



Westward Bound? Perth's Emerging Corporate Power

Matthew Tonts and Michael J. Taylor

Introduction

Large companies and the power they wield are at the heart of modern economies and societies. Indeed, the largest 500 multinationals in the global economy account for more than 90 per cent of the world's stock of direct foreign investment and conduct about half of the world's trade (Rugman and Verbecke, 2000). This, in turn, endows those places that act as the decision-making hubs for these corporations with considerable economic and political power. For much of Australia's history, the nation's largest companies have been concentrated in Sydney and Melbourne. Not surprisingly, this has contributed to those cities becoming Australia's economic and political power base. There is, however, evidence that this is beginning to change. A new geography of corporate power is emerging with some of Australia's second tier cities playing an increasingly important role. This short paper explores the shifting distribution of corporate power and, more specifically, considers where Perth fits into the national corporate landscape.

The Geography of Corporate Headquarters

Research by Taylor and Thrift (1980) showed that in the period between 1953 and 1978, Sydney gradually began to upstage Melbourne as the corporate capital of Australia. While Melbourne retained many of the older mining and banking firms, Sydney was home to the rapidly growing financial services, insurance and property sectors. Australia's second tier cities, Adelaide, Brisbane, Perth and Hobart were only ever 'bit players' in the national corporate landscape. Even during the heady 1980s when Perth boasted some of the country's most successful entrepreneurs the city was only ever home to around five or six businesses in the Australian stock exchange's list of the country's largest 100 companies (as ranked by market capitalisation).

While it remains the case that Perth is a small player in the top 100, when the analysis is extended to the top 300 a quite different picture emerges. Over the past few years, Perth has emerged as Australia's third centre of corporate control. The data in Figure 1 show that, in 2005, Sydney and Melbourne were still the home of most of Australia's largest companies, with 126 and 83 respectively. Perth was the next most important centre of corporate control with 44 companies, followed by Brisbane (29) and Adelaide (10).

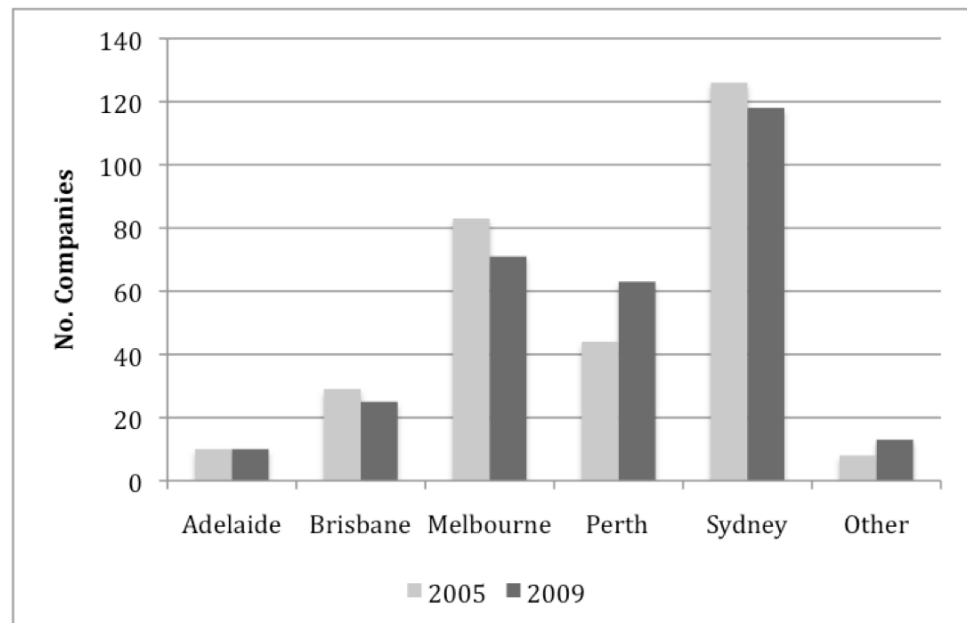


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By 2009, the combination of the global economic downturn and a number of mergers and acquisitions saw the number of company headquarters fall in Sydney (118, down 8), Melbourne (71, down 13) and Brisbane (25, down 2). Perth, by contrast, was the only city to improve its standing, rising by 19 companies to 63 in 2009. One of main reasons for this was undoubtedly the city's strategic location in providing access to major oil, gas and mineral resources.

There is, however, more to the geography of corporate activity than simple proximity to resources. Research in other parts of the world suggests that access to skilled labour, the presence of similar or synergistic firms, political and regulatory environments, and a range of socio-cultural and environmental attributes all influence the decisions of companies to locate and/or continue to operate in particular places (e.g. Klier, 2006; Testa, 2006; Taylor, 2007). In the case of Perth, there is much anecdote but little hard evidence about what is really driving the nature of corporate activity and location.

Figure 1 Location of Australia's 300 Largest Listed Companies, 2005 and 2009



The Control of Market Capital

While Perth is playing an increasingly prominent role in the national corporate landscape, it is important to recognise that many of these firms are smaller than those located elsewhere. Figure 2 shows that, in terms of market capitalisation, the greatest concentrations remain in the corporate heartlands of Melbourne and Sydney. Between 2005 and 2009, the range of relatively large, safe companies based in Melbourne

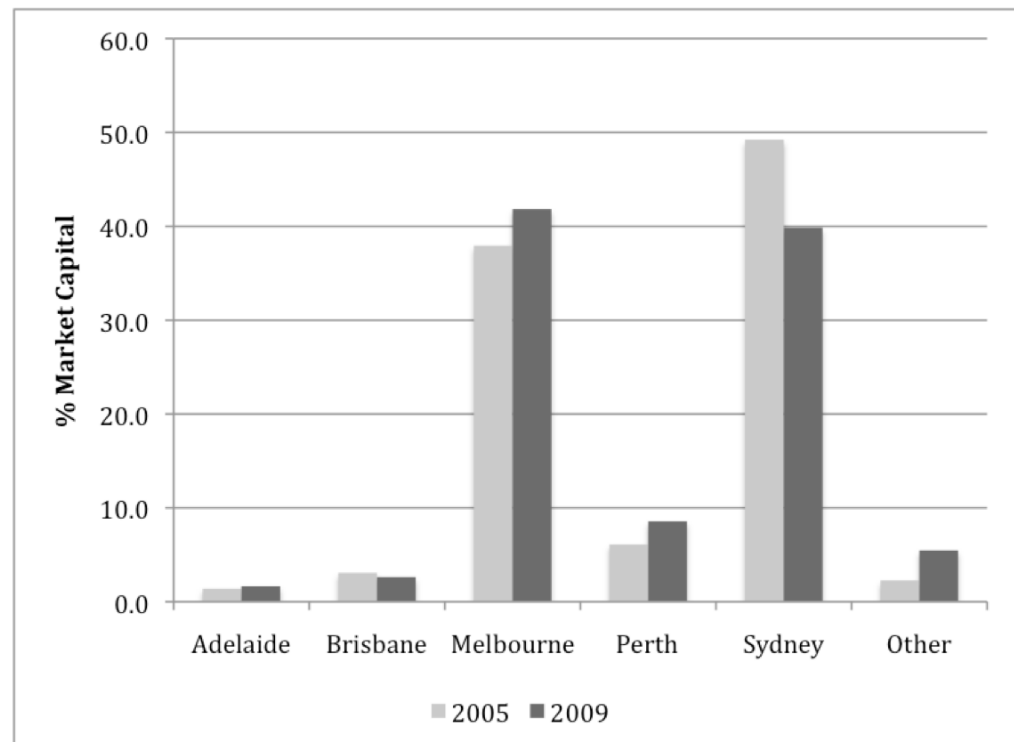


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saw it increase its share of market capital from 37.9 per cent to 41.8 per cent. In Sydney, the prevalence of a large number of investment and insurance companies saw it lose ground on Melbourne, with the share of market capital falling from 49.2 per cent to 39.9 per cent over this period. Perth is a much smaller player and, in 2005, accounted for just 6.1 per cent of market capital in the top 300 listed firms. By 2009, this had increased to just 8.6 per cent, despite a significant leap in the number of companies based in the city.

So, while Perth has a rapidly growing level of corporate activity, the majority of the firms are relatively small players. This is in sharp contrast to Melbourne, which boasts the likes of Rio Tinto, BHP-Billiton and Telstra, and Sydney, which is home to global players such as AMP, the Macquarie Group and Qantas. Perth's largest two corporations are Woodside and Wesfarmers, both of which were in the top 20 Australian companies by market capitalisation in mid 2009. Alongside these are a number of smaller companies that are emerging as important players on the national corporate scene, including Fortescue Metals Group, Iluka Resources and Austal. The success of these firms shows that being based in Western Australia is no a barrier to corporate success. In the long run, the question is whether the city is able to retain and grow these firms. Being able to achieve this will be an important ingredient in Perth's local term economic development.

Figure 2 Spatial Concentrations of Market Capital for Australia's 300 Largest Listed Companies, 2005 and 2009





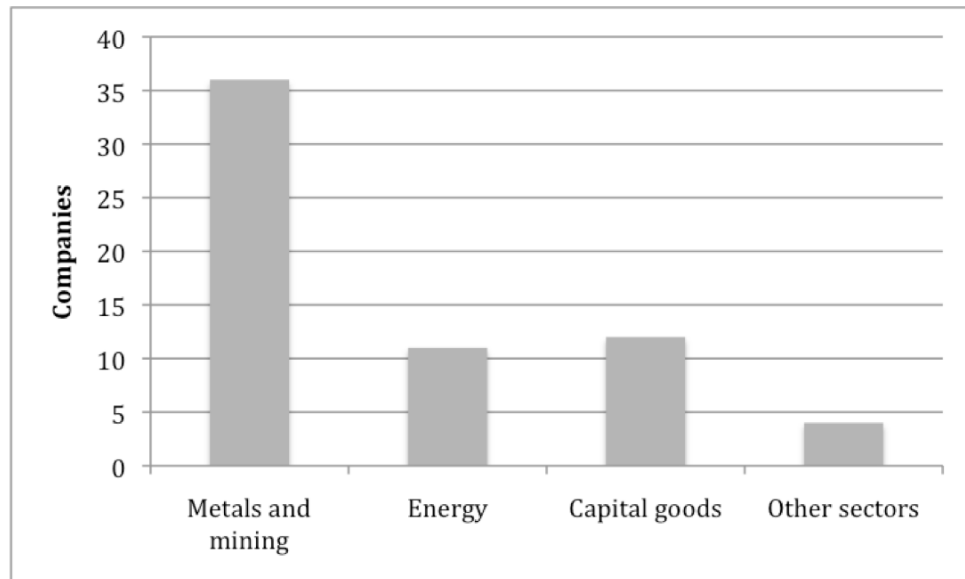
Sectoral Specialisation in Perth's Corporate Landscape

Very rarely are local and regional economies truly diversified. Generally, the economies of cities exhibit a degree of specialisation. Indeed, recent research by Tonts and Taylor (2010) has demonstrated reasonably high levels of corporate specialism within the Australian urban system. Melbourne, for example, has a cluster of companies operating in pharmaceuticals, biotechnology, and health care. Sydney, by contrast, has a cluster of companies concentrated in investment, finance, banking, property and insurance. In the case of Perth, the corporate landscape is dominated by the minerals and energy sectors. Indeed, the city is arguably Australia's minerals and energy capital. In mid 2009, the metals and mining sector accounted for 36 of the city's largest companies, followed by capital goods (12) and energy (11). It is important to recognise that alongside these listed companies are the divisional/regional headquarters for some of the world's largest minerals and energy operations, such the offices Rio Tinto, BHP-Billiton and Chevron.

Collectively, then, the minerals and energy sectors plays a critical role in shaping Perth's corporate landscape. However, one of the attendants is that the State, and by inference the city, is based on nothing more than a 'dig it up, ship it out' economy. Of course, what this overlooks is that the minerals and energy cluster in Perth makes the city a site of considerable knowledge, skills and innovation. As Wray (2009) has commented recently, there is a need to challenge the assertion that resource-based economies are incompatible with knowledge based economies. As she has pointed out, the building up of skills in areas such as exploration, mining software development, engineering, and processing are important parts of the city's asset base. Moreover, this concentration of knowledge places Perth at the centre of global networks of knowledge and innovation in minerals and energy sectors, adding to global competitiveness and comparative advantage. However, very little is really known about how important these knowledge clusters are to Perth's economic development.

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Figure 3 Perth's Largest Listed Companies by Sector, 2009



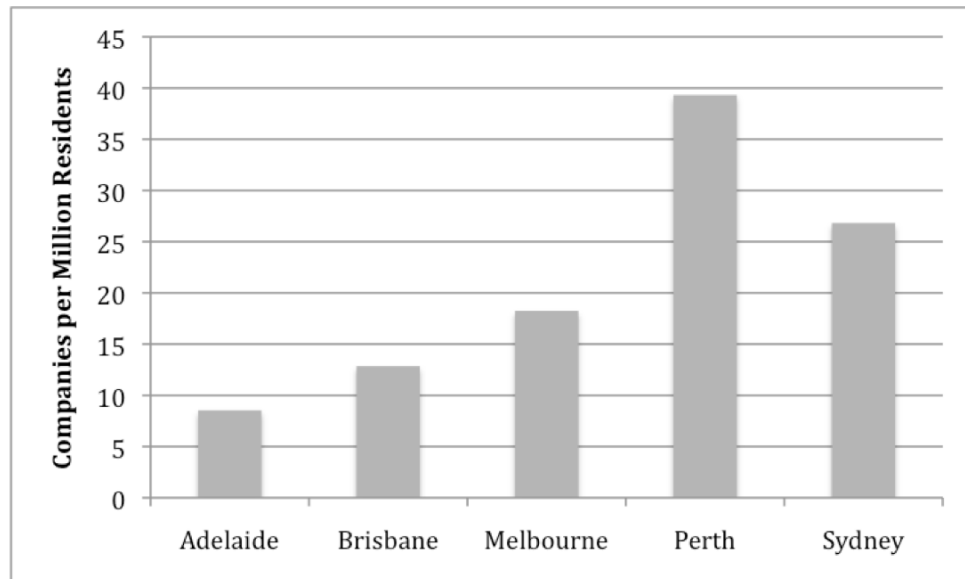
An Entrepreneurial City?

One of the intriguing characteristics of the Australian corporate landscape is the number of headquarters per capita. Figure 4 shows that Perth is the headquarters to more listed companies per capita than any other Australian city. Indeed, with 39.3 companies per million inhabitants, Perth is well ahead of Sydney (26.8) and Melbourne (18.2). Notwithstanding the fact that many of Perth's companies are much smaller than those in these cities, the concentration of firms per person is very high. There are a number of reasons for this, though one of the most significant is access to capital. Perth's relative isolation and the absence of a large venture capital market means that listing on the stock exchange provides one means of raising funds. This is particularly important for smaller exploration and mining companies, where funds are notoriously scarce.

However, the density of companies per person also provides insights into innovation, entrepreneurialism and risk taking. Western Australia, partly as an outcome of its isolation, has traditionally viewed itself as a self-reliant, entrepreneurial state. Arguably this tradition continues, with company start-ups and listings pointing to a deeper culture of enterprise than in other parts of the country. Moreover, the successive State governments have provided a set of regulations, policies and institutional settings that have encouraged the development of enterprise.



Figure 4 Listed Companies per One Million Residents, 2009



Do Corporate Headquarters Matter?

For some scholars the location of company headquarters is largely irrelevant. It is nothing more than a node in a much wider set of global networks. The reality, however, is that corporate headquarters can play a critical role in the economic and social development of cities. As Testa (2006) has suggested, they are important sources of prestige, and can give cities access to business and political elites. More directly, they are generators of investment and employment, and can offer new opportunities for support firms, particularly in specialised business services such as accounting, legal, and computing. It has also been suggested that these companies can attract and retain highly skilled and professional people. These employees, referred to by some as ‘the creative class’, are often seen as a key ingredient not only in economic development, but in the formation of cities that are culturally innovative and urbane. Closely linked to this, corporations can play an important role in philanthropy and sponsorship, helping to underpin the development of social and cultural institutions. All of this would suggest that Perth’s growing corporate presence is important to the city’s long term economic, social and cultural development. From a policy and planning perspective, the aim needs to be ensuring that the existing and potential future benefits that these companies bring is maximised and sustained.

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About FACTBase

The FACTBase project is a joint venture between the University of Western Australia and the Committee for Perth, an influential member-based organisation driven by a diverse assembly of Perth's leaders. Members collaborate with business, government and community groups to actively improve the liveability of our city, resulting in a real and enduring contribution to Perth and the metropolitan area.

One of the only broad-reaching projects of its kind to be undertaken in the southern hemisphere, FACTBase condenses the plethora of databases and studies on the subject of liveability and analyses what's happening in Perth through words, maps and graphs.

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