MEDIA MONITORS
INCISIVE INSIGHT

Age
12/09/2007
Page: 2
Business News
Region: Melbourne Circulation: 202500
Type: Capital City Daily
Size: 265.09 sq.cms
MTWTFS-

Corporate balancing act reflects broader horizons

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AUSTRALIAN company directors regard employees and customers as important as shareholders, even more so than their counterparts in the US, according to a University of Melbourne study.

The study found that 55 per cent of directors believed they were acting in the best interests of the company by balancing the interests of all stakeholders, including shareholders, employees and customers.

Only a handful (0.3 per cent) equated the best interests of the company with the short-term interests of shareholders and only 6.6 per cent believed that it meant considering the long-term interests of shareholders only.

Most directors (97.4 per cent) said the most important job was ensuring customers and clients were satisfied while 94.2 per cent said it was about ensuring employees were fairly treated. Significantly, improving employee morale (87.3 per cent) was seen as more important than reducing costs (80.1 per cent).

But the most striking feature was that these figures were significantly above other priorities of increasing share price (45 per cent) and dividend policy (41 per cent).

Asked what actions they would prioritise if the company's financial performance declined, more than half (58.7 per cent) of directors said they would look at decreasing or suspending dividends.

This was in contrast to the 14.9 per cent who said they would put more of a priority on retrenching staff.

But shareholders were still regarded as important.

In the event of an improvement in the financial performance of the company, 60.8 per cent of directors said a dividend increase would be a priority.

Only 24 per cent felt the same way about salary or bonus increases for employees.

At the same time, shareholders were ranked as the most important in the stakeholder group.

With the obvious exception of increasing share price, there was little difference in the priorities of directors of listed and unlisted companies.

The figures are in stark contrast to US studies in which eight out of 10 directors rank shareholders ahead of all other stakeholders, including employees.

Most Australian company directors (94.5 per cent) believe that the law on directors' duties is broad enough to allow them to consider the interests of all stakeholders, not just shareholders.

Section 181 of the Corporations Act requires directors to discharge their duties "in the best interests of the corporation".

The findings are significant following two inquiries last year — one from the Corporations and Markets Advisory Committee and the other from the parliamentary Joint Committee on Corporations and Financial Services — which recommended against changing the Corporations Act specifically to take stakeholders into account.

In Britain last year, the Companies Act was passed giving directors new duties to stakeholders as part of their duty to "promote the success of the company".

Professor Ian Ramsay, director of the Centre for Corporate Law and Securities Regulation at the University of Melbourne, said following the British example would be a mistake, as the Corporations Act seemed sufficiently broad to ensure that directors were acting in the interests of the company when they took stakeholders' interests into account.

"In a sense, the hardline view of always prioritising shareholders — the James Hardie view, if you like — appears not be reflected here," he said.

KEY POINTS

- **Most directors seek to balance the interests of all stakeholders.**
- **Decreasing dividends, not employee numbers the majority response to hard times.**

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- Read the study report at **theage.com.au/businessday**