Paths of corporate development: directions and methods of growth

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Abstract
In Scale and Scope Chandler explained the typical directions of growth followed by large scale American
corporations who sustained their industry leadership. This involved phases of horizontal and vertical
integration to capture economies of scale and throughput, followed by product diversification in response to
new scientific research, and internationalization to exploit their competitive advantages in foreign markets.
This has not been a universal experience of all countries; successful British firms, for example, have been less
vertically integrated and Japanese firms were for long reluctant to expand overseas. Typical methods of growth
- internal expansion, mergers, and interfirm ventures - have been less clearly delineated in the historical
literature but are nonetheless significant to the success of the firm’s strategy. Chandler acknowledged that
mergers have been important in both United States and Britain but in the former they typically led to a large,
centralized and integrated organization but in the latter the result was more often a collection of small
personally run firms. German and Japanese big business have been long known for their interfirm
cooperation; more recent research has identified similar habits in other nations including Britain and
Australia, and globally across national boundaries. Methods and directions of growth are closely interrelated:
thus diversification is often facilitated by an appropriate acquisition. In this paper we focus upon the growth
strategies of the Australian corporate leaders We identified in chapter three, their directions and methods, to
see if any common patterns emerge and how these results compare with the experience of a range of other
countries. Patterns can form in many ways: generally among corporate leaders in response to the national
environment; among leaders in an industry or group of industries possessing certain key characteristics;
among leaders in a particular time period or locality, reflecting longitudinal changes in the environment;
among firms at a particular stage of their development, reflecting life cycle patterns; and among leaders that
are either locally owned or part of a foreign multinational arising from different influences upon corporate
strategy. To lead us into discussion of the strategies used by our firms to become corporate leaders, we begin by
reviewing the strengths and weaknesses of the different directions and methods of growth.

Keywords
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Introduction

In *Scale and Scope* Chandler explained the typical directions of growth followed by large scale American corporations who sustained their industry leadership.¹ This involved phases of horizontal and vertical integration to capture economies of scale and throughput, followed by product diversification in response to new scientific research, and internationalization to exploit their competitive advantages in foreign markets. This has not been a universal experience of all countries; successful British firms, for example, have been less vertically integrated and Japanese firms were for long reluctant to expand overseas. Typical methods of growth – internal expansion, mergers, and interfirm ventures - have been less clearly delineated in the historical literature but are nonetheless significant to the success of the firm’s strategy. Chandler acknowledged that mergers have been important in both United States and Britain but in the former they typically led to a large, centralized and integrated organization but in the latter the result was more often a collection of small personally run firms. German and Japanese big business have been long known for their interfirm cooperation; more recent research has identified similar habits in other nations including Britain and Australia, and globally across national boundaries.² Methods and directions of growth are closely interrelated: thus diversification is often facilitated by an appropriate acquisition.

In this chapter we focus upon the growth strategies of the Australian corporate leaders we identified in chapter three, their directions and methods, to see if any common patterns emerge and how these results compare with the experience of a range of other countries. Patterns can form in many ways: generally among corporate leaders in response to the national environment; among leaders in an industry or group of industries possessing certain key characteristics; among leaders in a particular time period or locality, reflecting longitudinal changes in the environment; among firms at a particular stage of their development, reflecting life cycle patterns; and among leaders that are either locally owned or part of a foreign multinational arising from different influences upon corporate strategy. To lead us into discussion of the strategies used by our firms to become corporate leaders, we begin by reviewing the strengths and weaknesses of the different directions and methods of growth.

* For the purposes of the Corporate Leadership conference, participants may wish to concentrate upon the general patterns sections and read the industry evidence as interested.

How and why firms grow

¹ Chandler, *Scale and Scope*, chs 3-6.
Directions

Firms chose between a range of growth directions. They can increase output of their existing products through horizontal integration, take on additional functions in the value chain, in other words vertical integration, and they can diversify into new product lines, market segments, and geographic locations. Each of these growth directions has advantages but also shortcomings. The benefits of horizontal integration are particularly associated with cost-reducing economies of scale. An associated idea is that higher levels of output facilitate supporting activities that require a minimum level of scale to operate efficiently. These might include particular marketing strategies, such as branding, and research and development expenditures. The specialisation implied by horizontal integration brings with it greater expertise and accelerated learning opportunities. Finally, large size in a particular sector enhances a firm’s market power, providing it with increased control over the market and greater negotiating strength. The costs of horizontal integration include the concentration of risk upon a particular product, a limited knowledge of related products and functions, and the prospect of attracting the attention of competition policy enforcement agencies due to a large market share.

Vertical integration can reduce transactions costs by bringing contractual negotiations, such as between procurement and manufacturing stages, under the single governance structure of the firm. Linked to this is the fact that vertical integration removes the risk of contractual ‘hold-up’ (opportunistic recontracting) where the firm has significant asset-specific investments, which cannot be easily redeployed if negotiations with another company break down. For the integrating firm, control of up and downstream functions increases market power over existing competitors and creates barriers to new entrants. In terms of operations management, vertical integration can accelerate throughput and mitigate the need to hold inventory stocks. Where a firm is faced with irregular or non-existent upstream and downstream functions, vertical integration addresses this form of market failure and helps the firm to expand its production if horizontal integration is a growth strategy. Vertical expansion additionally provides a broad and integrated understanding of the extended value chain, how different parts of it work together and it helps to protect proprietary knowledge from leaking to competitors transacting with the same firms. On the negative side, vertical integration, as the ‘make’ rather than ‘buy’ decision, also concentrates the firm’s risks into a particular industry and involves additional fixed costs. Different stages in the value chain often have different economic characteristics, such as their efficient size, which may not easily be accommodated within a single organization.

The most common form of diversification is by product. One of the major advantages of diversification is risk spreading to avoid a downturn in the industry, the emergence of a powerful competitor, or the attention of the competition regulator. Sometimes the company has simply grown too large for its existing product line. Diversification enables firms to pursue growth opportunities in sunrise industries, and generally to access additional resources associated with other industries. Amongst these additional resources exist rich veins of information regarding different sectors, allowing the firm to act as a mini internal capital market, transferring resources according to the changing fortunes of various industries. Where the new product lines are related to the firm’s original output, cost-reducing scope economies are likely as tangible and intangible assets can be shared across the firm’s different activities. Not surprisingly, there are costs associated with product diversification. Expertise is diluted as the firm shifts away from its core competencies, more so where it is
unrelated diversification. Organisational costs and complexity may increase in managing an extended range of products with different production and marketing needs. Where diversification has been driven by government policy, such as investment incentives or tariff protection, the firm may operate inefficiently and be vulnerable to changes in official policy.

Market diversification occurs where a firm seeks new markets for its existing product line; alternative market segments might include low or high income, urban against rural, household versus industrial customers. It provides some of the benefits of both horizontal integration and product diversification, notably economies of scale by selling more of the same product, and risk spreading between markets that may be affected differently by changes in the environment. Thus, it is also a means of tapping into the rapid growth of particular market segments according to demographic or income shifts. The disadvantages relate to the potentially different marketing needs of alternative segments, thereby weakening opportunities for scope economies in marketing. Brand development may be different across markets and, further, product reputation may be diluted by going down market, or difficult to build if moving up market.

Geographic diversification takes firms into new spatially distinct markets. This is most significant when firms expand internationally since this takes them across national boundaries and frequently into societies with different cultural, legal and institutional norms. Often firms move along a learning curve of internationalization from exporting, through contracting with a local firm, to foreign direct investment. An extensive literature exists on the internationalization process of firms. Essentially, firm-specific and country-specific advantages exist for firms going multinational. In the former case, international expansion exploits ownership advantages unique to the firm such as superior technology or management systems, privileged access to finance or raw materials, greater market power and scale economies from larger size, and product branding and advertising. These advantages generate a quasi rent for the firm that is greater than the extra cost of doing business in a foreign setting. Country specific advantages reflect conditions in the recipient nation conducive to local production such as cheap or well-trained labour, high quality infrastructure, and preferential policies from governments keen to attract investment. Multinational investment may also occur in response to market imperfections such as tariff barriers erected by recipient nations. As a geographical form of diversification, international expansion additionally promotes risk spreading. The weaknesses of multinational activity particularly relate to the costs and challenges of cross-cultural and long distance control and coordination of the enterprise.

**Methods**

There are three main methods of effecting the types of growth strategies described above. These are by internal expansion, mergers, or interorganisational agreements. Again each brings both benefits and shortcomings. Internal expansion, sometimes referred to as greenfield investments, involves growth through continued development of the firm’s own internal resources. It provides full control over the development process, affords protection of proprietary knowledge, and avoids the cultural clash and integration costs associated with mergers and acquisitions. On the

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negative side, internal growth tends to be slower than by acquisition particularly for
the purposes of diversification since the firm has to learn about the new product or
industry and seek out suitable human and physical resources. Internal growth
additionally lacks the synergies, shared experiences, and general cross-fertilisation
associated with other growth methods.

Mergers provide something akin to instant corporate gratification. Ready-
made companies are acquired thereby telescoping the growth process. Tangible and
intangible assets, including expertise, equipment, and market position, are purchased
together with exposure to alternative corporate practices. Efficiencies can be derived
from eliminating duplication and a rival is often removed. However, acquisitions are
generally expensive because of the premium share price paid to convince sceptical
shareholders. The acquired or merged organisation generally comes as a package,
containing weak or unsuitable elements, that have to be reformed or disposed of, as
well as appealing ones. Integration of the organisations to achieve enhanced
efficiency can be an expensive and time-consuming business, and they have to be
weighed against the benefits of maintaining some of the corporate identity of the
acquired firm.

A wide variety of interfirm relationships provide an intermediate strategy
between internal growth and merger. They range from relatively loose licensing
arrangements between firms, through agencies, strategic alliances, and franchises, to
the tightly organized joint venture as a separate company owned by the partner firms.
What these arrangements all have in common is the opportunity to acquire expertise
and yield synergies through only a partial surrender of sovereignty and at a generally
lower cost than merger or internal growth. They are particularly suited to firms with
complementary resources and they provide an ongoing and flexible way of gaining
synergies in contrast to the once-only merger ‘event’. Partners to interfirm
agreements particularly seek to share market information and infrastructure costs,
thereby allowing reasonable autonomy of production for individual firms. The costs
of interfirm relations are largely those associated with building and sustaining the
trust that underwrites the relationship, most particularly ingratiation and sensitive
monitoring. The failure to sustain high levels of trust leads in many cases to the
breakdown of the agreement. With such a breakdown each firm has surrendered
know-how to the other firms that may now become its rival. Tighter forms of
interfirm relationship, most notably the joint venture, help to provide a permanency to
the relationship, but can run into organizational problems if the culture of the partner
firms is quite different and thus their view of how the joint venture should operate. Exit
costs will also be higher if the joint venture breaks down.

Thus, the choices of direction and method of growth are complex decisions
that will change over time in response to alterations in the environment and the
character of senior management. We saw in chapter one that Australian firms have
faced an operating environment with a particular combination of elements, most
notably geographic remoteness, a small population, interventionist governments, high
levels of foreign direct investment, colonial influence, a frontier experience, a late
developing capital market, and a strong comparative advantage in primary industries.
Together these elements suggest an environment characterized by rapid change and
high levels of uncertainty.

4 G. Boyce and S. Ville, Development of Modern Business, ch. 9 discusses a wide range of
interorganisational structures in detail.
Some of these environmental influences have been apparent in many countries, but their combination is very unusual. Thus, some of the smaller nations of northern and western Europe, such as the Netherlands, Sweden, and Switzerland also suffered from small populations that meant a limited market and labour supply. However, they benefited from geographic proximity to other large markets in Europe. The United States and Canada have experienced colonial and frontier influences but within the context of much larger populations and less geographic isolation. Japan has had an active state, relative remoteness from the more developed regions, and late development of its capital market. However, it has an abundant population but no comparative advantage in primary industries nor large inflows of foreign direct investment.

Growth directions of Australian corporate leaders

General patterns

Australian corporate leaders recognized the need to attune their directions of growth to the particular environment in which they operated. Since the operating environment in twentieth-century Australia changed rapidly, corporate leaders needed to show adaptable qualities, reducing their exposure to industries in decline or subject to new multinational entrants. Corporate leaders all changed their directions of growth, often several times, over their lifespan. It was their responsiveness to the environment and speed of change that gave many of these firms their competitive edge over rivals. Related to this was the ability of corporate leaders to recognize mistakes, or false strategies, and make the necessary changes in direction. In addition, companies responded to changes in the conventional wisdom of corporate growth imported from countries like United States and Britain, adapting it where possible to the specific needs of the Australian environment. The speed of dissemination of such information particularly suited foreign multinationals operating in Australia and local companies with overseas links. Finally, growth directions were influenced in a number of cases by the active role of government in the economy, providing an incentive for firms to invest in good working relations as a form of strategic asset.

Horizontal integration was the most common early form of growth. Given the smallness of the market in Australia, where many industries could not support more than one or two large scale enterprises, rapid horizontal expansion was vital to achieve the dominance of a first mover, many of whom proved difficult to dislodge in the relatively uncompetitive markets of Australia. Building scale lowers costs in most industries, especially at the relatively low levels of production in Australia. While not driving down costs to the extent possible in larger overseas markets, horizontal integration gave the firm a significant competitive edge over its domestic competitors. Many Australian leaders were not in the technology-intensive manufacturing industries identified by Chandler in America, however scale economies were yielded in other ways such as in marketing, managerial deployment, and information use. Perhaps most important was the ability of many leaders to leverage their expertise to establish new branches and plants across Australia.

Vertical integration frequently followed quickly upon horizontal expansion. The small market often sustained insufficient upstream and downstream firms to maintain the necessary throughput of a large firm, thereby necessitating vertical integration to overcome this form of market failure. Where functionally sequential firms existed, the smallness of their numbers presented serious risks of ‘hold up’
because of the lack of competing suppliers in a small economy. Vertical integration additionally provided a growth path consistent with an expanded position in the product market and helped to build entry barriers against potential competitors for small markets. It is less likely, however, that most Australian firms operated on a scale where significant transactions cost savings would be yielded by internalizing supply and distribution functions in the manner of American firms.

Many firms pursued related product diversification at a somewhat later stage of their development. They outgrew their small local markets and viewed related diversification as a sensible growth strategy. It built upon their existing competences within the Australian market to yield scope economies. In the more scientific industries, related diversification was a response to similar policies overseas from the interwar period, as Chandler has particularly noted of America. However, diversification among local subsidiaries of foreign multinationals was often less notable because of the constraints imposed by their parent companies and their legal rights to acquire other Australian companies. The earliest diversifiers, such as CSR, pursued this growth strategy in the interwar years but it became more common after 1945. Unrelated diversification has enabled some firms to enter new growth industries and risk spread away from declining industries, or where they encounter a real or credible threat from a multinational. ‘Conglomeration’, as it is sometimes known, was additionally an imported ‘fad’ of the 1960s to 1980s, based on the optimistic belief that good managers would excel in any industry. The poor performance of many of these conglomerates in Australia has led firms to divest some of these additional activities in the 1990s and return to their ‘core competences’ in order to survive.

Geographical diversification initially involved firms moving interstate in order to expand their market. We saw in chapter three that this was a common experience among our corporate leaders. Expansion overseas came later in the life cycle of most companies, if it came at all. The small and fragmented local market made it difficult for many firms, particularly in manufacturing, to grow to a scale of efficiency necessary to compete in many larger overseas markets. Geographic distance presented an unacceptable managerial challenge for most Australian firms. The lateness of Australian industrialization additionally meant local firms often faced entrenched international oligopolies. There were few countries where the specialist skills of Australian firms of the primary and related sectors could be leveraged to advantage. Official policy in the form of import tariffs and a weak domestic competition policy constrained the development of efficient Australian firms able to operate successfully in foreign markets. Local subsidiaries of foreign multinationals might have been expected to embrace internationalization more enthusiastically. In practice, most of them were limited to exporting by parental strategies designed to mitigate competition with other subsidiaries of the company. Before about the 1970s, therefore, overseas growth was largely limited to New Zealand and the Pacific Islands. These locations can most obviously be explained by their geographic proximity. The psychic proximity of New Zealand was also important as the two nations shared colonial, cultural, and institutional similarities. The Pacific Islands, on the other hand, provided opportunities for resource-oriented multinationals. The belated industrial

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5 Chandler, *Scale and Scope*, chs 5, 6.
6 Capon et al, p. 54.
development of New Zealand and the Islands additionally provided a market for Australian manufacturing firms, and one that was of a smaller and manageable size in comparison with many other foreign destinations. While expansion into New Zealand and the Pacific Islands provided a relatively easy first jump overseas, it was a poor springboard to other international locations, especially larger and more distant industrial nations.8

In the last few decades of the twentieth century, however, Australian corporate leaders have ventured into a wider range of countries across Asia, Europe, and North America. This has arisen for a number of reasons. Globalisation has extended the reach of firms worldwide. Australian firms have been able to exploit improved communications in order to mitigate the informational drawbacks of remoteness. The diversification of the Australian economy away from its primary resources base has created firms with competences suitable to many overseas locations. Deregulation of financial markets, tariff reductions, and the enhancement of competition policy have all contributed to the accelerated internationalization of Australia’s corporate leaders.

Thus, we can see that among Australian firms there were identifiable patterns of growth from horizontal and vertical integration to product and geographic diversification. In addition to firm life cycle patterns, there have been longitudinal patterns arising from changes in the Australian macroeconomy, with diversification particularly emerging from the interwar years, conglomeration from the 1960s, and internationalization from the 1980s. We now turn to look at these trends more closely for industry-specific patterns and to substantiate the above generalisations.

Industry patterns

Industries possess certain key economic characteristics that can influence the nature and extent of their growth. These include the extent of labour or capital intensity, the scale of efficiency, reliance upon technical change, market orientation, and product features. Thus, for example, in industries with high levels of minimum efficient scale, firms may dash for horizontal growth to claim first mover advantages particularly in a small economy like Australia.

Mining

The leading mining companies illustrate the rush to horizontal expansion to corner a limited market and establish prime mover advantages through lower costs in a capital intensive industry. In particular, BHP had positioned itself as the leading silver, lead, and zinc miner by the early twentieth century. This proved to be an important prerequisite to forward vertical integration into steel production, which began with the opening of its Newcastle steelworks in 1915 and was extended with the Port Kembla works from 1935. Chairman Essington Lewis made this the core growth strategy of the firm from the 1920s, supported both by tariff protection and the lower costs achieved by the initial horizontal integration. WMC similarly built scale and low costs through extended horizontal integration from the 1930s to the 1970s. The expertise WMC built up in the process was reflected in its innovativeness in production and organisation: for example, it operated identical plants, centralized purchasing, and amalgamated the Kalgoorlie mines for servicing by a single treatment plant.9 Although WMC combined exploration with extraction, the opportunities for further vertical integration with gold were less promising. CRA’s forerunner, Zinc

Corporation, began in 1905 as a zinc producer and then vertically integrated backwards into mining. However, it vertically integrated before it had built up scale in order to secure supplies and avoid contractual hold-up. Contractual hold up is particularly important in industries with concentrated ownership and capital intensity in assets that are not easily redeployed ('asset specificity'). Mining fits all of these features, particularly in the supplying of large steel mills. The limited number of upstream and downstream players in the small Australian economy heightens the risk of hold up. Mount Isa Mines (MIM) also struggled to establish an efficient scale for integrated lead and zinc mining and smelting.

Postwar diversification was common in mining and provided firms with a broader revenue base and new growth opportunities. This was mostly narrow related diversification within the resources sector. BHP’s forward vertical integration into steel production positioned it well to diversify into a range of related downstream products including steel alloys, tools, fence posts, drums, and hot water systems. Somewhat more broadly, BHP leveraged its competitive leadership in steel products to establish a shipbuilding yard at Whyalla in 1941, and by 1960 operated the largest shipyard and non-government shipping line in Australia. Since the 1960s BHP has leveraged its expertise in mineral extraction into the booming offshore gas and oil exploration industries. The extent and success of these activities can be seen by the profits of the company’s oil division, which were ten times that of steel making by 1974. With limited opportunities for vertical integration in gold production, WMC embarked upon extensive diversification into other minerals, particularly nickel, bauxite, copper, and iron, from the 1950s, and used this as a basis for vertical integration. Bauxite was discovered in the Darling Downs in the late 1950s, copper in the Warburton Ranges in 1965, and nickel in Kambalda (WA) in 1966. The company also began mining iron ore and talc in the 1960s. Vertical integration arising from this included a nickel refinery at Kwianna (WA) in 1970 and WMC’s role in the establishment and operation of aluminium company Alcoa from 1961. From the late 1930s MIM used diversification into copper, which could also be mined at Mt Isa, to overcome its lack of scale and efficiency in lead and zinc. By the 1950s it had built vertical integration onto scale in copper as a miner, smelter, and refiner. This provided a growth direction and a solution to the lack of domestic refinery capacity.

With its Townsville copper refinery dominating national output, MIM was able to expand its range of copper products including billets, wires, bars, and rods. Since the demand for copper is relatively limited, the company began to diversify again in the 1970s particularly into coal and iron ore. Diversification was vigorously pursued by CRA’s predecessor firms for similar reasons to MIM. The creation of Consolidated Zinc Corporation in 1949 integrated its lead and zinc manufacture. By the early 1960s it was exploiting improved processing technologies, which enabled the production of sulphuric acid to supply chemical producers. It additionally generated phosphoric acid for use in fertilizers by farmers. The firm also diversified into mineral sands, uranium, oil, coal, and natural gas from the 1940s onwards. Finally, CZC entered aluminium production with the discovery of bauxite at Weipa and created Comalco in 1956 to develop the deposit.

By the 1990s there was evidence of divestment taking place to slim down and focus some of the diverse resources interests of the companies. BHP had begun

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discharging non-strategic assets as early as 1987 with the sale of Blue Circle Southern Cement. WMC has sold off some gold, petroleum, copper, nickel, and talc interests on a selective basis.

The focus of production by Australian mining companies has been overwhelmingly domestic for most of the twentieth century. However, in the same way that postwar product diversification was sought as a means of overcoming limited markets, exports provided the same potential for growth. WMC exported nickel to Japan (including Sumitomo Metal Mining Company) and Canada (for example Sheritt Gordon). Additionally, it supplied iron ore to Japanese steel mills and sold talc in the European and United States markets. Likewise, MIM addressed the limited domestic copper market by exporting to Japan in the 1960s. As it diversified its output MIM also diversified its overseas markets especially when Japanese steel mills used their contractual strength to extract a 12 per cent reduction in supply prices in both 1983 and 1984. In these circumstances MIM turned to long term contracts with European steel producers. CRA sought overseas markets to sustain its expansion in the 1970s.

As well as seeking out foreign markets, Australian mining companies have acted as resource-seeking multinationals in recent decades, applying their competences to exploration and extraction opportunities across their diverse range of natural resources. BHP has achieved important overseas expansion since the 1970s including coal mines in New Mexico, the discovery of Escondida, a major copper mine in Chile, and the Ekati diamond mine in Canada. Recent projects in the 1990s have included natural gas pipelines in South America, petroleum projects in Vietnam, and steel production in Thailand. WMC has built up its overseas investments in nickel, copper, lead, and zinc, particularly in countries on the American continent such as Canada, USA, Brazil, and Chile in the 1980s and 1990s. CRA has followed a similar pattern of overseas investments, being described by Tsokhas in the 1980s as, 'a transnational corporation with increasingly global interests'.

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Pastoral agencies

Horizontal integration was the dominant growth strategy of the pastoral agents (stock and station agents) through at least the first half of the century. The rapid expansion of raw wool output in Australia, with the extension of settlement, provided the opportunity for a group of about half a dozen firms to grow horizontally to yield economies of scale. The fixed costs of their business – branch offices, auction sites, commercial information – were spread across a wider range of client farmers, and the firms’ evolving expertise could be used to leverage expansion into newly settled pastoral regions such as in parts of Queensland and Western Australia.

As they expanded, the firms were able to offer farmers a full range of pastoral services – wool and livestock sales, finance, and technical and business advice. This spread of services yielded economies of scope by using the same physical assets and customer information. As a result, the agents built up substantial information files on each farmer from which to provide more informed advice to farmers and better monitoring systems for themselves. In turn, this meant lower transaction costs for

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12 Tsokhas, Beyond Dependence, p. 88.
13 This section is largely taken from Ville, Rural Entrepreneurs, ch. 2.
both agent and farmer, and the development of high degrees of trust between them. These large agencies additionally benefited from being able to offer their range of services as virtual joint products – for example, farmers needed short term finance on their consigned wool, and business advice regarding the state of the market. Well-resourced larger firms were best placed to attract farmer clients with the lure of financial support.

The shift of the international wool market from London to Australasia between about 1880 and 1930 was pioneered by these agents through their influence over most local wool production. Goldsborough Mort pioneered this market relocation, being quick to recognize the opportunity. However, Dalgety with its somewhat larger resources and market share rapidly followed suit and surpassed Goldsborough. AMLF, constrained by its cumbersome decision-making processes was a late entrant to the local auction and failed to catch Dalgety. Elders in turn surpassed Dalgety in 1959.

Vertical integration was rarely pursued by the agents with any vigour or persistence. Some integrated backwards into farm ownership towards the end of the nineteenth century, partly through the necessity of foreclosure on some irretrievably indebted farms, and as a result of the farming interests of senior partners. Land taxes on large landowners and uncertainty regarding land tenure laws threw a shadow over this policy. Dalgety was one of the first firms to abandon this strategy at the beginning of the century, using the proceeds of divestment to finance their expansion of agency services. Several companies, including Elders, integrated forwards into shipping and dock services to overcome market failure in the form of insufficient provision of these services or to avoid contractual hold up by powerful international shipping companies.

Both backward and forward vertical integration provided few benefits for firms seeking to dominate the industry. They required expensive commitments in activities involving different forms of expertise. While farming investments might involve synergies in expertise, they required a concentration of risks in a highly unpredictable industry and might diminish the perception of the agent as an honest broker rather than a powerful farming competitor. Instead, strategic investments, upstream through farmer finance, and downstream through share ownership in shipping companies and an exchange of services, provided the strategic benefits without the concentration of risk or dissipation of expertise.

Beginning in the interwar years, pastoral agents considered new products and markets. The relative importance of the rural sector began to decline with the expansion of manufacturing, and wool faced challenges from substitute fibres. On top of these secular changes, the agents endured a severe cyclical downturn in the rural industries between the wars. While moves to diversify were thereby influenced by cyclical and secular uncertainty, they also saw opportunities to gain scope economies by marketing a wider range of products to a ready-made clientele of farmers through their branch network. Therefore, agents began to sell a wide range of merchandise to farmers. Several companies, particularly Dalgety, also branched out into the motor trade, exploiting scope economies from the demand for agricultural machinery to sell automobiles to farmers.

The continued expansion of manufacturing after World War Two and the intensification of competition among the agents for a stable or contracting market produced more extensive diversification. By the 1960s, they had begun to move into a wide range of unrelated complex manufacturing and service industries including engineering, property, construction, home appliances, alcohol, metallurgy, and international trading. Market diversification built upon product diversification since
they could sell consumer products into a wider national market beyond farming communities. Finally, they also diversified by function, trading in many products rather than serving as commission agents, a strategy justified by the larger volumes of products and wider range of customers. Internal discussion documents make clear that fact that the agents had some reservations about broad unrelated diversification. However, in the 1970s and 1980s they were all swallowed up as part of the large conglomerate enterprises of the time. Recently, some of these large conglomerates have been broken up, most notably the separation of Elders from Fosters in 1993.

Internationalisation has played only a limited role for pastoral agents. Most saw the strategic benefit of operating a London office and several, particularly Dalgety and NZLMA, had extensive operations in New Zealand. Common skills could be used in the two countries and these operations were helped by geographic and cultural proximity. In the interwar years, Dalgety, NZLMA and AMLF sought to leverage their competitive advantages in East Africa and South America but encountered very different operating environments. The companies complained of poor infrastructure, financial instability, and unhelpful government intervention. Climatic differences and the need to diversify into unfamiliar crops such as coffee and sisal were also factors. Diversification within the growing Australasian market was viewed as a better option.

Financial services

Horizontal integration in retail banking products has been the predominant growth path of all of Australia’s leading banks. With the partial exception of the Commonwealth Bank, this has been achieved by developing a nationwide branch network together with some overseas expansion. While banking provides few technological economies typical of Chandler’s large scale American manufacturing enterprises, the banks, like the pastoral agents, were able to achieve cost savings by leveraging their expertise in the provision of specialist services across the expanding Australian continent, thereby telescoping the learning curve. In a similar fashion again to the agents, they found little use for vertical integration.

From the mid 1950s the banks diversified their product range, largely in response to regulations imposed on their core trading business. Thus, BNSW turned to savings banking in 1956, followed a few months later by ANZ. They then moved into hire purchase, nominee companies, and later into merchant banking, insurance, funds management, as market maker in the American bonds market, and bullion dealing. The timing of these moves and the extent of the banks’ involvement have been frequently subject to government regulation and approval.

Where the banks have differed significantly from the pastoral agents is in their overseas expansion. By offering services that are not specific to the primary industries but are in demand worldwide, they have competed successfully in an international market for banking services. The BNSW, for example, opened a London office as early as 1853, and then proceeded to develop an extensive network of overseas correspondents. It opened branches in Fiji in 1901 and PNG in 1910. The next wave of international expansion began in the 1960s with representative offices or branches being opened in the USA, Singapore, Hong Kong and Japan. These new locations reflected the need to be represented in the world’s financial centres, particularly after

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14 The conclusions of this section can be equally applied to life offices, most notably AMP.
the rise of eurocurrency markets, and the shifting pattern of trade away from the United Kingdom and towards the United States and Asia.\textsuperscript{15}

**Shipping**

Horizontal integration dominated the early growth strategies of Australian shipping companies. This was to be expected in an industry of high capital intensity and scales of efficiency. In the age of steam and then motorized liners, the ability to offer regular services across a wide range of routes provided a strong competitive advantage. Adsteam, for example, built up a sizeable fleet in the late nineteenth and early twentieth centuries operating in both the coastal and overseas trades, and serving the cargo, passenger, and tourist trades.

Horizontal expansion was supported through integrating backwards such as into port functions (engineering workshops, tugs) and coal production. The high level of asset specificity of the modern shipping industry and the industrial concentration in these capital intensive areas required vertical integration to protect the access of shipowners to these services and to avoid opportunistic recontracting. Dominant firms like Adsteam had reached levels of shipping output sufficient to justify such integration, which in turn aided their further growth. Adsteam’s acquisition of collieries in Newcastle and Wollongong in the early years of the century enabled them to expand their fleet of steamers without risk of hold up. Huddart Parker similarly acquired coal capacity between about 1914 and 1921.

The alternative national transport systems of aviation and motorized road haulage began to emerge in the interwar years. They represented serious competition for the coastal routes around Australia on which shipping companies relied so heavily. Shipowners responded in several ways, partly through closer cooperation amongst themselves as we shall see later. In addition, they sought to diversify their risks by investing in other industries. Most notable was Adsteam’s move into air services, believing this to be, ‘the way of the future’, with their establishment of Adelaide Airways in 1935. As a closely related transport industry, Adsteam could leverage many of its managerial skills from shipping into aviation. With further expansion in the following year the company was operating air services to many parts of South Australia and across the border into Melbourne.\textsuperscript{16}

However, it was in the postwar years that Adsteam began to diversify more broadly into unrelated industries. This included investment and property ownership, vineyard and wine production, optical goods manufacturing and distribution, and engineering. By targeting faster growing industries Adsteam was able to stem its fall from corporate leadership. Huddart Parker failed to diversify sufficiently and, overcommitted in particular to the coasting trades, fell from the top 100 group in 1952. Howard Smith had diversified from an early stage as a part founder of Australian Iron and Steel in 1915 (\textsuperscript{17}). While recognizing the pressures for change in the second half of the century, it has focused upon vertical integration and narrower, related forms of diversification than Adsteam. This has particularly involved marine towage, line boat services, salvage operations, shipping agency, and stevedoring as a means of shoring up its position in the maritime sector. In the 1980s and 1990s


Howard Smith diversified into engineering and the distribution of hardware and industrial products while seeking to minimize its ownership of non-core assets.

While Australian shipping companies sailed on overseas routes, they mostly relied upon the services of foreign shipping agents and port services rather than undertake substantial foreign direct investment. Visits to specific foreign ports by their fleet were insufficiently regular to justify investment in fixed assets and the development of a local presence in general. However, both Adsteam and Howard Smith have leveraged their maritime expertise to provide port services generally to shipping in a number of countries including Britain, New Zealand, India, Fiji, and PNG.

**Aviation**

In aviation both Qantas and Ansett sought rapid horizontal integration to obtain a dominant market share in a rapidly expanding industry. Like shipping, developing a network of services to offer customers was a vital competitive advantage and additionally helped to raise the load factors of expensive airliners. However, government policy exerted a much stronger influence over corporate strategy in the aviation industry. Qantas relied heavily upon government subsidies to develop its earliest routes in the 1920s, working more effectively with the Civil Aviation Department to this end than some of its earliest rivals such as Lasco.\(^{17}\) As government route subsidies reduced in the 1930s Qantas began expanding its interstate routes and the beginning of the Empire mail service to Britain.

Immediately after World War Two Ansett began to build its position in the air freight market: by transporting passengers during the day and freight at night it significantly improved its airliner utilization above a low 54 per cent.\(^{18}\) The resulting scale economies, along with cost cutting, enabled Ansett to be highly price competitive in establishing its market position in competition with other pioneers such as ANA and TAA. Ansett’s 1957 acquisition of ANA followed by a tightening of the two airline government policy in 1958 helped to sustain the airline’s fleet expansion and keep out competitors.

Both Qantas and Ansett pursued vertical integration in their early years due to the lack of ancillary service providers for this new and technologically complex industry. In the interwar period Qantas built and maintained its own planes, trained its own pilots, and provided accommodation for its crews.\(^{19}\)

The two airlines diverged over their approach to diversification. In its early years, Qantas rejected several opportunities for diversification believing it would be a distraction from their core business.\(^{20}\) In the post World War Two period, the nationalized Qantas served as the national carrier of Australia, supporting further horizontal growth of its fleet through geographic expansion overseas. The company’s first overseas passenger flight was to Singapore in 1935 and to United Kingdom by 1938. However, it was the postwar period that witnessed the main growth of its overseas network including Japan and Hong Kong from 1949, South Africa from

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\(^{19}\) Gunn, 1985, pp. 86-99, 247-8, 358.

1952, and North America from 1953. Ansett's overseas expansion has been much more recent and limited in nature, most notably into Asia in the 1990s.

Ansett had begun its airline operations when Reg Ansett diversified from his taxi service, and diversification has been a postwar watchword of the company as it responded to the limited opportunities for further horizontal expansion resulting from Qantas's virtual monopoly of overseas flights. In the two decades following the end of World War Two Ansett pursued related diversification to yield scope economies with its national air services network. This particularly involved the establishment of a chain of holiday resorts and hotels beginning in the Whitsundays in 1947. In addition, it established helicopter and became the largest road freight operator. From the 1970s it followed the trend of the time to diversify more extensively and broadly into unrelated sectors, which included finance, credit cards, television stations, furniture removals, restaurants, and stationery.

Utilities

AGL and SAGASCO used horizontal integration to claim market share in a rapidly expanding industry, and supported it with strategic investments in vertical integration and closely related diversification to shore up their leadership against competitors. From the outset the industry was a capital intensive one where scale economies were available to firms able to foster a growing market. As we saw in chapter three, AGL, abetted by its early start and the support of local councils, was quick to capture the Sydney market. Both it and SAGASCO were quick to adopt new technologies that extended their dominance, for example large vertical retorts and high pressure steel mains enabled them to extend their geographical coverage in the interwar period. When LPG came along they were quick to distribute it to customers without mains connections. The companies were also alert to the political opportunities and challenges associated with their supply franchises. They were quick to defend their rights and fostered important connections. After World War Two SAGASCO saw major growth opportunities to provide supply to the housing programs but faced a competitive threat from electrical suppliers. As a result, it fostered close political connections with the State government and the South Australia Housing Trust.

Both companies vertically integrated the production and distribution of gas from early in their history. This made sense on a number of levels - a lack of alternative suppliers, the risk of hold-up if any firm gained leadership in gas production, and technical non-separabilities in the production and distribution of gas. From about the 1880s AGL and SAGASCO had vertically integrated forwards into retail and marketing in order further to build scale. This included the sale and lease of gas cookers and the provision of cookery lessons, demonstrations, and competitions. By the 1920s they were each operating retail showrooms. With the introduction of natural gas in the 1970s both companies withdrew from the manufacture of gas, now being provided by the oil companies, and concentrated upon distribution and marketing. This enabled the companies to avoid the major investments required to extract natural gas, and enabled them to shift away from their old image as manufacturers of 'grimy' town gas. On the other hand, the companies lost some of

23 Broomham, p. 120; D &K, pp. 98-9.
their strategic influence over the industry and vigilance was required regarding the right of other producers to by-pass them in supplying major industrial users. While SAGASCO fell out of the top 100 list after 1964 AGL has been able to maintain its position helped by its return to upstream vertical integration particularly after Ron Brierley acquired a large share of the company in 1986. Today, it remains a major energy player with investments in oil and gas exploration and production.

Closely related diversification was pursued by both firms to exploit scope economies and boost their strategic standing. Both companies were manufacturing by-products of gas by the 1920s including sulphate of ammonia, coke, tar and its derivatives, which drove down the cost and price of gas. Likewise, they sought market diversification for gas, from heating to lighting, cooking, and in vehicles, and from household to industrial consumption, using the forward vertical integration strategies discussed above. It was only after 1986 that Brierley drove AGL into broader diversification into gold exploration and property development but this was wound back in the 1990s when the company diversified into electricity by taking advantage of privatization policies.

Geographic expansion has played only a very minor role in the industry, both companies largely exploiting localized supply franchises for much of their history. Recently, AGL has expanded overseas as part of its expanded energy exploration and production mission, including to New Zealand and Chile.

**Wholesale and Retail trades**

Sustained horizontal integration enabled a limited number of retailers to grow rapidly in the early twentieth century at the expense of the established pattern of dominant wholesalers and small suburban retailers of the previous century. The growth of large capital city populations and improved transport systems provided the conditions for large scale retailing. Department stores, Myer and David Jones, occupied centrally located sites in easy reach for both customers and suppliers. Size gave them scope economies, convenience for customers, and bargaining power with suppliers. Myer’s ‘bargain basement’ selection, for example, tapped its sophisticated marketing and sales techniques across a wide range of merchandise and its ability to buy cheaply from suppliers. Chain store operators, Woolworths and Coles, used scale to offer low prices for an initially limited range of household items, and then leveraged their expertise, reputation, and buying power into an expanding chain of outlets and broader range of merchandise. Each of the corporate leaders also drew heavily upon innovation to augment their standing and extend their horizontal growth; we saw in chapter three that a regular flow of innovations characterized all stages of the sector including supplier to store, in-store, and store to customer operations. The retailers further strengthened their competitive position by building vertical onto horizontal integration through internalizing buying functions to bypass wholesalers and deal directly with manufacturers; in some cases this also involved integrating backwards into manufacturing, for example into woollen mills in the case of Myer.

After World War Two horizontal integration was extended rapidly as these largely state-based firms grew into national organizations, particularly through acquisitions in the 1950s. Diversification followed shortly afterwards for the chain stores. Coles moved into food retailing in 1958 and in 1960 established the first free-standing ‘supermarket’ with its own car park in Balwyn (Victoria). The supermarket was an international trend driven by a range of social, spatial, and technical changes including suburban expansion, the spread of the automobile, refrigeration, and double income families. This enabled well placed retailers to build large out of town
‘supermarkets’ offering a wide variety of foods conveniently located in a single store. Price competition was intensified by low land costs and buying power.24 The boundaries within the retailing industry were effectively breaking down in the 1960s and 1970s as the leading companies continued to diversify. All the corporate leaders moved aggressively into the discount market, building huge stores and relying upon volume sales to win supplier discounts and thereby drive down their prices to narrow margins. Myer achieved this through its Target stores, Woolworth through ‘Big W’, and Coles by using the K Mart brand. The corporate leaders continued to diversify their portfolio of retail services in the final decades of the century. This has included the ‘killer category’, stores specialising in a narrower range of products than department stores while competing with discount stores on price. In the case of Coles Myer this included World 4 Kids, Office Works, and Mega Mart. Thus, the corporate leaders in retailing have been quick to see new diversification opportunities. This has been narrowly located within retail services, yielding sizeable scope economies although Coles Myer, the most diverse retailer, has struggled in recent years to manage its different market segments.

Multinational activity has not been a central part of the growth strategies of the retail leaders. They have concentrated upon building share in a rapidly expanding domestic market and being quick to introduce new techniques and methods. Woolworths had a part interest in the New Zealand market from 1929 until 1978, and Coles from 1988, while David Jones invested in a chain of Californian department stores in 1974 but sold out ten years later.25

Burns Philp was the principal wholesaler to survive the growth of the giant retailers although its relative position declined somewhat in the final two decades of the century. Indeed, it was one of the five companies to survive in the top 100 through all six spot years, and its growth strategy played a major part in this success. It used horizontal integration based upon overseas expansion to shore up its market position, and supported this with vertical integration as a defence against the growth of large scale manufacturing and retailing. Horizontal expansion provided the company with the focused expertise and knowledge to spot growth opportunities. They then used their position as a trade pioneer, particularly in northern Queensland, to cultivate good government relations. The resulting benefits included government support for new infrastructure, the award of mail contracts and agency work to the company, and the defence of company interests against the interests of foreign companies trading in the area including those from Japan and Germany. As Bucklay and Klugman noted, while they did not have ‘personal top-level contacts at the heart of the empire’ in London, the company ‘established intimate relationships with a number of Australian government officials and politicians’.26

Horizontal growth was based specifically upon South Seas trading as their core business. Burns Philp operated from a large number of trading stations throughout the South Pacific, becoming a resource seeking multinational, operating overseas from a much earlier period in their history than most Australian companies. By 1914 they had overseas offices in United Kingdom, the Solomon Islands, Papua, Java, the New Hebrides, Tonga, and Samoa, as well as a subsidiary in Fiji, a depot in

24 Boyce and Ville, Development, ch. 7.
26 Buckley, K. and Klugman, K., The history of Burns Philp: the Australian company in the South Pacific (Sydney: Burns, Philp & Co Ltd, 1981), p. 275. Burns Philp also had shipping contracts with foreign governments such as Fiji, Portugal, and Papua.
the Gilbert Islands; in the following year they established their first New Zealand branch at Wellington.27 These investments, however, provided them with little relevant experience from which to leverage broader multinational expansion beyond the region.

It was their vertical integration strategies, throughout the company’s history, which mostly sustained them against contractual threats from up and downstream firms. Like many traders, the firm acquired its own vessels to overcome inadequate shipping services and to guard against predation by large shipping companies. In due course, though, it expanded its shipping operations in recognition of the shortfall in the freight market, providing a network of regular inter-island services in the Pacific. Burns Philp additionally acquired marine towage facilities and the coal supplies necessary to fuel its fleet. As they expanded their interests through the islands of the South Pacific, Burns Philp vertically integrated backwards into agency services and the operation of plantations. Again this partly reflected inadequate supply and the risk of predation. Additionally, the company recognized the market growth opportunities in coconut, copra, and rubber on which most of their plantations were based.

However, it was the downstream threat that was the more serious as we have seen above from the effectiveness of the large retailers. The company was quick to recognize the threat, James Burns junior observing in 1931, ‘the only way now for a wholesale distributor to expand is by means of a chain of tied stores in which the wholesaler has a controlling interest’. The following year Penney’s Ltd was formed to operate a chain of retail stores on behalf of the company, which by 1935 consisted of 25 outlets in Queensland and northern New South Wales. The company then went on to acquire many stores in rural New South Wales.28 Around the same time (1935-7) Burns Philp also substantially increased its plantation ownership also as a way of ensuring throughput and to keep their vessels loaded for the passage back to Australia.29 In the long run the plantation policy proved more successful than the operation of retail stores. Although Penney’s was said to be ‘big and flourishing’ in 1952, it was sold four years later to Coles. Many years later Burns’ assessment was that the company had lost out to the major retailers like Myer and David Jones by not investing more substantially in capital city retailing in place of country stores, leaving them without a strong metropolitan base.30

Media

The great Australian media empires were built upon a judicious combination of horizontal and vertical integration mixed with narrow diversification within the industry. Metropolitan-based newspapers, faced with growing urban markets, were quick to exploit new large scale printing technologies that had become available in North American and Europe. HWT in 1934 was the first firm to introduce printing presses capable of producing 50,000 copies an hour at its new Flinders Street site. The resulting scale economies and lower costs rapidly drove out smaller and regional competitors with shorter print runs. The capacity created by the new technology enabled the firms to expand horizontally to build national newspaper chains beginning in the interwar period as we saw in chapter three. In addition to the adoption of scale-based technologies, size also generated information economies since journalism costs were spread over longer print runs. Central to these scale strategies, the strong-minded

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leaders of these media firms modified the presentation and layout of their newspapers to popularize them and thus expand their market.

Backward vertical integration helped protect the large newspaper proprietors from hold up and improved their position with respect to foreign suppliers of newsprint and journalism. HWT and the Fairfax Group were at the forefront of the development of an Australian newsprint industry in the 1930s; in 1941 the first Herald appeared printed on Australian newsprint.\(^{31}\) In terms of news collection, Australian newspapers bought news from Reuters from the 1870s. Its position was challenged in the twentieth century by the Australian Press Association and United Cable Service, the latter under the control of Fairfax and HWT. In 1926 APA and UCS negotiated more favourable terms with Reuters. Further renegotiation occurred under the leadership of Keith Murdoch representing the newly formed Australian Associated Press in 1942, and five years later a partnership was formed with Reuters.\(^{32}\)

Scope economies were leveraged onto these strategic growth strategies as the firms used their sizeable production capacity to diversify their stable of publications, offering both morning and afternoon papers together with magazines and colour printing services. Thus, from the early 1920s HWT began publishing a morning paper, the ‘Sun-News Pictorial’ and several editions of the evening ‘Herald’. There followed a bi-weekly ‘Sporting Globe’, a weekly country oriented ‘The Weekly Times’, along with magazines such as ‘The Australian Home Builder’. Scope economies of information were also generated to some degree since similar and related stories could appear in more than one publication. Branded mastheads additionally provided some reputational economies.

The industry leaders were quick to recognize the opportunities for additional and substantial scope economies of news content as a result of the emergence of new forms of media. HWT was the first newspaper group to diversify into radio, setting up 3DB in Melbourne in 1929. In 1955 it moved into television with the establishment of HSV7. Packers’ Consolidated Press diversified into television through Channel Nine in 1956. The more recent growth of satellite and pay TV has been dominated by News’, particularly with the formation of Foxtel in 1994. These new types of media provided the companies with the additional benefit of a large increase in advertising revenues since radio then television became ideal channels for modern persuasive advertising.\(^{33}\)

The extent of related diversification within the media was, however, limited by Federal regulations from the 1950s regulating ownership of the electronic media. The Broadcasting and Television Act of 1956 limited the number of licenses a firm could own. Substantial amendments to that legislation in 1987 capped the overall audience any television network could reach and prohibited cross-ownership of print and electronic media in the same city.\(^{34}\) As a result the companies sought specialization on print, television, or radio over the following years.\(^{35}\) In particular, News was obliged to divest its network television channels, Ten and Seven.\(^{36}\) Government

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31 Sinclair, Keith Murdoch, 1952.
32 Read, pp. 164-6, 251-2, 267.
33 See Boyce and Ville, Development, ch. 7.
34 P. Chadwick, Media Mates: Carving up Australia’s Media, 1989.
36 Chadwick, Media Mates, pp. 41, 117-19. Rupert Murdoch’s American citizenship additionally barred him from ownership of an Australian radio or television licence.
policy appears to have been a factor behind News' broadening of its diversification strategy to include book publishing, film making, farming, and transport.

News Corporation stands apart from the Fairfax and Packer media empires in that it has become a global player. It ranks as one of the world's largest media firms, acquiring a string of overseas newspapers, magazines and book publishing businesses, Twentieth Century Fox film studio, a string of TV stations in the US and satellite operations for pay TV [Norton and Willcocks, 1993; Economist, 2001]. It initially expanded beyond its Australian base in 1968 with the purchase of popular mass circulation British newspapers, the News of the World in 1968 and the Sun in the following year in a strategy consistent with the horizontal expansion policies it had adopted in Australia. In the following decade News moved into the American market and proceeded to acquire a series of foreign newspapers, magazines, and publishers. By the mid 1980s it had begun to realign its activities increasingly around television and film. By the end of the decade News had begun to act like a global company using a standardized approach to its satellite services beamed to many parts of the world. Norton and Wilcocks argue that this global strategy was based upon a, 'belief that tastes, income levels, technologies, and even political philosophies around the world were converging on the American model, producing strong demand for American-style films and television programmes'. Irrespective of the extent to which this overstates convergence, News had clearly transcended the problem faced by many Australian multinationals of country and firm specific advantages that had little relevance for much of the world. In particular, it was not located in the primary industries, so long dominant in Australia, but rarely appropriate as global organizations.

Construction and Property Management

The leading companies, L. J. Hooker and Lend Lease, adopted similar growth strategies to successful firms in many of the other service industries mentioned above, building vertical integration, related diversification, and belated internationalization upon initial horizontal expansion. Hooker had built up the largest national network of real estate offices by 1960, leveraging off their brand name and experience. Thenceforth, they extended their network further by franchising from 1968, using the same competitive advantages but at lower cost. By the 1990s the company had a network of over 600 offices located across Australia, Hong Kong, PNG, and New Zealand. A national presence provided the company with the springboard to exert close control over the residential real estate market by additionally becoming a property developer, reseller, and investor through vertical integration. Closely related diversification took Hooker's into property management, to include sheep stations, hotels, and motels [dates needed]. Scope economies were yielded by exploiting the firm's existing core competencies in the industry.

Lend Lease, from its establishment in 1958, operated as a commercial property management company, working closely with its parent company, Civil and Civic, through a strategy known as 'design and construct'. C & C won contracts to construct new buildings and, when completed, Lend Lease would sell the space or lease it to tenants as an on-going investment. To further extend their horizontal expansion the

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companies tendered for major contracts that would raise their profile. In due course, these would include the Sydney Opera House, Darling Harbour, Australia Square (Sydney) and a variety of sporting stadiums. The initial growth strategy soon changed when they won the Australia Square project. The enormity of the construction task that began in 1962 motivated Lend Lease to establish a vertically integrated company. Between 1959 and 1962 Lend Lease acquired six companies to supply elevators, windows, and building materials. The benefits were in the form of reduced transactions costs by establishing a single governance structure to coordinate complex operations and prevent hold up of a tight operating schedule.

Diversification followed close on this strategy as Lend Lease leveraged its integrated property skills into the development of shopping centres with the postwar spread of the ‘mall’ in Australia. In addition, it diversified into the residential housing market in order to exploit the urban growth of Sydney, particularly that of Campbelltown. Market diversification was also brought about with the expansion of the investment side of the firm. The General Property Trust was established in 1971 to offer units in a trust that would own and manage commercial properties. Its financial services have since expanded to include insurance, banking, and funds management.

Like Hooker, Lend Lease have leveraged their industry skills overseas in recent decades. Perhaps more so than Hooker they have been able to apply their firm specific advantages in project design, construction, and management in many overseas nations particularly targeting growth economies. A frequent pattern of internationalization pursued by Lend Lease has been to win a major overseas contract in order to establish a beachhead, then pursue additional contracts with the aid of a local joint venture partner. Further expansion then leads to the setting up of a local office in that country. Thus, for example, the move to New Zealand was initiated by a major contract in Wellington, followed by a joint venture with Wright Stephenson in the name of Challenge Properties. By 2002 Lend Lease could boast operations in 38 countries on six continents, with a significant presence in the United States, Europe, the Asia Pacific, and South America.

**Food, drink, tobacco**

The dominant firms in this sector drew heavily upon new science-based technologies imported from Europe and North America, supported by the development of branded product ranges to expand horizontally and claim first mover advantages. CSR, one of our five corporate leaders throughout the twentieth century, expanded horizontally eliminating rivals with its low cost large scale and technically advanced refineries. The company rapidly built backward vertical integration into milling, plantations, and shipping, thereby ensuring the supply of its capital intensive refineries was not held up by opportunistic suppliers or the lack of a market in specialized shipping services.

By the 1930s with its virtual monopoly of sugar production well established and the sugar market mature and slow growing, CSR turned to related diversification to maintain their expansion. Substantial economies of scope were available by the use of by-products of sugar refining to enter the alcohol and chemical industries, and the production of building materials from waste sugar cane. The related diversification into building materials continued strongly through the postwar period including the production of vinyl flooring (1949), insulation and hardboard (1959), particle board

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39 Murphy, 1984, pp. 55, 67.
40 Lend Lease web page.
(1960), pre-mixed concrete (1965), terracotta tiles, asbestos, cement products, and architectural metal products (1969). Like many other companies, CSR also followed the trend towards unrelated diversification in the 1960s and 1970s, investing heavily in the energy and minerals sectors. These interests spread widely across oil, gas, coal, iron ore, and bauxite/aluminium.

Many of these unrelated ventures incurred very large losses in the 1970s and early 1980s, requiring the firm to reconsider its growth direction. CSR faced falling commodity prices in the recession of the early 1980s and these problems were compounded by diversified investments in businesses whose cash flows and earnings were highly volatile. Fortunately, the company recognized these directional mistakes and took steps to correct them. A strategic review in 1983 led to the divestment of most of CSR’s energy and mineral interests except aluminium to focus on sugar and building products as its core competences. Most of its growth in the following decade was in building materials whose share of company assets rose from 18 to 63 per cent, 1983-93. 41

Another solution to CSR’s rapid saturation of the Australian refined sugar market was to tap into overseas markets. As early as the 1930s it exported more than half of its output, a figure that had risen to 80 per cent by the late 1980s. 42 In addition to exporting CSR had acquired sugar mills in Fiji and an interest in an Auckland refinery in the nineteenth century. However, like many other resource based Australian multinationals at this stage there were limited opportunities to expand further. Instead, it is only in recent decades that it has become a significant global company. Bulky building materials are mostly unsuitable for large scale exporting and provide broader leveraging opportunities than sugar milling and refining. This motivated significant offshore acquisitions by the company particularly in the USA from 1988, and the United Kingdom, Canada, Taiwan, and China in the 1990s. As a result, more than 40 per cent of its revenues now derive from its building materials subsidiary in the USA.

As we saw in chapter three, the brewing industry generated a significant number of corporate leaders. The rapidly expanding urban market for beer and the introduction of science-based advances into the industry by the turn of the twentieth century provided opportunities for alert brewers to expand horizontally by introducing capital intensive large scale production at lower unit cost. It was not until later, however, that Australian brewers honed their marketing skills, developing brand names to sustain their dominance. Tooth’s became known for its ‘pub art’ marketing in the 1930s, but the development of strong national brands came much more recently, in response to the arrival of British brewer Courage in 1968 and the absorption of the leading brewers into expansion-minded conglomerates in the following decades.

Vertical integration was a vital supporting strategy from early on. Upstream integration secured supplies. Thus, CUB had an equity position in Joe White Maltings from 1910 until the 1930s and invested in its own malting production facilities in 1952. Breweries integrated forwards into distribution functions by transporting its own products and acting as agents for other beverages and supplies to hotels. Given the bulkiness of beer and the importance of careful and prompt handling integration of these functions was an efficient mode of operation. The most significant form of

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41 White table 11.5 p. 198 (for 1983); Holst, Australia’s Top 300 Listed Companies Handbook, p. 107 (for 1993).
vertical integration, though, was ‘tied house’ agreements, which gave the leading brewers control over the principal retail outlets for beer. The consequence was to create a powerful entry barrier particularly when the number of liquor licences on issue was capped from 1907 until the mid 1950s; these agreements were finally outlawed by trade practices legislation in the 1970s.

With a sustained expansion in the demand for beer and the effective control of that market by a few corporate leaders, there has been only limited incentives to diversify. Product diversification, therefore, has played only a minimal role in the industry by contrast. In the 1990s Foster’s expanded strongly into wine production and sales along with other heavily marketed alternative alcoholic drinks such as Subzero from 1996. It has also moved into property and hotel management and the entertainment industry.

The brewers exported bottled beer to Pacific neighbours from the earliest days and CUB consolidated their position with the establishment of a brewery in Fiji in 1958. However, it is in more recent times that the leading brewers have looked overseas to leverage their skills, scale, and powerful brand names. Foster’s lager established a strong market position in Britain beginning in the 1960s. CUB’s focus on overseas markets has strengthened considerably in the last two decades with acquisitions in United Kingdom and Canada. In the 1990s expansion by Fosters has gone further afield into the developing markets of China and India although with mixed success so far.

British Tobacco (Australia)’s dominance of the local tobacco market resulted from its position as the holding company for the major local importers and manufacturers. As we saw in chapter three its market share fell away sharply when faced with foreign competition after 1955, suggesting it had made little attempt to develop efficient growth directions. Its response was broad and largely unrelated diversification into printing, vending machines, ten pin bowling, pastoral properties, and food and drink interests. Among these various new directions, however, the company dominated the snack foods market and cornered the highly valuable local Coca Cola franchise, activities that it focused upon after 1989. The latter in particular provided the firm, now Coca Cola Amatil, with the leverage to expand into Asia and central Europe as one of the largest ‘anchor bottlers’ in the Coca-Cola system.

Jam producer Henry Jones concentrated initially upon horizontal integration, building scale by enlarging production facilities. This gave him double the capacity of all his rivals combined and drove down his production costs. He was an early user of branding techniques as a means to sustain a market for his large production capacity; all his products carried the IXL brand name from the mid 1890s. Jones then yielded scope economies by diversifying narrowly into a widening range of food products including pickles and sausages. The ever-alert Jones was awake to the threats from his two main upstream suppliers, shipping and sugar. As we have already seen, both were highly concentrated industries thereby increasing the risk of hold up for his large scale capital intensive operations. His solution was to integrate backwards into shipping by establishing his own fleet and, additionally, acting as agent for other lines in order to improve working relations and reciprocity of dealing. Jones additionally sought to integrate backwards into sugar with an abortive attempt to acquire a Queensland refiner. Although unsuccessful, his action sent a credible threat to CSR that it should not press this customer too hard. Jones also integrated backwards into saw milling to provide timber for packaging, and into fruit and hop growing to supply his factories as well as for export. Henry Jones was also early to commence internationalization, sustained its fruit export business with the establishment of a London office in 1903.
Six years later a factory was established in South Africa. Operations were also established in New Zealand and an abortive attempt was made to set up in California. The company is generally believed to have lost ground after Jones died in 1926 but the initial strong grounding he provided ensured the company remained a force in canned foods up to its acquisition by Elders in 1984. 43

Nestle and Unilever bear comparison as foreign multinationals who settled in Australia to exploit their reputation in branded food products. Unilever therefore grew horizontally by dominating the branded soap market and Nestle in powdered and condensed milk and milk drinks such as Milo. Nestle diversified into closely related food products to exploit the scope economies of brand recognition, notably confectionery after 1918 and instant coffee from the 1930s. 44 Unilever continued to concentrate upon the soap market until the second half of the century. Faced by increasing competition from other multinationals such as Colgate-Palmolive, Cussons, and Proctor & Gamble, Unilever began to diversify into the foods market from the 1960s. 45

Chemicals and Petroleum

ICI applied the same growth strategy in Australia as it had elsewhere, diversified growth building on its research reputation and the wide range of technological innovations in the chemicals industry in the middle decades of the century. This took the company into such areas as paint, explosives, alkalis, dyes, fabrics, plastics, non-ferrous metals, and petrol. This contrasted very much with the pure petroleum multinationals, BP, Esso, Caltex, Mobil, and local firm AMPOL who concentrated upon integrated petroleum production, combining refining, marketing, and the operation of service stations. This combination of horizontal and vertical integration sought to exploit the growth of the Australian market while protecting their interests in a highly concentrated industry with very high levels of minimum scale and capital intensity.

The strategy of Boral is the most instructive of the firms in this sector. Formed in 1946 to refine bitumen from imported crude oil, it recognized scope economies available from additionally producing fuel and diesel oil. As Hutchinson has pointed out, this was probably a poor decision since the company was soon faced with tough competition from multinationals able to establish huge refineries yielding low cost oil. 46 However, Boral redeemed itself by actively seeking out alternative markets for oil by-products, which involved product and market diversification together with vertical integration. Vertical integration in the 1960s was deployed to strengthen its position and utilize its core competences in bitumen, upstream into quarries to secure supply and downstream into road surfacing operations, ready mix concrete, and hot-mix asphalt to develop new markets. 47 By the end of the 1960s, however, the company recognized the need to diversify out of bitumen if it was to sustain a pattern of growth. Exploiting scope economies it turned to other building materials such as reinforcing steel, concrete products, and brick plants. As the commercial property market turned downwards in the early 1970s, Boral again showed nimbleness of

43 This paragraph is largely taken from Brown, I excel!
44 This Is Your Company, Nestles, 1946, pp. 103-6.
47 King, 2000, pp. 23-87; Hutchinson, 2000, pp. 119-20
strategy by diversifying into the residential construction and renovation sectors and bolstering this with the development of a national brand. Additionally, Boral also successfully diversified into LPG distribution to become the leading bulk distributor in Australia.\(^{48}\) The final aspect of Boral's strategy was to expand internationally to exploit further this successful formula; from 1979 they moved into the USA, UK, Indonesia, Continental Europe, and North Asia.\(^{49}\)

**Glass, clay, non-metal products**

The three dominant firms here AGM/ACI (glass), Humes (pipes), and James Hardie (concrete and other building materials) built scale in their particular area before leveraging off these competences to add narrowly diverse products and to expand overseas. Each firm built scale effectively through being a leader in technical innovation in the first half of the twentieth century. Humes pioneered the manufacture of concrete pipes, Hardie the manufacture of fibro-cement. AGM pioneered many aspects of modern glass manufacture, helped by a vertical integration strategy that promoted a holistic view of technological change in the industry and the consequent ability to apply learning-by-doing advantages.\(^{50}\)

Humes was very quick to build product diversification and geographic growth onto its initial leadership of concrete pipe manufacture in Australia. It established manufacturing facilities in Singapore as early as 1922, in New Zealand by the following year and additionally reached USA, United Kingdom, Japan, Germany, Brazil, South Africa and several Asian nations by the end of the decade. Some narrow diversification, also in the interwar period, included production of steel pipes, other concrete goods, and various forms of metal fabrication.\(^{51}\) ACI diversified more slowly but more fully after World War Two. This was initially into a full range of glass products, including window, sheet, and containers and followed this up with diversification into related areas of laminex, plastics, corrugated paper and cartons, some steel products, and ceramic tiles. Finally, from the 1960s onwards they added unrelated diversification into finance, quarrying, insurance, engineering, building products, and white goods.\(^{52}\) ACI was also later and more limited in its overseas expansion, establishing interests in Singapore (1948), Malaysia (1968), Indonesia (1973), PNG (1973), and China (1993). In the postwar era Hardie's continued its horizontal expansion with the supply of fibrolite pipes to the mining expansion of Western Australia. In addition, it extended its range of building products, diversified the market for its key product, fibro-cement, and sought new overseas markets in the 1970s - when the growth of the Australian building material market slowed - particularly Japan, Singapore, Malaysia, USA, and the Middle East.\(^{53}\)

**Transport equipment**

\(^{48}\) Hutchinson, 2000, p. 121.
\(^{49}\) Hutchinson, 2000, p. 127; King, 2000, pp. 87-100.
\(^{51}\) Snooks, 1973, pp. 20, 27.
\(^{52}\) *Wild Cat* 9.6.1960, 3.12.1960
GMHolden’s leadership of the automobile industry was built upon making the correct ‘make or buy’ and locational decisions at different stages of the industry and firm’s development. The industry featured high minimum scales of efficiency that early twentieth-century Australia could not obtain. Therefore, GMH initially imported ckd units for assembly in Australia, drawing upon the scale economies of GMH and then minimizing transport costs from USA. With high transport costs within Australia the earliest vehicles were assembled at plants in major locations around Australia. As local content increased, centralized assembly plants became more cost effective, most tasks being completed in Melbourne and Sydney.

Government policy influenced the structure of the automobile industry in many respects, perhaps most notably tariff protection’s encouragement of local production by foreign firms. In 1944 the Federal Government announced that it would grant preferential tariff conditions to firms prepared to manufacture completely a car in Australia. GMH along with Ford, Chrysler and International Harvester, took up the challenge. In circumstances where there were no reliable local suppliers of particular components the firms were obliged to ‘make’ not ‘buy’. Thus, GMH established its own foundry facilities to produce engine castings since the domestic foundry industry was incapable of satisfying the technical requirements of GMH. As Maxcy has noted, ‘the company ended up more integrated than it perhaps would have wished – at least at that time’.54 Nonetheless, GMH showed an awareness of the benefits of using local suppliers in place of vertical integration where they could work with competing suppliers to mitigate the risk of ‘hold up’.55 GMH also vertically integrated forwards from 1948 to establish its own dealer network. The company believed that control over the quality and presentation of the vehicle could be more effectively managed when compared with general retailers who had no loyalty to a specific automobile company and could not easily be monitored.

The automobile industry has of course been dominated by powerful multinationals. GMH exploited its ownership and location advantages in Australia to serve as the export base for regional markets of New Zealand and South East Asia. This enabled the firm to drive down costs through scale economies. Assembly facilities were established in Indonesia in 1959, learning from the life cycle experience accumulated in the Australian market.

As we noted in chapter three, GMH’s lead over the industry narrowed in the second half of the nineteenth century. Much of this has been due to the entry of new competitors from Japan and Korea but it has been compounded by poor policy decisions from the company, particularly insufficient investment in new technology and updated models in the 1960s and early 1970s followed by the untimely introduction of a large engine car later in that decade as petrol prices were rising sharply. In the 1980s design and marketing deficiencies lost the company market share in the supply of taxis.56 The loss of domestic and international sales in turn lessened the cost-saving scale economies that company policy had built up over the previous decades.

Leather, rubber, plastics

The dominant firm here, and one of our five corporate leaders throughout the century, was Dunlop. An active and flexible growth strategy saw the firm develop from a rubber importer at the beginning of the century to a broad conglomerate close to the century’s end. The rapid growth of demand for rubber products in the twentieth century provided the company with ample opportunities for horizontal and diversified growth. Its factories were soon turning out a range of rubber-based products predominantly tyres but also shoes, golf balls, valves, tennis balls, clothing, and hot water bottles. This modest diversification produced scope economies and additionally addressed the intense competition in the 1920s from three other companies including recently arrived Goodyear. Further opportunities to diversify rubber products were embraced in the 1930s including foam rubber and latex products.

Postwar, Dunlop identified further competitive threats, especially from Japanese firms, and opted for broader and increasingly unrelated diversification, which included bedding, automotive batteries, medical products, and foods. Some of these ventures have fared better than others. Arguably rather late and resulting from investor pressure, Dunlop began a major programme of divestment in the late 1990s and now concentrates on Healthcare products under the Ansell brand. Even in this area, faulty pace makers exposed the technical problems of unrelated diversification.

Dunlop has followed the common pattern of belated internationalization. Cuts in tariff protection and export incentives in 1974 provided the impetus to seek lower cost production locations including the Philippines, China, and Malaysia. In the 1980s it extended its overseas production to the USA, Thailand, and New Zealand.

**Industrial machinery and household appliances**

Rapid technological development in this sector and the generation of luxury items for a population of rising size and income meant that innovation and speed of action were vital to assuming leadership in this sector. Vertical integration and related diversification were vital growth directions. AWA sought vertical integration as their initial strategy in the 1910s and 1920s. The firm grew on the back of the expansion of demand for radios. Besides the production of radios and their components, it vertically integrated forwards into the service and repair of radio sets and, additionally into the operation of radio stations. Its innovativeness soon enabled the firm to diversify into stereo equipment and radar products in order to yield scope economies. It has been estimated that the company held as many as 3,000 patents for radios and radar products. AWA leveraged its core competences in these technologies to foster a close working relationship with the Federal government as the major supplier of traffic control equipment and provider of the Beam Wireless service. The advent of television gave the firm another set of products and related markets to which it could apply its expertise in electronic equipment design and manufacture. By 1960 it was described as being in the 'envious position' of the leading television producer and the only provider of key components such as tubes. In the following decades further related diversification into new products took place including electric fans, film projectors, communications equipment, air conditioners refrigerators, and washing machines.

**Growth methods of corporate leaders**

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57 *Wild Cat*, 5 March 1960.
General patterns

In a similar fashion to directions of growth, corporate leaders recognized the need for flexibility in selecting growth methods most suited to the prevailing climate. A considered, rather than quick, response, however, was more important since mergers and joint ventures are difficult and costly to reverse. Life cycle features are generally discernible: Australian firms in their early stages rarely had the resources for acquisition strategies and would concentrate upon internalisation. In addition, the prime movers in an industry rarely needed to look beyond their boundaries for best practice, but later entrants, or challengers, saw more opportunities from acquisition. Interfirm agreements also occurred among smaller emerging firms seeking to share development and other costs, but, were often more effective when organized among a few large enterprises. In addition, Australian firms have often used interfirm agreements to launch overseas activities, something that has occurred late in the life cycle of most firms. They have likewise been the domestic partner for interfirm agreements with foreign multinationals entering Australia. Industry and firm-specific trends can also be identified, as we shall see below, but trends over time have been especially significant.

Internal growth was important for many firms in the first half of the twentieth century. The limited sources of external finance available to Australian firms in the absence of a sizeable public stock market or investment banks constrained large scale fund raising to purchase firms. In addition, the limited number of listed companies meant a focus on the acquisition of private companies, which was a time-consuming business, based on incomplete information, and normally requiring the cooperation of the acquired firm. While some firms became adept at private acquisitions, many others relied more heavily upon ploughed back profits to finance incremental increases in their operations. In many industries where only a few firms were in existence, the opportunities for growth by acquisition were limited. Acquisition of vertically related firms helped address the problems of contractual hold up discussed above, and sometimes this was undertaken through buying a strategic block of shares rather than attaining full control. While providing strategic influence at lower cost, the ability to control and direct partially acquired firms has been limited in most cases.

The growth of listed companies and the expansion of alternative sources of corporate finance over the last half century, discussed in detail in chapter five, overcame the obstacles to an active market in corporate takeovers. In addition, the rise of challenger companies by this time in many industries, eager to catch up with the prime movers, were more likely to view merger as the preferred growth method. Various estimates of merger activity between 1946 and the 1980s have been undertaken for Australia, including the number of delisted companies, the number of mergers, and the value of mergers, all of which point to a major expansion in merger activity in these four decades. There have also been also strong cyclical trends, with merger activity rising in the 1950s, falling away sharply in the first half of the 1960s, rising again to a further peak in 1969-72, falling away to the middle of that decade, with further peaks in the early and then mid 1980s. We have extended these series to

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59 *BIE*, pp. 20-1.
calculate merger activity from 1929 to 2001 by aggregating firms that were delisted for reason of takeover and name change.\textsuperscript{60}

The postwar growth of an active market in corporate takeovers provided a new and accelerated growth path for firms. As we saw in the previous section, acquisition enables firms to diversify rapidly into unrelated fields. At the same time, the credible threat of acquisition exposes poorly managed firms to the discipline of the capital market. More information is available about public corporations and the threat of takeover is far more apparent. While private companies constituted up to a half of acquisitions in the early postwar decades, by the 1970s the principal increase was in the takeover of public companies.\textsuperscript{61} Active 'corporate raiders', particularly in the 1970s and 1980s, pursued the conglomeration fashion by seeking out newly exposed firms, particularly in manufacturing, who were asset rich but undervalued as a result of ineffectual management. The conglomeration fad has largely subsided and many of the raiders have since fallen on their swords and their empires demerged, but the credible threat to weak firms remains. An active mergers market has also accelerated the process of rationalization in the declining primary and related industries, such as pastoral agencies, thereby facilitating industrial restructuring.

Finally, as we shall see below, growth by interfirm agreement has been a regular feature of many industries. It has helped firms enjoy some of the benefits of scale in the small Australian market, particularly where synergies can be derived without challenging the competitive instincts of firms, such as in infrastructure and research and development when there is a strong public good element. Globalising Australian firms in recent decades have drawn heavily upon agreements with overseas firms. Interfirm agreements have additionally been used to mitigate uncertainty in high risk activities such as mineral exploration which has been a key activity of a number of corporate leaders. For firms in potentially declining industries, it has enabled them to share operational costs so as to withdraw gradually or at least release the funds to diversify. Recent Australian governments have also recognized the beneficial elements of interfirm cooperation, which they have sought to foster.\textsuperscript{62}

However, we can also find examples where collusive interfirm agreements have prevented or delayed the emergence to dominance of the most efficient firm, thereby mitigating the full realization of scale and scope economies. At the beginning of the twentieth century, inter-firm agreements existed in many industries including the brick, confectionery, sugar, tobacco, dried fruit, fresh produce, mineral oil, coal, and shipping industries.\textsuperscript{63} In many cases, price-fixing occurred at the expense of the consumer and other firms. Suspicion particularly centred upon large and powerful foreign enterprises that might threaten the evolving Australian manufacturing base. It was the collusive agreement between the International Harvester Company and a local firm in 1905 that led to the introduction of legislation on competition policy. The Australian Industries Preservation Act of 1906 outlawed many collusive practices. While it may have contributed to the collapse of an agreement among the Newcastle coal companies, the Act soon became a dead letter.\textsuperscript{64} The absence of effective competition policy until the last third of the century, with the Trade Practices Act

\textsuperscript{60} Name change reflects partial changes in ownership.
\textsuperscript{61} BIE, 1990, pp. 20.
\textsuperscript{62} See Business networks publication by BIE.
\textsuperscript{63} WILKINSON, H L. The Trust Movement in Australia. Melbourne: Critchley Parker, 1914.
(1967) and Australian Competition and Consumer Commission (1995), enabled interfirm agreements to flourish. This contrasted with active competition policy in the United States throughout the century, which forced the break up of many trusts, such as Standard Oil, and drove others into full merger.

Industry patterns

Mining

Interfirm agreements and mergers and acquisitions have provided important growth paths for corporate leaders in mining. Mergers helped firms to achieve scale rapidly in an industry with very high minimum levels of efficiency. Interfirm agreements helped to spread the substantial costs and risks of exploration. BHP’s acquisition of its major steel competitor, Australian Iron and Steel, in 1935 firmly established its control of the industry. Similarly, WMC used mergers to establish rapid dominance in the gold mining industry of Western Australia between the 1930s and 1950s. A critical merger in the zinc sector was between CZC and Rio Tinto of the United Kingdom in 1962 to form Conzinc Rio Tinto Australia. Rio Tinto brought strong financial skills and resources, CZC local knowledge and rights in Australia. The new company proved to have the strength to evolve as a powerful multinational corporation, thereby overcoming the size and distance problems constraining many Australian companies seeking to expand overseas.

However, it is perhaps the extent of interfirm agreements that is the most notable growth method of the mining industry. The Collins House Group of mining companies was the most extensive and sustained cooperative working relationship amongst Australian firms.65 Lasting from 1915 to 1951, it centred upon three of the leading mining companies whose headquarters were located in the Collins House building at 360-6 Collins Street Melbourne, notably North Broken Hill, Broken Hill South, and Zinc Corporation. Other companies were periodically part of the group either as participants or as partial or wholly owned subsidiaries. The original motive for the Group was to fill a vacuum created when prewar German dominance of the industry was terminated under the terms of the Enemy Contracts Annulment Act of 1915. However, the scale of operations now required was beyond the resources of any single Australian company; as often during wartime, interfirm collaboration provided a possible solution. In spite of changed conditions after World War One, the companies found it in their interests to continue and extend the work of the Group and in the process created, ‘a non-ferrous metal group of international importance’.66 The Group established a monopoly of lead, silver, and zinc production at Broken Hill and went on to invest in English companies to secure involvement in zinc smelting in that country. Their interest extended outwards from here into metal fabrication, chemicals, and mineral exploration. Their initiatives are too many to list here but one example serves to indicate their broad-ranging and pioneering influence through the manufacturing sector. In 1936 the Collins House Group joined with BHP, General Motors-Holden, ICIANZ, and P & O Steamship to found the Commonwealth Aircraft Corporation.

Part of the reason for the continuation of the group for over thirty years was that none of them had the resources to take over one of the other dominant players,

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particularly in the context of an underdeveloped capital market. However, between them they were able to take control of or eliminate many of the smaller players. There were also many positive reasons for the Group’s continuation. Above all else it provided a flexible and lightweight structure in a rapidly changing industry. Decisions could be made to acquire and dispose of subsidiaries on a regular basis, while complex organizational structures could be developed by the companies not the Group. The broad-ranging nature of the interfirm relations reinforced their appeal to each firm. This included joint ventures, marketing arrangements, technological collaboration, along with a range of supporting financial, legal, and secretarial services. Inspite of all this, the Group had effectively broken up by 1951: the close friends who had sustained the company links had now died, the interests of the companies had decisively diverged, and the capital market was rapidly modernizing.

While nothing as encompassing and enduring has replaced the Collins House Group, interfirm agreements remain of great importance in the second half of the twentieth century. The major postwar expansion in demand for oil and natural gas stimulated exploration for new sources. This has been a highly expensive and risky business. Joint ventures have enabled firms to share the costs and risks of exploration. A major discovery by a competitor could impact seriously on a firm’s relative standing in the industry, and therefore involvement in joint ventures was also a hedge against discoveries by other firms. Such joint ventures were frequently international in nature combining the resources and technical expertise of foreign multinationals with the local knowledge and connections of Australian firms. Immediately after World War Two in 1946, CZC established explorations joint ventures with a number of overseas companies. These included with Standard Vacuum Oil of the United States and BP in the exploration of oil and natural gas, and with Newmount Mining Corp, also American, in silver and lead exploration. BHP’s joint venture with Esso to drill for oil in the Bass Straits in 1960 ensured a full transfer of leading edge drilling technology from the American company.

Interfirm agreements hold many risks as well as benefits. Most are known to fail because of a breakdown in working relations between the parties. Thus, while designed to mitigate operational risks for mining companies, the joint venture in itself presents new risks. This is particularly the case where agreements are with governments and foreign companies, thereby crossing significant boundaries of business culture. As a result, firms build up competences in the formation and maintenance of such agreements. Firms like BHP have become very experienced at entering into such complex agreements and identifying potential pitfalls in their operation.

Pastoral agencies

All three methods of growth were practised by corporate leaders in the pastoral agent industry. Dalgety, the initial market leader, mostly grew by internal expansion, establishing offices in new areas to follow the movement of settlement. The followers, particularly Goldsborough Mort and Elders, relied much more heavily upon the acquisition of small local agencies to build their market share, the former particularly in the interwar period and the latter in the 1950s. All firms, including Dalgety, sought to achieve a national presence and provide a full line of services, and would use the acquisition tool from time to time to fill any gaps in their network.

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68 Many examples in the 1990s are listed on the current BHP-Billiton website at: Ville, Rural Entrepreneurs, appendix.
Until about the 1960s, most of the acquired firms were small private agencies rather than listed companies. In some cases this made for expensive and drawn out negotiations especially in the evaluation of the firm’s ‘goodwill’, a significant part of the value of local networked agencies. However, on many occasions the two firms had previously worked in cooperation, the national leader selling the wool of the local firm’s customers and often providing finance and market information. This made the process of due diligence easier to complete. In addition, it was frequently the case that the local firm initiated a proposed takeover when adversely affected by one of the severe cyclical downturns that characterized the industry or when facing a succession crisis. Elders as one of the most acquisitive firms became expert at assessing the appropriateness of an acquisition, and handling the integration of merged firms into their business, a process they referred to as ‘Elderising’.70

In 1963 the four leading finns in the industry merged into two, Dalgety joining with NZLMA, and Elders with Goldsbrough Mort. This rationalization was overdue, such had been the intensity of competition among them that the farmer was being over-serviced and the firms’ costs were far too high relative to their earnings. Merger enabled significant cost-cutting particularly in the duplication of local branches and head offices, in the process releasing spare funds for diversification into growth industries. Since the 1970s the pastoral agents have become tied up with the conglomeration movement, Elders-Goldsbrough Mort, for example, being absorbed into John Elliott’s empire in 1981 and then Futuris in 1996. Dalgety-NZLMA was absorbed into another conglomerate, Wesfarmers, in 1993.

In addition to the bilateral agreements between small and large firms that characterised the early years of the industry, the corporate leaders had worked out a delineation between areas of cooperation and competition. Cooperation covered the infrastructure of the industry, sharing the costs of operating a national wool auction market. The cooperation and pooling of resources amongst these large firms was critical in establishing an Australian wool auction that largely replaced the London market, bringing with it a range of benefits to farmers and to the broader Australian economy. The companies cooperated in the diffusion of new techniques where spillover benefits between agents and their farmer clients were clear, particularly counteracting the spread of rabbits and other forms of crop and animal feed infestation.71 Agents established their own industry bodies, both on a state and national basis, to defend the industry’s interests and arbitrate disagreements among members. Most notable was the National Council of Wool-Selling Brokers formed in 1919, initially to deal with the postwar wool handling arrangements.

Financial services

The banks grew by a mix of internal expansion and merger. While sharing many service features with the pastoral agents, there was no common market infrastructure and much less spillover of interests, and therefore interfirm agreements were uncommon. All of the leading banks today have been a product of regular internal expansion together with waves of acquisition that have enabled them to maintain their leadership for over a century. More often than not this has involved the absorption of rivals within the top 25 or even top 10 financial institutions. A series of such acquisitions occurred in the interwar period. The National Bank, a forerunner of NAB, acquired the Colonial Bank of Australia in 1918 and the Royal Bank of

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70 Ville, Rural Entrepreneurs, pp. 47-8.
71 Ville, Rural Entrepreneurs, pp. 159-60.
Queensland in 1922. The English, Scottish and Australian Bank, a forerunner of ANZ, acquired the London Bank of Australia and the Commercial Bank of Tasmania in 1921 and the Royal Bank of Australia in 1927. Bank of New South Wales, forerunner of Westpac, acquired three major banks at this time, the City of Sydney Bank in 1917, the West Australian Bank in 1927 and the Australian Bank of Commerce in 1931, although they contributed less than half to the growth of BNSW's branch network. Further sorting and consolidation among the largest banks occurred after World War Two.

Shipping

Interfirm cooperation has a long history in the Australian shipping industry dating back to the earliest years of capital intensive steamshipping in the nineteenth century. Australian companies operated in an environment of intense competition from British shipping and a series of collusive international shipping rings. In these circumstances it was hardly surprising to find that Australian shipowners forged cooperative alliances with each other. The aims of the Australasian Steamship Owners Federation (1899) were to share information and establish a code of practice. From this developed other mutual benefits such as ticket interchangeability, shared advertising, and a system of deferred rebates and pooling arrangements similar to the international rings. These arrangements remained with minor changes until World War Two.

By 1945 the companies faced a series of additional problems, particularly the impact of air and motorized road transport on the demand for coastal shipping, together with waves of new technology raising further the capital intensity and minimum efficient scale in the shipping industry. The risks were great of increasing investment in an industry under these circumstances, with the result that the companies replaced their informal interfirm agreements by the much closer cooperation of a series of joint ventures. These were designed to share costs and hopefully enable the companies to gradually withdraw from the industry or at least have the funds to diversify. Bulkships was established in 1959 among the leading shipping companies to build and operate bulk carriers. Five years later Associated Steamships was formed to operate the coastal services of the companies. In both cases Adsteam was the largest partner with a 40 per cent share rising to 50 per cent. In 1967 Associated Steamships in turn formed Seatainer Terminals, with a group of British companies, to operate container cargo terminals in Australian ports.

Mergers were popular in wartime to overcome tonnage shortfalls, and to facilitate diversification. In Adsteam's case this allowed them to diversify into air services (South Australian Airways, 1936), wineries (Mount Dangar Vineyards, 1968), and metal fabrication (Pacific Fabrications, 1975).

Aviation

The importance of gaining market share quickly in aviation drove Ansett into a policy of growth by acquisition. It rapidly acquired many competing domestic carriers including Butler Air Transport (1958), Guinea Airways (1959), and MacRobertson Miller Airlines (1963). Most important for Ansett, however, was the acquisition of ANA in 1957 which had been one of the parties to the emerging two airlines agreement along with TAA. Subsequent acquisitions enabled Ansett to

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73 Page, 1975, pp. 239, 305, 315.
pursue its diversification strategy; for example furniture removals (Wridgway Holdings, 1972) and restaurants (Denny's, 1982). Its joint ventures were less common and more often associated with its limited overseas expansion. This included a joint touring operation in New Zealand with Midland Coachlines of New Zealand from 1973 and the establishment of Air Vanuatu in 1981 with the Vanuatu government.

Qantas, as the pioneering airline in Australia, grew by internalization in the early years. As it began to develop an overseas network from the 1930s onwards it sought interfirm agreements with other international airlines, particularly Britain's Imperial Airways in order to operate a joint route between the two countries. In particular the two companies jointly established Qantas Empire Airways Ltd in 1934, each owning 49 per cent and an 'umpire', Sir George Julius the remaining 2 per cent. After 1945 cooperation continued between the national airlines of the two countries. More recently this has been formalized through British Airways 25 per cent stock ownership of Qantas. By the 1980s the two airlines had extended their cooperation to a group of other international lines including Lufthansa and American Airlines.

Utilities

The predominant growth path for AGL through most of its history has been internalization. It had established a virtual monopoly around Sydney in the nineteenth century and much of its subsequent expansion in the twentieth century was about technological modernization and diversifying its markets. In these circumstances there were very few opportunities for merger or interfirm agreements. Periodically it acquired local gas companies in its path including Liverpool Gas Company (1928), Katoomba and Leura Gas Company (1957), and a range of gas businesses around New South Wales in the 1960s particularly in Wollongong, Grafton, Casino, and Singleton. The firm became more acquisitive from the 1980s after Ron Brierley bought into the company and pursued diversification, acquiring for example TMOC Resources (1987-8) and CSR Petroleum (1988). Corporatisation of the electricity market in many states in the 1990s provided AGL with the opportunity to acquire electricity companies including Solaris Power in Victoria (1995-8) and ETSA Power in South Australia (2000).

Wholesale and Retail trades

The major retailers largely followed a pattern of internal growth in the early years of the century and of their corporate development by leveraging their competitive advantages discussed under 'directions'. For Coles and Myer this enabled them to expand within Melbourne and Victoria in the first half of the century. However, the national growth of the corporate leaders after 1945 was largely based upon a series of takeover battles of smaller mostly private retailers. Thus, Coles acquired Selfridges (1950) for its stores in NSW and WA, F & G Stores (1956?) in country Victoria and southern NSW, Penney's (1956) in northern NSW and Queensland, and the the Beilby chain (1958) in South Australia. These acquisitions accounted for around 30 per cent of its stores by 1958. Similarly, Myer extended its department stores across capital cities and states through acquisition: these included Adelaide (James Marshall in 1928), Brisbane (McWhirter in 1955, Allan & Stark in 1959), Hobart (Johnston & Miller, and Brownells in 1959), New South Wales (Farmer

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\(^{74}\) Gunn, 1985, pp. 167-92, 226.

\(^{75}\) Lewis, Morkel, and Hunnard, *Australian Strategic Management*, pp. 799-800.


When the dominant variety chains, Coles and Woolworths, moved into food retailing from the late 1950s, acquisition was again an important part of their strategy: Dickens 54 self-service grocery stores in Victoria were acquired by Coles in 1958 and 250 grocery stores in NSW were purchased from Matthews Thompson in 1960. Internal growth remained important, though, as indicated by the construction of its free-standing supermarkets. The subsequent rush by all the leaders into discount retailing was again helped by acquisitions; the purchase of Lindsay & McKenzie by Myer in 1968 was used as the foundation for its Target discount stores, while Coles entered into a joint venture with American retailer K Mart Corporation to set up K Mart stores in Australia. In the 1980s the major retailers were caught up in the merger boom, Coles acquiring the now ailing Myer, while Woolworths and David Jones both passed through the hands of the conglomerate version of Adsteam until floated off again in the 1990s to focus on their core activities.

No clear pattern is identifiable for wholesaler Burns Philp, which practised acquisition, internal growth, and interfirm agreements with equal ease. The regularity with which it acquired private firms including many overseas, suggests that Burns Philp, like some of the pastoral agents, was an effective operator in the takeover market prior to the rise of the listed companies. Buckley and Klugman's detailed history of the firm indeed indicates that they completed many successful acquisitions in the South Seas trade. The firm appears to have been equally skilled in organizing interfirm agreements of many types from agencies (with Forsayth's of New Britain), to marketing infrastructure (Pearlshell Convention), and joint ventures (Rotuma Traders Pty with Morris Hedstrom in copra trade).

Media

The dominant media barons relied heavily upon acquisition as their method of growth. Applying their ideas, such as on popular mass circulation newspapers, and their general expertise in newspaper management, together with the substantial scale and scope economies available, they could add significant value to small local newspapers. Herald and Weekly Times, the initial industry leader, built its national presence with the aid of a number of major regional purchases including the Advertiser in 1929, the Courier Mail in 1933, and the Argus in 1957.

However, it was the rise to leadership of News Corporation under Rupert Murdoch that was founded above all others upon a broad policy of aggressive acquisition in print and related media, entertainment and cable television in Australia and global markets. Applying the synergies foreshadowed above he sought to buy underperforming companies cheaply and then rebuild them. In the 1950s and 1960s News acquired an impressive array of local and regional newspapers in Australia, ultimately acquiring former leader, HWT, in 1987. News added many of the national newspapers in Britain including the Times and Sunday Times in 1981 and major American regionals including New York Post (1976) and Chicago Sun-times (1983). Acquired book publishers included Angus & Robertson in Australia in 1981 and Williams Collins in the United Kingdom in 1989. Television stations purchased by the company included Australian regionals such as WIN4 TV in Wollongong (1963) and
Sydney Channel 10 (1979) along with overseas stations, most notably a large stake in London Weekend Television (1973).  

The company's subsequent moves into film and satellite required very large funds, a situation made more difficult by a downturn in News main markets in the early 1990s and therefore a large fall in advertising revenues. Part of the solution was asset sales especially of publishing and newspaper interests but additionally by the formation of joint ventures to share the costs and also the risks. Examples included an alliance with Telstra to form Foxtel in 1994 and a joint venture with MCI Communication in 1995 to create and distribute electronic information, education and entertainment services worldwide.

Construction and property management

Both Hooker and Lend Lease established a prominent position by drawing heavily upon internal growth, Hooker with a national chain of estate agent offices and Lend Lease by the development of its design and construct approach. In each case, however, they have drawn upon the merger or interorganisational method to meet particular needs. Hooker began franchising in 1968 in order to extend further its presence in the real estate agency market in Australia and overseas, whilst minimizing costs but maintaining control over the brand name and service standards. In addition, it drew upon the merger and acquisition method to diversify and vertically integrate. These included the acquisition of home contractors in Sydney and real estate investment companies in Brisbane. Lend Lease's innovative design and construct concept largely involved the company working closely with its parent, C & C, on repeated major projects. However, the enormity and complexity of the Australia Square project in the early 1960s led Lend Lease to acquire a series of building industry firms including concrete, brick, and elevator companies in order to ensure full control over the operation. As we saw in 'directions' the company often resorted to joint ventures as a beachhead in international expansion.

Food, drink, tobacco

CSR has relied upon its own internal growth for much of its history to sustain its leadership. As a virtual monopolist in sugar refining there were few opportunities for merger or inter-firm agreements. Nor did its related diversification strategies since the 1930s result from acquisition. Much of this diversification was designed to yield production scope economies from its existing output and used technology in which the company was a leader in Australia. More recent unrelated diversification has drawn upon mergers and joint ventures, particularly in minerals and energy. A series of collieries were acquired in the 1970s, particularly in Queensland, New South Wales, and Western Australia. Several mining projects were pursued with foreign joint venture partners, which included American Metal Climax to develop iron ore at Mt Newman, and with Swiss Aluminium Australia in a bauxite project at Gove in Northern Territories. Most of these mining interests, however, were unsuccessful and later divested. More recently it has completed more successful offshore acquisitions and joint ventures in its core building materials activity. Examples include the acquisition of the subsidiaries of ARC America Corporation, America's largest concrete pipe producer (1990), and the formation of CSR-SYC Hebel Taiwan, a joint venture to make autoclaved aerated concrete products in Taiwan (1993). These

examples indicate that CSR has been capable of all methods of expansion when dealing in their core industries.

In contrast to CSR's experience, mergers have been a key leadership strategy in brewing. Waves of merger activity have played an important role in resolving a periodic trend to overcapacity. The corporate leaders have taken the initiative in these waves. Among the most notable was the formation of Carlton and United Breweries in 190 to resolve a crisis of overcapacity in Melbourne as a result of the introduction of new and more efficient brewing techniques in the previous two decades. Thereafter, CUB periodically mopped up local and regional brewers. Helped by improved transport facilities and the transportability of beer, CUB acquired and then closed a series of breweries. This included three regional brewers in the 1920s. The process continued after World War Two, with further acquisitions and closures in 1947, 1958, and 1962. This process was repeated throughout the country with regular acquisitions by the leading brewers.

The most significant merger wave occurred between 1979 and 1986 resulting in a virtual duopoly of Lion Nathan/Bond Brewing and CUB/Fosters as we saw in chapter three. The recent international expansion of these firms has combined agreements and mergers. Licensing agreements to brew the beer of a company from a different country have been common: in 1981, for example, Fosters was brewed under licence in England by Watney, Mann & Truman. Following CUB's acquisition by Elliott's Elders in 1983, the brewer aspired to becoming a global player and 'Fosterise' the world. In these circumstances acquisition became a key policy by giving the firm close control over its international expansion. Thus, by 1986 it was acquiring major foreign brewers, Courage in the UK and Carling O'Keefe in Canada. More recently, joint ventures have been used as a means of accessing the more sensitive Chinese market.