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Australian company directors rank employees' interests more highly than in USA: survey

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Australian company directors rank employee interests only slightly below those of shareholders – unlike their US counterparts, according to a new Melbourne University survey of 375 directors from a range of industries.

The 124-page report Company Directors' Views Regarding Stakeholders, by the University of Melbourne's Corporate Governance and Workplace Partnerships project is based on a 13-page survey of company directors by the university's Centre for Corporate Law and Securities Regulation and its Centre for Employment and Labour Relations Law.

Unexpectedly, the survey showed only 0.3% of directors equated the best interests of the company with the short-term interests of shareholders, with just 6.6% believing the best interests of the company required them to consider only the long-term interests of shareholders.

Principal researcher Meredith Jones said in a statement that the survey provided evidence that "Australian directors have different priorities from those of their US counterparts" - with only 44% of Australian directors ranking shareholders above other stakeholders (including employees, customers and creditors) compared to about 80% in the US. Other international studies showed Japanese directors "ranked employees highly over other stakeholder groups", she said.

The survey results found 70.8% of Australian directors believed that their company's relationship with employees was one of "partnership" based on common interests and 78% believed employees had the power to influence management, compared to 81.2% who believed shareholders had this power. Similarly, 87.9% agreed that satisfying the demands or wishes of employees was important to their management, compared with 83.3% who agreed with this statement regarding shareholders.

Other findings of the report included:

- 55% of directors believed that acting in the best interests of the company meant they were required to balance the interests of all stakeholders;
- 44% ranked shareholders as their number one priority, compared to 40% for the company, 8.2% for customers and 6.7% for employees;
- 45% of directors felt that increasing the share price was important to them, although the proportion among directors of listed companies was higher at 60.4%;
- in the event of a downturn in the financial performance of the company, 58.7% of directors said they would prioritise decreasing dividends to shareholders, compared to 14.9% who would prioritise retrenching staff;
- 42.5% believed that the dominant source of their responsibility to employees was business imperatives, compared to 24.8% who believed it was social or ethical responsibility, 15.8% who believed it was labour law and 16.9% who believed it was corporate law;
- 37.4% said the Workplace Relations Act and other employment laws were facilitating a best practice approach while only 3.7% saw the Act as a constraint; and
- the four human resource issues to have been considered by the board in the last year were OHS (73.3%), productivity (66.3%), training (65%) and performance management (64.2%) – compared to industrial disputes (10%) and enterprise bargaining (15.4%) among the least commonly raised HR issues.

Some 93% of the directors surveyed identified themselves as executive directors and 12% as independent, with 75% in unlisted companies and 25% in public companies. About 17% were listed on Australian stock exchanges and 12% were listed on an international exchange.

Data may have policy implications for directors' duties

A senior research fellow on the project, Shelley Marshall, stressed that the results reflected directors' strategic and policy views, rather than the effectiveness of companies in implementing HR policies.

Marshall told *Workplace Express* today the results had implications for policy development, citing the Parliamentary Joint Committee on Corporations and Financial Services in June which recommended no further changes to directors' duties.

"One implication is that directors are already interpreting the law to balance stakeholder interests so there is no further need for reform, but another interpretation is that the law should reflect what directors are actually doing, and that is being more stakeholder focussed," she said.

Marshall speculated that some of the results could be attributed to the shift towards corporate social responsibility and Australia's different workplace culture in comparison to the US.

The head of the research project, Professor Ian Ramsay, said in a statement that the results suggested "there may be far greater policy scope for legally requiring that directors take into account the interests of stakeholders than was previously thought in light of evidence that most directors are already balancing the interests of a range of stakeholders. Against this, though, the survey shows that an overwhelming majority of directors (94.5%) believe that the law concerning directors' duties is broad enough to allow them to consider the interests of stakeholders other than shareholders."

The results also showed surprisingly little difference between the attitudes of directors of larger public corporations and those of smaller private companies to the priority ranking of employees, although directors in listed companies were significantly more likely than their unlisted counterparts to rank shareholders as their number one priority (55.4% compared with 39.7%).

"Shareholder oriented directors were less likely than stakeholder oriented directors to prioritise a decrease or suspension of the dividend payable to shareholders in the event of a deterioration in the financial performance of the company but were not significantly more likely to decrease the number of staff or reduce staff salaries or bonuses in such an event", the report said.

"The data does suggest that shareholder primacy may, at significant moments in the life of the company, have a hard edge. This hard edge may be softened by the adoption of policies such as 'partnerships with employees' at the strategic level of the company", it concluded.

Company Directors' Views Regarding Stakeholders, Meredith Jones, Shelley Marshall, Richard Mitchell and Ian M Ramsay, Corporate Governance and Workplace Partnerships Program, Faculty of Law, University of Melbourne, 2007

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