

**Role Play**

**Golden Standard:**

Role of The Company

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General Information

Five years ago Golden Standard, the world’s largest multinational gold mining company based in Toronto, Canada, discovered one of the hemisphere’s largest gold deposits high in the Antolian mountains of the Republic of San Teodoro. The region around the planned Punta Nueva project is estimated to hold nearly 20 million ounces (567 thousand kilos) of gold, enough to make it one of the largest gold mines in the world. The mine could serve as a precedent for other such projects in South America in the the future.

For the inhabitants of the remote and impoverished region, in particular the 76,000 residents of the Huascar River Valley, the mining project would bring new jobs and better access to infrastructure through the roads and facilities that would come with the mine. The company has promised the San Teodoroian government that eventually 7,500 local workers will be hired to work at the mine.

Although the project holds the promise of great economic returns over its expected twenty-five year lifespan, it also involves significant risks. The mine would be built at 5,000 meters above sea level in a hostile climate of temperatures ranging from +30 degrees Celsius to -40. These represent comparatively risky working conditions for members of the local communities compared to their traditional small-scale agriculture and herding. As it would be an open pit mine using cyanidation to extract metals it also threatens to contaminate the water supplies central to the survival of the inhabitants of the Huascar river valley. A substantial amount of the gold would also be located under or close to glaciers. Preserving these glaciers has attracted the attention of both local leaders and a rising number of international environmental organizations.

The San Teodoroian government, which has been looking to attract foreign investment to lower the country’s high unemployment rate, has provisionally approved the Punta Nueva project given that an equitable division of the gold revenues between the company and government can be agreed upon. In order to increase the mining project’s chances of succeeding, Golden Standard is seeking to secure the buy-in of as many key stakeholders as possible, including the local communities. However, skepticism has always been strong among the local farmers, who contacted environmentalist and indigenous rights NGOs in the capitol city of Chapolis which started advising them on legal, environmental, and technical matters.

In an effort to obtain local support for the mine, the Golden Standard has funded a campaign in the valley involving door-to-door information, media broadcasts, community information offices, and a major education initiative including building new schools, providing school bus services, and other free educational and vocational programs throughout the Huascar Valley.

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| **Overview of Golden Standard initiatives in the Huascar Valley** |
| **Investments made:** | **Investment costs:** |
| Elementary, Middle, and High Schools | $200 million – one time construction costs for 15 schools (already spent)$4 million per year for the next twenty-five years (= $100 million in total) - annual maintenance/teacher salaries/school lunches for children |
| School bus services | $1.3 million per year for the next twenty-five years (=$32.5 million in total) |
| Educational and vocational programs in villages | $1 million per year for the next twenty-five years (=$25 million in total) |

Thanks to the Golden Standard’s outreach and the $230 million they have already spent on education for valley residents, the Punta Nueva project won an increasing number of local supporters. The company has already spent $200 million on one-time construction costs for 15 schools and another $30 million operating the schools for the last several years. To some, the company appears to be living up to its stated goal to engage in “socially responsible mining.” In previous mining projects, company founder Tom Funk has likewise pursued the policy of investing tens of millions of dollars in local schools and infrastructure.

Supporters also note that Golden Standard has the best environmental record of any major gold mining company, typically imposing on themselves environmental restrictions more severe than their host government demands. At the Punta Nueva site, the company has already agreed to $80 million in water system improvements beyond what is done at the typical gold mine, and to building a $12 million resevoir to prevent toxic runoff from the mine entering the local waterways. They have further accepted a list of 400 conditions set by San Teodoro’s environmental commission.

Still, the leaders of the four local municipalities (in order of geographic proxity to the mine from closest to furthest: Vallenuevo, Paraiso, Tachito, and Alto de Lucia) are not satisfied and have taken their protests public. They argue that even strict environmental measures by industry standards are insufficient when their land and way of life will be put at risk, and are demanding that the Punta Nueva project either be stopped or severely scaled down in light of the potential environmental consequences. A particularly contentious issue is the company’s plan to move three large glaciers and two small glaciers to access the large gold deposits beneath them, which the local communities oppose as these are some of the hundreds of glaciers that feed their river valley. Local leaders also want Golden Standard to provide direct financial compensation to their municipalities, who they argue will suffer practically all of the negative environmental effects of the mine but only reap a small percentage of the benefits.

The conflict has captured the interest of international NGOs which include the Environmental Conflicts Association and the People’s Justice Network. These activist groups have helped the Huascar valley communities organize social media campaigns as well as large live demonstrations, which included dumping huge chunks of ice in front of the presidential palace in Chapolis. They even lobbied the Canadian government against Golden Standard’s planned mine. What used to be a disagreement about a mining project has turned into an international discourse about the legitimacy of permitting natural resources for exploitation by a multinational corporation.

After these efforts failed to obtain the hoped for concessions from Golden Standard, the local communities and their activist supporters publicly threatened to block the narrow mountain roads to the mine site if their concerns were not addressed. A civil disobedience campaign of this kind would make it very difficult for the mine to operate and also represent a public relations disaster for not only Golden Standard but also the San Teodoroian government, which is hoping to attract more international investment.

The protest movement has taken a major toll on the Punta Nueva project, severely delaying the full opening of the mine and it remains operating well below its capacity. What was planned as a $1.5 billion total investment has already swollen to an estimated $5 billion in final costs, with $3 billion already spent. Making things significantly worse for the Golden Standard company, the price of gold has fallen from its recent high of $1,920 an ounce to only $1,000 an ounce. If gold prices remain this low, industry analysts project that the Punta Nueva project will be far less profitable than originally expected.

Golden Standard founder Tom Funk has called for a meeting between the host government, San Teodoro, and the mayors of the four municipalities of the Huascar Valley to discuss the future of the Punta Nueva mining project.

Confidential Information for Tom Funk, Founder of the Golden Standard Company

You are Tom Funk, 83-year-old Budapest-born Canadian businessmen, and founder of the Golden Standard Corporation, the world's largest gold mining company. You started this company with zero mining experience 27 years ago. Today, it's a global multi-billion dollar empire, active in 17 countries, producing millions of ounces of gold annually, with millions more in reserve. Its last quarterly results reported record earnings, a staggering $10 million a day. “Golden Standard Corporation is my legacy,” you said in your recent interview to *The Globe and Dispatch*. “It’s what I’m known for. It’s what I did with my life.”

You established the Golden Standard Corporation just over a quarter century ago in Toronto. Disappointed by a run of financial losses in oil and gas, you decided to “go for gold.” Your first acquisition was the Shera mine, near Wawa, Ontario, which produced around 16,000 troy ounces (0.50 t) of gold at the time. Slowly but surely, despite the scepticism of the industry, you kept expanding your business adding one new mine almost every year in the first decade. A friendly takeover of the Canadian mining company Corona Minerals made you the third largest gold mining company in the world, and a chain of further successful acquisitions in Tanzania, Nigeria, and the United States moved you to the second largest gold producer in the world. Finally, just a few years ago you decided to acquire a major competitor, the White Dome Inc, successfully closing the transaction and officially becoming the world’s largest gold producer.

Looking back at your life, you sometimes wonder how you could have achieved all this. Your family escaped political oppression in Eastern Europe to Canada when you were a child with little English but lots of hopes, dreams, and ambitions. As a teenager you first started a stereo business and eventually launched Crowncast Sound Corporation in Toronto, building and installing high-quality sound systems. In your mid thirties you then moved to Fiji and started a hotel business, trying to find your true self. Before you got into gold, you were also an oil and gas man. At the age of 47, you formed Suncore Petroleum to invest in the at the time lucrative industry. Since you established the Golden Standard Corporation a quarter century ago, you career has been on a meteoric rise. Today, you are # 1 and they call you “The Golden King.” Now you have set your eyes are on another exciting challenge: the Punta Nueva project.

Punta Nueva

Punta Nueva could well be the pinnacle of your career. Located in the Antolian mountains, in the southern reaches of Matacama Desert, Punta Nueva boasts unprecedented reserves for a South American mine. The mine site is 45 kilometers from the closest agricultural areas and settlements in San Teodoro, the Huascar Province. This province in Region III of San Teodoro has a population of 76,000 people and includes four municipalities: Vallenuevo, Paraiso, Tachito, and Alto de Lucia.

The Punta Nueva project is your professional dream. When they say that sky is the limit, Punta Nueva is your sky. If you make this project happen, you can be sure that you left a great legacy behind – a legacy for Golden Standard Corporation, for mining industry as a whole, and for the local communities as well.

Punta Nueva is an extremely complex mining project that involves numerous stakeholders. This includes the national government of San Teodoro, in whose high mountains sits one of South America’s largest gold deposits. Also, leaders of local municipalities whose farming activities and living conditions may be affected by the planned mine. And of course Golden Standard’s employees and shareholders. Personally, you are sure that the Punta Nueva project will generate enduring and substantial benefits for all concerned, through a combination of attractive economics, support from the Ministry of Mining of San Teodoro, and robust environmental protections and community programs.

You engaged in the Punta Nueva project with huge optimism, since San Teodoro is the most business friendly of all countries in South America. San Teodoro enjoys a modern transportation infrastructure, low taxes, reliable rule of law, high education levels, and an interesting overall investment environment.

You have made good faith efforts to address the needs of all involved. This is all in line with your corporate goal to make the Golden Standard Corporation “the world’s best gold mining company” that operates in a “safe, profitable, and responsible manner.” As in all mining projects you established so far, you pursued your policy of giving back to the communities where you operated, investing millions of dollars in schools and infrastructure designed to improve the long-term prospects of the region even after the mining project is complete. Because of your educational initiatives, thousands of children in the Huascar valley have access to quality education that will help them achieve success in the world beyond the valley, whose lifestyle of small-scale agriculture and herding is steadily being eroded and is clearly not viable long term.

On top of that, you will create lots of job opportunities for the local citizens. Historically, the communities in the isolated Huascar valley had had some of San Teodoro’s highest poverty and unemployment rates, and the introduction of the Punta Nueva project should alleviate this problem significantly.

Nevertheless, you still hear a great deal of misplaced criticism that the Punta Nueva will destroy fertile lands and deprive farmers from their agricultural activities. The Punta Nueva site is mountainous terrain – there is minimal vegetation above 4,200 meters and minimal wildlife even in summer months. Only 6% of the project site area has any vegetation – of which 0.1% (or 0.8 hectares) will be affected. You accepted, without even negotiating, the San Teodoroian environmental commission’s 400 regulations to show your commitment to protect local flora and fauna.

Golden Standard has the best environmental record in the entire gold mining industry and has never had a major disaster. Given the extreme measures you have already committed to ($80 million in water system improvements beyond the norm and a $12 million resevoir) it is ludicrous to argue that runoff from the mine will poison the local waterways and affect communities tens of kilometers away in the Huascar Valley.

Your “Glacier Management Plan” which has been approved by the San Teodoroian government will—at huge expense and effort for Golden Standard—move three glaciers and two small glaciers ("glaciets" as you call them) to access important gold deposits, without destroying any of the ice that feeds the local waterways. This is a simple matter of using explosives to break the ice and then use bulldozers and front loaders to transport the ice a few kilometers away and add it to the some of the other hundreds of glaciers that feed the same rivers. In the past you have done this at other mine sites in high mountain areas without incident. Although it is true that the glaciers of the Antolian mountains have been negatively impacted in recent decades, this is due to global warming, not mining for precious metals.

Unemployment in the Huascar valley is high precisely because there is not enough agricultural work, and the small-scale agriculture practiced by the local communities is not competitive with corporate-run farms that are more efficient and capitalize on economies of scale. The Punta Nueva project will not destroy anyone’s traditional way of life. Rather, you are providing a new infusion of economic vitality into communities whose current way of doing things has already proven itself to be unsustainable with an average local unemployment rate of over 30%.

Having discovered the Punta Nueva gold deposit five years ago, you feel that everything has already taken far too long and that it is finally time to make things happen. Once you clear the bottleneck of these misguided protests you can finally push this dream project forward.

Thinking about the upcoming negotiations, there are a number of key issues at the forefront of your mind.

1. **Obtaining official approval for the mine project to move forward**. Raul Gonzalez, the representative of the San Teodoroian government, has the authority to move the mine project forward or cancel it. You expect Gonzalez to be sympathetic to your cause given his role as the head of Foreign Direct Investment (FDI) at the Ministry of Mining. But if you do not get the approval, there is no project, simple like that! Thus this is the most important negotiation point, which you thought was already ensured, but the recent protests and negative international publicity have turned the outcome of such approval uncertain.
2. **Maximizing your revenues relative to your costs**. Since you started planning the Punta Nueva project, the expected final costs have already ballooned to $5 billion (a hard pill to swallow for your shareholders, who had expected $1.5 billion in total costs and have already spent $3 billion on the venture). Due to the consistent drops in the price of gold, the total value of the gold in Punta Nueva is now only $20 billion, down from almost $40 billion.
* From these expected revenues you must subtract the percentage you agree to give the San Teodoroian government (see point 4 below).
* If you scale back your plans for the mine and agree to extract less gold, you must adjust your expected revenues down accordingly (see point 6 below).
* If you agree to spend more money than currently planned, you must adjust your anticipated costs upward from $5 billion (see point 7). If you allow your costs to exceed your revenues, the whole Punta Nueva project will turn into the biggest non-profit initiative your company has ever seen.
1. **Obtaining support from the government against the threats of sabotage**. You are outraged over the local leaders’ public threats to block the narrow roads into the mountains, preventing trucks from arriving with supplies and leaving with the precious gold ore. Your investments into the local community already far exceed anything a mining company has ever done for local residents, and you and Golden Standard deserve better than such criminal threats. You hope to settle the matter amicably, but if the local municipalities decide to sabotage the mine by illegally blocking the roads you expect the San Teodoroian government to agree to intervene with their military.
2. **Minimizing the government’s percentage of the mine revenues.** Based on your initial dicussions, you must provide the government of San Teodoro with a fixed percentage of the total value of the gold that comes out of the mine. The number you had discussed in your initial talks was 20%. However the situation has since changed dramatically due to the almost 50% drop in the price of gold, the never ending demand for further environmental, regulatory and community investments, and the government’s failure to deal with the protesters, causing delays and rising costs. You must ask the government to accept a 10% share so the mine remains viable. You believe they will agree because they need to build an image of San Teodoro as an excellent and supportive partner for international corporations and if you decide to walk away they get nothing. As this is such an important project, it is not out of the realm of possibility that the government could enact a new mining law forcing a higher percentage share to be paid to the government, but that would go against their pro-business attitude of the past decades. If you were to walk away, since it is your mine, no one else could explore it, unless San Teodoro decides to nationalize the mine.
3. **Using the mining jobs you can offer local residents strategically during the negotiation.** You can commit to hiring locally at minimal cost to you, and this brings enormous value to the San Teodoroian government and communities of the Huascar valley, who are facing an unemployment crisis. Based on your provision discussions with the government you are expected to hire 7,500 local workers. What only you know is that recent projections by analysts at Golden Standard indicate that you will in fact need 25,000 employees at the Punta Nueva site. Additional jobs should prove an irresistible carrot to dangle in front of the San Teodoroian government and local leaders to convince them to cooperate. This however should not be given freely, because your dependence on the local communities would increase and they could attempt to abuse this power as they have already proven to be willing to do so when they do not get their way. Besides, if you were ever to have to fire a few of them, you could see the whole community up in new riots, thus greatly limitting your flexibility to hire and fire. You could also fill the rest of the jobs with non-local or temp labor and have a lot more flexibility, fewer organized employees, and thus fewer community problems.
4. **Maintaining the scope of the mining project.** To maintain the expected profitability of Punta Nueva, you must maintain its current scope which means accessing the huge gold deposits beneath the three large glaciers and two small glaciers (or "glaciets" as you prefer to call them). Each large glacier you agree not to move will reduce the amount of gold you can extract from the mine by $2 billion dollars, and each glaciet (or smaller glacier) that you leave in place will lose you access to $1 billion in gold. Agreeing not to move any of the glaciers or glaciets would reduce the estimated revenues from the mine from $20 billion to only $12 billion without reducing your estimated $5 billion in expenses or the San Teodoroian government’s percentage, a disappointing result to your shareholders after all the time and effort the company has invested.
5. **Minimizing further financial compensation to the local communities.** You have already spent $230 million of your unprecedented $360 million educational and community initiative to help the people of the Huascar valley and do not wish to spend any more than that on cash payouts that will do little to help the local people in the long run. In addition, any further compensation to local groups will set a dangerous precedent for negotiations over future mines, raising your costs for all of Golden Standard’s future projects. Also, the fact that there is a budget, does not mean you want to spend it all and with all the losses around the mine, and saving the remaining $130 million from this budget does not sound like a bad idea. Besides, all of your payouts and investments so far have not yielded the better community relations you obtained in all of your other projects, so more money here is probably not the solution anyhow. You want to make sure that there will be no more riots, delays, problems and complaints. You cannot afford any further delays and costs overruns. You want stability for your project going forward now, since this has taken way too long and cost way too much already.

**To calculate Golden Standard’s financial results from the Punta Nueva mine:**

Step 1: From $20 billion in expected gold revenues, subtract:

* $2 billion for each of 3 large glaciers not moved (up to $6 billion subtracted)
* $1 billion for each of 2 small glaciers not moved (up to $2 billion subtracted)

Step 2: From the revised expected gold revenues obtained in Step 1, subtract:

* The government’s percentage of the revenues
* Any percentage of the mine revenues you give the local municipalities
* The $5 billion in projected project costs

The number that results is your financial bottom line on the mine, which could be either positive (meaning Golden Standard made a profit on the Punta Nueva mine) or negative (meaning Golden Standard lost money on the venture). If you fail to reach a deal that allows the mine to go forward, you lose all of the $3 billion the company already spent at Punta Nueva.

Please prepare for your negotiations with the representative from the San Teodoroian government and the mayors of the four municipalities of the Huascar valley.