CHAPTER 1

Introduction

Large corporations are dominating institutions in Australia, their influence pervading economic development, social structures and political relationships. Whether they provide the cost efficiencies and overseas contacts to drive economic growth and increased wealth or, alternatively, are bureaucratic leviathans that use their power to extract rents from the rest of society, is a question of sustained interest and discussion. While our principal corporations today are well known, we are far less familiar with their early development and predecessors. By investigating their evolution over the course of the twentieth century we intend to uncover a much closer understanding of Australia's leading corporations, particularly the bases of their success and their role in our modern economy and society.

It is surprising how little we know about the growth of big business in Australia. Economic historiography has focused primarily upon the broad macroeconomic changes of the economy and the role of government in those changes.[1] Little attention has been paid to analysing the evolution of business enterprises and their contribution to the nation's economic development. Recent research in business history, however, indicates that Australians are slowly discovering the similarities and differences between domestic and overseas corporate development.[2] However, at this stage there is no comprehensive identification and investigation of Australian corporate leaders – that is, our major business enterprises – in the twentieth century. We propose to fill this gap in our nation's knowledge.

A study of the distinctiveness of Australia's corporate leaders not only extends the boundaries of our understanding of business history, but serves an important public good role in disseminating the lessons from corporate practice of the twentieth century. Firms rarely possess an extensive corporate memory or recognise the importance it might play in future decision-making. The issues addressed in this book relate to how we should view the performance of Australian corporate leaders in a longer (and wider) historical context than that often undertaken in company histories or contemporary analyses of strategy. While one accepts that business challenges may change markedly over generations, the threads linking past and future performance are so strong that it is worthwhile stopping to contemplate the history, nature and form of our domestic corporate structures.

There is no doubt that the beginning of such a large, firm-oriented business history poses methodological challenges. Such studies involve a complex set of decisions about which firms to analyse, what time periods to cover, the extent to which one draws upon earlier work for industry or time series data, the definition of concepts, the interpretative framework used for analysing patterns of development, and so forth.

In order to set the scene for our analysis, some words on the existing literature and our method are appropriate here. Therefore, this chapter has four goals: to review briefly the international literature on corporate leaders, and relate this research to the Australian context; to discuss some definitional issues; to present our model used to study firms' strategic growth paths; and to introduce the major information sources used in the study.

Studies in corporate leadership

Studies of the evolution of large-scale enterprise overseas provide direction for understanding the foundations of business success. Using extensive empirical evidence, Chandler argued that firms which undertook a three-pronged investment in production, marketing and management, could build up corporate capabilities from which to sustain a competitive advantage over long periods of time.[3] Production technologies yielding new processes and products captured greater efficiencies and new markets. Forward vertical integration into marketing improved feedback mechanisms and fostered product loyalty. Administrative structures managed by tiers of professional managers evolved in response to changing strategies to avoid bureaucratic diseconomies and to improve decision-making. In a dynamic analysis, Chandler indicates how economies of scale strategies and centralised management structures emerged in the late nineteenth century, to be replaced by economies of scope and multidivisional forms from the interwar period. He went on to assert that these successful corporations provided the competitive structure and resources appropriate for the rapid development of the United States economy.

Chandler's interpretation of the rise of big business in the United States and the efficiency gains associated with large-scale operations, at least up to the 1960s, has almost universal acceptance.[4] However, Chandler and many other writers clearly demonstrated that the United States model of 'managerial capitalism' did not provide a comprehensive explanation of the rise of big business in most of the other industrialised economies. His comparative study of the United States, Britain and Germany led him to develop a typology for each, 'competitive managerial capitalism', 'personal capitalism' and 'cooperative managerial capitalism', respectively, that reflected profound differences in the nature of the competitive process, the boundaries of the firm, and the role of the state across countries.[5]

The expansion of country-based studies more recently has extended the contextualised picture as researchers have identified unique features of national experience that have overstepped the bounds of the existing typologies.[6] Further, Chandler's claims regarding the superiority of the United States model of 'competitive managerial capitalism', particularly its role in the ascendancy of the United States to dominance of the global economy by mid-century at the expense of Britain, has sparked a vigorous, if inconclusive, debate.[7]

No comparable studies have been undertaken for Australia. It would not be surprising to find elements of both the British and United States typologies of personal capitalism and competitive managerial capitalism in Australian corporate development, given the pervasive local influence of both nations. However, Australian firms have also responded to a unique combination of elements in the local operating environment. These have included a strong comparative advantage towards the output of primary industries, substantial inflows of foreign direct investment, wide distances between highly urbanised metropolitan markets, the distance from major trading partners, the influential role of the state in operating many large businesses in communications and energy, and in providing protection to domestic firms against foreign competitors, the lack of an anti-trust policy, and an immature local capital market. Taken together, these have resulted in a distinctive business culture. Australia has shared some of these environmental features with other nations, such as high levels of inward foreign investment for Canada, the small population size in the Netherlands, or the active role of government in Britain, allowing comparisons to be drawn with work being undertaken there and elsewhere.[8] However, Australia's combination of environmental triggers has been unique, and therefore we expect to find distinctive results.

While grounding our work in an international tradition of studying the growth of big business, our approach will differ from most of the previous literature in several important respects. Most previous writers have concentrated upon manufacturing; we will analyse leading firms from all sectors of the economy.[9] Manufacturing in Australia has been less significant than in many other advanced nations, particularly before World War Two, and therefore the picture would be substantially incomplete if pastoralism, mining and the service industries were to be excluded from an analysis of large-scale enterprise. Emphasis upon the contribution of multinational enterprises will be a further distinguishing feature of this study, in light of their preponderance within the Australian economy.

The study is primarily concerned with competition in the private sector, but broad comparisons will be drawn with publicly-owned companies in light of the importance of the government sector in Australia. While Chandler's ideas have motivated many business historians, the work of a range of management theorists will also be used widely. Porter, for example, has described how firms achieve and sustain competitive advantages through such strategies as cost leadership, product differentiation and market segmentation.[10] Analysing formal inter-firm relationships between foreign parents and local subsidiaries and among joint venture partners will also be a significant part of our story and reflects the growing emphasis on such alliances in recent theoretical work.[11]

Definitional issues in sample selection

There are many criteria for measuring the relative size of firms in order to identify our largest enterprises. These include assets, output, sales, paid-up and market value of capital, or labour force, but none provide an unambiguous measure of size. Enumeration by workforce size can be misleading for cross-industry comparisons where different capital–labour requirements exist; output or sales figures are only helpful where they can distinguish value added. Equity capitalisation represents aggregate ownership claims on the company and is most accurate where it gives market rather than book values. However, exogenous factors driving equity markets can introduce an element of volatility that would not be reflected in other measures such as assets, sales or workforce numbers. Furthermore, this indicator is inappropriate for firms whose shares are not listed or are rarely traded. Asset measurement is not without its shortcomings. It relies upon consistent accounting and disclosure practices on balance sheets, and in some sectors, notably finance, it can produce an inflated picture of size through loan policies that have made the company asset rich.[12] While capitalisation and assets are the preferred forms of measurement, the relationship between the two is not always uniform.[13]

Historical measurements of changes in firm size encounter significant data collection problems. Since detailed data for many firms are not extant, summary published data, usually annual financial reports, must be used. Before 1945 this rarely included information on company workforces or value added in production. Most scholars, therefore, have used capitalisation or assets data. Hannah and Wardley each used equity market values together with debentures for Britain.[14] Schmitz used equity market values in comparing nations but substituted assets where data was not extant.[15] Chandler used assets for German and United States companies while Fruin has provided a range of assets, capital values and sales data for Japanese firms.[16]

The use of different methodologies means that figures on absolute firm size must be analysed circumspectly, although the broad parameters for comparison remain valid. In analysing Australian firms, asset size has been adopted as the unit of measurement, being the most readily available data across the time period under consideration. Incorporation of businesses became increasingly common from the late nineteenth century. Company law required the publication of a balance sheet and a profit and loss account. The asset approach has enabled the inclusion, where possible, of those firms whose shares were unquoted or rarely traded. The accuracy of share capitalisation as a form of measurement of firm size, especially in the early years, is compromised by the belated development of Australian stock markets and many firms' heavy reliance upon bank debt.

Australia has always attracted a good deal of inward foreign investment. This has taken the form of both 'free-standing' companies – those who earned revenues from business activities in Australia but had no operational counterpart in the country of ownership, principally in Britain – and, more recently, local subsidiaries of 'classic' foreign-owned and operated multinationals.[17] While frequently not quoted on the Australian stock exchange, these firms were often among the largest in the country. Therefore, in contrast to studies of some of the larger and more self-contained economies, assets of free-standing companies and subsidiaries of multinationals will be included where they can be identified. Measurement and data problems arise from their inclusion. The assets of free-standing firms could be taken to approximate their 'size' in Australia, as that was the locus of their business activities. Greater problems arise in singling out the Australian assets of subsidiaries of multinational enterprises, particularly where such data resides in the firm archives rather than the public domain. For example, there is no record of the assets employed by either Lever Brothers Limited (Australia) or the Shell Company of Australia in the range of sources used to generate our lists before 1964. However, the capital employed by Lever Brothers and Shell would have placed them at number 26 and 40 respectively in the list of the 100 largest companies in 1930.[18]

Identifying and analysing Australian corporate leaders

In order to determine the changes in the population of the largest firms occurring through the twentieth century, six years have been investigated, each about a generation apart: 1910, 1930, 1952, 1964, 1986 and 1997. For each benchmark year we determine the composition of the top 100 firms by total assets. The years 1930 and 1952 had previously been analysed in an unpublished thesis. That data provided an initial comparator against which to work: where discrepancies emerged it was possible to re-check the sources.[19] The inclusion of 1910 has extended the study of big business back close to its earliest years, while carrying the investigation forward to 1997 permits an observation of the impact of the rapid growth in the relative importance of services in the economy and brings the analysis up close towards the present day. The full data set, known as Appendix C, can be found on the book's web page, as indicated in the preface.

Because of the asset rich nature of financial institutions, which inflates their apparent importance, a separate list of the leading 25 firms in this sector has been developed for each benchmark year. Cross-sectional comparisons between firms are facilitated by categorising them according to the Australian Standard Industrial Classification (ASIC) (and newly revised ANZSIC) system, notwithstanding several shortcomings of this methodology.[20] These dates track the profound changes in the structure of the Australian economy as it became industrialised and allow comparisons with similar studies for other countries using proximate years, including the global comparisons of Schmitz for 1912 and 1937, and the country studies of Chandler for the United States, Britain and Germany, Taylor and Baskerville for Canada, Levy-Leboyer for France, Fruin for Japan and Hannah and Wardley for Britain. We add more recent years than most of these studies to link with contemporary work in strategic management and applied corporate finance.[21] Chapter 2 will analyse our big business lists for Australia and provide a comparison with the experience of a range of other nations.

Determining the strategic direction of corporations requires a dynamic economic model that can incorporate economic, political and social influences on strategy formation. We use the term model in the sense that we attempt to analyse the development of Australian firms in a rigorous way – not with the elaborate use of mathematical or statistical techniques, but with the use of consistent assumptions relating to the rational behaviour of firms and their managers.[22] The model in Figure 1.1 is used to analyse observations with clearly defined growth paths that a firm can undertake. It draws upon the economics of strategy to provide a consistent approach to examining the strategic choices faced by Australian corporate leaders. This is not to suggest that non-economic factors are not used in our analysis – indeed, variables to be entered into such a model may be technological, legal, cultural, political and psychological. Nevertheless, we believe that on the whole opportunities for gain will not be left unexploited, even if the nature of that arbitrage might involve the complex motivations associated with self-interest, ethical considerations and altruistic outcomes. In order to provide a focused analysis of the strategic growth of Australia's leading corporations, in Chapter 3 we condense

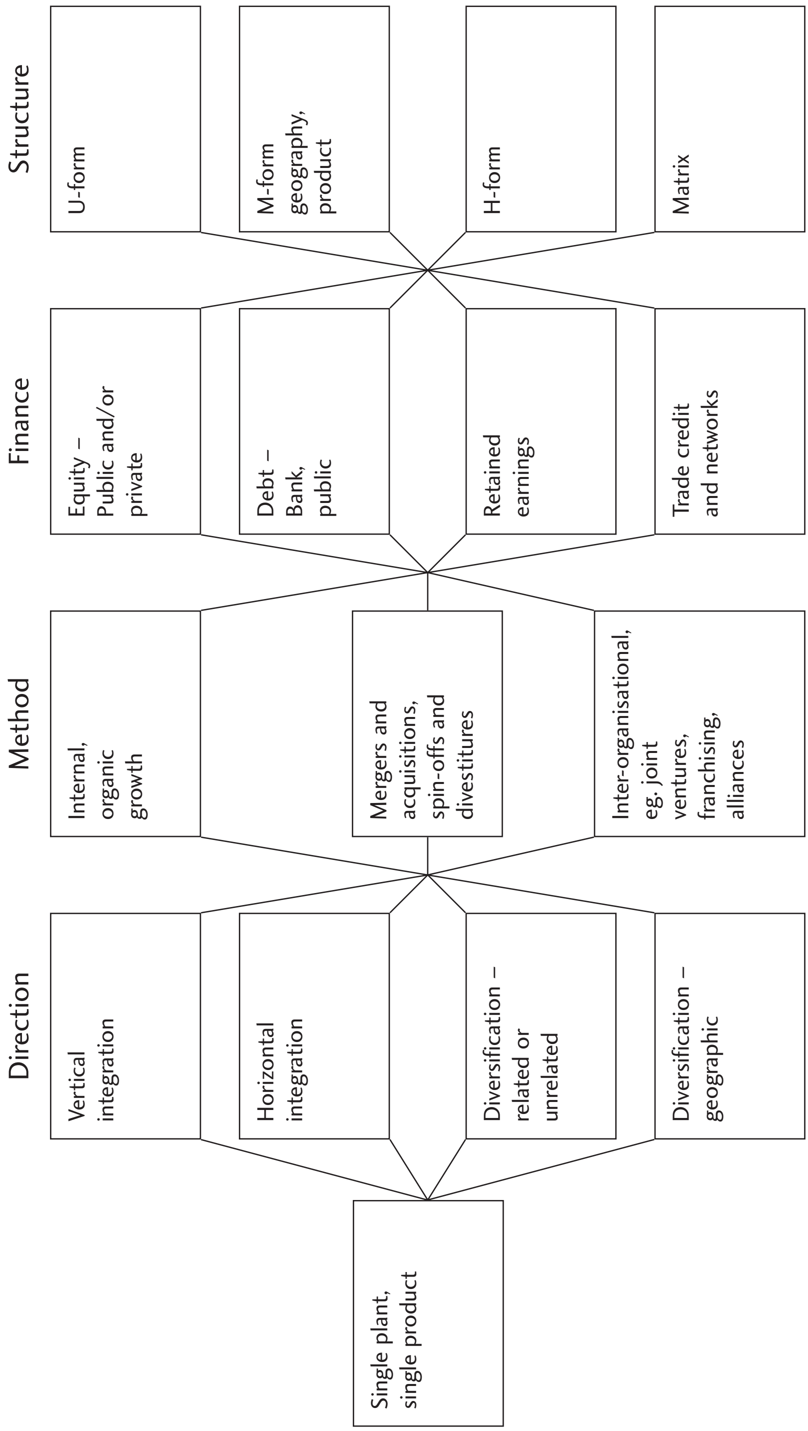

Figure 1.1: Model for determining growth paths of corporations

our benchmark lists to isolate those firms that have played a sustained role in the corporate economy; in other words our 'corporate leaders'.

The process of collecting and ordering the data can be seen as our attempt to reconstruct the firms' analyses of their environment and choice of strategic options. In doing so, we draw from contemporary strategy and business history literature. Figure 1.1 sets out the firms' strategic choices in terms of direction of growth (vertical, horizontal, diversified and geographical), methods of growth (internal, merger, interfirm), use of resources in achieving growth (equity, debt, retained earnings and networks), and organisational structure (U-form, M-form, H-form and matrix).[23] In chapters 4 to 7 we analyse each of these strategic options for our corporate leaders.

Principal information sources

A wide variety of primary and secondary sources have been employed in the research for this book. We mention some of the key sources below. Macroeconomic time series data have been used to describe the broader external environment in which firms operated. It is possible to map the broader macroeconomic changes in the twentieth century through sectoral contributions to gross domestic product, sectoral employment, export and import trends, monetary variables (wages, prices and interest rates), capital accumulation, and flows of overseas investment. Indeed, business history in Australia has a wealth of academic research from which to draw, given the early focus on economic growth and development in Australian economic historiography.[24] The structure of the industry and the nature of the supply chain play an important role in determining the levels of competitive rivalry in Australian markets, and the strategies and growth paths adopted by the leading firms. Therefore, specific information at the industry level is required. These data were not readily available from the Australian Bureau of Statistics (ABS) until quite recently.

For the early part of the century we rely mostly upon the work of radical commentators such as Wilkinson, Rawlings, Fitzpatrick, Campbell and others who denounced the power of 'trusts' and monopolies.[25] The level of scholarship in studies of this genre was greatly advanced after World War Two when Wheelwright, Miskelly and Rolfe drew on the emerging radical academic literature about big business in the United States to frame their investigations.[26] However, it was not until the publication of Karmel and Brunt's work in the early 1960s that a rigorous analysis was available, grounded in economic theory, of market concentration across all sectors of the economy.[27] This pioneering work was complemented by Sheridan's careful estimations of concentration levels in 109 manufacturing industries in the early 1960s.[28]

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Excerpt
More information

The important role of multinationals is particularly traced in regular government publications.[29]

For firm-specific information, such as asset data, growth strategies, and firm profitability, we have drawn upon a range of contemporary investment, government and business reports, and company sources. The sources of information about firms' assets used to identify the firms to be analysed varied between different benchmark years. *The Australasian Insurance and Banking Record*, published annually from 1877, was used for the years preceding World War One and provides summary balance sheet data of firms listed on the Australian or London stock exchange. By the interwar period, data was taken from the *Jobson's Investment Digest of Australia and New Zealand*, ('Jobson's') an annual publication compiled by Alex Jobson from 1920 and including, 'a summary of all Australian company reports published … up to the latest moment'.[30]

In the period following World War Two Jobson's became less comprehensive and was replaced by the more complete coverage of the *Official Melbourne Stock Exchange Record*. This source was supplemented by reference to an occasional publication known as the *Delfin Digest of the Top Companies in Australia, New Zealand and South East Asia*, which ranked companies according to various criteria including shareholder funds, paid-up capital, assets, profits and employees. These sources have been compared with each other where overlap exists and additional information about the nature of individual firms has been obtained from a miscellany of supplementary references.[31] The sources capture firms complying with the disclosure requirements of Australian company laws and stock exchanges. Foreign firms operating in Australia are included in these lists, although none of the sources indicate clearly the basis on which these firms have been selected.

The quality of the data in the 1910 and 1930 lists is the most problematic. The key issue in 1910 is the limited amount of information extant. Many large firms were still trading as partnerships or had registered as private companies. Others were in the process of converting to public company status. In order to counter this truncation problem, the timeframe for data collection of asset values has been extended to 1915, as long as the company existed in the same form at 1910. There remain one or two unresolved individual cases that are mostly small outliers, although David Jones, the Sydney retailer, for whom no financial records can be found would probably have been in the top 50. The crux of the problem regarding the 1930 list, as indicated above, is that our records do not capture all of the many foreign firms that entered Australia in the 1920s.[32]

Closer to the present, information on companies both local and foreign becomes more extensive, but its interpretation is more difficult because of the increasing numbers of complex business organisations involving holding companies, subsidiaries and joint venture arrangements. Consolidated accounts were rare before the 1950s. Rudimentary adjustments have been made to asset values of the parent in those circumstances where consolidation seemed appropriate to avoid double counting.[33]

The earliest time series of profits of public companies categorised by industry and published in *Jobson's Investment Digest of Australia and New Zealand* from 1919 to 1938, gives only net profit, dividend payment, and the sum of paid-up capital and shareholders' funds. The lack of more detailed information reflects the limited disclosure required of companies under the current company legislation and the listing requirements of the stock exchanges. The Commonwealth Bank of Australia's series of company profits that began in the late 1930s became much more useful for our purposes from the early 1960s, when it began to reveal both tax and depreciation data.

Company strategies have been identified in many cases through reports in *Wild Cat Monthly*, J. B. Were and other investment and broker reports, supplemented with material from the business press and company publications, histories, web pages and archives. *Huntley's Delisted Companies Report* provides information on restructures, mergers and acquisitions dating back to 1929, while Reserve Bank of Australia data covers takeovers and takeover bids for more recent years. Cross-sectional comparisons between companies, domestically and internationally, have drawn upon evidence from business research organisations such as Fortune and Forbes, together with national (Bureau of Industry Economics, Department of Industry, Trade and Commerce) and supranational government agencies (United Nations, World Bank).

Conclusion

In summary, therefore, our aim in this study is to uncover the identity and investigate the nature and national contribution of our largest and most enduring firms, our corporate leaders. We will pursue this by reference to the methodology and major sources foreshadowed above, beginning with a comparative assessment of Australian big business in an international context, before focusing more closely upon the strategies and structures of our corporate leaders in subsequent chapters, and finishing with a broad overview of their role and importance within the context of the national economy.