

**2002 MELBOURNE INSTITUTE ECONOMIC &
SOCIAL OUTLOOK CONFERENCE**

Session: Trade Practices Act and Are We Becoming a Branch Office Economy?

Speech: *“Can Our Successful Multinationals be Run From Australia?”*

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1.0 INTRODUCTION

I am very pleased to have the opportunity to speak at this conference and on such a current and important issue.

In the context of the subject *“Branch Office Syndrome”* Bob Gottliebsen and I debated what I should talk about and agreed I should concentrate on an issue I have been closely involved with over the past two decades, namely:

- How to turn largely domestically focussed Australian businesses into vibrant international or multinational growth orientated corporate entities?
- In relation to this process what are the barriers, what are the core success factors and what are the implications for companies, their management and the broader community and economy?

My major past or current involvements, Amcor, now one of the leaders in the global packaging industry, AMP, now a recognised international financial services company with the majority of its wealth creation and wealth management business outside Australia and the domestically focussed largest retailer in Australia, Coles Myer, are all very relevant to the subject matter.

I will aim to focus my remarks around three issues or questions:

Firstly – Why are Australian companies placing such importance on expansion outside Australia?

Secondly - Is it a matter of national concern that an increasing and accelerating number of Australian corporates are becoming successful multinational companies? (What are the risks in terms of relocation of head offices and potential for major increases in foreign ownership of Australian companies?) and

Thirdly - Should Governments and their regulatory and other agencies to doing anything in particular about this process?

2.0 DEVELOPMENT OF AUSTRALIAN MULTINATIONALS

Let me say at the outset that the internationalisation of Australian corporates is mostly positive for the companies, their employees, their industries and for the Australian economy as a whole. We should celebrate their achievements and avoid placing roadblocks in the way.

The reasons for the increasing number of aspiring and successful Australian international companies are mostly obvious:

- The increasingly open and deregulated Australian economy and globalising international marketplace;
- The advances in communication and data storage and transmission technology;
- The mismatch between the growth aspirations of investors and hence of corporates, and the limited growth and scale opportunities in the Australian economy;
- The mobility of global capital flows and the decreasing importance of Australia in the global asset allocation process, and the consequences of higher cost of capital for Australian domiciled companies.
- An increasing realisation by boards and senior management that Australian companies and their management can “make it” in tough and competitive overseas markets. This aspect is about “attitude of mind.”

For many Australian companies, spreading their wings overseas and concentrating on core competencies is the logical course of action to deliver shareholder value, rather than pursuing conglomerate or domestic dominance outcomes in the Australian market. There are of course notable exceptions to this process.

The process is not a new one – many early attempts by Australian companies in North America and Europe did not succeed and many companies have consistently pursued Asian expansion with limited success. Very few companies have found the risk/reward relationship in the complex and dynamic Asian region sufficiently acceptable to make large investments. Hence in the last decade we have seen an increasing number of long standing Australian corporates make big moves in North America and Europe. AMP, Amcor, CSR, Lend Lease, Brambles and James Hardie are all examples of companies who either through a global product focus or a regional focus are succeeding such that between 60% and 80% of their asset, sales and profits are (or will be shortly) sourced outside Australia. There are also a group of new but smaller companies (usually technology driven) who are increasingly making their presence felt in targeted offshore markets.

Time does not permit me to go into detail about this process, but it is occurring and at an accelerating rate.

These companies and others are internationalising themselves in terms of:

- assets and revenues;
- management
- technology / R & D
- boards of directors

and are increasingly wrestling with the tyranny of distance that is involved in running a major international company from predominantly either Sydney or Melbourne.

Whilst we can debate the issue at the edges, there is no question in my mind that this process will accelerate and is unstoppable. Whether it will lead to Australia becoming a branch office economy is clearly a topic worthy of discussion.

3.0 SUCCESS BY AUSTRALIAN MULTINATIONALS – WHAT ARE THE IMPLICATIONS?

Let me touch briefly on some of the issues.

At the company/industry level there are many positives as enlarged horizons, best practice, improved competitiveness and access to technology on a global basis have positive impacts on local as well as overseas operations.

Many Australians at managerial and other levels will benefit from the two way flow of people to and from Australia. I have observed this at first hand on many occasions and it is a very real and tangible benefit.

Those companies (and there are many examples) who have transformed their operations in international terms, have for the most part benefited greatly from the process and there is little comparison between their former and current configurations.

Per contra companies which have remained largely domestically focussed can find it difficult to be right at the cutting edge in terms of competitiveness and managerial talent. Many will dispute my assertion and there are clearly some notable exceptions.

For Australia the issues of concern are as follows:

People

Do we run the risk of losing more of our best people from this process? I think the answer is no as successful Australian multinationals will plan and direct the careers of their talented people with a view to retention and whilst some successful Australian managers or technologists will opt for a long term career overseas, many will come back or be complemented by expatriates who decide to remain in Australia.

Investment Flows / Cost of Capital / Currency

This is a complex issue! For many Australian companies (local or international) the challenge is to create a business that, in terms of size and focus, justifies coverage by overseas investment houses. Many Australian companies are now simply off the radar screen in terms of attracting offshore investment.

More important is cost of capital where Australian domiciled companies aspiring to be “internationals” are at a distinct disadvantage, (up to 200 basis points) in terms of equity raisings. Ultimately some Australian companies will decide to relocate as a result of these factors unless global financial markets become a reality such that Australian companies can access capital on equal terms to their overseas counterparts.

Corporate Headquarters

This clearly is a hot topic. Most successful overseas international companies operate with a relatively high proportion of their business in domestic or quasi domestic markets (ie North America / Western and Eastern Europe). For many Australian multinationals there is an increasingly inverse relationship whereby the domestic market is becoming an increasingly smaller part of the equation. This means a disproportionate travel load for the CEO and senior management team and the need to spend large amounts of time away from Australia dealing with customers, suppliers, local management and other key relationships. Increasingly intellectual resources and the intellectual focus of boards and management will tend to move in these circumstances away from Australia.

Video conferencing can help but will never replace the need for face to face communication. Equally the need to mix in business and social terms with key industry and advisory players can be another important driver in deciding where best to locate the corporate office.

The Dual Listed Company (DLC) is obviously an important development which is in part trying to address the domicile issue. Whilst it clearly has worked, it may turn out to be of limited advantage due to complexity, potential for arbitrage and for other reasons. For some sectors DLC's will simply not work.

Do I think in the short term there will be a risk of companies in mass relocating to offshore – my answer is no - but I believe the pressure points are building up and we need to be conscious of them.

One further point we should note is that the price of success and the price of failure for aspiring Australian multinationals can be the same – ie to be the recipient of a foreign takeover, and there have been a number of high profile examples of this over the years.

In this connection I briefly compared the top 50 listed companies in Australia at present with the top 50 – fifteen, ten and five years ago. The analysis makes interesting reading. More than half of the top 50 of 1987 have disappeared. Whilst some were the so called entrepreneurial group of the eighties, (Adelaide Steamship, Bond, Bell Resources and so on) the overwhelming majority of those that have gone were well known Australian

companies that have been taken over by overseas companies – ACI/BTR Nylex, Ampol, Arnotts, CRA, Comalco, ICI, North Broken Hill, Pioneer, Rennison, TNT, Normanby to name a few.

Whilst these companies have obviously been replaced in the top 50, there is no question in my mind that as a nation we have incurred a net loss over the last decade and half in terms of location of senior management, corporate resources, local decision making and so on. This is where the real risk lies of a branch economy emerging rather than any wholesale migration of successful Australian companies to relocate their headquarters in Europe or North America. This factor needs of course to be counterbalanced against the very substantial benefits which have flowed over the years to Australia, in economic and other terms, from overseas investment and foreign ownership.

4.0 CAN OR SHOULD GOVERNMENTS DO ANYTHING?

As I have articulated, the benefits flowing from internationalisation of Australian companies are substantial and overwhelmingly positive in terms of competitiveness and people development, access to technology and so on.

Whilst, as I have just stated, I don't believe there is any short term likelihood of major change of domicile by major Australian companies, there are longer term implications of which Governments need to be mindful.

The number one priority for Government should be to ensure substantial outperformance by the Australian economy. Economic growth and competitiveness are certain ways to ensure investment and employment opportunities are optimised.

The reform agenda must be pursued vigorously, as much of recent economic dividends are the direct result of the macro and micro reform of the Australian economy and of Australian industries over the past decade or so. The benefits of reform need however to be articulated and shared with the community as a whole – however difficult that may be.

We need to do whatever is necessary to attract and retain investment and attract and retain the best people. Corporate and personal tax issues are high on the agenda and are being addressed and there are other issues which, whilst at the margin (eg Visa requirements) need improvement.

The trade practices issues are being addressed specifically by other speakers. In my mind however the consolidations which have already taken place (particularly in tradeable goods) have been mostly positive. There are obviously limits to industry aggregation in the small Australian scene, but there are now a number of duopoly or even single supplier outcomes which have been beneficial for both companies and consumer and for the international development of Australian companies.

Clearly we need to be at the forefront of the information technology revolution. I am not an expert, but I always remember one global guru telling me 5/6 years ago that the number 1, 2 and 3 issues for Australia were whether we can get the "width of the band" right. Despite limited knowledge and understanding, my intuition tells me that we probably have not optimised our position.

Governments should be wary about imposing artificial regulatory restraints regarding corporate or executive domicile. Corporations will either find a way to work around them or will simply go elsewhere, to Australia's detriment.

5.0 CONCLUSION

I hope my remarks have conveyed my positive view about the development of our increasing band of successful multinationals based in Australia. Whilst the small scale of the Australian economy and our relative isolation from the major Western economies are important considerations, there are many other positives associated with Australia which will ensure our companies can have the best of both worlds – an Australian base and a global market opportunity.

Governments and all Australians should give every support and encouragement to this outcome.