Book Review

Small is Beautiful but Disappearing: a study of share ownership in Australia

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> The corporate system has done more than evolve a norm by which business is carried on. Within it there exists a centripetal attraction which draws wealth together into aggregations of constantly increasing size, at the same time throwing control into the hands of fewer and fewer men. The trend is apparent; and no limit is yet in sight.
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> A. Berle and G. Means, The Modern Corporation and Private Property, 1932.

This paper presents the results of a recent study of the ownership and control of large listed corporations in Australia. It is not meant to be a fully systematic analytical study, but rather continues a tradition of empirical studies of Australian corporations which are crucial for the development of strategies for intervening in their activities, to make these huge power centres more socially responsible, more accountable. Certainly, if one is involved in worker intervention strategies of the type fostered within the TransNational Cooperative, empirical studies of large corporations, their structures, behaviour and control are essential.

It will become clear that the significance of individual shareholdings is declining, while that of life assurance organisations, banks and superannuation funds is increasing. These latter institutions are investing workers' savings yet without properly disclosing what they are doing and certainly without the accountability that companies are supposed to have to their shareholders.

THE SAMPLE

A list of the largest listed companies, based on market capitalisation (that is, the market value of the issued capital) was compiled for the end of September 1979, and from this the 100 largest were selected. During the study, however, two companies were taken over and reorganised, so the sample includes 98 companies. An analysis was then made, using information published by the Sydney Stock Exchange Research Service, of the largest 20 shareholders of these companies, for the latest date available.

Of course, one obvious point to note is that a study of only listed companies will exclude a considerable number of large foreign, or transnational corporations: many of these companies are not listed on Australian stock exchanges. So this study does not provide a full picture of the ownership of Australian industries and resources, which we know from figures published by the Australian Bureau of Statistics are substantially foreign controlled. But it does provide a good indication of the dominance of financial institutions as shareholders, and their important potential for control of some of the most important segments of Australian industries and resources.

An important initial result of the study was that the market capitalisation of the 98 companies represented a very substantial proportion of the total market capitalisation of all listed companies. The total market value of the 98 companies' shares was $22,959 million, while according to the Reserve Bank statistics total market capitalisation of companies listed on the Sydney Stock Exchange at the end of September 1979 was $24,346 million. Clearly this reflects the extensive degree of concentration of economic power in the Australian economy. BHP, the largest Australian company, by itself had a market capitalisation of $2,849 million, or over 10% of total market capitalisation. Admittedly, inclusion of the large, foreign, non-listed companies along with the listed might indicate less concentration of market capitalisation.

A second preliminary point was that the study, by concentrating on the largest listed companies, included quite a number of mining companies: 22 of the 98 companies were involved in mineral activities, although of course companies such as CSR and BHP are diversified conglomerates also with extensive mineral interests.

SUMMARY OF THE RESULTS

In analysing the largest 20 shareholders a classification by type of shareholders was made. This was as follows: institutional shareholders - life and general insurance offices, superannuation funds, trustee investment companies; nominee shareholders - when a company, normally a bank or investment manager invests funds on behalf of someone else; company shareholders; and individual shareholders. One problem of all studies such as this one is the existence of nominee companies, which can represent one or a hundred shareholders, including foreign investors. For the purposes of this study, they are taken to represent one shareholder only.

The study found that there was a very heavy concentration of ownership of the shares, and that the largest twenty shareholders in half of the companies held at least 50% of the shares. The average for the group was 52.8%. The companies with the greatest concentration of shareholders included Mary Kathleen Uranium, Tubemakers and Comalco, all of whose top twenty held over 90% of the shares. Those with the lowest included BHP, Pancontinental and Pioneer Sugar Mills, between 20 and 30%. It is to be expected that companies the size of BHP would have a lower degree of concentration because of the extent of their issued capital and the relatively high price of their shares, although the potential for control with only a very small percentage of the shares is that much greater.

"Since the activities of this company are a matter of public record, the purpose of this meeting is to devise means of covering our tracks in the future!"

The total institutional shareholdings amounted to $2,989 million, or 13% of the total market capitalisation. Nominee holdings amounted to $2,588 million, or 11.3%, and particularly important were the bank's nominee companies. Readily-identifiable corporate shareholdings totalled $5,983 million, or a substantial 26.1% of market capitalisation. Of this $3,893 million was corporate ownership of mineral corporations, including the large companies in the Conzinc Riotinto group, Bougainville Copper and Hamersley Holdings. Total holdings by foreign companies was $4,368 million, or 19%. Finally, individual shareholdings amounted to $366 million, or 1.6% of market value. Their importance is particularly obvious in a few companies, such as Grace Bros, Arnotts, John Fairfax, Consolidated Press, and James Hardie, which remain as the few family-nominated companies in Australia. It seems fair to say, in view of the results of earlier studies in Australia (Table 1)[1], that the much-lauded small shareholder is continuing to disappear.

Table 1: Comparison of Ownership Studies

	Percentage of Shares Held by:				
	Institutions	Nominees	Companies	Individuals	Total
Wheelwright (1952-53)	7.5	1.5	15.5	12.6	37.1
Wheelwright/Miskelly (1962-4)	8.1	3.6	22.2	8.7	42.6
Sykes (1973)	6.8	7.9	30.0	2.5	47.1
Lawriwsky (1974)	18.2	6.0	16.6	10.9*	51.7
Crough (1979)	12.3	11.3	26.1	1.6	51.2

* Note: Lawriwsky's sample was a random sample of all listed companies: his study did not concentrate on the largest. Furthermore, Lawriwsky's study dealt with "cohesive groups" - the 20 largest, one of which consisted of directors and their families. Both of these features of the Lawriwsky study would have augmented the significance of individual shareholdings.

Two additional points can be drawn from Table 1. Most importantly, the concentration among the largest shareholders is clearly increasing, so that now about half of the shares are held by only a very small group of shareholders. Secondly, the rise in the share held by nominees has been quite phenomenal. This rise is even more important when it is remembered that nominees shareholders do not have to disclose beneficial ownership, that is, for whom it is they are investing.

The increasing concentration of ownership of large corporations, particularly by financial institutions and nominees, is a phenomenon widely observed throughout the capitalist world. A recently published study of the U.K. found that 42.5% of the shares of listed companies were owned by institutional investors, and that since the late 1960s the insurance companies and pension funds had been acquiring an extra 2% or so of the U.K. equity market each year.[2] A study published by the U.S. Senate Subcommittee on Reports, Accounting and Management estimated that institutional holdings had increased from 30.9% to 37.3% in the period 1970-74.[3] (It is to be noted, however, that this figure includes bank trust departments which have been classified as nominees in the present study.)

The trend to greater ownership by large shareholders and less by individual shareholders, can be found in the figures published by the Reserve Bank in its Statistical Bulletin. During the decade 1967-68 to 1977-78 life offices and pension funds acquired over 2,840 million in shares, banks $600 million, and other financial groups $1,248 million. "Households" were net disposers of over $1,700 million in shares in the same period.

INSTITUTIONAL SHAREHOLDERS

It is obvious from just a cursory glance through the shareholder lists that the financial institutions are important shareholders. Particularly important, however, are the large life insurance offices. The Australian Mutual Provident Society, National Mutual, Mutual Life and Citizens, T & G Mutual, and Colonial Mutual in this study were found to have between them 339 shareholdings, valued at $1,880 million, which was two-thirds the value of the total institutional shareholding.

The AMP was by far the dominant organisation, reflecting its crucially important position in the Australian capital market as a whole. With assets of over $5.5 billion, the AMP is an enormous agglomeration of savings and a major long-term investor in both the capital market and in other areas of the economy. The AMP held 92 shareholdings in 72 of the companies included in the study and owned shares valued at almost $900 million. Its holdings were almost as large as those of the other large life offices combines, as Table 2 shows.

Table 2: Large Life Offices Shareholdings

	Number of Shareholdings	Number of Companies	Value of Shares $m
AMP	92	79	896
National Mutual	64	64	333
MLC	67	66	340
Colonial Mutual	68	64	206
T & G Mutual	48	48	108
	339		1,880

But it was more than just the number of appearances which made this group of financial institutions important. It was also their positions in the shareholding lists. Holdings of over 5% of the shares of a particular company are undoubtedly important, and appearances in the top five shareholders could be regarded as strategic.

The previously cited U.K. study pointed to a number of areas where such strategic shareholdings were important. They pointed out that strategic holdings crucially affected corporate management, although without detailed empirical studies it was difficult to precisely quantify the effects. They indicated that:

> The financial institutions have generally been unwilling to act collectively in the use of their voting strength, or to accept those responsibilities which others would assign to them such as protectors of the private shareholders, supervisors of efficient resource allocation, auditors of management efficiency, and enforcers of corporate social responsibility. Their traditional reaction to poor performance by individual firms has been to act independently behind the scenes or to dispose of their equity holdings. We suggest that the persistent growth in the ownership of industry by institutional shareholders will inevitably involve those institutions in managerial decision-making.

The most obious case in which a strategic holding by an institution is important is the process of takeover: certainly the attitude of the largest shareholders to a takeover will determine whether or not it is successful. Recent takeovers in Australia have clearly highlighted the changing role of the financial institutions as shareholders.[4]

The AMP was in a position to substantially influence corporate decision-making in quite a number of corporations. In 66 of the 98 companies the AMP was amongst the five largest shareholders, and it was the largest shareholder in 21 companies. In 40 of the companies it owned more than 5% of the shares.

It is not clear what level of shareholdings constitutes a controlling interest. The Australian Bureau of Statistics used 25% for its foreign control figures, which it admits are therefore conservative. Many U.S. studies have used levels as low as 5%, particularly in large corporations. Obviously the level will vary from company to company, depending on the number of large shareholders, the distribution of the shareholdings, the degree of cohesiveness of the shareholders, as well as a variety of non-ownership factors. This is an area of some debate. (See, for example, Warwick Richards' survey paper, Towards an Analysis of Corporate Power[5]), but it can be said that large strategic shareholdings certainly indicate the potential for control.

Table 3 summarises the information on the strategic holdings of the large life offices. Where more than one shareholding existed for an institution, the shareholdings have been amalgamated.

Table 3: Strategic Shareholdings by Large Life Offices

	Number of Companies in Top 5 Shareholders	Number of Holdings More Than 5%	Number of Times the Largest Shareholder
AMP	66	40	21
National Mutual (N.M.L.)	29	1	-
MLC	33	7	4
Colonial Mutual	13	1	1
T & G Mutual	6	-	-
		49	26

The AMP was the largest shareholder in the following companies: ACI, Acmil, Australian Paper Manufacturers, AWA, Brambles, Bundaberg Sugar, Commercial Bank of Australia, Coles, Carlton and United Breweries, David Jones, Grace Bros, Humes, Mayne Nickless, National Bank, OPSM, Peko Wallsend, Pioneer Concrete, Repco, TNT, Woolworths and Wormald. One noticeable feature of the AMP's shareholdings was its heavy involvement in retailing. It was the largest single shareholder in four major retailers, and the second largest in another, the Myer Emporium.

This cross-linking of ownership has been identified in the U.S. as a potentially anti-competitive factor in industry, since the financial institutions provide a common linkage between nominally competitive firms. Specifically, the common financial "control" over leading firms in an industry may strengthen price cooperation by reinforcing long-run industry-oriented behaviour. A financial institution with a large shareholding or creditor relationship with several firms in the same industry would have a compelling reason to encourage joint profit maximising behaviour among the firms.[6] Again, this is an area requiring research in Australia.

Apart from the large life offices, there was a number of second-ranking financial institutions which appeared regularly, although in much less strategic positions, in the shareholding lists. These included the smaller life insurance and general insurance offices, superannuation funds and investment and trustee companies. A good example was City Mutual Life, which had 47 shareholdings in 39 companies, but was in the top 5 only 6 times. Similarly, the Prudential

Assurance Company, with 38 holdings, was never in the top 5 shareholders.

Table 4: Second-Ranking Institutional Shareholders

	Number of Holdings	Value of Holdings $m
City Mutual Life	47	106
Manufacturers Mutual	38	50
Prudential Assurance	38	75
Perpetual Trustee	36	120
Australian Foundation Investment	27	20
NRMA Investments	28	31
Mercantile Mutual	21	17
Nauru Phosphate Royalties Trust	18	27
	253	446

Putting the large offices together with the second-ranking financial institutional holdings we find that just 13 shareholders, with 592 holdings, valued at $2,326 million, accounted for 10.1% of the value of the shares of the 98 companies. This is a startling degree of concentration of ownership.

NOMINEE SHAREHOLDINGS

As indicated, nominee shareholdings amounted to 11.3% of the market capitalisation. By far the largest group was that of the banks. Between them, the nominee company subsidiaries of the four largest banks (ANZ, Bank of NSW, National Bank and Commonwealth Trading Bank) held 301 shareholdings, valued at $2,066 million. The two smaller banks (the CBA and CBC) were much less important and held shares valued at a mere $52 million.

Table 5: Large Bank Nominee Company Shareholdings

	Number of Shareholdings	Number of Companies	Value of Shares $m
ANZ	97	84	811
Bank of NSW	95	79	532
National	79	79	416
Commonwealth Trading	30	30	307
	301		2,066

Exactly who these shareholders are is impossible to tell. Some of the difficulties that may be encountered can be illustrated by the example of BHP. Amongst the five largest shareholders were three bank nominee companies: the ANZ was the largest (6.06%), Bank of NSW the third (3.42%), and the National Bank the fourth (2.62%). That is, over 10% of the shares of BHP were controlled by just three nominees. The question must then be asked, who controls BHP? Similarly, in Western Mining Corporation, four of the largest shareholders were nominees, holding 22% of the shares.

As with the large life offices, it was not just the number of appearances but the holdings in strategic positions. ANZ Nominees was among the top five shareholders 53 times, and the largest shareholder in 6 companies, including BHP, Pancontinental, North Broken Hill, and the ANZ Banking Group itself.

Table 6: Strategic Holdings of Bank Nominee Companies

	Number of Companies in Top 5 Shareholders	Number of Holdings More than 5%	Number of Times the Largest Shareholder
ANZ	53	19	6
Bank of NSW	41	11	3
National	21	4	1
Commonwealth Trading	19	9	1
		43	11

One point to note about the bank nominee companies is the extent of their holdings in their own parent companies and in the parents of the others. This complex and circular pattern of ownership is a major factor in protecting the banks from takeover, just as the large life offices are protected by not being incorporated.

The situation as shown in Table 7 is really quite farcical, particularly when one considers the laws governing corporations trading in their own shares. As Hall and Rappaport noted in their study of nominee companies,[7]

> Under Australian law there is a prohibition on a company dealing in its own shares. Here again the nominee company makes it possible for a situation to arise where the nominee holding shares in its holding company, even if this is on behalf of a third party, is by virtue of powers granted by the beneficial owner, enabled to act in the same fashion as if it were dealing in its own shares.

They recommended that beneficial holdings of more than 1% should be disclosed, pointing to a survey of stockbrokers which favoured compulsory disclosure of beneficial ownership to prevent surreptitious company takeovers and to improve the quality of information available on ownership and control.

This non-disclosure of beneficial ownership becomes even more important when sensitive political issues are raised. For example, the ownership and control of Australia's energy resources is a major political issue, and undoubtedly there is a high degree of concentration of ownership and extensive foreign control. But there are some corporations the true ownership of which is almost impossible to discover. Pancontinental Mining is an example: of the ten largest shareholders, 8 were found to be nominee companies, holding 41% of the shares. The Australian Government nominally has a minimum Australian ownership requirement for uranium mining, but how can this be enforced (even where it is politically expedient) if true ownership cannot be assessed accurately due to nominee shareholdings?

Table 7: Bank Nominee Company Shareholdings in the Banks

Bank	Rank in Top 5	Bank Nominee Company	% Shareholdings
ANZ	1	ANZ Nominees	7.98
	2	CTB Nominees	5.52
	3	National Nominees	2.34
Bank of NSW	1	NSW Nominees	6.47
	2	ANZ Nominees	5.78
	3	CTB Nominees	4.56
National	2	CTB Nominees	6.44
	3	ANZ Nominees	5.8
	4	National Nominees	3.35
	5	NSW Nominees	2.84
CBA	2	ANZ Nominees	4.54
CBC	3	Commercial Nominees	3.41

Apart from the bank nominee companies, there was a variety of other second-ranking nominee companies which appeared regularly but in less important positions. Some of these were superannuation funds, and they are dealt with in the next section. The others are listed in Table 8.

Table 8: Second-Ranking Nominee Company Shareholders

	Number of Shareholdings	Number of Companies	Value of Shares $m
Commercial Bank	12	12	15
Commercial Banking Co	17	12	37
Australian United Corp	21	21	37
Pendal (BT Australia)	27	27	52
Darling	25	25	63
	102		204

SUPERANNUATION FUNDS

The group of independently-managed superannuation funds was found to be important. A large proportion of the business of the life offices, and notably of the AMP and National Mutual, tends to be superannuation business, but it is normally not possible to isolate these investments from the shareholding lists, except when a holding is recorded in the name of the Number 2 accounts, the "pooled funds" of the life offices. Only those funds independently-managed are discussed here.

Total superannuation holdings amounted to $400 million, with 217 holdings. As with the other groups of investors, considerable concentration is evident. Seven superannuation funds, with 170 shareholdings, valued at $313 million, were dominant, including those of BHP, CSR, ICI and Shell. The private funds tended to be more significant as shareholders, although mention must be made of the

NSW State Superannuation Board and its $100 million shareholdings.

Table 9: Large Superannuation Fund Holdings

	Number of Shareholdings	Value of Shareholdings $m
Associated Nominees (British Tobacco)	13	15
Haematite (BHP)	25	40
ICIANZ (ICI)	30	36
State Superannuation Board (NSW)	40	99
OPF Nominees (CSR)	15	68
Provident and Pensions Holds (Shell)	31	41
Superannuation Nominees (Bank of NSW)	16	16
	170	313

A number of issues are raised by the investments of these funds. The first is the extent to which some companies invest the funds of their own workers in their companies' shares. The Australian Association of Superannuation Funds has recommended that funds should not be allowed to invest more than 10% of their assets in the sponsoring company, a move aimed at combatting the growing abuse of the funds.

Amongst the companies included in this study, a number of superannuation funds associated with the companies' employees had substantial shareholdings. However, while it is relatively easy to identify large shareholdings, it is extraordinarily difficult to determine the size of some of these funds. Despite searches of the Corporate Affairs Commission, very little information could be obtained on the size of the funds, their membership and income; and a number were recorded as non-trading companies. There is a crucial need for much better reporting of the accounts of superannuation funds, since there are hundreds of millions of dollars of workers' deferred wages controlled by these companies.

Examples of superannuation funds investing in their own sponsoring companies included Haematite Pty Ltd in BHP (worth $13.7 million), OPF Nominees in CSR ($39.2 million), Tower Investments in Lend Lease ($19.8 million), and Repco Staff Savings Investment Trust in Repco ($5.6 million). Of course these examples do not include the extent to which funds managed by life offices and some merchant banks are also invested in sponsoring companies.

A second issue concerns social responsibility in the investing of the funds. This has been raised in the U.S., particularly following the publication of Corporate Data Exchange's study, Pension Investments: A Social Audit. This study points to, and documents, the use of pension funds for investments in companies which undermine workers' living and working standards. Through a study of 142 funds, it was found that billions of dollars had been invested in non-unionised companies, companies which violated occupational health and safety legislation, companies which violated equal opportunity legislation, and companies which had interests in, or links with, South Africa.[8] The study pointed out that the debate over the control of these vast sums of capital would become much more important, and that already an increasing number of major non-profit organisations such as churches, universities and foundations had begun to examine, evaluate and often adjust their portfolios to take account of newly emerging standards of corporate performance.

Such a comprehensive study would be difficult to conduct in Australia. However, it is possible to examine the investments by some of the funds in "sensitive" areas. In doing so, one would have to include the investments of the life offices since they play a major role in superannuation fund management. Already some doubts have been raised about social responsibility in investments by life offices. Senator Baume, chairman of the Senate Standing Committee on Social Welfare, is reported as having criticised some governmental organisations and life offices for having promoted ill-health by investing in tobacco corporations.[9] Of course, the life offices reply[10] that they are not moral arbiters for their policy holders. However, they seem unwilling to accept the fact that through their control of billions of dollars of the community's savings they are in a position to make important social and political decisions. Their investment decisions, by their very nature, affect the living and working lives of all Australians.

Are these decisions in any way democratic? By what criteria are the decisions taken? How are the criteria formulated? These questions are beginning to be asked by the unions and other interested groups, and the large financial institutions and superannuation funds will have to provide more satisfactory answers than that they are controlled by their policy holders, shareholders or "the market", if they are to avoid the sorts of public backlash that have occurred in the United States over the same issues.

What then are some of the sensitive areas where the institutions have investments, particularly the superannuation funds? One obviously is the asbestos industry: the health and safety aspects of asbestos have become important issues in Australia. A major company involved in this study, James Hardie, is involved in asbestos. In the top 20 shareholders were the AMP and NML, with holdings combined of 2.47%. Although these were relatively small holdings, it would be interesting to inquire whether these financial institutions have raised any questions relating to asbestos and health, and to know the policy of the company in relation to these issues. Similarly, the CSR pension fund, OPF Nominees, was the largest shareholder in CSR, one of the subsidiaries of which was involved in asbestos mining in Western Australia and some of whose workers have already died from asbestos-related diseases. Surely the fund, which is investing workers' money, should ask some questions about what CSR has been doing for the affected workers.

Uranium is obviously another important area. Amongst the largest shareholders of Kathleen Investments, Queensland Mines and Pancontinental Mining were AMP, National Mutual, Colonial Mutual, Prudential Assurance and Bank of NSW Superannuation fund. Have these institutions taken any account of the debate over the merits and problems of uranium mining and processing in Australia?

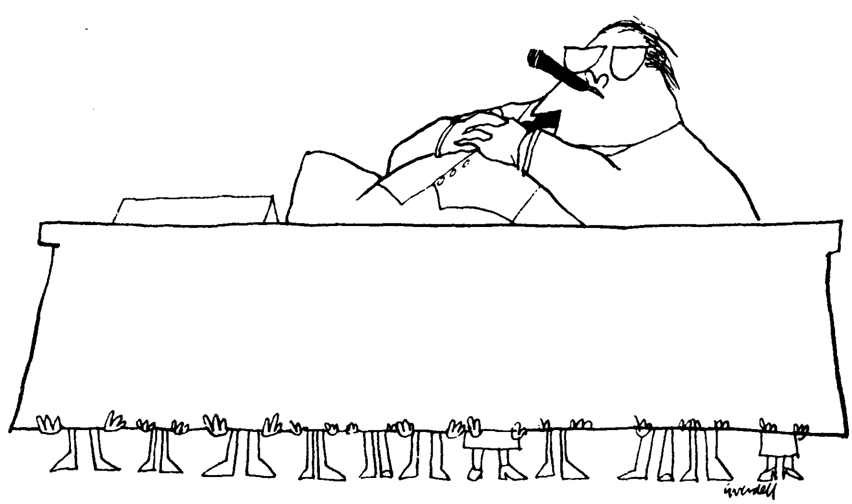
The main point to note is that corporate responsibility will become, and is already becoming, an important issue within the trade union movement and the broader Australian public. Life offices and superannuation funds will need to become more explicit about their decision-making and to become involved in the public debate over their own role in investing public money and the factors other than profitability that they should take into account.

CONCLUSION

It is obvious from this study that the ownership of many of the largest listed corporations in Australia is highly concentrated, and particularly important as investors are the large life offices and the bank nominee companies. These large organisations, which are insulated against takeover and which make decisions about the investment of billions of dollars of the community's savings, need to be made more socially responsible and more accountable. This requires a major questioning of the role and influence of these large financial institutions, and the formulation of strategies to intervene in their decision-making.

A valuable complement to this article would emphasise the effect on concentration of interlocking directorates and the significance of the very small number of auditors of the accounts of the largest corporations.

Clearly, an enormous amount of research work needs to be done on the patterns of investment, the questions of corporate control, the social responsibility of investments, the role of trade unions and the labour movement in controlling superannuation fund investments, and on the broad implications for theory of the on-going changes in institutions of ownership and control of capital.



FOOTNOTES

1 The statistics in this table were taken from the following studies: E.L. Wheelwright, Ownership and Control of Australian Companies, Law Book Co., Sydney, 1957; E.L. Wheelwright and J. Miskelly, Anatomy of Australian Manufacturing Industry, Law Book Co., Sydney, 1967; T. Sykes, "In a few hands", Australian Financial Review, 12-16 February 1973; M. Lawriwsky, Ownership and Control of Australian Corporations, Transnational Corporations Research Project, Occasional Paper No. 1, University of Sydney, April 1978.

2 R.J Briston and R. Dobbins, The Growth and Impact of Institutional Investors, Institute of Chartered Accountants in England and Wales, London, 1978.

3 U.S. Senate Subcommittee on Reports, Accounting and Management, Institutional Investors' Common Stock, US Government Printing Office, May 1976.

4 See, e.g., Chanticleer in Australian Financial Review, 28 November 1979, for an account of NML's involvement in the takeover of B.H. South and

Australian Financial Review, 12 November 1979, p.44, for an account of AMP's actions in the takeover of Thiess by CSR.

5 W. Richards, Towards an Analysis of Corporate Power, Transnational Corporations Research Project, Working Paper No 2, University of Sydney, May 1976.

6 D.M. Kotz, Bank Control of Large Corporations in the United States, California University Press, Berkeley, 1978.

7 C.B. Hall and H.H. Rappaport, The Unidentified Owners and Controllers: A Directory of Nominee Companies in Australia, Transnational Corporations Research Project, Data Paper No 1, July 1975.

8 Corporate Data Exchange, Pension Investments: A Social Audit, New York, 1979.

9 See The Sydney Morning Herald, 10 March 1980.

10 See The Sydney Morning Herald, 11 March 1980.