

**HD** Walsh puts focus on change of culture

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SAM Walsh has brought a new spending discipline and a stronger focus on shareholder value since he became Rio Tinto chief.

The avid collector of milk jugs -- he has more than 350 of the cherished antiques stashed away in his other house in Perth -- was in his element as he prepared to browse the collectables.

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"I walked up to the very first stand and picked up a Royal Worcester milk jug," recalls Walsh.

"And the lady looked at me and said, 'Australian accent, interested in milk jugs, we know who you are -- we've been expecting you!'"

Walsh roars with laughter when telling the story, partly because he cheerfully revels in the fact his passion for delicate milk jugs breaks all the stereotypes of the knockabout **mining** industry. But he knows too that it's much harder to be anonymous -- even at an antiques fair -- when you're running one of the biggest companies in one of the world's financial capitals.

It's even harder, it may be suggested, when you're trying to **lead** the turnaround of a **company** that had spectacularly lost its way under predecessor Tom Albanese, culminating in more than \$US14 **billion** in writedowns as a result of the failed 2007 **acquisition** of Canadian aluminium producer Alcan and the disastrous takeover of African **coal** play Riversdale **Mining** in 2011.

Walsh was elevated to the top job in January last year after having run Rio's dominant **iron ore** division in Perth since 2004, a period in which he oversaw enormous growth driven by **China**'s record-smashing appetite for the steelmaking commodity.

His legacy of expansion and innovation in the Pilbara **operations** is undeniable. In the six months to June 30 last year, the **iron ore** business accounted for almost 90 per cent of Rio's earnings as the price held up strongly against most forecasts. In other words, it's the only division delivering meaningful returns to shareholders.

As soon as Walsh slipped his feet under his desk at the chief executive's office above London's Paddington station, he knew he had to act fast to introduce a new spending discipline and a stronger focus on shareholder value throughout the entire **company**.

His first objective was to attempt a shift in culture under which all of his 66,000 employees view themselves as owners of the business and treat the **company's** money as if it is their own. To illustrate his point, he takes a mild swipe at one of his rivals in the global **mining** industry, Glencore Xstrata chief executive Ivan Glasenberg.

"Ivan Glasenberg got it a bit wrong -- he put up a chart at a conference in Barcelona (last year) about how many shares his management team own in the **company**," Walsh tells The Weekend Australian.

"Well, that's not what it's about. It's about every single employee acting as if they're owners, not just the top 10. The top 10 will always act as owners.

"It sounds trite, but I've had people send me back emails to say it made a difference on this decision or that decision. I've had other people say, 'If it were my business I wouldn't be doing it.' And I say, 'Well, we're not going to do it then.'

"Treating money as if it's your own -- it's incredibly trite but it's worked. People are actually focused on what we're spending money on.

"People underestimate the importance of culture and getting it right. It's not about Sam Walsh getting it -- it's about 66,000 people through the **company** getting it."

Walsh says the transition from **iron ore** boss to **company** chief executive has not been difficult, even though his former job was focused on generating huge revenues in the boom times and the new one is driven largely by a fixation on finding cost savings (a quest that has already reached \$US2bn, at last count), reducing capital expenditure and paying down debt.

In ascending to the top job, Walsh had some important advantages that allowed him to hit the ground running: he had been on the board since 2009, he knew the senior management team and had travelled to all of the **company's** major sites. He has since cut down the amount of time he spends travelling -- from 50 per cent as **iron ore** boss to about 25 per cent -- to enable him to spend more time on the ground in London to implement cultural change.

But Walsh is keen to dispel the notion that his sole mission is to slash costs. "At the same time as we've been focusing on costs, we've also been focusing on delivering our projects, getting record tonnes out, really just tightening the whole business," he says. "I have also strengthened our systems (on investment decisions and capital allocation) that we'd let dilute during our growth phase."

Some analysts and media reports have suggested that Walsh, who turned 64 last month, is seen by the Rio board as acting as an interim chief until a younger candidate comes along. But the man himself, who is on a three-year contract, mocks such speculation.

"I read those reports with some mirth," he says. "I've never done anything on an interim basis.

"In fact, I have never appointed anybody into a role where I've said, 'Hang on, it's your job to be a caretaker and maintain the status quo.' I've always said to people, 'It's your job to make a difference, that's why you're there, and whether you're in the job for 10 minutes or 10 years, you've got to make a difference.' "

Walsh's most critical appointment in the past year was replacing himself as **iron ore** chief in Perth with Andrew Harding, Rio's former **copper** boss. Insiders suggest Harding is a leading candidate to follow the same route as Walsh one day and be promoted to chief executive.

So far, Walsh seems impressed with how his protege is performing.

Harding took on the challenge of planning the next big expansion of Rio's Pilbara **operations** -- from a capacity of 290 **million** tonnes up to 360 **million** tonnes -- while keeping capital costs well below what the market had expected. "I said to Andrew, 'You're now in charge, the chap that ran it is now out of the way -- go for it,' " Walsh says.

"And he's done some wonderful things. He has de-layered the organisation, he has come up with a very innovative solution for taking the next expansion forward. I threw him the challenge, I gave him some heady targets and he beat my heady targets -- it's great.

"But the entire organisation is like that -- it's can-do people, very bright people who are switched on, focused and delivering."

Perhaps surprisingly for a new chief executive taking a broom to the organisation, Walsh has kept in close contact with Albanese.

Soon after Walsh's appointment, the pair enjoyed a daytrip together to Arundel, an antiques town near Brighton. Albanese also stayed on with the **company** until July, allowing him to proffer advice to Walsh on a range of topics. The pair also caught up recently for lunch and remain friends despite the unceremonious nature of Albanese's exit.

"He absolutely knows that I was there supporting him all along (as chief executive)," says Walsh. "He stood down -- I certainly had nothing to do with that. It was helpful to have him there (until July) to be able to understand how decisions were made. And it was good talking to him about people; he's a good judge of people and that's very helpful."

Walsh and his wife Leanne intend ultimately to retire in Perth -- and be reunited with the milk jug collection. But that may still be years away because Walsh is clearly enjoying the job and the lifestyle in London.

The renowned arts aficionado lives just a few hundred metres from the Royal Albert Hall and is a regular attendee at some of the best shows the city has to offer.

One Saturday evening in August last year, with Leanne back in Perth for a holiday, Walsh wandered down to the acclaimed venue to take in one of the regular shows in the BBC Proms series of classical music.

But he hadn't read the ticket properly and was shocked to discover that the 90-piece symphony orchestra, on this occasion, was being accompanied by a troupe of British rap stars led by Wretch 32 and Fazer, prompting wild screaming from hundreds of teenage girls in the audience.

"Wretch 32 either speaks Martian or some other strange language because I can't tell you a thing that he said," Walsh says, chuckling. Nevertheless, Walsh -- the inveterate arts lover -- sat through the show rather than waste the cost of the ticket.

It's a fitting metaphor for the steely discipline that Walsh brings to Rio Tinto.

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