MANAGERS AND MARKETS:
INTERNAL ORGANIZATION AND EXTERNAL MARKET RESTRAINTS AS DETERMINANTS OF AUSTRALIAN COMPANY PERFORMANCE

VOLUME I

A Thesis

Presented to the Department of Economics of the University of Adelaide in Candidacy for the Degree of Doctor of Philosophy

by

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ABSTRACT

This thesis explores the determinants of Australian company performance. A model of corporate enterprise is developed which extends the traditional market structure-conduct-performance model of industrial organization to take account of the internal organization of firms, firm maturity and capital market restraints on managerial decision makers. While the foundations of the model are derived from the "new" or "managerial" theories of the firm, attention is focussed not on the establishment of a priori hypotheses regarding the relative performance consequences of a separation of ownership from control, but on the more fundamental question of the effectiveness and operations of the various incentives, market and non-market restraints acting on managers.

Comprehensive data on the ownership structures of 226 listed Australian companies have been compiled in order to determine patterns of control, and the degree of incentive provided by directorial shareholdings. The sample firms are tentatively classified into three broad categories of control: private ownership control, company control, and management control (reflecting a dispersed ownership structure). The four main dimensions of firm performance investigated are profitability, growth of net assets, operating risk (the inter-temporal dispersion of rates of profit), and retentions policy. All performance variables relate to the period 1966/67 to 1974/75.

Rather than testing directly for performance differences between control-type categories, a new empirical approach is
proposed. The major incentives and restraints operating within each of the control-type categories are identified first. These factors include: the value of shareholdings held by a firm's board of directors; the absolute size and maturity of the firm, and the market structure within which it operates; the relative strength and composition of major shareholders; and the extent of reliance on capital market funds. These determinants are then related to the long-run performance records of individual firms within each control-type category. Thus, for the first time an attempt is made to quantify the performance effects which may be attributed to the existence of substantial holdings by financial institutions in relatively dispersed ownership companies. With such knowledge in hand we are able to identify specifically the underlying factors which give rise to differences (or lack of differences) in the observed performances of groups of companies with alternative ownership structures.

The results show that the control of Australian companies is highly concentrated, and the motivations of wealthy individuals and families with representation on the board, other corporations, and financial institutions are reflected in the performances of the firms which they dominate. Incentives do appear to work, since holding other factors constant we find that greater directorial shareholdings are associated with higher profitability and growth. Even more fundamental, however, is the finding that whether or not they are the beneficial owners of substantial shareholdings, survival of the company and maintenance of control over it are among the central goals of managers.
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APPENDIX

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