to focus on dealing with those aspects they can change and deliver on, notably with regard to perceptions of African risk which demand returns based on the patchy post-independence track record of mining investment north of South Africa's borders.

As is hinted above, it is important to signal the change of corporate culture within Anglo by this time: Anglo had by the late-1990s changed from being a 'motherhood-and-apple-pie' investor, willing for reasons of corporate ethos, enlightened self-interest, and constraints to operating outside of Africa, to undertake the sort of social investment required over a long-term in order to make the *Zambian mine* a success. Such social investments include the long-term commitment to the wider community in the form of schools, health-care, roads, electricity provision, all apparently far outside of the contemporary ambit of a multinational. This certainly did have an impact on its corporate decision-making and global investment rationale in general. Ironically, in the light of the scramble for resources in Africa subsequently, and the results of other multinational extraction companies, perhaps one has to question whether this is a preferable model for both investor and destination?

6.5 Conclusion: External aspects in investment decisions

The case of *Disputada* in Chile and *Konkola Deep* in Zambia illustrates Anglo's investment decision-making process and rationale. It highlights a core question behind this research study: Why did Anglo invest and how were the investment decisions influenced? Part of this question was dealt with in chapter 4, which looked at the various internal company-specific factors. This chapter evaluates the external criteria, such as broad and relatively uncontrollable issues like world metal prices and the comparative advantages associated with natural resource endowments. But, more specifically, it considers the very important factors associated with the political climate, the policy environment and the economic history or experience of Anglo in Chile and Zambia. The chapter emphasises the importance of politics, policy and institutions and how these factors ultimately determine investment decisions.

The notion of 'congruency' assists in identifying the variables and assesses their weight and relevance in the decision grounded on bounded rationality. It also distinguishes between the

attributes that ‘pushed’ Anglo to withdraw from Zambia and those that ‘pulled’ the company to Disputada in Chile. As already mentioned in chapter 2, congruency explores the significance of inference by assessing the causal relevance or dependency of, in this case, Anglo’s investment decisions in Chile and Zambia on exogenous factors such as politics and policy. Simply, it assesses the impact these external factors have on the investment behaviour of MNCs like Anglo.

The case of Disputada *versus* Konkola Deep does satisfy an important theoretical and empirical dimension of the study by revealing a causal link between the investment decisions Anglo made and the range of external factors at play. But, most significantly, it presents Anglo as a truly international mining house with a global presence and the luxury of choosing from a variety of investment locations where it is already well established and familiar with the operating environment. Its operations are managed strategically according to the price of and demand (and anticipated demand) for minerals and metals. With this global vision, diversity is also important. In this case, it was clear that Anglo was looking to increase its share of copper production – perhaps in anticipation of the next price boom, which ensued shortly after the purchase of Disputada – but was obligated to keep the initial costs as low as possible (considering the dismally low price of copper around 2000 and 2002), while also securing reliable and accessible supplies.

While natural resource endowment is important, it seems that comparative advantages played a less important role than certain competitive advantages. Both Chile and Zambia possess huge copper deposits and mineral potential. But it was the accessibility of these copper deposits and the ease with which they could be extracted and transported for export that was most significant. The development around the mines, basic road and port infrastructure, safety and security, and the general operating environment made Disputada in Chile far more appealing than Konkola Deep in Zambia.

Finally, politics and policy did play a role, even if it was in a less-conscious way than the decisions makers would like to believe. Nationalisation and the expropriation of assets have long-term repercussions that burn deep into the memory of investors, especially those who were victim to these dramatic policy changes. Anglo had experienced nationalisation in Zambia and had seen what such policies did to the mining sector and the company’s vast assets in the country, while in Chile it had only experienced liberal policies that favoured

foreign investors and recognised the role of FDI in the sector's development. Chile's long-lasting, stable political environment also laid the foundation for favourable macroeconomic and, in particular, investment policies. The environment the country created is indicative of the long-term benefits of political stability, which is never a quick-fix solution to economic prosperity and is characterised by a lengthy lag time, but has proven a worthy foundation to build and work from.

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Chapter 7

Conclusion: Why did Anglo Invest in Latin America?

7.1 Reintroducing the central theme and objectives

This study has focused on a central question: Why did Anglo American invest in Latin America and how did it go about choosing one country or project over other possible alternatives?

The answer reveals the importance of organisational cultural dynamics and corporate decision-making styles along with competitive policy instruments. Indeed, the answer to the question posed above, and at the start of this study, lies in the intersection of three following areas:

Firstly, macroeconomic criteria can determine the initial impetus for investment. The investor seeks optimal outcomes. This is best described as the rational choice paradigm. The possibility of strong returns or, more specifically, rich gold deposits with lucrative potential were the initial reason for Anglo's entry into Brazil in 1973. Politics did, in this case and others, play a role in Anglo's investment decisions across the region. Political criteria have become increasingly intertwined in 'bottom-line' business decisions in less developed countries where medium-to-long-term stability is questionable. This is especially the case in extraction industries where physical assets are immovable and capital returns are long term. As this study demonstrated, politics were a key issue.

Secondly, internal politics and intra-organisational jockeying introduces a type of decisional 'game' influencing decisions. This is especially the case toward the end of the 1990s, when different factions and their interests became increasingly apparent.

Thirdly, related to the point immediately above, the less tangible inputs of leadership, values, perceptions, and personal characteristics and intuition can shape and explain the organisational decision-making. The so-called 'Anglo way' or organisational culture instilled a particular style and value system that emanated from the top and was evident in Anglo's

organisational behaviour around the world. AMSA's partners and the relations it nurtured in South America are one example of this. The influence of personal attributes on decision-making was most clearly demonstrated through individuals like Harry Oppenheimer and Julian Ogilvie Thomson. Both were known for their intuitive decisions and few would contradict or oppose them. One example of this was the final decision to enter the bidding for CVRD, where the general consensus among the executives around the table in London was that the amount was too high, but Ogilvie Thomson simply concluded that they would go ahead with it, and they did.

The research undertaken during the course of this study offers a study of investment behaviour which will have broader significance to international political economy. By explaining why decisions are made by a large multinationals in developing countries, this study may help to inform the understanding of the dynamics that shape corporate policy toward FDI, and, for the policy maker seeking such investment.

7.2 Bounded rationality and investment behaviour

The case of Anglo in Latin America has not been previously analysed and the study has sought to develop and apply a set of concepts which enable us to understand some of the complex dynamics of corporate behaviour..

Rationality or rational choice behaviour is an important point of departure and a foundation for explaining Anglo's investment rationale. But, as the study indicates, this traditional approach to decision-making can be enhanced through the use of other models and theoretical explanations.

Specifically, the influencing variables of chance, personal preferences, intuition and uncontrollable external attributes, which played such an important role in the investment decisions of Anglo, and which Simon refers to as 'irrational' or 'non-rational' variables, illustrate the limits of the rationale actor model (Simon, 1997:323). This would suggest that behaviour is 'intendedly' rational and that decisions depend on the environment that bounds the individual and their organisation.

Anglo's investment decisions were, for a large part, goal-oriented and task-directed, indicative of rational behaviour. But it is relevant to note that Anglo's pursuit of mining investments in Latin America were not necessarily determined by in-depth analyses sketching out all the mining opportunities in the region along with their positives and negatives. This would help ensure more complete information on which to base a rational decision. Even Disputada in Chile, which appears to be perfect example of a rational choice decision, was acquired at a time when copper prices were at a low and analysts were advising Anglo to stay away from base metals.

The diversity of factors that influenced Anglo's decisions – from the political bargaining or jockeying within the organisation (particularly around the CVRD bid and the sentiment of the 'old' Africa hands toward Zambia in the late 1990s and 2001) and the leverage of personalities, to the external political economy factors and facilitating institutions – necessitated a wider interpretive paradigm integrating all these factors into the decision-making process. Such an augmentation of rational thinking is 'bounded' rationality, which is more attuned to the personal (behavioural) and political nuances defining a decision-making system. This scenario is not unique to Anglo, but is relevant to the investment behaviour and experiences of MNCs in general, particularly those exploring opportunities in developing countries, where a range of political and other criteria come into play.

7.3 Contextualising Anglo's decisions

The case of Anglo is best explained, too, by a combination of existing decision-making models and theories, particularly those developed around organisational behaviour and political bargaining. Thus, the Anglo investment decision-making process is best described by a politicised organisational corporate model – a generic of the others.

Contextual issues and certain unique attributes do need to be accounted for. For example, in Anglo, the strong organisational personality and mindset organisational culture prevalent in the company, as a result of leading individuals and influential characters (as mentioned above) including Harry Oppenheimer and Julian Ogilvie Thomson, determined a particular style of decision-making. Leadership and cohesion were key to decisive and successful

decision-making. These are reflected in the results of the investments that were made first in Brazil and later in Chile. However, this model began to change toward the end of the 1990s.

The failed CVRD bid at the end of the 1990s, when Anglo started its dramatic global restructuring and rationalisation process, may be interpreted as the first sign of a fragmented decision-making structure. Shortly after the CVRD bid, Anglo changed its strategic operational structure from one that was previously geographically defined to one that was managed according to commodity lines. While a few major investment decisions were still made in Latin America after 2000, the structural changes that had taken place marked the beginning of the end of the AMSA era. The South American entity, which had been largely autonomous for many years (in both its operations and decisions) and had managed to create a unique and effective blend of corporate and local *Latino* culture in its business operations in South America, was finally integrated into the new Anglo global commodity line management structure in 2004, when Patrick Esnouf stepped down as the last president of AMSA.

It is an ongoing debate whether the change from the culturally and geographically defined model to a commodity focus will prove as successful for Anglo in Latin America. Allison, for one, advocates the localised style of ‘field-based learning’ and warns against an overly stoic corporate culture routine that might clash with local efficiencies (Allison & Zelikow, 1999:154–55).

In addition to the nature and structure of Anglo, the political context in which it was operating and the outlook of the organisation (always politically aware and often political active) was at the core of its investment decisions in both Africa and Latin America. Anglo was, reflecting on its dominance of the South African economy during the apartheid isolation years, inevitably a political player in South and Southern Africa. This became an extended decisional characteristic evident in the investment decisions that were made in Brazil and Chile. A comment made by one Anglo executive who attributed (partly at least) Anglo’s initial entry into Brazil and outward growth in later years to Chile to the fact that these two countries were perceived as stable following their respective political transitions that ‘put the [populist] revolutions behind them’ prior to the company’s entry, also serves to illustrate the relevance the company (or at least the leadership) awarded to the political dynamics of the

operating environment. Such political criteria reinforcing the ubiquitous ‘bottom line’, helped to focus Anglo’s country operations in Latin America.

Politics and political stability also influenced the ‘push’ and ‘pull’ dynamics from Africa (and Zambia in particular) to Latin America (Chile) once again in the 1990s and in the new millennium. Democracy and improved transparency encouraged Anglo to make additional investments in Latin America, and particularly in Chile. The case of Chile and Zambia provides a clear illustration of how political stability, institutional development and policy continuity plays a part in decisions. While the price of copper no doubt played its part, a range of policy-related considerations influenced Anglo’s investment decisions in Chile and Zambia certainly between 2001 and 2003.

7.4 Key themes, questions and results of the research study

Wealth in mineral resources may have been the initial factor that attracted Anglo to Latin America, but the company’s decision to diversify from Africa and grow its investments in South America was related to risk diversification. In this respect, a broad array of factors (including politics and policy) played a role in Anglo’s investment decisions over and above traditional fixed cost factors. This relates to the theoretical concept of competitive advantage and historical memory (related to the perceived risk of investment) described in chapter 3 and certainly applies to the investment behaviour of Anglo. Such an intuitive and dynamic approach to investment enabled the company, over time, to diversify risk and ensure long-term returns.

Thus, in conclusion, it is important to summarise or reflect on the aim of the research once again.

The aim was to explore the relationship between Anglo’s investment rationale and decision-making in Latin America between 1973 and 2004. Exploring the so-called ‘black box’ of Anglo’s decision-making process, led the study through a range of factors that influenced these decisions. These endogenous or company-specific attributes and exogenous factors related to the operating environment and the broader political economy of investment. They ranged from the role of personalities and intuition in the organisation (like Guy Young’s role in driving Anglo’s investment growth in Latin America, and Julian Ogilvie Thomson’s

presence more generally), its structure, culture and behaviour and its global investment strategy on the one hand, to world metal prices, macroeconomic policies, the comparative operational costs between two different locations and political stability.

Specific questions set out in chapter 2 helped to focus and direct the research process, and to assess the influence such variables might have had on investment decisions. By addressing each of these questions below, the results of the study can be highlighted and summarised coherently.

‘How are investment decision made?’

There is no unambiguous answer. In the case of Anglo, investment decisions were made by a small core group of people – referred to by some as the ‘inner council’ – and were directed by key individuals who relied heavily on personal experience and intuition to guide their decisions, and common backgrounds and outlook to carry the day.

Indeed, such a high degree of organisational cohesion reflected the entrenchment of culture and authority at Anglo, and the leadership of strong personalities like Harry Oppenheimer and Julian Ogilvie Thomson – who was integral in Anglo’s decision to enter and expand into Latin America. The role and position of each individual and decision-maker in the organisation was clear, despite the diverse structure of Anglo and nature of its businesses. As with any large MNC, intra-organisational jockeying and a sense of autonomy among some of the international entities (like AMSA) is to be expected. But a strong sense of affiliation and loyalty toward Anglo prevailed. This was due to a widespread understanding within the organisation of where they had come from and What their global aspirations were.

Some of the individuals interviewed during the research process stressed the important role of certain ‘champions’ (Guy Young was a great promoter of Latin America and drove the CVRD bid, and Patrick Esnouf, was described as a staunch advocate of Chile and the Disputada deal), who committed themselves to specific investment projects and leveraged their influence in the internal bargaining process during investment decisions. Yet given the intimate size and nature of the core group of decision makers in the early years, the bargaining and role of these champions only became excessively complicated and political

toward the end of the 1990s, when the Anglo structure began to change. This was also around the time of the failed CVRD bid.

In addition to these internal dynamics, a range of external criteria played a critical role in the decision-making process. In particular, historical memory and past experiences certainly motivated decisions. For example, nationalisation and expropriation policies in Zambia at the end of the 1960s left a deep scar in the memory of the Anglo executive, and when the time came to re-enter the country and to invest in the rejuvenation of the country's mining sector, the ordinary structural adjustment policies implemented in Zambia in the 1990s proved to be too little too late. Anglo opted instead for a mining complex in Chile, where the location had proven reliable and efficient for many years, and where political and economic stability were well established. These political economy criteria helped reinforce the rational decisions that were being made vis-à-vis Chile and Zambia.

Indeed, the medium-term costs of extraction and operation were also important criteria considered in the investment decision that saw a withdrawal from Zambia, followed shortly after by the large acquisition of the Disputada mining complex in Chile.

Finally, the role of intuition, personal behaviour and emotion, and chance should not be underestimated. This was evident at various stages of Anglo's investment drive in Latin America, from when Mario Ferreira encouraged and steered Anglo's entry and growth in Brazil, to the much vaunted CVRD bid championed by Guy Young and later the Chile-rather-than-Zambia illustration. The latter brought the 'old' and 'new' Anglo cultural dynamics (and the emotive choices of some individuals) well into the open for the first time. It is also worth pointing out at this stage that the so-called 'old' Africa hands were driven strongly by their emotional sentiment and memories of Africa, which impacted strongly on their decision-making rationale. In this regard, March valuably suggests that individuals are directed more by habits, instincts and passions than by reason (March, 1994:102-5). Key decision-making characters in Anglo used their intuition to convert the factor of surprise into 'informed surprise' and opportunity. These were some of the intangible or non-measurable criteria which help to determine why Anglo invested in Latin America.

‘Why did Anglo decide to enter and invest in Latin America?’

Anglo invested in Latin America in an effort to diversify its geographical and operational risk and to seek new opportunities with long-term returns in alternative markets beyond Africa. This decision was influenced by the company’s global aspirations, world metal prices and the political economic dynamics in Africa and Latin America at the time.

With a concentration of assets and operations in Africa (and in South Africa in particular) in the early 1970s, Anglo realised the need to diversify both geographically and in terms of its mining operations. After the nationalisation of the copper mines in Zambia at the end of the 1960s, Anglo’s assets had grown increasingly concentrated in gold mining, mostly in South Africa. Fluctuating metal prices required a greater diversity of operations to ensure that the company’s returns were not reliant on one single commodity. In addition, the unpredictable political economy in Africa – still plagued by conflict and post-colonial tensions – and the antagonistic ruling regime in South Africa, which was growing more and more economically isolated, provided sufficient motive to seek investment locations elsewhere.

Meanwhile, across the Atlantic, South American countries were well endowed with an array of natural resources from gold and diamonds to iron ore and copper, and the political economies of countries like Brazil and Chile were stable and actively pursuing FDI through a range of investment incentives and liberal policy reforms suited to facilitate and host foreign investment operations. Trusted and politically connected partners with a region-wide sphere of influence also made the decision much easier.

There were thus essentially a range of ‘push’ factors from South Africa and Africa. These were reinforced by the attractive ‘pull’ factors from Latin America, which grew stronger through the 1970s, 1980s and 1990s, as Anglo’s investments grew and prospered across Latin America.

‘How were specific countries chosen?’

Brazil was selected as a point of entry for Anglo in South America in 1973. While this was not necessarily a rational decision based on an analysis of feasible alternatives it did open

the door to future Anglo investments that were by and large based on rational incentives and decisions.

At the time entry, Brazil was not a strategic decision aimed at regional growth, as Anglo did not view its investment in Brazil as the start of a region-wide undertaking. But Brazil displayed traits that were appealing to Anglo.. Firstly, Brazil was blessed with a variety of metals and minerals. In particular it had rich deposits of gold, which could be accessed with the deep-level mining technology developed by Anglo, and accessible copper supplies. Secondly, despite a military regime, political stability had been established and the government was eager to accommodate foreign investment. Thirdly, the emergence of feasible partners, in this case Bozano Simonsen, guaranteed a secure and potentially lucrative entry.

From the late 1970s Anglo investments spread to Chile when it partnered and later acquired ECS SA, comprising the Hochschild Group in South America. Once again, the core principle of a trusted and reliable partner assisted the investment decisions that were made, guiding Anglo through unfamiliar investment territory.

But investments in Chile outgrew the initial partnership with ECS in the late 1980s. with a rapid expansion from this time, Chile became Anglo's most important investment location in the western hemisphere, accounting for US\$3.3 billion of Anglo assets by 2004. The investment growth in Chile can be broadly attributed to three specific factors: Rich and accessible copper supplies, favourable economic and investment policies, and political stability (and democracy after 1990).

Other countries in the region were unable to offer the combination of natural resource wealth, policy continuity and political stability that Brazil and Chile exhibited as early as 1973. Anglo's chosen regional partners (Bozano Simonsen and ECS) also guided the company through the complicated political economy conditions, allowing the company to pursue opportunities where there was potential (with guarantees) and avoid locations where the long-term costs (and risks) were out of kilter with the apparent benefits.

‘What internal factors and dynamics shaped these decisions?’

This research has explored a range of internal factors. Three company-specific features that shaped decisions were the unusual organisational structure – with a head office in South Africa and relatively independent sub-entities in countries across the globe (like AMSA in Brazil), the organisational culture and the personal attributes of individuals. This approach relied less on analytically driven decisions (especially around the time of entry and early expansion in Latin America) and more on decisions based on personal relationships and like-minded partners in the region.

Anglo’s global structure changed dramatically during this time, reflecting political changes in its South African home-base. Soon after it was established, AMBRAS – later AMSA – became apparently an independent entity within Anglo. It had its own chairman, who reported regularly to Johannesburg and later London, but operational decisions for South America were most often made by the AMSA executive and local management themselves. The high levels of success the company enjoyed from the 1970s granted it greater flexibility and autonomy in decision-making. However, despite this, large investment decisions were made by the executives at head office, and this process was not always as straightforward and obvious as one would expect, with capital for investments flowing from various sources across the globe, which was managed by a number of offshore entities such as Minorco. In addition to this, the complicated cross-shareholding and partnerships, especially in South America, which gave it a more ‘local appearance’ as opposed to a large, foreign-owned MNC, made the decision-making process and capital flows considerably more opaque.

The company culture and organisational behaviour were closely related to Anglo’s amorphous structure. Despite the local image of AMSA, a high degree of loyalty and attachment, along with centralised authority and leadership that was capable of securing co-ordinated behaviour, created an ‘organisational personality’ in Anglo that guaranteed consistency of decisions among the various Anglo entities and individuals.⁶⁵ This is a clear and distinctive characteristic of Anglo that was instilled by Ernest Oppenheimer, and by his son Harry after him, and is often simply referred to as ‘the Anglo way’.

⁶⁵ Simon (1997:278) put a great deal of emphasis on these concepts and the importance of strong leadership in organisational behaviour.

The third internal dynamic, comprising personal attributes like intuition, emotion and character traits, was particularly relevant to Anglo's investment decisions. These have been mentioned numerous times in the study and above in relation to Julian Ogilvie Thomson's powerful influence over the organisation in general, and is also reflected in the unwavering commitment of Guy Young in Anglo's expansion in Latin America. These factors certainly impacted on decisions, sentiments and results. Yet these attributes are rarely considered by traditional decision-making models or scenarios, especially those with strong rational (bottom line) undertones.

Certain individuals or personalities were responsible for the organisational culture or personality behind cohesive decision-making in the organisation, as well as the key players in the political bargaining of preferences. Intuition, which is often discarded for its lack of susceptibility to analysis and scientific calculation, provides a significant though unquantifiable input to decision-making through professional judgement. It thus tends to complement structured analysis in the decision-making process. Such intuitive behaviour, or what was referred to as 'gut feel' in many of the interviews conducted, was instrumental in Anglo's entry into and growth in Latin America. It ensured quick and decisive decisions and helped manage the element of chance, which was noted in interviews as key to Anglo's inception and growth in Latin America – and especially with regard to the partnerships discovered and developed in the region.

'Did politics influence Anglo's investment rationale?'

This study reveals the influence that politics and policy had on the composite decisions of Anglo between 1973 and 2004. The comparative case of Chile and Zambia illustrates this best.

When Anglo was faced with the prospect of reinvesting in the copper industry in Zambia in 2001 or pursuing an alternative option in Chile (which admittedly only became available a year later), the decision was ultimately determined by a range of political, economic and operational factors apart from the intrinsic copper supplies available in both countries. Zambia had implemented basic structural adjustments in its economy, but Chile had

undergone similar reforms more than twenty years earlier and was far better equipped in terms of policy and institutional support to facilitate foreign investment. It was also politically stable with a well-established democracy, and while Zambia was also a political democracy, the country was plagued by infighting and corruption scandals. The investment and operating environment in Chile was simply far more manageable and cost-effective than Zambia as a result of the political economy dynamics of the two countries. There is no quick-fix solution to perceived political security in a country. Chile had already undergone the lag time associated with political transition and long-term stability. It was able to provide guarantees and a reliable environment, which were simply unavailable at the time in Zambia after less than ten years of political and economic reform.

‘What were the results?’

Anglo investments in Latin America grew to over US\$5 billion from 1973 to 2004, while the relative share or percentage of Anglo assets in Africa compared to Latin America reduced slightly over this period. Latin America provided a better investment option than Africa, which has been reflected in the returns on investment over the years.

Anglo’s investments in Latin America have generally reaped enormous benefits. But the CVRD bid is one of the few examples of a faltering decisional structure in Anglo. Certainly, there were other dynamics in play including, perhaps, a degree of Brazilian chauvinism which did not want to see its first major privatisation result in a foreign sale. But Anglo also reportedly was disunited and indecisive. The group’s failure to win this bid certainly changed the course and structure of the company in Latin America, as well as its approach to investment decisions in the region in subsequent years. For example, the need to acquire Disputada a few years later seemed that much more critical following the loss of CVRD and with the adverse copper-mining climate across the Atlantic in Zambia.

During this thirty-year period, Anglo’s impressive results in Latin America have enticed the company to boost investments and expand well beyond Brazil and Chile throughout the region. While it is by now well established in Latin America, with a commodity-defined global structure that no longer places a great emphasis on the cultural and local dynamics of the region (previously interpreted and administered by AMSA) exogenous factors continue to

play an important role in the composite investment decisions of Anglo. Political and economic stability, and institutional infrastructure did help convince Anglo to invest further in Chile despite the low copper price, and it is actively pursuing Greenfield opportunities in countries that are receptive to FDI and where relative stability and growth have recently been established, like Colombia. Strategic investment decisions do, after all, seek to maximise returns in a location that is stable, manageable and efficient in terms of economic, political and commercial criteria.

7.5 Concluding remarks: Future research threads

This study explains why Anglo invested in Latin America, what influenced these decisions and how they were ultimately made between 1973 and 2004. The methodology used integrates a range of variables with theoretical concepts and ideas pertinent to decision-making and investment behaviour.

The case of Anglo illustrates an example of organisational investment behaviour, shaped by a few key individuals, that is characterised by what has been referred to as appropriate behaviour (as opposed to optimal behaviour) and intended rationality instead of comprehensive rationality. Bounded rationality is therefore the central tenet of assumption, which incorporates human behavioural traits and various other so-called 'intangibles' in the political economy environment of investment. But the study by no means dismisses rational choice behaviour. On the contrary, rational behaviour provides the most useful point of departure and basic foundation used in more detailed theoretical models and in more comprehensive and complex analyses and scenarios of investment rationale.

As suggested throughout the study, this research offers something for both the *artists* and the *scientists*, for rationally aspiring organisations and behaviourally driven thinkers, for IPE theoreticians and practitioners, and for strategic policy makers and investors. The case of Anglo provides a contribution to the understanding of investment behaviour in the field of IPE. It is instructive for policy makers in Africa, Latin America and elsewhere who are competing for FDI, and is an interesting historical narrative with relevant empirical insights. Ultimately, this study is an attempt to bridge divides on various levels: between theory and practice, and between empirical analysis and application.

In addition, the case of Anglo and the results of the research conducted provide a basis for future research and analysis that will delve deeper into the investment behaviour of MNCs and contribute yet further to understanding and interpreting investment decisions in the developing world context. The empirical results of this research present a contribution that, it is hoped, will help to advance the understanding of these concepts in the realm of IPE.

One area worthy of further investigation concerns the relationship between mining investment and political stability – the other side of the investor-government coin. In particular, does long-term, mining investment make countries prone to political stability? Is there a difference between onshore mining and offshore oil investments? Is there a difference between alluvial and shaft or deep-open pit mining in this regard?

In summary, Anglo's composite investment decisions in Latin America were a complex integration of endogenous and exogenous factors. Political bargaining and organisational dynamics were a key determinant of these decisions. But factors such as political stability and investment-friendly reforms – with trusted and reliable partners familiar with the local business climate – influenced investment decisions in favour of Latin America. This combination of factors resulted in one of the most successful investments in the history of the region. These decisions ensured that Anglo grew and prospered, and retained its position as a market leader in Latin America and the world of mining over a thirty-year span. The reasons that encouraged this drive are informative for multinational companies and policy-makers alike.

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Appendices

Chapter 1

Appendix I: Chronology of events

- 1917:** Anglo American Corporation of South Africa founded
- 1924:** Anglo American's first exploration outside South Africa in Zambia
- 1926:** Anglo American becomes the largest shareholder in De Beers Consolidated Mines
- 1957:** Sir Ernest Oppenheimer dies
- 1961:** Anglo American makes its first investment off the African continent in Canada, through the acquisition of the Hudson Bay Mining and Smelting Company
- 1964:** Zambia gains independence
- 1967:** Anglo American is first invited into a joint venture in a copper mine in Peru, following a visit to the region by Tim Wadeson
- 1968–69:** Zambian copper mines are nationalised. Minorco is created
- 1970:** Salvador Allende is elected president of Chile
- 1972:** Julian Ogilvie Thomson leads the first reconnaissance mission to Brazil, where he meets future long-term partner Bozano Simonsen
- 1973:** Anglo American first enters Latin America by opening a small office in Rio de Janeiro, Brazil, led by Mario Ferreira, and establishes Anglo American Corporation of Brazil (AMBRAS), with Ferreira as its first chairman
- 1973:** General Augusto Pinochet launches a decisive and effective coup d'état in Chile on 11 September
- 1975:** Anglo American acquires a 49% stake in Morro Vehlo in Brazil, using capital raised by Minorco
- 1980–81:** Anglo American investments in Brazil reach roughly US\$700 million
- 1981:** Anglo American acquires a 40% stake in ECS – the Hochschild Group in South America. The remaining 60% is acquired within the next two years. Anglo American South America (AMSA) is established

- 1982:** Harry Oppenheimer retires as chairman of Anglo and is replaced by Gavin Relly
- 1984:** Harry Oppenheimer retires as chairman of De Beers and is replaced by Julian Ogilvie Thomson
- 1985:** Anglo investments in South America reach US\$1 billion
- 1985:** José Sarney becomes the first civilian president of Brazil after more than twenty years of military dictatorships
- 1985:** Gavin Relly, chairman of Anglo American, meets ANC leaders in Zambia
- 1986:** Guy Young becomes chairman of AMSA
- 1988:** Julian Ogilvie Thomson takes over as chairman of Anglo American
- 1990:** Nelson Mandela is released after 27 years in prison in South Africa
- 1990:** Democracy is re-established in Chile with the election of Patricio Aylwin
- 1991:** Frederick Chiluba is elected president of Zambia after multiparty elections are reinstated
- 1994:** Nelson Mandela becomes the first democratically elected president of South Africa
- 1998:** CVRD of Brazil is privatised. The Anglo-led consortium loses the US\$3.2 billion bid to Valepar
- 2000:** Guy Young steps down as chairman of AMSA and is replaced by Patrick Esnouf, who becomes president of Anglo American, South America (as the new Anglo model starts to take shape)
- 2000:** Tony Traher is made chief executive officer of Anglo American
- 2000:** Harry Oppenheimer dies in August
- 2001:** Anglo American withdraws from Zambia
- 2002:** Anglo American acquires the Disputada mine complex in Chile for US\$1.3 billion
- 2004:** Anglo American investments in Chile exceed US\$3.3 billion, making it the largest recipient of Anglo investment in Latin America
- 2004:** Patrick Esnouf steps down as president of AMSA
- 2004:** Anglo American is ranked as the second-largest mining company in Latin America
- 2004–05:** Anglo American's assets in Latin America amount to US\$5.1 billion

Appendix II: Defining terminology, FDI

Defining FDI

FDI should be distinguished from other forms of investment. It has very different characteristics, and the factors influencing FDI decisions do differ from those influencing short-term investment or portfolio investments, for example.

Feestra describes FDI as possessing three distinctive features: ownership of 10% or more of the assets of a foreign enterprise; choice of a location in a host country, which is dependent on cost conditions, local market dynamics and policies; and, finally, the need to internalise activities abroad (Feenstra, 1998:1).

According to the UN Conference on Trade and Development (UNCTAD) *World Investment Report 2005*:

FDI is defined as an investment involving a long-term relationship and reflecting a lasting interest and control by a resident entity in one economy (foreign direct investor or parent enterprise) in an enterprise resident in an economy other than that of the foreign direct investor (FDI enterprise or affiliate enterprise or foreign affiliate). FDI implies that the investor exerts a significant degree of influence on the management of the enterprise resident in the other economy. Such investment involves both the initial transaction between the two entities and all subsequent transactions between them and among foreign affiliates, both incorporated and unincorporated. FDI may be undertaken by individuals as well as business entities.

Flows of FDI comprise capital provided (either directly or through other related enterprises) by a foreign direct investor to an FDI enterprise, or capital received from an FDI enterprise by a foreign direct investor.

FDI stock is the value of the share of their capital and reserves (including retained profits) attributable to the parent enterprise, plus the net indebtedness of affiliates to the parent enterprise (UNCTAD, 2005/6:297–98).

Chapter 2

Appendix I: Common misunderstandings regarding case study research

	Misunderstanding	Revised understanding
Misunderstanding 1	Theoretically-based and context-independent knowledge is more valuable than practically oriented and context-dependent knowledge.	Predictive theories and universals are not common in human sciences, which makes context-driven and context-dependent knowledge more relevant and valuable in theory advancement and research of this nature.
Misunderstanding 2	Individual cases cannot be generalised, and therefore the case study cannot contribute to scientific development.	Generalisation is possible and is a feature of scientific development in case study research. However, a key quality (though less recognised) of case studies is the ability to provide a useful illustration of a detailed example. This is underestimated in scientific research, which often tends to be preoccupied with scientific development through appropriate generalisations.
Misunderstanding 3	The case study is most useful for generating hypotheses, whereas other methods are more suitable for testing hypotheses and theory building.	The case study is useful for both generating and testing hypotheses and theories, and is not limited or mutual exclusive to either research activity
Misunderstanding 4	The case study is prone to research bias and verification. It tends to confirm subjective preconceived notions.	Case studies are more inclined toward falsification than verification. Case studies are no more biased toward preconceived ideas than other methods.
Misunderstanding 5	It is difficult to summarise and develop general propositions and theories based on targeted case study research.	Case studies are difficult to summarise due to the properties of reality that add both depth and breadth to their research contribution. It is for this very reason that case studies provide a valuable contribution to cumulative knowledge development.

Source: Flyvbjerg (2006)

Appendix II: Data sources and types of evidence

Source of evidence	Strengths	Weaknesses
Documentation	<ul style="list-style-type: none"> • Stable: repeated review • Unobtrusive: exists prior to case study • Exact: names etc. • Broad coverage: extended time span 	<ul style="list-style-type: none"> • Retrievability: difficult • Biased selectivity • Reporting bias: reflects author bias • Access: may be blocked
Archival records	<ul style="list-style-type: none"> • Same as above • Precise and quantitative 	<ul style="list-style-type: none"> • Same as above • Privacy might inhibit access
Interviews	<ul style="list-style-type: none"> • Targeted: focuses on case study topic • Insightful: provides perceived causal inferences 	<ul style="list-style-type: none"> • Bias due to poor questions • Response bias • Incomplete recollection • Reflexivity: interviewee expresses what interviewer wants to hear
Direct observation	<ul style="list-style-type: none"> • Reality: covers events in real time • Contextual: covers event context 	<ul style="list-style-type: none"> • Time-consuming • Selectivity: might miss facts • Reflexivity: observer's presence might cause change • Cost: observers need time
Participant observation	<ul style="list-style-type: none"> • Same as above • Insightful into interpersonal behaviour 	<ul style="list-style-type: none"> • Same as above • Bias due to investigator's actions
Physical artefacts	<ul style="list-style-type: none"> • Insightful into cultural features • Insightful into technical operations 	<ul style="list-style-type: none"> • Selectivity • Availability

Source: Tellis (1997:8)

Appendix III: Interview sources

Chris van Tienhoven	Director, AngloGold Ashanti, Argentina
Fred Jacobsen	Executive director, Anglo Coal Colombia
Gavin Keeton	Chief economist, Anglo American
Greg Mills	Director of The Brenthurst Foundation, South Africa
Guillermo Mondino	Former advisor to the minister of economy, Argentina
Guy Young	Former chairman of Anglo American South America
Julian Ogilvie Thomson	Former chairman of Anglo American plc
Mark Venning	South American business consultant and former representative of Anglo American Industries in South America
Michael Porter	Leading business and strategic management thinker who has advanced the concept of competitive advantage
Michael Spicer	Former executive director, Anglo American Corporation of South Africa; CEO Business Leadership South Africa.
Patrick Esnouf	Former president of Anglo American South America
Phillip Baum	Chairman and CEO of Anglo American Ferrous Metals and Industries
Ricardo Lagos	Former president of Chile, 2001-6
Tim Wadson	Former technical director, Anglo American
Victor Bulmer Thomas	Royal Institute of International Affairs

Appendix IV: Questionnaires

Questionnaire for non-Anglo American participants

1. Do you think a range of factors or circumstances – apart from natural resources and mineral deposits – influenced the investment trend of a company like Anglo American toward Latin America between 1973 and 2004?
2. What do you think the role of competitive advantage through favourable policy adjustments, incentives and institutional development is in terms of attracting and facilitating investment? Are these factors capable of curbing investment behaviour?
3. What criteria would most influence the investment decision of a company like Anglo American in Latin America?
4. Which countries in Latin America have performed exceptionally well and managed to attract sustainable FDI over the past thirty years? Why?
5. What, in your opinion, have been the reasons why Latin America has – on the economic front – performed better than Africa? How have Latin American countries influenced the investment rationale of mining companies like Anglo American?
6. Are there lessons for Africa from Latin America in terms of attracting investors? Are these lessons replicable in Africa?
7. Finally, given your knowledge of the Latin American environment between 1973 and 2004, which of the following factors would you identify as being of greatest importance in assessing investment decisions into and out of the region:
 - knowledge of the environment and local industry;
 - organisational structure and behaviour, and the role of personalities;
 - domestic political stability and economic growth;
 - regional political economy;
 - investment codes and practices;
 - resource opportunities;
 - stability and certainty;
 - foreign exchange regimes and international prices;
 - other?
8. Are there any other factors you wish to add?

Questionnaire for current and former Anglo American employees

1. What were the circumstances that led your company to invest in Latin America, both the pull (from Latin America) and push (from Africa) factors?
2. What were the criteria that most influenced your decision to invest in the region?
3. How were later decisions to grow investments and enter new territories made? Was there (generally) unanimous organisational/executive support or was the company divided?
4. Explain your experience in Latin America. What were the up sides and down sides of investing in this market?
5. Has the experience been a good one? How would you rate Anglo's success in the region – compared to other operations in geographical locations around the world and compared to its competitors in the mining industry?
6. Has your experience in Latin America been consistent across all countries in the region? Or have some countries performed better than others? If so, why?
7. Would you say that Latin America was a more appealing investment destination (for mining activities) than Africa between 1973 and 2004?
8. What, in your opinion, have been the reasons why Latin America has – on the economic front and in attracting investment in particular – performed better than Africa?
9. Are there lessons for Africa from Latin America in terms of attracting investors and shaping the investment decisions of companies like Anglo American? Are these lessons replicable in Africa?
10. What were the reasons for the withdrawal from Zambia in 2001–02 and almost simultaneous reinvestment in Chile? Was this decision based on policy and politics, or was it a 'hard-nosed business' decision, for example, a case of buying an existing mine over building a new mine?
11. How would you describe the leadership/hierarchy of Anglo American? Could it be compared to a political organisation or government with local priorities and a foreign policy or strategy?
12. Finally, which of the following factors would you identify as being of importance in assessing investment decisions generally:
 - knowledge of the environment and local industry;

- organisational structure and behaviour, and the role of personalities;
- domestic political stability and economic growth;
- regional political economy;
- investment codes and practices;
- resource opportunities;
- stability and certainty;
- foreign exchange regimes and international prices;
- other?

13. Are there any other factors you wish to add?

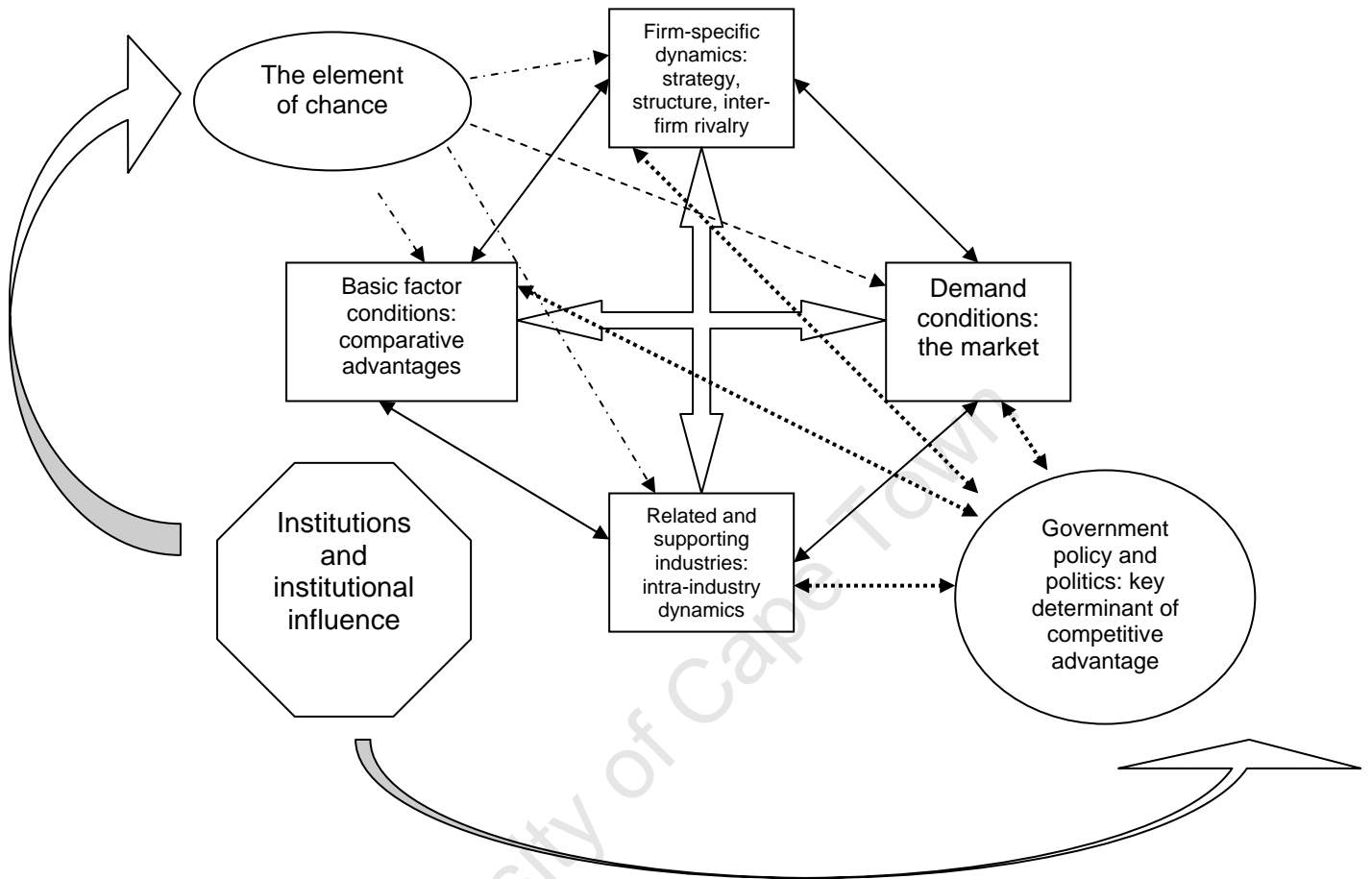
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Chapter 3

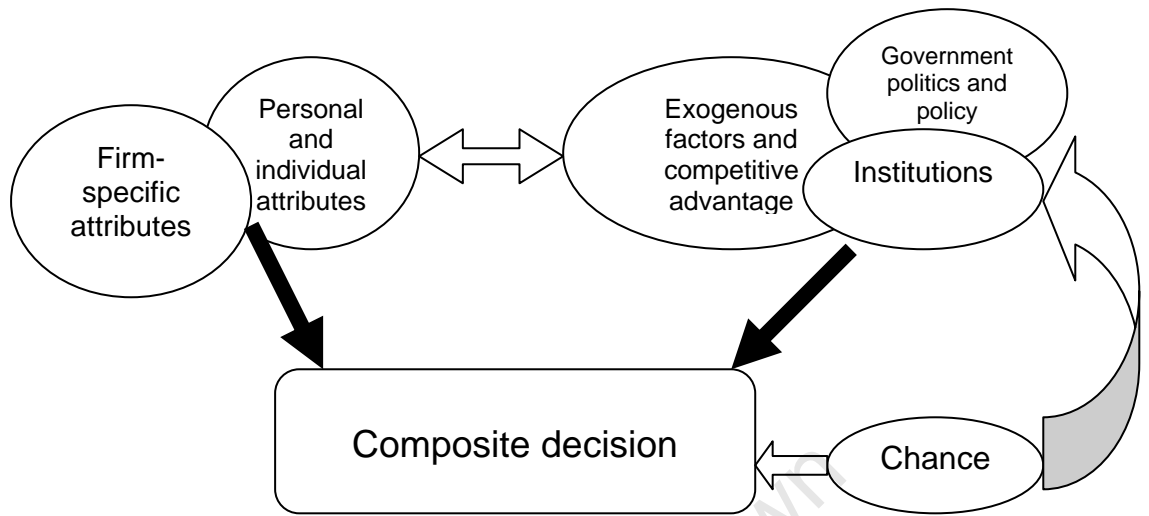
Appendix I: Summary of conventional investment decision models

	Rational actor model	Organisational behaviour model	The politico-individual bargaining model
Core premise	<ul style="list-style-type: none"> • Comprehensive • Rational behaviour • Expected rationality 	<ul style="list-style-type: none"> • Bounded rationality • Intended but limited rationality 	<ul style="list-style-type: none"> • Bounded rationality • Intended but limited rationality (human behaviour character traits and habits)
Key goals and objectives	<ul style="list-style-type: none"> • Value maximisation • Seeks Optimal choice • Goal-directed Hobbesian notion 	<ul style="list-style-type: none"> • Adequacy based on targeted requirements 	<ul style="list-style-type: none"> • Realistic notion of meeting targets • Satisfy not maximise
Degree of complexity	<ul style="list-style-type: none"> • Single dynamic based on individual rational choice • Simply links purpose with action 	<ul style="list-style-type: none"> • Combination of structures, procedures/routines, organisational culture, strategy and objectives • An organisational logic 	<ul style="list-style-type: none"> • Organisational structures, procedures and culture WITH multiple players, individual dynamics like preferences, aspirations, interests etc.
Underlying forces and information	<ul style="list-style-type: none"> • Directly linked to efficiency • Presumed complete/total information • Decisions based on calculated analysis 	<ul style="list-style-type: none"> • Information is incomplete, but organisational structure and insight strives for greater clarity and perspective • Organisational culture and a rule-based system contribute to decision-making 	<ul style="list-style-type: none"> • Power and politics are important underlying forces that shape, interpret and manipulate information and knowledge: it is a bargaining game of interests
Actors and actions	<ul style="list-style-type: none"> • Presumed single actor • The actor acts or reacts 	<ul style="list-style-type: none"> • The organisation is seen as a single actor • The organisation acts 	<ul style="list-style-type: none"> • Multiple actors involving teams and players • The organisation's actions are determined by the individual actions and inputs of its members • Leadership, personality, intuition and experience are key attributes
The context	<ul style="list-style-type: none"> • Single-layer, one-dimensional 	<ul style="list-style-type: none"> • Multilayered, but systematically orderly 	<ul style="list-style-type: none"> • Systematically ordered and rule-based, but filled with ambiguity and political nuances

**Appendix II: Michael Porter's diamond system:
Augmented with exogenous composite decision attributes**



Appendix III: The composite decision



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Chapter 4

Appendix I: Leading mining companies in the world, by sales, 2004

Ranking	Company	Home country	Main products	Sales (US\$ millions)	MNC ranking in Latin America
1	BHP Billiton	UK/Australia	Copper, coal, iron, silver and nickel	29,587	21
2	Anglo American	UK	Coal, gold, copper and nickel	24,930	31
3	Rio Tinto	Australia	Iron and copper	11,799	N/A
4	Phelps Dodge	USA	Copper, molybdenum and coal	8,287	33
5	Codelco	Chile	Copper and molybdenum	8,204	N/A
6	CVRD	Brazil	Iron, manganese, copper and nickel	8,066	N/A
7	Mining and Metallurgical Norilsk Nickel	Russia	Nickel, copper, gold and silver	7,033	N/A
8	Newmont Mining	USA	Gold, coal and iron	4,524	N/A
9	Inco Ltd.	Canada	Nickel	4,278	N/A
10	Grupo Mexico	Mexico	Copper, molybdenum, silver and gold	4,206	N/A
11	Barrick Gold Corporation	Canada	Gold and silver	1,932	N/A

Source: ECLAC (2006)

Appendix II: Anglo American mining operations in South America

Country	Name of mine/company	Mineral/metal mined	Shareholding (held by Anglo)
Argentina	Cerro Vanguardia	Gold	92.5%
Brazil	Codemin	Ferro-nickel alloy	100%
	Morro Vehlo	Gold	100%
	Barro Alto	Nickel	100%
	Serra Grande	Gold	50%
	Catalao	Niodium	100%
	Copebras	Industrial minerals	73%
Chile	Collahuasi	Copper	44%
	Minera Sur Andes (Disputada) – Los Bronces, El Soldado and Chargres smelter	Copper	100%
	Mantos Blancos	Copper	100%
	Montoverde	Copper	100%
Colombia	Correjo	Coal	33%
Peru	Quellaveco	Copper	80%
Venezuela	Carbones del Guasare	Coal	25%
	Loma de Niquel	Nickel	91%

Source: Anglo American Plc (website)

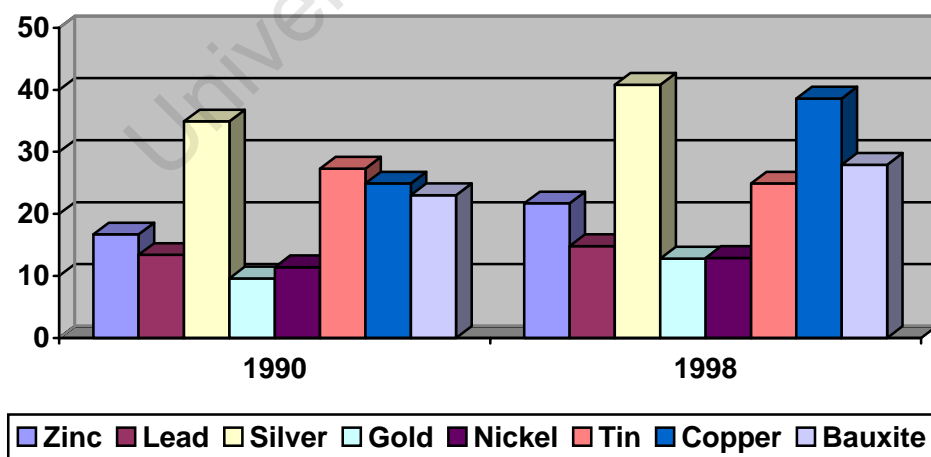
Chapter 5

Appendix I: Global distribution of net FDI inflows, 1970–2004 (US\$ billions)

	1970–79	1980–89	1991–95 (annual ave.)	1996–2000 (annual ave.)	2001–04 (annual ave.)	2004
Worldwide total	24.124	93.887	231.7	814.1	754.3	695.0
Developed countries			148.8	601.2	514.6	414.1
Developing countries	6.1	21.356	80.4	203.2	212.4	243.1
Africa	1.066	2.162	4.9	9.4	19.6	18.7
Latin America and the Caribbean	3.269	7.438	22.4	83.0	65.7	68.9
Asia and Oceania	1.774	11.756	53.1	110.7	127.2	155.5
China			22.8	42.7	54.8	60.6

Source: ECLAC (2006); UNCTAD (n.d.); World Bank (website)

Appendix II: Latin American share of world mining production (%), 1990 & 1998



Source: Sanchez Albavera et al. (2001)

Appendix III: Annual average gold and copper prices

Date	Gold (US\$ per ounce)	Copper (US\$ per metric tonne)
1973	97.24	1,805
1975	161.06	1,244
1980	613.07	2,165
1985	317.29	1,412
1989	381.54	2,810
1993	359.70	1,889
2001	271.08	1,319
2004 (est.)	409.33	3,100

Source: South African Reserve Bank (website); Tcha & Takashina (2002)

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