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Directors value customers, staff

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Directors value customers, staff

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Australian company directors regard employees and customers as being as important as shareholders — indeed, even more 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, which would include shareholders. Employees and customers are classified as stakeholders.

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 that 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).

The most striking feature, however, 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 make a priority in the event of a downturn in the financial performance of the company, more than half (58.7 per cent) of directors said they would look at cutting or suspending dividends.

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

However, shareholders were still regarded as important priorities.

In the event of an improvement in the financial performance of the company, 60.8 per cent of directors said they would make a dividend increase a priority. Only 24 per cent felt the same way about salary or bonus rises 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 which show that eight of 10 directors there rank shareholders ahead of all other stakeholders, including employees.

Most directors (94.5 per cent) believed that the law concerning directors' duties was broad enough to allow them to consider the interests of 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 of the study suggest that most Australian directors believe there is an alignment between the interests of the corporation and between employees and customers.

The findings are important 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 to specifically 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".

Boardroom meeting: Australian directors rank staff and customers along with shareholders

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