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[673] Report on director's views regarding stakeholders

An Australian-first report into how company directors rank employees, shareholders and other stakeholders shows that Australian directors prioritise shareholders only slightly over employees distinguishing them from their US counterparts.

The report contains the findings of a survey of 4000 company directors from a diverse range of Australian companies, including rarely studied small companies, undertaken as part of a broader "Corporate Governance and Workplace Partnerships" project being conducted by the Centre for Corporate Law and Securities Regulation and the Centre for Employment and Labour Relations Law in the Law School at the University of Melbourne.

Key findings of the research report, *Company directors' views regarding stakeholders* by M Jones, S Marshall, R Mitchell and I M Ramsay, include:

- A majority of directors (55%) believed that acting in the best interests of the company meant they were required to balance the interests of all stakeholders; a substantial minority (38.2%) believed it meant they were required to act in the interests of all stakeholders to ensure the long term interests of shareholders; very few equated the best interests of the company with the short-term interests of shareholders (0.3%); and only a very small proportion (6.6%) believed it required them to consider the long-term interests of shareholders only.
- An overwhelming majority of directors (94.5%) believed that the law concerning directors' duties was broad enough to allow them to consider the interests of stakeholders other than shareholders.
- When asked to rank company stakeholders in order of priority, 44% of directors ranked shareholders as their number one priority, 40% ranked the company, 8.2% ranked customers and 6.7% ranked employees.
- Ensuring customers are satisfied, growing the business and treating employees fairly are the matters that were rated as important by the largest proportion of directors.
- In the majority of companies represented (77.5%) it was the chief executive officer or managing director who had the most frequent dealings with shareholders and 46.4% percent of directors indicated that these dealings with shareholders occurred daily or weekly. The four issues discussed most frequently in meetings between shareholders and the company were the "financial performance of the company" (94.5%), "proposed expenditure or investment" (82.6%), "proposed new business strategy" (82.6%) and "expenses" (75.9%). There had been areas of tension between the company and its shareholders over the past year according to 25.6% of directors. Where there had been areas of tension the most common area was "financial performance of the company" (60.4%).
- A substantial majority of directors (81.2%) believed that shareholders had the power to influence management while 78% believed that employees had this power. Only 23.6% believed that creditors had this power.

CPA Australia policy adviser -- corporate regulation, Mr John Purcell, said the report provides significant insights into a number of aspects of the evolving corporate social responsibility and corporate governance debates, including:

- balancing of stakeholder interests;
- balancing of short and long term interests; and
- evolving expectations placed on corporations to effect positive environmental and social change.

According to Mr Purcell, the fact that creditors were seen as having significantly less power to influence management is significant. Mr Purcell said "This finding supports the current structure of the insolvent trading rules which affords specific protections to unsecured creditors.".

A copy of the research report can be downloaded from the Centre for Corporate Law and Securities Regulation website at: http://cclsr.law.unimelb.edu.au.

CPA website accessed 15.10.2007; M Jones, S Marshall, R Mitchell and I M Ramsay, Company directors' views regarding stakeholders, 2007