THE TIMES

The evidence is in the share price: miners are failing test of leadership

David Robertson

The standard of leadership at London-listed mining companies has been called into question after it emerged that fewer than 4 per cent of directors were women and half of the companies did not have a finance director.

London has taken over from Toronto and Sydney as the market of choice for the mining industry, with 179 companies listed on the main market and AIM.

Research has revealed, though, that the leadership of these companies falls far short of the standards demanded by investors and regulators. According to Opus Executive Partners, an executive head-hunting agency, there is a direct correlation between share-price performance and adherence to the UK Code of Corporate Governance.

The agency found that the 10 per cent of companies that scored worst on code compliance had experienced an 80 per cent fall in shareholder value during the past five years.

The top 10 per cent for compliance had, by contrast, increased shareholder

'The companies that perform well have good corporate governance'

value by 92 per cent. "The best way to influence a company's direction is through good leadership. What has become apparent is that the companies that consistently perform well are those with good corporate governance," Brian Martin, the chief executive of Opus, said.

One of the alarming statistics uncovered by the review is that only 34 of the 912 directors working for listed miners are women. This is a mere 3.7 per cent, compared with the Government's target for FTSE 100 companies of 15 per cent by the end of the year. The Government wants the proportion of women directors to reach 25 per cent by 2015.

The mining industry represents seven of the eleven all-male FTSE 100 boards. These include Xstrata, Glencore, Kazakhmys and Vedanta.

BHP Billiton, the world's largest miner, has two women on its board — one of which is Baroness Shriti Vadera, the former Trade Minister. Anglo American has two, including its chief executive Cynthia Carroll — arguably the most powerful woman in the FTSE 100. Mr Martin said: "The natural resources industry is male-dominated, but you don't have to be a mining engineer to sit on the board of a company. Statistically, companies with higher proportions of women on the board tend to be better-run."

FINBARR O'REILLY / REUTERS

Miners from overseas are turning to London in search of cash, but without observing corporate governance rules

The poor state of corporate governance among some miners is a concern for investors as the sector is now one of the largest in the City, overtaking banking and financial services. About 80 mining companies have listed on London markets since 2006 and they often originate from countries where governance rules are not as strict. In some cases, these companies remain majority-controlled by a small group of individuals, leading to concern about the ability of independent directors to influence strategy and performance. FTSE International, which runs the FTSE indices, has launched a review to establish whether minority flotations should qualify for entry into its lists.

Cynthia Carroll: one of the most powerful women in the FTSE 100

The Opus report also found that 15 per cent of London's miners did not have a chief operating officer. There was no senior independent director at 89 per cent of companies and many non-executives held an excessive number of other appointments. The record was a director with 22 jobs.

The first corporate governance code of conduct was introduced in 1992 in response to a review by the Cadbury Committee. The current requirements stipulate that companies should separate the role of chairman and chief executive. The chairman should be independent and boards should have committees to oversee remuneration, auditing and director nominations.

Mr Martin said: "The natural resources sector has been booming during the past decade but despite this there are a number of companies that keep underperforming."

Play by the rules, or go

Comment David Robertson

There is an explicit trade-off that occurs when foreign mining companies come to London to list on the stock market. They get access to the world's largest pool of capital, as well as expertise in natural resource project financing. In return, they are expected to adhere to the City's standards — specifically, the UK Code of Corporate Governance, a set of guidelines established to prevent cronyism, insider trading and the rubber-stamping of executive decisions.

However, investors have lost confidence in the commitment of some mining companies to these standards. There is a perception that some foreign companies pay lip-service to the rules so that they can raise capital in London.

Of particular concern are the companies that have small free floats and remain controlled by an oligarch or a couple of individuals. These owners can impose decisions that may be bad for minority shareholders, such as British pension funds.

FTSE International is reviewing whether companies with small free floats should be included in its indices. In order to protect the reputation of the London market, FTSE should kick them out. Indeed, the UK Listing Authority should ban any further minority free float listings — that is what global depository receipts are for.

A London listing also brings a requirement for companies to meet the best environmental and safety standards. In natural resources, such standards matter enormously — witness the value destruction at BP after last year's Deepwater Horizon explosion.

Many miners from emerging market countries have poor safety and environmental standards and there is a suspicion that many are not committed to improvement.