Above board? Interlocking directorates and corporate contagion in 1980s Australia

Abstract

The 1980s were an outrageous time in Australia's business history. This paper re-examines this era of misconduct, assessing the role of interlocking directorates for corporate governance of diversified business groups. *Professional interlocked executives* – those with professional training, executive status and mobility between member firms – enabled the takeover culture of the time, and allowed managers to ignore promised strategic benefits and redirect associated firms towards speculative share ownership. These results demonstrate the importance of board independence for corporate governance, and the way in which expertise has been weaponised within managerial capitalism to encourage trust in risky and exploitative corporate structures.

Introduction

Interlocking directorates – connections between firms based on shared board members – have the potential to create substantial governance and ethical issues for corporations. Collusion, corruption, resource capture, poor monitoring and conflicts of interest can result from boards and directors who are too closely tied to one another (Mizruchi, 1996; Smith and Sarabi, 2020; Caiazza and Simoni, 2019). As many as 30% of all top board seats have been occupied by an interlocked director in Australia, and yet high-profile conflicts of interest are relatively rare. Most interlocks are fairly benign, with members developing trust, sharing expertise, and forming professional communities of practice (Wright 2022). The key question is, what separates helpful interlocks from harmful ones?

Research has identified the contingent nature of interlocking directorates, with outcomes dependent on the nature of the tie and the context in which it was formed. Internationally, there have been substantial efforts to understand the impact of director networks, with interlocks found to result in the financial hegemony, resource dependence and class cohesion, depending on the firms and individuals involved, and the direction of influence (Mizruchi 1996). Business groups are an alternative form of business connection, often sharing knowledge, streamlining operations and adopting a consistent overall strategy (Colpan and Hikino eds., 2018). In Australia, there is limited research on the impact of interlocking directorates, and work on business groups rarely examines director networks as a complementary method of control. Through a historical perspective, this article is the first to identify the mechanisms through which interlocks influenced corporate governance within a business group structure.

This article will progress as follows: section II reviews the relevant literature on interlocking directorates, particularly the empirical and theoretical contributions regarding their consequences for corporate governance. Section III outlines the methods used to analyse

Australia's economy-wide interlocking directorates, and the networks within five major business groups in the 1980s. Section IV explores the empirical material, with section V concluding that large, diversified business groups in 1980s Australia were controlled by those with professional training, executive status and mobility between member firms. *Professional interlocked executives* (PIEs) used their expert labour and symbolic authority to facilitate the takeover system. They then compromised the independence of member boards, crowding out non-executive directors and using their board votes to ignore promised strategic benefits, and move associated firms away from core business and towards speculative share ownership. While this strategy created most of the groups' profits through the second half of the 1980s, the complex and interconnected structure left firms vulnerable to the vicissitudes of global banking and financial markets, and contributed to their collapse in the late-1980s and early 1990s. These results highlight the importance of independence for company boards, the mechanisms through which interlocks may influence corporate governance, and the importance of understanding the context of interlocks when assessing their potential for harm.

Literature and theoretical framework

Interlocking directorates are a frequent topic of study in corporate governance, business, sociology and political economy literatures, including substantial historical research (some examples include Hilferding, 1910; Berle and Means, 1932; Mintz and Schwartz, 1983; Redding, 1996; van Veen and Kratzer, 2011; Cárdenas, 2015, 2016; David and Westerhuis 2014; Buchnea et al. 2020; Heemskerk et al. 2016; Mizruchi 1982, 2013; Brayshay et al. 2007; Stanworth and Giddens 1975). Interlocks may contribute to *financial hegemony* (Mizruchi 1996; David and Westerhuis 2014; Buchnea et al. 2020), improve firms' access to relevant *resources* (Pfeffer and Salancik 1978; An and Jin, 2004; Tomka, 2001; Ginalski et

al., 2014; Simoni and Caiazza, 2013; Kaczmarek et al., 2014; Connelly et al., 2011); or consolidate elite *group cohesion* (Koskinen and Edling, 2012; O'Hagan, 2015; Bühlmann et al., 2012; Kono et al., 1998; Windolf, 2011; Heemskerk and Fennema, 2009).

A significant component of the literature is the impact of interlocking directorates for corporate governance. The board of directors is, in principle, responsible for resolving the *agency problem*, ensuring managers act in the best interests of dispersed shareholders. Board independence is key to resolving the agency problem, with one or two executive directors (usually the CEO) on the board, but the remainder comprised of independent non-executive directors who can provide insight and oversight over company decisions (Hillman and Dalziel 2003; Bendickson et al. 2016). Interlocks, or connections between firms and directors based on shared board members, have been a key anxiety of regulators and the public, as seemingly in opposition to the independent ideal of company boards.

Interlocks are not always bad, with research finding that interlocked directors can provide helpful monitoring functions. Bankers may sit on the board of debtors to monitor the firm's financial position and degree of risk (Mintz and Schwartz, 1983; Colvin, 2014; Crumplin, 2007; Windolf, 2008; Okazaki and Sawada, 2011; di Donato and Tiscini, 2009); interlocks with suppliers can reduce agency conflicts and ensure compliance with contractual obligations (Andrikopoulos et al. 2019; Phan et al., 2003; Ortiz-de-Mandojana et al., 2012); and a strongly networked group of directors are better able to track opportunistic managers and present a united front against relevant industry and government bodies (Heemskerk and Fennema, 2009; Windolf, 2008; Sinani et al., 2008; Mizruchi, 2013; Musacchio and Read, 2007; Mizruchi and Koenig, 1986; Siegel, 2007; Burris, 2005; Zhong et al. 2017). On the other hand, some have argued that control of both finances and personnel gives banks undue influence over the corporate sector (Mintz and Schwartz 1983; Dritsas et al. 1996; da Silva and Neves 2014; Rolfe 1967). Interlocks may indicate busy or distracted board members,

with less time to perform due diligence over manager's decisions (Devos et al. 2009; Handschumacher et al. 2019). Firms may also use interlocks to bypass competitive market structures, with co-ordination through top level directors performing some of the functions of a cartel, while flying under the radar of most regulations (Höpner and Krempel, 2004; Buch-Hansen, 2014; Schnyder and Wilson, 2014; Windolf, 2008; Schoorman et al., 1981).

The literature on the impact of interlocks for corporate governance tends to focus on a cohort of firms at a macro level, deploying aggregate data on CEO compensation, the incidence of accounting fraud and so on (Devos et al. 2009; Mizruchi 1996; Zhong et al. 2017). This offers limited insight into the "micro-processes" through which interlocks influence board governance (see Colvin 2014). Through a historical perspective, this article complements the existing corporate governance literature by exploring the mechanisms through which interlocks influenced monitoring and conflicts of interest within Australia's 1980s business groups.

Business groups are an alternative form of business connection. They may take several different forms, with 'network' groups sharing knowledge, technology and operations in a flat hierarchy, and 'hierarchical' groups consisting of legally distinct firms controlled by a dominant parent company (Colpan and Hikino eds, 2018, chapter 1). The nature and importance of business groups differs across time and place, and the literature has focussed on the important questions of strategy and structure, and the development of these groups against institutional, economic and policy contexts (Colpan and Hikino eds, 2018; Colpan et al. eds, 2010; Chandler, 1962, 1990; Ville, 2018). While interlocking directorates are often mentioned, there is very little analysis of the function of interlocks within a diversified business group, or the way business groups have contributed to broader networks (some exceptions include Haunschild, 1993; Keister, 1998; Maman, 1999). The lack of historical

research on interlocks and business groups presents an opportunity for this article to assess the way the movement of both money and personnel influenced corporate governance.

In Australia, business historians have examined firm connections in several domains, arguing that the corporate environment was built on family and personal capitalism for most of the twentieth century (Fleming et al., 2004; Ville and Merrett, 2017; Round et al., 2010; Ville, 2018; Patmore and Balnave, 2018; Gilding 1999). Some have examined the role of business connections for trust, coordination and political lobbying, mentioning interlocking directorates alongside other ties such as contracts and cross-shareholdings (Wright et al., 2019; Richardson, 1987; Boyce, 2001). Most dedicated analyses of interlocking directorates in Australia focus on their presence, structure and cause, rather than impact (Higley et al., 1967; Hall, 1983; Stening and Wai, 1984; Carroll et al., 1990; Alexander, 2003; Alexander et al., 1994; Roy et al., 1994; Murray, 2001, 2006, 2017; Kiel and Nicholson, 2003). Some have connected the presence of board ties with vague notions of corporate control and collusion (Wheelwright, 1957; Alexander, 1998; Wright, 2019; Murray, 2001, 2006; Alexander et al., 1994). Systematic analyses of the impact of Australia's director networks include Hylda Rolfe's work on the 1960s, and Dane Etheridge for the 2000s (Rolfe, 1967; Etheridge, 2012). Rolfe and Etheridge focussed on financial control, resource dependence and class cohesion, with little discussion of monitoring or corporate governance. This article complements Rolfe and Etheridge in their efforts to understand the impact of interlocking directorates in Australia.

The unique business environment in 1980s Australia has been studied by a variety of scholars. Business histories commissioned by firms themselves have a celebratory air (Hewat, 1988; Edgar, 1999). Business historians and popular writers subsequently dubbed this the era of 'corporate raiders', focussing on the larger than life 'entrepreneurs' (Ville, 2018; Fleming et al., 2004; Sykes, 1994; Barry, 1991; Bongiorno, 2015). Analyses of

Australian business groups have largely focussed on the 1970s and 1980s, with their failure attributed to weaknesses in corporate structure such as the costs of unrelated diversification and the difficulties faced when managing operations across a range of industries (Ville, 2018; Fleming et al., 2004). Those writing from the perspective of accounting have argued that the primary driver of their collapse was the failure of auditors to produce transparent accounts (Carnegie and O'Connell, 2014; Clarke et al., 1997; Sykes, 1994). Focus on the corporate raiders, the structure of business groups, and the auditing profession has meant that board members and corporate governance have largely been left out of the conversation, assumed complicit by their passiveness rather than active in shaping the business group environment. By focussing on the role of interlocked directors for the governance of diversified business groups, this article fills a major gap in our understanding of this period of Australia's business history.

Data and methods

In order to understand the role of interlocking directorates within business groups, this article examines directors who sat on multiple company boards in Australia's top 100 non-financial companies, and top 25 financial firms from 1910 to 2018 (1910, 1930, 1952, 1964, 1986, 1997, 2007, 2018).[1] Information on each firm's boards of directors was found in trade publications, annual reports, and records held by government regulators. The resulting database on personnel associated with Australia's largest companies includes between 90-95 per cent of board membership for each benchmark year. Personnel associated with large, diversified business groups of the 1980s were also recorded. Each of the five business groups

[1] This draws on Fleming et al.'s (2004) method for analysing Australian big business, which ranks firms based on total assets. Fleming et al.'s (2004) identification of top firms, and their classification by sector, has been used between 1910 and 1997, with the same procedure adopted for the 2007 and 2018 benchmarks.

considered here had at least one entity in the top 100 firms in 1986. From here, ownership and directorate data was collected for each year between 1981 and 1990, for the large parent firm(s), as well as those with minority cross-holdings. Jobson's *Year Book of Public Companies of Australia and New Zealand*, published annually at the time, reported directors and senior executives for each firm, and lists wholly-owned subsidiaries and 'associated companies' that had substantial but minority (less than 50%) cross-holdings. Subsidiaries were not included in this analysis as they are considered part of the 'conglomerate' rather than the legal independence needed to classify them as part of a business group (see the definition in Colpan and Hikino 2010, chapter 1). Associated companies were legally separate, and as such details on directors and senior executives were found in their individual entries in the Jobson's source.

Social network analysis (SNA) analyses the pattern of relationships among individuals, firms, or any set of related entities. In this case, membership of a board indicates a connection between relevant companies and directors – the board is the 'focus' around which various activities facilitated interactions between entities (Feld 1981). *UCINET* – a software package designed to analyse social networks – has been used to compare the size of the director and firm networks for each benchmark. The number of interlocked firms, the number of interlocked directors, the number of ties per firm and per director, and the number of firms in the 'main component' indicate the relative level of interconnection in the community. This provides longitudinal context for the detailed analysis of the 1980s. Similar metrics – namely the number of ties, interlockers and interlocked firms – have been used to compare the five diversified business groups.

Following the analysis of the overall structure of business groups, content analysis of company histories, annual reports and media provides detail on the activities of interlocked directors within each group. The financial pages of *The Canberra Times* feature particularly

prominently, due to its digitisation through the National Library of Australia's *Trove* database. The paper's syndication through Fairfax Media meant it published stories from across Australia, and is a fairly authoritative source for business and corporate matters of the time. This evidence is interpreted through the theoretical framework, discussed above, to understand the role of interlocked directors for the governance of business groups.

The dreamtime casino

The 1980s was the "dreamtime casino" of Australian big business (McManamy, 1990). The Australian director network was, for the most part, fairly stable over time. Across the twentieth century, the 'typical' network included around 200 board seats, 80-100 interlockers, with each firm sharing four to five directors (table 1). The cause of interlocks was also consistent, driven primary by practical considerations such as geographic proximity and directors' expertise, rather than tactics of control such as financial hegemony or family connections (Wright 2022). In 1986 there was a substantial increase in the size of the network, with 154 directors, 381 interlocked board positions and seven ties per firm (table 1). There was also a major change in the foundation or cause of interlocks, with cross-ownership increasing from 6% of ties in 1964, to 40% of ties in 1986, and back to 11% of ties in 1997 (Wright 2022). The five major diversified business groups were part of the economy-wide director network, each with one or more top 100 firms amongst their members. Even with the heightened level of interconnection in the 1980s, each business groups shared far more ties and directors than was typical at the time. Each year, business groups shared on average 15 ties, with groups comprising 4-12 directors and up to nine member firms (table 2; table 3).

<table 1>

<table 2>

Diversified business groups were created through takeovers, with leading firms acquiring minority but controlling interests in a range of companies (generally more than 15% but less than 50%) (Carnegie and O'Connell, 2014; Sykes, 1994; Ville, 2018; Bongiorno, 2015). For some, the decline of traditional industries and markets prompted their diversification, while others were 'born diversified' with myriad growth opportunities motivating their domestic and international takeover bids (Ville, 2018). Diversification through minority interests sat alongside often more extensive takeover campaigns through wholly- or majority-owned subsidiaries with, for example, IEL listing 28 subsidiaries and 17 associated companies in 1986, and Elders-IXL 34 subsidiaries and 12 associated companies in the same year (Jobson's, 1986). Although these groups clearly had internal expansions, webs of minority-controlled interests were crucial for their operation. Associated companies were often very large compared to the small subsidiaries within the conglomerate. They were also legally and financially distinct, which allowed for equity accounting (see below), and facilitated the confluence of internal and external directors that became important in this decade.

The 1980s takeover culture had its antecedents in changes to the Uniform Companies Act in 1961, which forced target companies to inform shareholders that a share offer had been made (Hutson 1998; Merrett and Houghton, 1999; Walker, 1973). This increased the incidence of takeovers, as shareholders could decide to take cash share offers independent of the judgement of the board. In the 1980s, deregulation of Australian banking and subsequent entry of foreign banks created competition, relaxed prudential standards and provided unprecedented levels of credit. Competition policy had been focussed on addressing collusive behaviour within industries, with connections across multiple industries attracting far less scrutiny. The regulator and auditing profession were arguably too relaxed, with 'equity accounting' seen as an appropriate way to represent the health of the firm (Merrett, 2002; Borland, 2015; Fleming et al., 2004; Sykes, 1994; Carnegie and O'Connell, 2014; Ville,

2018; Round and Shanahan, 2015; Whittred, 1986). Under the standards of the accounting profession of the time, business groups were required to present consolidated accounts for all firms in which the parent held more than 50%. For those firms where the parent had controlling, but less than 50% ownership, the group could 'equity-consolidate' their accounts, counting the relevant proportion of assets, profit, revenue and so on towards the parent company's bottom line. The prominence of minority-controlled interests, and the norms of equity accounting meant the full financial picture of business groups was often opaque to auditors or shareholders.

Interlocks often followed the pattern of takeovers, with the simultaneous movement of money and executives between members firms, and co-opting of strategically important boardrooms by those internal to the group. In some cases, associated firms co-operated with the 'corporate raider' in defence against a hostile takeover, welcoming directors on to the board. For the AdSteam group, sleepy legacy firms David Jones and Tooth & Co. became takeover prey in the early 1980s, particularly from Ron Brierley's Industrial Equity Ltd (hereafter IEL). As table 3 depicts, the early 1980s were crucial for the growth of AdSteam, with the parent company operating as a 'white knight' to defend against hostile raids by acquiring above 40% but below 50% of David Jones and Tooth and Co., in addition to acquisitions of smaller companies such as Luke Ltd, Clark Rubber, and DJ's Properties. The number of interlocked firms increased from four to nine in 1982, with between two and seven interlocked directors for each of the minority-controlled holdings (table 3). That same year, associated companies David Jones and Tooth began friendly purchases of AdSteam share blocks, with group insiders quickly building up a 30% stake in the firm, and obtaining board seats in return (Clarke et al., 1997).

<table 3>

In other cases, board seats were demanded through hostile acquisition of controlling interest. In February 1986, after several years publicly vying for shares in BHP, Bell Group announced their intention to secure a controlling parcel of shares. BHP directors opposed it, and worked with John Elliot at Elders-IXL to defend against what they saw as outside interest. After some back and forth, both Bell and Elders-IXL obtaining significant shares (18.56% and 28% respectively) in BHP. The three firms began peace talks in August and September of that year, with Elliott and Holmes à Court given seats on the BHP board, and BHP chairman Brian Loton given a seat on the Elders IXL board (Edgar, 1999; Hewat, 1988).

Business groups varied in form. Some resembled hierarchical groups, with the name-sake firm the dominant entity that controlled most of the movement of money and personnel (Colpan and Hikino, 2018, chapter 1). Alan Bond began corporate life as a signwriter, before moving into real estate and property development. His group, Bond Corporation, diversified into resources, brewing and media, as well as retail through the purchase of Sydney department store Waltons (re-named Waltons Bond from 1981) (Sykes, 1994; Clarke et al., 1997; Barry, 1991). The Bond group had a pyramidal ownership structure, with the central Bond Corporation directing one-way cross-ownership of a bewildering array of firms. Similarly, IEL was a hierarchical group. Raider Ron Brierley was often the aggressor in takeovers, and IEL had one-way ownership of associated firms.

Elders-IXL was a diversified conglomerate that sat at the top of a hierarchical business group. The conglomerate was created by merging three separate firms, each in different industries (pastoral company Elder Smith Goldsbrough Mort; food manufacturer Henry Jones IXL; brewer Carlton and United Breweries). John Elliott and his team began their corporate careers by taking over Henry Jones IXL in the early 1970s, and in 1981 they engaged in a ‘reverse takeover’ of Elders, with CUB used as a major investor. At this point the group was

somewhere between a conglomerate and a business group, with each section maintaining some autonomy, and CUB still legally separate. Business group activities quickened in 1984, with Elders Finance and Elders Resources separated from the parent company and placed on the market, and new minority-controlled acquisitions – particularly with food manufacturer Goodman Group (later Goodman Fielder) – contributing to between 20 and 32 ties amongst 5-6 firms and 9-11 directors in the middle of the decade (table 3). Through core business and cross-ownership, Elders IXL was stretched across the pastoral, brewing, finance, resources and food manufacturing industries. Although the introduction of Goodman in 1984 created what appeared to be a dual ownership and director structure, in difference to AdSteam this was not an attempt to create a 'circle of wagons' to defend against outside interests (see below). Instead, the focus of the group's strategy was on core business (through subsidiaries and Elders-branded entities), with Goodman and the array of associated firms largely used as investment fodder (Hewat, 1988, p.120).

Other groups began as hierarchical but over time developed into dual- or multi-firm control structures. This was distinctive from cooperative 'network' groups in the Colpan-Hikino typology, with hierarchies and structures of control enacted through multiple dominant entities. For example, throughout the 1980s Robert Holmes à Court's Bell Group was fixated on the takeover of one of Australia's largest and most enduring industrial firms, Broken Hill Proprietary (BHP). Although starting from a very low base, the Bell Group network expanded considerably in 1986 and 1987, as the parent company's 45% cross-owned mining firm Bell Resources was used as the cash-rich vehicle to bid for BHP shares (table 3). In 1986, for example, Bell Group held 2% of BHP, Bell Resources held 15%, and Holmes à Court, John Studdy and John B. Reid connected the three entities (Reid represented the industrial giant). Bell Resources was used to demonstrate to shareholders that Holmes à Court

would be a good addition to the BHP governance team, and in the process, the company became equally important to the overall group structure (Edgar 1999).

Adelaide Steamship (hereafter AdSteam) developed a complex multi-ownership structure. The legacy shipping firm was formed in 1875 to deliver passengers and cargo between Melbourne and Adelaide. Diversification was prompted by the long-term decline of AdSteam's shipping business, and in the late-1960s/early-1970s there was significant change in the company's leadership through the appointment of Ken Russell as General Manager and Janis Gunnars Spalvins as assistant General Manager. Together they began diversified expansion through takeovers (Sykes, 1994; Ville, 2018; Clarke et al., 1997). AdSteam had a hierarchical group structure for the first half of the 1980s, with one-way ownership of a range of small firms within the shipping industry, and some minority but controlling shares in firms in other industries. In 1986, the company jettisoned the smaller shipping firms, and focused on their diversified minority-owned companies. Firms that had once been much further down the hierarchy became important for the overall group structure, including major retailer David Jones, its development arm DJ Properties, food manufacturer Petersville Sleigh, and brewer Tooth & Co. In the second half of the 1980s, a very tight 'circle of wagons' – as financial journalist Trevor Sykes put it – formed, with no clear hierarchy and each of the key firms holding shares in each other (Sykes, 1994). Reciprocity was more pointed with regards to the director network, with the group sharing an average of 27 ties per year amongst 4-10 firms and directors (table 2; table 3).

Takeovers and the professional interlocked executive

Governance issues in diversified business groups were encouraged by a new type of company director: the *professional interlocked executive*. Charisma, masculinity, and ostentatious displays of wealth became synonymous with corporate raiders (Sykes, 1994; Bongiorno,

2015), however it was professional knowledge and skills that were central to the corporate elite (Wright and Forsyth 2021). Interlocked executives, including corporate raiders, were trained in 'general' corporate professions such as economics, law, management and accounting. For example, in the AdSteam group, George Haines was an accountant who became the managing director of Tooth & Co.; Hobbs was trained in law and commerce and had progressed through David Jones' internal hierarchy; Kent was a solicitor and then corporate lawyer; Ken Russell had been a salaried employee and manager within Adelaide Steamship; and Spalvins had trained in economics and management before being headhunted by Russell in the late-1970s. Similarly, in Bond Corp, although Alan Bond himself was an entrepreneur, his executive 'lieutenants' were trained in property development (Beckwith), law (Lucas), and finance (Oates). In Elders-IXL, John Elliott hand-picked executives from his MBA class at the University of Melbourne, with Geoff Lord trained in economics, Ken Jarrett and Ken Biggins in accounting, and Peter Scanlon who "knew the food business" (Hewat, 1988).

Professional training of corporate raiders facilitated diversified business groups, with each group choosing takeover targets based on similar criteria: traditional or dated management, underperforming assets, and undervalued stock. They argued that benefits would accrue to shareholders by "leveraging managerial skills in new markets, smoothing revenue streams across the business cycle, and allocating capital to efficient use within the firm" (Fleming et al., 2004, p.184). In-house research at Bell Group identified firms poised for growth if they were given new strategy and direction. In the takeover of BHP, "despite its size and icon status, [it] fitted all of Robert's ingredients for a takeover": it was capitalised at barely $2 bn despite the capacity of its assets, and was undervalued due to sluggish management and the corresponding loss on its steelworks operations in 1982-83 (Edgar, 1999). AdSteam's policy of unrelated diversification was based on similar principles: they would identify old, asset-

rich companies with good cash flow relative to the price of stock (Sykes, 1994). John Elliott at Elders-IXL identified takeover candidates similarly, by "1. Poor management; 2. High asset level; 3. Turnaround potential; 4. A price tag of less than $10 million" (Hewat, 1988, p.83). At Industrial Equity, Brierley had a "well-publicised penchant for […] undervalued companies", particularly those that were "weak", "vulnerable" or "poorly-managed" (Verrender, 2011; *The Canberra Times*, 10 July 1987).

The professionalism of interlocked executives, and their public image of co-ordination and operational expertise facilitated business groups by encouraging trust in takeover bids. As Wright and Forsyth (2021) have argued, professionalism in Australian managerial capitalism was not simply ideological, but was also materially performed as expert work (see also Forsyth 2018). In this case, in order to access finance and convince shareholders to sell, interlocked executives used public communication to deploy professional knowledge through strategies for operational improvements, while also leaning on their symbolic authority as experts. Ron Brierley made sure to emphasise the professionalism of IEL's management team, arguing that their successful 1981 result "was to some extent due to the continued buoyancy of investment markets, but this is not to diminish the hard core of financial and management resources which is IEL's basic strength in good times or bad" (*The Canberra Times*, 9 October 1981). In his 1988 chairman's review, Alan Bond declared that the group's success was based on building "operating businesses with strong, recession-proof cash flows and quality assets", a "concentration on efficiency and profitability", and the "development of superior management at all levels" (Sykes, 1994). In 1981 AdSteam noted that their takeover policy involved "acting as a catalyst to enable the management of those companies to utilise assets in a more efficient way" (AdSteam annual report 1981). The appointment of Sir Ian McLennan – who was, in Elliott's view, "the greatest businessman that Australia ever produced" – as executive chairman was deliberately used to overcome the doubts of some on

the crowding out of Elders-IXL's independent directors with those internal to the firm (Hewat, 1988).

Expertise was used to support takeovers in instances where targets were sceptical or hostile. In 1980, at the AGM following AdSteam's takeover of David Jones, an irate shareholder asked whether Spalvins knew the difference between a linen and cotton sheet. Spalvins apparently replied "I'm a professional manager, not a retailer" (Sykes, 1994). Bond Corp, in their 1985 takeover of Castlemaine Breweries – which complemented their existing associated company Swan Brewery – argued that the bid was intended to achieve economies of scale and scope through "rationalising the assets of the two groups" (*The Canberra Times*, 8 Nov 1985). Holmes à Court's bid for BHP was opposed by most inside the company. Former Chairman Sir Ian McLennan wrote to BHP shareholders during a bid in 1986, urging them not to sell to Holmes à Court as it would be "bad for Australia and bad for you individually" (Dunstan, 1986). In response, Holmes à Court demonstrated his managerial abilities by using Bell Resources to purchase other mining companies, improve their performance, and then proposing changes to BHP along similar lines (Edgar, 1999). He publicly eschewed the title of 'corporate raider', arguing that he also "runs companies and restores them to health" (*The Canberra Times,* 8 February 1986). In January 1986, IEL made a partial takeover bid for North Broken Hill Holdings. North's managing director Mark Bethwaite commented that the "asset stripping plan" to "break North up for a fast buck" was an insult to loyal shareholders (*The Canberra Times*, 23 Jan 1986). In response, Brierley was adamant that the firm had "outlived its use as a corporate entity", and proposed a 'de-merger' by relisting the two major subsidiaries (EZ Industries and Associated Pulp and Paper) as independent entities (*The Canberra Times*, 17 Jan 1986). Much like Holmes à Court and BHP, Brierley argued that the main income streams of silver, lead and zinc mining, and

forestry paper lacked logical efficiency, and the de-merger would eliminate superfluous costs and deliver a more flexible risk profile (*The Canberra Times*, 23 Jan 1986).

Australia's financial media supported the public image of PIEs, with a focus on expertise and strategic thinking reinforcing perceived benefits of business groups. Financial media saw corporate raiding as superior to 'traditional' principles of management and corporate governance, with the BRW arguing in late 1983 that the success of the Elders-IXL merger was "a victory for the smart, fast-moving, MBA-style business breed over the entrenched traditionalist" (in Bongiorno, 2015, p.132). Similarly, in early 1987, at the height of the AdSteam empire, Spalvins was directly given the credit for creating an "entrepreneurial company with the best management, backed up with a stringent, highly disciplined reporting system" (Meagher and Chong in Clarke et al., 1997, p.156). Corporate raiding was given the level of recognition and acceptance as a profession, with Brierley referred to as a "takeover specialist", and Spalvins a "corporate raider with a reputation for skilfully executed takeovers" (*The Canberra Times*, 8 Aug 1987, 17 Dec 1989). Robert Holmes à Court was similarly described as a "genius", a "lateral thinker", with a reserved manner that disarmed his opponents (Rees, 1987). Imagery of chess, similar to the cartoon of Holmes à Court in figure 1, was used to promote the idea that interlocked executives were deliberate, calculated and strategic.

<figure 1>

Broken promises and conflicts of interest

The combination of professionalism, executive status, and mobility between member firms meant that PIEs violated corporate governance principles regarding board independence. PIEs were technically considered 'independent' when they sat on the boards of associated firms, as entities were legally separate and were tied based on minority but controlling

ownership. While allowable under the letter (if perhaps not the spirit) of the law, PIEs crowded out genuinely independent non-executive directors. For instance, the AdSteam network had between 5 and 10 interlockers comprising 14 to 38 ties annually (table 3). The vast majority of interlockers were AdSteam executives Russell, Spalvins and Kent, or executives for Tooth and Co. (Haines) and David Jones (Walsh and Hobbs). Crowding out of independent directors was significant with five of the six David Jones' directors in 1985 either David Jones executives that sat on other boards in the AdSteam group (Walsh and Hobbs) or AdSteam executives listed as non-executive directors of David Jones (Spalvins, Russell, Kent). IEL's pyramid structure was similarly assured by executives sitting on the boards of other firms in the group, including Brierley, general manager Bill Loewenthal, CEO Rodney Price, operations manager R. J. Patrick, and investment manager G. J. Pickles.

PIEs used their critical mass of board votes to facilitate conflicts of interest: ignoring promised operational improvements and moving associated firms towards strategies that benefitted parent companies. While corporate raiders argued that the superior expertise and co-ordination of their team would improve core business, once the takeover was completed associated firms were largely used as investment fodder within increasingly complex group structures. In 1981, following AdSteam's acquisition of 47% of DJ Properties and the appointment of AdSteam executives Ken Russell and John Spalvins, the Board quickly moved to "dispose" of the firm's core operations (the real estate portfolio), instead "investing the funds in company shares and securities" (Adsteam annual report 1981; *The Canberra Times*, 25 Sept 1980). Tooth and Co. was listed as a brewer and distributor of wine and spirits in 1981. AdSteam acquired 42% of the company in 1982, with Russell and Spalvins predictably sent to the board as 'independent' directors. By September 1982, Tooth's "diversification program" was well underway, and in 1983 the firm was listed as an

"investor" in addition to core operational activities (*The Canberra Times*, 15 September 1982; Jobson's 1984-85).

IEL similarly transformed takeover targets into speculative share traders. Acmex Holdings had been expanding as a mining prospecting company and throughout the 1970s (Jobson's 1982). In 1980 IEL purchased 38% of the company, and executives Brierley (Chair), Lowenthal and Patrick were appointed as non-executive directors on the Acmex board. By 1984, the company was referred to as a "small Sydney-based investment group with the majority of its assets in listed shares and short-term deposits" (*The Canberra Times*, 1 Feburary 1984). Similarly, Bond Corp bought a significant but minority holding in Sydney retailer Waltons in 1981. The company almost immediately diversified in a direction congenial to the parent company, purchasing several Bond Corp properties such as the Taylor Lakes residential development in Melbourne. In 1982, Alan Bond was appointed executive chairman, ending the Walton family's 30-year management of the firm (Sykes, 1994). In 1983, Waltons began to wind back its retail operations in Victoria, and in 1987, in consideration of "steady losses" in retailing, Bond sold the trading assets of the company. He argued that Waltons Bond would become "an investment company using the proceeds of the sale" (*The Canberra Times*, 23 February 1983, 19 February 1987).

Speculative share ownership was a strategy that benefitted the business group far more than associated firms. Although average annual growth of market capitalisation (48%) and profits (75%) well-exceeded what was normal for publicly-listed companies across the decade (table 2, table 3), most of the groups' profit was derived from equity accounting and speculative investments of associated firms rather than operational improvements. In the case of AdSteam, for example, if David Jones made money in a particular year, almost half of that was 'attributable' to AdSteam shareholders, even if the money never materialised. Cross-holdings also created cross-dividends, with almost half of the dividend paid by David Jones

in a given year going to AdSteam as investment income. This then inflated AdSteam profits which would allow them, in turn, to pay a higher dividend to their major shareholder David Jones (Sykes, 1994; Clarke et al., 1997). In 1986, David Jones' acknowledged the importance of equity accounting rather than operational profits, arguing that increased cross-ownership with Adelaide Steamship was with the intention of providing a "major contribution to profit in the future", and that their results were "enhanced by the record profit result of Tooth & Co. Limited" (David Jones annual report 1986, p.5). For Tooth and Co., in turn, their divergence from core operational matters coincided with increasing importance of profits derived from investments. In 1983, Tooth's stake in H. C. Sleigh (48.8%) and National Consolidated (47.2%) lifted profits by greater measure than operations, with $28.3 million from associated companies compared to $19.1 from the brewing, wine and hotels business (*The Canberra Times*, 14 September 1983). In 1985, almost 80% of their "record profit" of $32.8 million was derived from investment and other income, alongside a 26.29% fall in turnover (*The Canberra Times*, 10 September 1985). By 1990, the media acknowledged that AdSteam's profits had become largely dependent on "the sale of investments and increases in investment income to offset flat or declining earnings from operations" (*The Canberra Times*, 13 Sept 1990).

The same was true for the other business groups. In 1982, Waltons Bond posted a $22.8 million profit, primarily derived from property development and equity-accounting, in contrast to "difficult trading conditions" and declining profit margins on retailing (*The Canberra Times*, 24 September 1982). Of Bell Group's "surge" in profits in the year following their adoption of equity-accounting (1985), only 7% was due to increase profits within the firm; the remainder were profits attributable from associated companies (*The Canberra Times*, 18 Sept 1985). In 1987, a significant portion of IEL's profit "appears to have come from investment and other income" (*The Canberra Times*, 26 Sept 1987).

Although John Elliott insisted that Elders-IXL was a strong "operating business" in brewing and agriculture, profits derived from investments consistently outperformed the agribusiness (if not their massive brewing interests) in 1986, 1987, and 1988 (*The Canberra Times*, 27 September 1986, 17 Feb 1988, 28 September 1988). Similarly, around a third of Goodman Fielder's profits in 1987 were due to equity-accounting of minority interests, with this growing 10-fold from the previous year (*The Canberra Times*, 25 September 1987).

Conflicts of interest largely proceeded unchecked. Interlocked executives bullied independent board members to support activities that benefitted the business group rather than the associated firm. Brierley has been remembered as "harangu[ing]" independent directors of associated firms (Verrender, 2011). Similarly, in defence against hostile takeover by IEL in 1983, Elders-IXL proposed to purchase CUB as a wholly-owned subsidiary. Although the independent CUB directors disliked the proposal, preferring instead to remain minority-owned and independent, interlocked directors were used to pressure the remaining CUB board members to accept the offer (Hewat 1988, p.117). Bond Corp accountant Ron Nuich similarly reflected on the "group philosophy" that was based on the principle that "Bond Corporation owns everything" (Sykes 1994, p.196, quoting Nuich in December 1990). In the late-1980s, Bond Corp purchased 68% of Bell Group, which at the time included control of 40% of Bell Resources. Alan and Bond Corp executive Peter Mitchell were appointed to the Bell Resources board, and their resulting control over the ownership, management and governance of Bell Resources meant Bond could use the company as his personal bank account. Bell Resources 'lent' $1 billion to the Bond Corp group, as a supposed 'deposit' for the purchase of assets from Bond Brewing Holdings. At the same time, audaciously, Bond had the votes to approve the payment of a 'management fee' of $6 million for what most would consider the normal duties of a director (Edgar 1999; Sykes 1994; Clarke et al. 1997).

The public image of PIEs also encouraged passivity, if not complicity, from financial media and auditors over intra-group conflicts of interest. Not only did they actively support the 'superior' management style of corporate raiders throughout the decade (see above), but when group structures began to look a little wobbly in the late-1980s media and auditors did little to disrupt the mythology of corporate raiders. When Bond Corp was questioned on the incongruity of its expansionary operations following the October 1987 crash, at a time when other similar companies were winding back, media were apparently satisfied with vague statements regarding the company's "solid 'cash flow' to see it through the difficult times" (Clarke et al., 1997, p.179). AdSteam was ultimately described as a "humiliation for the accounting profession", with the untangling of records beyond virtually everyone, including those within the firm. Despite this, vague statements regarding executives' management ability and reporting systems were used in the press in lieu of more accurate financial assessment (Clarke et al., 1997; Sykes, 1994). As late as 1989 the press acknowledged Adsteam's opaque accounts, yet took the leadership team on their word that they were sound:

> "The complexity of the intersecting shareholdings meant that nearly $20.1 million of equity-accounted net profit was attributable to double counting of dividends. But *Adsteam insisted* yesterday that its policy of folding these into net profit had the consent of auditors Deloitte Haskins and Sells" (*The Canberra Times*, 11 March 1989, emphasis mine).

The collapse

Conflicts of interest – through complex minority-owned group structures and overleveraging for the purpose of speculative takeovers – were catastrophic for diversified business groups. The October 1987 global stock market crash, the sharpest market downturn since the Great

Depression, began in the US through a combination of new Federal tax measures, a high trade deficit, depreciated US dollar, and upward pressure on interest rates. An increasingly globalised financial world was quick to mirror the dip in the US stock exchange, with the ASX falling 25% in a single day (Bongiorno 2015). Foreign banks pulled out of Australia, and vulnerable Australian banks tightened their prudential standards and began to talk to one another about the true extent of their exposure to overleveraged business groups (Edgar, 1999; Sykes, 1994). This new lack of credit, combined with interest rates of 18%, triggered a collapse in asset values. Cross-dividends and investment income, once the source of the groups' extraordinary profits, soon became responsible for the downward spiral of their balance sheets once stock falls began. The fall in stock values, and resulting balance sheet weaknesses broke the spell of raiders' symbolic authority with auditors, financial journalists and credit agencies. This created further challenges for accessing credit and securing investment capital.

The collapse or closure of each of the business groups followed shortly after. Bond went first, announcing a $1 bn loss in October 1989, the largest in Australia's history, with Trevor Sykes noting that once "minority interests were stripped out Bond Corporation, […] shares had a *negative* worth of 27c" (1994, p.231). Elders-IXL was restructured as the Foster's Group in 1990. Bell Group collapsed in 1991, with Holmes à Court passing away the same year. Bond declared personal bankruptcy in 1992, and in 1997 was sentenced to seven years in prison after pleading guilty to using his controlling interest in Bell Resources in the late-1980s to extract $1.2 bn into Bond Corp. Subsequent assessment of these business groups has been mostly critical, prompting a tightening of banking and stock market regulation, as well as some serious soul-searching from the corporate accounting profession (Ville, 2018; Sykes, 1994; Clarke et al., 1997; see Buchnea et al., 2020 for the UK case).

The collapse of the AdSteam house of cards was particularly spectacular. Following the 1987 crash, AdSteam kept expanding, launching a successful $1.5bn bid for IEL, and using David Jones to extend their minority cross-holdings and the size of their network from 22 to 30 ties in 1988 (table 3). This forced AdSteam to take on an additional $600m debt which, in a tightened banking market, made investors nervous. In 1990, Baring Securities and former IEL Chair Ron Brierley produced financial analyses showing that AdSteam had $7bn in bank debt, with shareholder funds of only $1.8bn. The game was officially up, and after the 1990 AGM, AdSteam's share price crashed from over $5 to just over $1 in a single day. As Sykes (1994, p.424) has argued, "the magic of the cross-holding structure was now working at top speed in reverse". The reliance on cross-dividends as a major source of revenue meant that a fall in Adelaide Steamship shares impacted the profit of its largest shareholder, David Jones. This fall in David Jones' stock then reduced dividends and profit for its largest shareholder, AdSteam. So it continued throughout the group. The banks demanded a sale of AdSteam assets, and for loosening of the control of interlocked executives. Spalvins and Kent resigned or were fired from their interlocked positions on Petersville, National Consolidated, AWA and Tooth. AdSteam was liquidated early in 1991, and in March Spalvins was "terminated as an AdSteam employee" (Kitney, 2011). The $4.5 bn loss was one of the largest corporate collapses in Australia's business history.

Conclusions

Although interlocks were largely benign across the twentieth century, in the 1980s the presence of *professional interlocked executives* facilitated poor monitoring and conflicts of interest in Australia's diversified business groups. Groups were controlled by those with professional training, executive status and mobility between member firms, with their expert labour and symbolic authority enabling the takeover culture of the time, while also allowing

them to ignore promised strategic benefits and redirect associated firms towards speculative share ownership.

This case demonstrates the importance of board independence for corporate governance. There has been substantial research on the impact of interlocking directorates for monitoring, particularly for control over debtors, managers, suppliers, or to bypass competitive market structures (Mintz and Schwartz, 1983; Andrikopoulos et al. 2019; Schnyder and Wilson, 2014). In this case, the combination of cross-ownership, executive status and ostensibly 'independent' appointments resulted in distinctive corporate governance issues. The legal independence of associated firms provided business groups with cross-dividends and the ability to use equity accounting. As functionally crucial to the parent firm, yet legally separate, business groups were able to extract resources from associated firms while trading on the benefits of their independence under the eye of the law and shareholders. This echoes much of the corporate governance literature by highlighting the importance of (genuine) board independence for managing the sometimes risky and opportunistic behaviour of managers (Hillman and Dalziel 2003; Bendickson et al. 2016).

This case also demonstrates the mechanism through which interlocks have influenced board governance. It contributes an alternative case to those who have found relatively positive strategic effects from interlocks and business groups, by highlighting the way that PIEs weaponised professional expertise to create trust in complex and risky group structures (Keister, 1998; Maman 1999). Professional expertise – both the labour of developing a convincing strategy for operational improvements, and the symbol of knowledge and co-ordination – enabled business groups by convincing bankers to lend money, and shareholders to sell sufficiently to achieve minority control. Once takeovers were completed, this same labour and image of professionalism, combined with interlocked executive status, facilitated strategic changes in the interests of the parent firm. PIEs crowded out previously independent

board members, and used their perceived expertise and critical mass of board votes to move associated firms away from core business and towards speculative share ownership. This benefitted business groups in the short term, with investment income and profits derived from equity accounting becoming a dominant part of each group's balance sheet. However, the complex and interconnected structure, particularly the use of cross-dividends, left firms vulnerable to the vicissitudes of global banking and financial markets. Interlocks in this case were harmful for Australia's corporate sector, with their compromise of monitoring functions responsible for the collapse of most of these groups in the early 1990s.

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Table 1: Overall network structure

		1910	1930	1952	1964	1986	1997	2007	2018
Sample	*Sample size*	111	118	116	102	117	122	112	114
	Number of non-financial firms	91	97	96	80	98	99	87	97
	Number of financial	20	21	20	21	19	23	24	17
	Total directors	510	619	667	668	900	957	811	813
	Total board positions	642	759	787	800	1118	1129	943	934
Firm network	*Ties (connections between firms)*	402	390	372	364	660	512	324	294
	Connected firms (%)	80 (72)	86 (73)	83 (72)	73 (72)	92 (79)	86 (70)	78 (70)	79 (69)
	Firms in main component (% of connected firms)	68 (85)	77 (90)	77 (93)	71 (97)	89 (97)	84 (98)	71 (91)	70 (89)
	Average degree (interlocked firms)	5.03	4.53	4.48	4.99	7.2	5.95	4.15	3.7
Director network	*Number of directors*	510	619	667	668	900	957	811	813
	Ties (board seats occupied by interlockers) (% of board positions)	221 (34)	239 (31)	197 (25)	224 (28)	381 (32)	301 (27)	241 (26)	218 (23)
	Interlockers (% of directors)	89 (17)	96 (16)	78 (12)	93 (14)	154 (17)	129 (13)	109 (13)	98 (12)

Note: Sample based on top 100 'non-financial' and top 25 'financial' firms. Network metrics calculated with *UCINET*.

Table 2: Overview of business groups

	AdSteam	Bell	Bond	Elders IXL	IEL
Years of operation	1981-90	1982-87	1981-89	1984-89	1981-88
Total ties	273	28	144	114	79
Interlockers (directors)	11	7	14	18	8
Interlocked firms	14	5	7	10	9
Average ties per year	27	4.5	16	19	9.9
Average annual change in market capitalisation (%)	28	55	34	59	64
Average annual change in profit (%)	39	81	111	37	108

Note: Years of operation refers to years between 1981 and 1991 that the entity operated as a business group – meaning they had one or more associated companies and weren't in receivership or delisted. Network metrics calculated with *UCINET*. Source: Jobson's *Year Book of Public Companies of Australia and New Zealand*, annual editions.

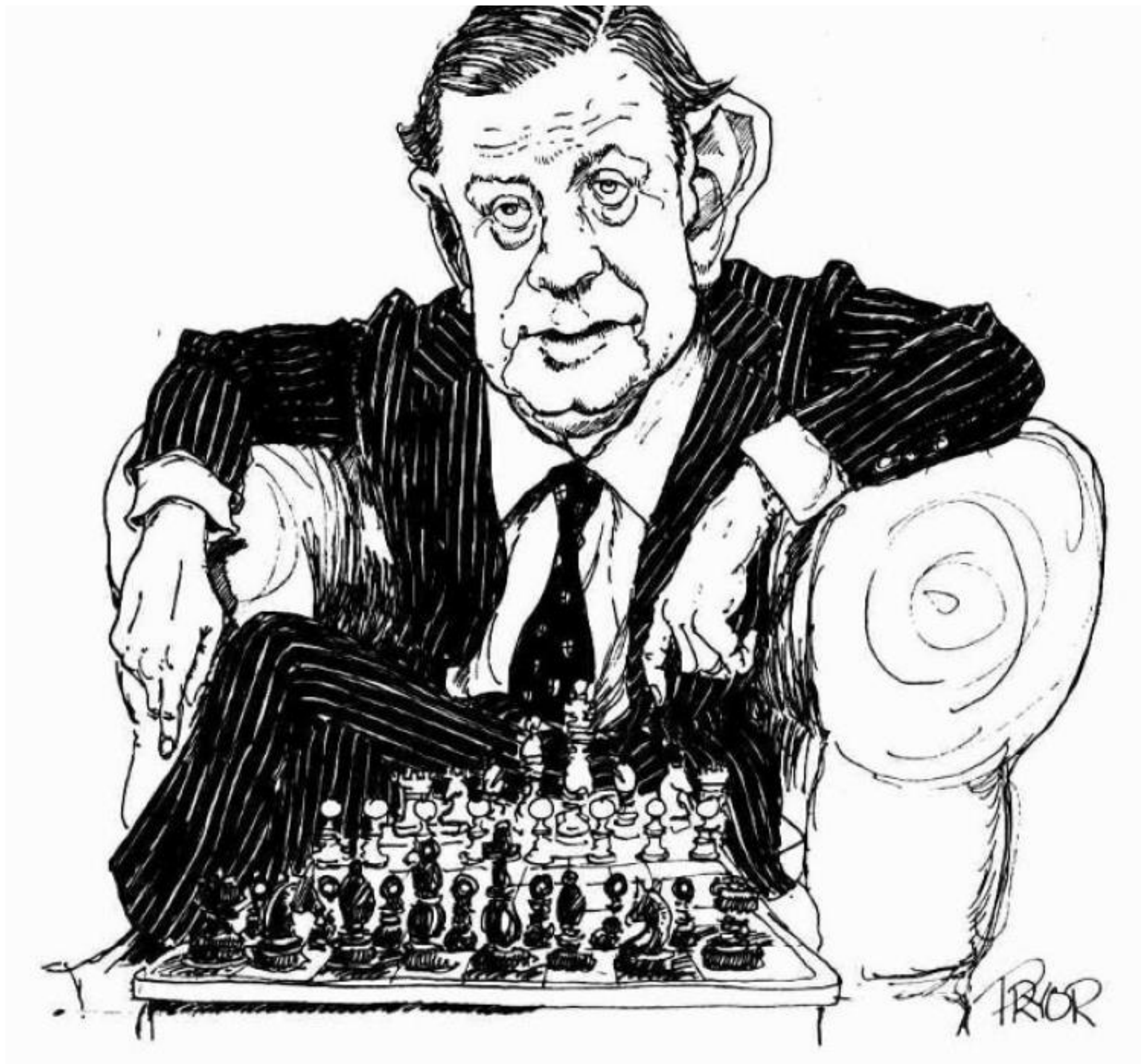
Table 3: Business groups, change over time

		1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
AdSteam	*Ties*	14	38	38	30	30	28	22	22	30	21
	Interlockers	5	10	9	7	7	6	5	6	7	5
	Interlocked firms	4	9	9	7	7	7	6	5	8	6
	Ties per person	2.8	3.8	4.2	4.3	4.3	4.7	4.4	3.7	4.3	4.2
	Ties per firm	3.5	4.2	4.2	4.3	4.3	4.0	3.7	4.4	3.8	3.5
	Market capitalisation, $mill (% change)	26.9	34.7 (+29)	34.9 (+0.5)	35 (+0.2)	35.4 (+1.1)	44.3 (+25)	74.5 (+68)	74.8 (+0.4)	103.6 (+39)	194.1 (+87)
	Profits, $mill (% change)	17.7	24 (+36)	32.7 (+36)	41.6 (+27)	60.2 (+45)	83.4 (+39)	61.1 (-27)	160.7 (+163)	200.8 (+25)	220.3 (+10)
Bell	*Ties*		4	2	2	2	9	9			
	Interlockers		2	1	1	1	4	4			
	Interlocked firms		2	2	2	2	4	4			
	Ties per person		2	2	2	2	2.25	2.25			
	Ties per firm		2	1	1	1	2.25	2.25			
	Market capitalisation, $mill (% change)	14.5	18.2 (+25)	43.6 (+140)	60.3 (+38)	73.2 (+22)	155.5 (+112)	296.9 (+91)	320.9 (+8.1)	326.1 (+1.6)	
	Profits, $mill (% change)	6.8	10.1 (+50)	18 (+78)	41.9 (+132)	65.7 (+57)	150.7 (+129)	112 (-26)	76.5 (-32)	271.8 (+255)	
Bond	*Ties*	14	18	19	21	23	19	22	4	4	
	Interlockers	6	8	8	8	10	8	9	2	2	
	Interlocked firms	3	3	4	4	4	4	5	2	2	
	Ties per person	2.33	2.25	2.38	2.63	2.3	2.38	2.44	2	2	
	Ties per firm	4.67	6	4.75	5.25	5.75	4.75	4.4	2	2	
	Market capitalisation, $mill (% change)	23.4	35.1 (50)	35.1 (0)	35.1 (0)	81.6 (133)	146.9 (80)	211.5 (44)	211.5 (0)	211.5 (0)	211.5 (0)
	Profits, $mill (% change)	10.8	4.3 (-60)	6.8 (59)	9.3 (36)	20.1 (117)	103.3 (413)	128.2 (24)	402.5 (214)	808.7 (101)	1565.6 (94)
Elders-IXL	*Ties*				24	20	32	15	19	4	
	Interlockers				11	9	12	7	9	2	
	Interlocked firms				6	5	6	4	5	2	
	Ties per person				2.18	2.22	2.67	2.14	2.11	2	
	Ties per firm				4	4	5.33	3.75	3.8	2	
	Market capitalisation, $mill (% change)	62.7	162.6 (160)	162.6 (0)	157.5 (-3)	254.2 (61)	334.0 (31)	892.1 (167)	1433.3 (61)	1831.6 (28)	2233.8 (22)

	Profits, $mill (% change)	33.9	61.3 (81)	64.3 (5)	72.2 (12)	106.9 (48)	204.7 (91)	353.3 (73)	795.4 (125)	629.7 (-21)	104.2 (-83)
Industrial Equity	*Ties*	10	16	15	6	4	9	13	6		
	Interlockers	4	5	5	3	2	4	3	3		
	Interlocked firms	4	7	6	3	2	4	3	2		
	Ties per person	2.5	3.2	3	2	2	2.25	4.33	2		
	Ties per firm	2.5	2.29	2.5	2	2	2.25	4.33	3		
	Market capitalisation, $mill (% change)	11.1	16.7 (51)	22.8 (37)	30.8 (35)	62.6 (103)	190.0 (203)	294.3 (55)	367.7 (25)	387.5 (5)	
	Profits, $mill (% change)	11.9	13.1 (10)	14.4 (10)	26.3 (83)	51.2 (94)	145.3 (184)	230.1 (58)	44.2 (-81)	265.7 (501)	

Note: Market capitalisation refers to that listed for the 'main' or namesake firm in the group. Source: Jobson's *Year Book of Public Companies of Australia and New Zealand*, annual editions.

Figure 1: Cartoon of Robert Holmes a Court, Bell Group



Source: Peter Rees, "A unique figure on the Australian landscape", *The Canberra Times*, 8 February 1986.