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Tricontinental: The Rise and Fall of a Merchant Bank.

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Full Text:
The history of Tricontinental has a familiar resonance to it. Originally formed in 1969, it responded aggressively to the increased competition in financial markets resulting from the Hawke government's deregulation policies in the early to mid-1980s. Under the leadership of its ambitious young managing director, Ian Johns, Tricontinental expanded its volume of lending rapidly between 1986 and 1988. Johns broke all of the basic rules of lending, particularly the need to spread risk across borrowers, sectors, and types of security. Lending was targeted upon a handful of 'thrusting' entrepreneurs, many of whom he knew personally and whose names, such as Alan Bond and Christopher Skase, have since become notorious for the corporate collapses of the late 1980s and the corruption charges which have resulted. By 1988, six dominant clients had each borrowed sums greater than the capital base of Tricontinental, mostly upon the security of stocks. Johns kept very poor records of many of these loans and no group, be they colleagues, directors, auditors or the Reserve Bank, managed to rein in his policies, although many were apparently sceptical. The stock market collapse of October 1987, which wiped 40 per cent off the value of Australian shares, was the catalyst for the collapse of Tricontinental and its leading debtors.

This is a story which could be told for different companies in different eras and different countries. What perhaps gives it a modern ring is that Tricontinental was owned by the State Bank of Victoria, which in turn was owned by the State of Victoria. However, this did little to improve accountability or reporting systems. The Labor government was keen to own Tricontinental to promote its Keynesian pump-priming policies, but at the same time held it and the State Bank at arm's length in order not to appear to be interfering with private enterprise. In response to the integration of Tricontinental into the State Bank in 1989, the selling of the latter to the Commonwealth Bank in the following year, and the huge debts that were incurred, a Royal Commission was established in 1990. While the government was thus seen to he doing something, it was naturally less interested in helping establish the truth or publicising its results at a time when Labor's electoral popularity had collapsed. The Commission pointed the finger at various people and groups, particularly Johns, the auditors KMGH and the Reserve Bank, but no one was charged; Johns was sentenced to seven months' imprisonment on a separate case of secret commissions.

Armstrong and Gross recount the story in a popular and readable style and conclude that 'only memory can prevent a repetition of the Tricontinental disaster' (p.310). This may be so, but our knowledge of many other previous financial disasters does not seem to have prevented their repetition. Perhaps not enough people know such history, or their ambition and greed can blur the memory. It would be reassuring if this type of work were read widely. It would have been more helpful, though, if Armstrong and Gross had broadened the context of their study. Three other Australian merchant banks collapsed at the same time and some worthwhile comparisons might have been drawn between them. These comparisons might also have encouraged the authors to extract some of the more general lessons of such sagas, particularly why accounting and information systems continue to fail in spite of the apparent rise of the modern sophisticated corporation with its range of organisational capabilities.

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