RESEARCH REPORT

COMPANY DIRECTORS' VIEWS REGARDING STAKEHOLDERS

Meredith Jones

Research Fellow
Corporate Governance and Workplace Partnerships Project
Faculty of Law
The University of Melbourne

Shelley Marshall

Senior Research Fellow
Corporate Governance and Workplace Partnerships Project
Faculty of Law
The University of Melbourne

Richard Mitchell

Professor, Department of Business Law and Taxation and Department of Management, Monash University and Professorial Fellow, Faculty of Law, The University of Melbourne

Ian M Ramsay

Harold Ford Professor of Commercial Law and
Director, Centre for Corporate Law and Securities Regulation
Faculty of Law
The University of Melbourne

Corporate Governance and Workplace Partnerships Project
Faculty of Law
The University of Melbourne

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Centre for Corporate Law and Securities Regulation
Faculty of Law
The University of Melbourne
Victoria
Australia 3010
Phone: + 61 3 8344 5281
Fax: + 61 3 8344 5285
Email: cclsr@law.unimelb.edu.au
Website: http://cclsr.law.unimelb.edu.au

Centre for Employment and Labour Relations Law
Faculty of Law
The University of Melbourne
Victoria
Australia 3010
Phone: + 61 3 8344 8924
Fax: + 61 3 8344 4623
Email: celrl@law.unimelb.edu.au
Website: http://www.law.unimelb.edu.au/celrl

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1. Introduction

This research report contains the findings of a survey of company directors undertaken as part of a broader 'Corporate Governance and Workplace Partnerships' project. The project is 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 and is funded by an Australian Research Council Discovery Grant.[*] The broader project aims to better understand the relationships between corporate structure, governance and labour relations in Australian companies. In 2005 and 2006 detailed case studies of ten Australian companies were undertaken which explored these relationships. During structured interviews with managers and union members we gained valuable information about respondents' views of a range of matters pertaining to the interaction of corporate structure, governance and labour relations. We then sought to obtain further information through a larger quantitative study. Company directors were chosen as the subjects of this quantitative study.

The object of this report is to provide insight into the results of our survey of directors. Further analysis of the data is conducted in other publications produced by the Corporate Governance and Workplace Partnerships project. The website of the project is: http://cclsr.law.unimelb.edu.au/go/centre-activities/research/corporate-governance-and-workplace-partnerships-project/index.cfm

[*] The authors would like to thank Malcolm Anderson for his valuable guidance and assistance with the statistical analysis for this report.

2. Executive Summary

In this section, we present, in summary form, our analysis of the results of the survey of company directors. This follows the structure of the report and presents the key findings in the areas of directors' understanding of their duties, directors' priorities, the company's relationship with its shareholders, the company's relationship with its employees and the influence of key stakeholders.

2.1 Directors' Understanding of Their Obligations

- A majority of directors (55 percent) 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 percent) believed that acting in the best interests of the company meant they were required to act in the interests of all stakeholders to ensure the long term interests of shareholders.
- Very few directors equated the best interests of the company with the short-term interests of shareholders (0.3 percent).
- Only a very small proportion (6.6 percent) believed that acting in the best interests of the company required them to consider the long-term interests of shareholders only.
- An overwhelming majority of directors (94.3 percent) believed that the law concerning directors' duties was broad enough to allow them to consider the interests of stakeholders other than shareholders.

Stakeholder Ranking

- When asked to rank company stakeholders in order of priority, 44 percent of directors ranked shareholders as their number one priority.
- 40 percent of directors ranked the company as their number one priority.

- Customers were ranked as the number one stakeholder by 8.2 percent of directors.
- Employees were the number one priority for 6.7 percent of directors.

2.2 Directors' Priorities

- Ensuring customers are satisfied, growing the business and ensuring employees are fairly treated are the matters that were rated as important by the largest proportion of directors.
- Overall, less than half (45 percent) of the directors surveyed felt that increasing the share price was important to them, although the proportion among directors of listed companies holding this view was considerably higher (60.4 percent).
- When asked what actions they would prioritise in the event of downturn in the financial performance of the company, the majority of directors surveyed (58.7 percent) indicated that they would prioritise 'decreasing or suspending the dividend paid to shareholders'. A further 14.9 percent of directors would prioritise retrenching staff in the event of a downturn.
- In the event of an improvement in the financial performance of the company, 60.8 percent of directors would prioritise an increase in the dividend paid to shareholders.
- 24 percent of directors would prioritise an increase in the salary or bonuses paid to employees and 12 percent would increase the number of employees in the event of an improvement in the financial performance of the company.

2.3 The Company's Relationship with its Shareholders

- In the majority of companies represented in our sample (77.5 percent) it was the chief executive officer or managing director who had the most frequent dealings with shareholders.
- 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 percent), 'proposed expenditure or investment' (82.6 percent), 'proposed new business strategy' (82.6 percent) and 'expenses' (75.9 percent).

Areas of Tension with Shareholders

- There had been areas of tension between the company and its shareholders over the past year according to 25.6 percent of directors.
- Where there had been areas of tension, those areas were most commonly said to be the 'financial performance of the company' (60.4 percent), 'proposed new business strategy' (34.4 percent) and 'proposed expenditure or investment' (30.2 percent).
- There were significant differences between listed and unlisted companies regarding the areas of tension between the company and its shareholders. 'Share price' was an area of tension in 43.5 percent of listed companies where there had been areas of tension, compared with 12.3 percent of unlisted companies. 'Expenses' was an area of tension in 26.0 percent of unlisted companies where there had been areas of tension but was not an area of tension in listed companies.
- Overall, concerns were most likely to be raised in private meetings with senior management with 77.1 percent of directors indicating that this would be the case. A further 17.7 percent indicated that concerns would be raised at the annual general meeting.

2.4 The Company's Relationship with its Employees

The Role of the Law as a Source of Obligations to Employees

- 42.5 percent of directors believed that the dominant source of their responsibility to employees was business imperatives, i.e. that their responsibility to employees

stemmed from the importance of employees to ensuring the success of the business.

- A further 24.8 percent of directors believed that the dominant source of their responsibility to employees stemmed from a social or ethical responsibility to ensure the well being of the employees of the company.
- Only 15.8 percent of directors believed that labour laws were the dominant source of their responsibility to employees, while 16.9 percent believed that corporate law was the dominant source.
- When asked what role the law played in the determination of the human resource management strategy of the company, directors were fairly evenly divided between seeing the Workplace Relations Act and other employment laws as helping to facilitate a best practice approach in their company (37.4 percent) and regarding those laws as providing bare minimum standards for compliance only and as having very little to do with their overall human resources strategy (36.3 percent). Very few (3.7 percent) regarded the Workplace Relations Act and other employment laws as operating as a constraint.

Human Resource Issues Considered at the Board Level

- The four human resource issues most likely to have been considered three or more times at board level over the past year were 'occupational health and safety' (73.3 percent), 'productivity' (66.3 percent), 'training' (65 percent) and 'performance management' (64.2 percent).
- 'Industrial disputes' (10 percent) and 'enterprise bargaining' (15.4 percent) were among the least commonly raised human resources issues according to directors.

Partnership Relations with Employees

- A large majority (76.9 percent) of directors believed that the relationship between the company and its employees could best be described as being one of partnership.

- A majority of the directors (70.8 percent) who believed that the relationship was one of partnership believed that it was a partnership based on the parties having the same interests and common goals.
- The most commonly expressed reason for directors to indicate that the relationship was not one of partnership was that employees and the company could not be conceived of separately and therefore could not be parties in partnership.

2.5 The Influence of Key Stakeholders

- 81.2 percent of directors believed that shareholders had the power to influence management, while 78 percent believed that employees had this power. Only 23.6 percent of directors believed that creditors had the power to influence management.
- 85.9 percent of directors believed that employees received a high degree of time and attention from management, compared with 65 percent who believed so in relation to shareholders and 30.4 percent in relation to creditors.
- 78.7 percent of directors believed that the demands of shareholders were viewed by the management team as legitimate and 76.7 percent of directors believed this in relation to employees. A much smaller proportion (47.3 percent) of directors agreed that the demands and wishes of creditors were viewed by management as being legitimate.
- 87.9 percent of directors agreed that satisfying the demands or wishes of employees was important to their management team compared with 83.3 percent of directors who agreed with this statement regarding shareholders, and 54.7 percent regarding creditors.
- Employees were perceived to be more active in seeking the attention of management with 70.5 percent of directors agreeing that employees actively sought the attention of their management team. A total of 64.6 percent of directors believed that shareholders had actively sought the attention of management compared with 21.6 percent who believed the same in relation to creditors.

2.6 Key Findings in Relation to Our Hypotheses

As is set out in Section 3 of this report, we aimed to test a number of hypotheses in conducting the survey. While it is not the aim of the report to draw final conclusions about those hypotheses,[1] we now present an overview of the key findings as they relate to our hypotheses by way of prelude to further analysis.

Hypothesis 1

Directors perceive that their primary responsibility is to shareholders. This perception may derive from their understanding of their legal responsibilities, from institutional frameworks, from responses to pressure from within the company or from a combination of these factors.

We found that 44 percent of directors did regard shareholders as their number one priority, but that almost as many (40 percent) regarded the company as their number one priority. Shareholders were also regarded as having the power to influence management by a very high proportion of directors (81.2 percent). Satisfying the demands or wishes of shareholders was believed by 83.3 percent of directors to be important to management. However, shareholder focussed matters such as increasing the share price were regarded as being important by a smaller proportion of directors than were matters such as growing the business and ensuring that customers were satisfied.

Overall, directors did not believe that they were obliged by law to prioritise the interests of shareholders. A majority (55 percent) believed that acting, as they are obliged to do under common law and the Corporations Act, in the best interests of the company meant that they must balance the interests of all stakeholders. A further 38.2 percent of directors believed that they must ensure the long-term interests of shareholders but by means of

[1] These final conclusions will be presented in the book to be published out of the Corporate Governance and Workplace Partnership Project.

acting in the interests of all stakeholders. A small proportion of directors (6.6 percent) believed that they were required to act in the long-term interests of shareholder only and 0.3 percent of directors believed that they were required to ensure the short-term interests of shareholders by means of acting in the interests of all stakeholders.

We found, however, that directors' understanding of the requirements of 'acting in the best interests of the company' may have an effect on the extent to which they prioritised the interests of shareholders. Directors who believed that acting in the best interests of the company required them to balance the interests of all stakeholders were significantly less likely than directors who believed that they ultimately were required to act in the interests of shareholders to rank shareholders as their number one priority (33.8 percent compared with 55.5 percent).

Hypothesis 2

Directors of companies which are closer to the market/outsider model (typically large companies with their shares listed on the stock exchange) will be more likely to emphasise their primary obligation to shareholders in the short-term.

The evidence does not support this hypothesis. In the first case, only a negligible proportion of directors believed that they must act to ensure the short-term interests of shareholders. Secondly, there were no significant differences between insider-type companies and outsider-type companies in relation to this hypothesis.[2] We did find that directors in listed companies (stock market listing being one of the criteria for inclusion in the market/outsider category of our model) were significantly more likely than directors in unlisted companies to rank shareholders as their number one priority (55.4 percent compared with 39.7 percent). However, the evidence on the whole suggests that

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[2] We define 'market/outsider companies" and 'relational/insider companies" in section 5. The six criteria for a market/outsider company are: listed company; largest shareholder not represented on the board; no other shareholders represented on the board; higher level of holding by institutional investors; short term debt financing; and creditors not represented on the board. The six criteria for a relational/insider company are: unlisted company; largest shareholder is on the board; other shareholders are on the board; lower level of institutional holding; long term debt financing; and creditors on the board.

it is more likely to be the case that shareholders' interests are given a higher priority in insider-type companies than in outsider companies. This is seen in the significantly higher proportion of directors in insider type companies who indicated that shareholders had the power to influence management (86.9 percent compared with 75 percent in outsider type companies). It also appears to be the case that shareholders are more active in pursuing demands in insider companies than they are in outsider companies. Some 75 percent of directors of insider companies indicated that shareholders had been active in pursuing demands or claims (compared with 53.3 percent in outsider companies) and 70.1 percent of directors of insider companies agreed that shareholders had actively sought the attention of management compared with 56.3 percent in outsider companies.

Hypothesis 3

Where directors perceive that their primary responsibility is to shareholders, the interests of employees receive a lower priority.

The evidence regarding this hypothesis is mixed. When we used the shareholder salience scale as a measure of the orientation toward shareholders, we found some significant evidence that employees' interests may receive a lower priority. However, when we used the director's understanding of their obligation under law to prioritise shareholders' interests, we did not find much effect on the interests of employees.

We found some significant differences between the responses of directors who were in the high range of the shareholder salience scale and those who were in the low range when it came to board level discussion about restructuring and retrenchment. Directors in companies in the high range of the shareholder salience scale, namely those who indicated that shareholders had a high level of influence, were significantly more likely to indicate that matters relating to restructuring and retrenchment had been discussed at board level over the past year than were directors in the low range of the scale (18.9 percent compared with 4.8 percent). It was also the case that directors in the high range of the scale were more likely to indicate that the number of employees in the company had

decreased over the past year. This suggests that to some extent the hypothesis is supported. However, concerning a number of other indicators, such as directors' priorities in the event of a downturn in the financial performance of the company, the priority ranking of employees as stakeholders, and the matters of importance to directors there were no significant differences between directors in the high range of the scale and those in the low range.

Looking to whether directors who believed that their primary legal obligation was to shareholders were less likely to prioritise the interests of employees, we found that this did not seem to be the case. Directors who believed that acting in the best interests of the company required them to act in the interests of shareholders ultimately were more likely than directors who believed that they must balance the interests of all stakeholders to rank shareholders as their number one priority. However, there were no significant differences between the groups regarding the priority ranking of employees. 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.

Hypothesis 4

Directors who prioritise the interests of shareholders in the short-term will be less likely to consider the relationship between the company and its employees to be one of partnership. This is because they will be more likely to have a pluralist conception of the company and to see the relationship as inherently conflictual.

We found that, overall, a large majority of directors (76.9 percent) described the relationship between the company and its employees as one of partnership. The majority of these directors (70.8 percent) believed that the partnership could be described as one in which the company and its employees were parties with the same interests.

There were very few directors in the sample who prioritised the interests of shareholders in the short-term. We therefore cannot offer any evidence on the hypothesis. However, we did find that there were no significant differences in attitudes to partnership between directors in the high range and those in the low range of the shareholder salience scale. Similarly, directors who took a shareholder oriented view of their legal obligations were no less inclined to describe the relationship between the company and its employees as one of partnership than those who were more stakeholder oriented.

While it appears that directors' prioritisation of the interests of shareholders is not related to their belief in the existence of partnership, it does appear that directors' attitudes to employees play a significant role. Directors who were in the high range of the 'employees active' were significantly more likely to indicate that the relationship was one of partnership than were directors in the low range of that scale (82 percent compared with 59.4 percent). Directors in the high range of the 'employees legitimate' scale were similarly more inclined to indicate that the relationship was one of partnership (83.1 percent compared with 63 percent) than were directors in the low range.

3. Aims and Hypotheses

In this section, we set out the central aims and key hypotheses for the survey. We also provide a brief discussion of the background to each hypothesis.

3.1 Hypothesis 1

1. Directors perceive that their primary responsibility is to shareholders. This perception may derive from their understanding of their legal responsibilities, from institutional frameworks, from responses to pressure within the company or from a combination of these factors.

This hypothesis is based on the growing literature on shareholder value and its implications for labour, and in particular on the work of Mitchell, O'Donnell and Ramsay[3] regarding factors that contribute to the interests of shareholders being given priority over the interests of other stakeholders in the company. This hypothesis is also partly drawn from previous similar research on the attitudes of Australian directors towards their obligations to shareholders and other stakeholders. The ranking exercise in Q. 1, for example, is taken from the work of Francis,[4] who carried out research in Australia, UK, Japan and the US.

Concerning our first hypothesis, the survey aimed to discover:

- What directors understand their legal obligation to act in the best interests of the company to mean.
- The extent to which directors perceive that the scope of this legal obligation allows them to take into account stakeholders' interests other than shareholders.

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[3] R. Mitchell, A. O'Donnell and I. Ramsay, 'Shareholder Value and Employee Interests: Intersections Between Corporate Governance, Corporate Law and Labour Law' (2005) 23 *Wisconsin International Law Journal* 417.

[4] I. Francis, *Future Direction: The Power of the Competitive Board*, FT Pitman Publishing, Melbourne 1997.

- The extent to which this legal obligation is understood to be focussed on long or short term objectives.
- The relative value assigned by directors to the shareholders and employees of the company.
- The extent to which factors other than legal obligation appear to influence directors' sense of obligation to these stakeholders of the company. We aimed to test for director's sense of moral obligation and the extent to which institutional arrangements within the company and actual pressure from stakeholders may influence outcomes for stakeholder groups.
- The relative importance of labour law and corporate law in informing directors' responsibilities to employees.

3.2 Hypotheses 2 and 3

2. Directors of companies which are closer to the 'market-outsider' typology will be more likely to emphasise their primary obligation to shareholders in the short-term.

3. Where directors perceive that their primary responsibility is to shareholders, the interests of employees will correspondingly receive lower priority. The degree of the lower priority will vary on a scale depending on where the company stands in relation to Hypothesis 1 (primacy of obligation to shareholders) and Hypothesis 2 (short or long term orientation).

Hypotheses 2 and 3 are related to Hypothesis 1 but are focussed more explicitly on the insights offered by Gospel and Pendleton.[5] They offer a theoretical framework for the themes being explored based on the dichotomy between market-outsider and relational-insider systems. The model predicts that particular types of finance and governance will influence managerial choices in relation to labour management strategies in the areas of

[5] H. Gospel and A. Pendleton, 'Finance, Corporate Governance and the Management of Labour: A Conceptual and Comparative Analysis" (2003) 41 *British Journal of Industrial Relations* 557; H. Gospel and A. Pendleton (eds), *Corporate Governance and Labour Management*, Oxford University Press, Oxford, 2005.

employment relations (job tenure, skill formation and wage systems); work relations (functional flexibility and innovation strategy); and industrial relations (voice, collective bargaining approaches).[6]

These categories, as well as the broader theory, have been used as the basis of information gathering and analysis throughout the case studies undertaken as part of the larger Corporate Governance and Workplace Partnerships Project of which this survey forms a part. We have been examining the influences on management's strategic choices within a framework that looks to the interactions between shareholders, management and labour to test the extent to which the governance and ownership structures of the company appear to be the main mechanisms influencing management's approach to labour.

Preliminary analysis of the case study material suggested that this model may have some application at the level of the company in Australia and is therefore worth testing quantitatively via the survey of directors.

In relation to these hypotheses the survey aimed to discover:

- The extent to which directors of companies that best fit the market / outsider typology do appear to emphasise the interests of shareholders in the short term.
- The extent to which directors of such companies who do emphasise the interests of shareholders in the short term appear to place a lesser value on employees' interests.
- The extent to which there are differences in the relationships between companies and their shareholders according to the type of company. We aimed to discover, for example, whether there are differences in the extent of shareholder activism; in the types of concerns shareholders raise with management; in the mechanisms

[6] H.Gospel and A.Pendleton*, Financial Structure, Corporate Governance and the Management of Labour,* Kings College, London, Research Paper No 6, October 2001, p. 27.

by which they raise those concerns; and in the extent to which companies respond according to company type.

- The extent to which there are differences in the relationship between companies and their employees according to the type of company. We aimed to understand, for example, institutional structures such as how the human resources function sits within the company and the relationship between the board and human resources; the level of reporting on human resources issues, and the types of issues raised.

3.3 Hypothesis 4

4. Directors who emphasise their primary obligation to shareholders in the short term will be less likely to consider the relationship between the company and its employees as one of partnership. This is because they will be more likely to have a pluralist conception of the company and to see the relationship as inherently conflictual.

This hypothesis stems from the theoretical exploration of the notion of partnership conducted by the project,[7] the empirical work of Deakin et al,[8] and our own case study research. Using our case studies to explore the notion of partnership, we have been examining the way that governance and ownership structures impact on the development of partnership style relationships between employers, employees and trade unions in our case study companies. We tested for partnership through the use of a number of indicators drawn from research conducted by the project,[9] such as high levels of participation by employees or employee representatives in decisions about their employment, job functions and organisational strategy. Flexible job design and a focus on

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[7] R. Mitchell and O'Donnell, 'What is Labour Law Doing About Partnerships At Work? British and Australian Developments Compared", Paper presented at the Corporate Governance and the Management of Labour: Australian Perspectives Workshop, University of Melbourne, 7 and 8 December 2006; M. Jones and S. Marshall, 'What Do Company Directors Think About Partnership between the Company and its Employees?" Paper presented at the Corporate Governance and the Management of Labour: Australian Perspectives Workshop, University of Melbourne, 7 and 8 December 2006.
[8] S. Deakin et al, 'Partnership, Ownership and Control: The Impact of Corporate Governance on Employment Relations" ESRC Centre for Business Research Working Paper No. 200, June 2001, p. 36
[9] D.E. Guest and R. Peccei, 'Partnership at Work: Mutuality and the Balance of Advantage" (2001) 39 *British Journal of Industrial Relations* 207.

quality are also important indicators and should combine with an emphasis on performance management and mechanisms designed to align the interests of employees with the company. This should occur within an environment of employment security and the pursuit of mutual gains. Both the Deakin case studies and the theoretical model of Gospel and Pendleton suggest that partnership style relations would be less likely to occur in a company in which the interests of shareholders are prioritised in the short term.

The most striking finding which arose from the case studies was that self-identification of a partnership style relationship is rare, and the term appears to lack resonance in the Australian context. Thus, for the survey of directors we proposed to test whether directors' view the relationship between employees and the company as being best described as one of partnership and the extent to which they appear to have either a single interest or separate interests conception of relations with employees. The 'single or separate interests' conception derives from the work of Guest and Peccei[10] who revived the terms 'pluralist' and 'unitarist' to describe approaches based on a clear acknowledgement of differences of interest between capital and labour, on the one hand, compared with those which 'explicitly seek to integrate employer and employee interests',[11] on the other.

In relation to this hypothesis, the survey aimed to discover:

- Whether directors understand the relationship between the company and employees as being one of partnership.
- Whether directors tend more toward a unitarist or pluralist conception of the company.
- Whether directors tend to believe that the interests of employees and the company are aligned and the same, or rather separate and conflicting.

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[10] Ibid.

[11] Ibid, 209. See also M. Jones and S. Marshall, 'What do Company Directors think about Partnership between the Company and its Employees?' Paper presented at the Corporate Governance and the Management of Labour: Australian Perspectives Workshop, University of Melbourne, 7 and 8 December 2006.

- Whether understandings of partnership differ according to particular factors such as directors' overall priorities, orientation towards shareholders or employees, or company typology.

4. Methodology

The survey was undertaken using a self-completion, mail out survey form which was sent to 4000 company directors in June 2006. We chose to survey company directors because the nature of our central question (the relationship between corporate governance and labour management in Australian companies) suggested that our respondents should be at the centre of this relationship. While we may have gained more substantive information about labour management by surveying human resource managers, they would not necessarily have been central to governance of companies in the way that directors are. In the main, we sought to test the attitudes and opinions of directors. However, we also sought factual information about the companies of which they were directors and for this, directors are an appropriate 'key informant'.

Our sample was drawn from the Dun and Bradstreet Business Who's Who. Dun and Bradstreet selected company directors from across Australia based on the following criteria:

- a roughly equal distribution of directors from companies in three size (by employee numbers): 50-100 employees; 101-250 employees and 250+ employees; and
- a random mix of all industries.

Prior to the final mail out, the survey was piloted by six directors selected through networks of the researchers. A number of amendments were made to the survey based on the feedback of these directors. A reminder letter was sent to directors who had not returned the survey within the first week. We achieved a final sample of 375 usable completed surveys. This is a low response rate but not uncharacteristically low for surveys of this kind, i.e. of 'elite personnel'.[12] Around 200 surveys were returned due to

[12] See S. Jacoby, E. M. Nason, K. Saguchi, 'The Role of the Senior HR Executive in Japan and the United States: Employment Relations, Corporate Governance and Value' (2005) 44 *Industrial Relations* 207 at 216 and B. Agle, R. K. Mitchell and J. Sonnenfeld, 'Who Matters to CEOs? An Investigation of Stakeholder Attributes and Salience, Corporate Performance and CEO Values' (1999) 42 *The Academy of Management Journal* 507 at 513.

incomplete or incorrect mailing details. A further 50 responded with apologies based on lack of availability of the directors or stated that company policy precluded the completion of surveys.

The responses were entered using double entry verification of all fields except open format questions. Analysis was undertaken using the statistical and data management software package SPSS, with basic statistical tests performed; chi square for crosstabs and t-test for the comparison of means.

5. The Sample: Key Characteristics

5.1 Characteristics of the Directors

The survey asked directors two questions about their status as a director: whether they were executive or non-executive and whether they were independent or not. The mailing list used was heavily weighted to executive directors and accordingly our response sample comprised 92.6 percent executive directors. Twelve percent of directors indicated that they considered themselves to be an independent director according to the description provided. This description was based on the Australian Securities Exchange definition of independence for directors.

5.2 Characteristics of the Companies

In addition, we asked directors, as key informants, a number of questions about the characteristics of the company of which they were a director. As directors often hold multiple directorships, they were asked to answer the questions in relation to the company to which the survey was sent. This section reports on the key characteristics of the companies in our sample.

Regarding the company's legal structure, 75.5 percent were proprietary companies and 24.5 percent public companies. Some 16.5 percent were listed on the Australian Securities Exchange, 0.5 percent were listed on another Australian exchange and 12.0 percent were listed on an international exchange. 26.4 percent of companies produced an annual report or other report on their social or environmental performance. Listed companies comprise approximately less than 0.1 percent of total companies registered in Australia and 22 percent of public companies. Public companies are about 0.57 percent of total companies.[13]

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13 Australian Securities and Investments Commission,
[http://www.asic.gov.au/asic/asic_pub.nsf/byheadline/2006+company+registration+statistics?openDocume

The sample comprised a range of company sizes as measured by turnover. Twenty eight percent of companies had turnover of less than $20 million annually, with a further 28.1 percent in the $20 million to less than $50 million range and 12.7 percent in the $50 million to less than $100 million range. Nearly one third of the sample (30.8 percent) had turnover of more than $100 million annually.

With regard to ownership and control of the companies in our sample, we have shown in Table 1 below the particular characteristics of the listed and unlisted companies for the sake of comparison. There are a number of statistically significant differences between the two types of companies, thus warranting displaying the characteristics of each separately.

Table 1: Ownership and Control in Sample Companies

Ownership Characteristic	percent of Listed Companies	percent of Unlisted Companies
Largest Shareholder holds less than 5 percent	16.0	4.0**
Largest Shareholder holds between 5 percent-and 30 percent	46.8	13.0**
Largest Shareholder holds between 31 percent and 50 percent	16.0	31.6**
Largest Shareholder holds 51 percent or more	21.3	51.4**
Largest Shareholder is on the board	55.3	92.3**
Other Shareholders are on the	58.5	73.2**

nt (accessed 30 January, 2007) and Australian Stock Exchange, ASX listed companies, http:www.asx.com.au] (accessed 30 June, 2007).

board		
Institutional Investors hold less than 10 percent	34.4	93.3**
Institutional Investors hold between 11 percent and 30 percent	22.2	2.4**
Institutional Investors hold between 31 percent and 50 percent	21.1	1.4**
Institutional Investors hold 51 percent or more	22.2	2.9
Directors / Managers/Staff hold less than 5 percent	46.2	20.3**
Directors/Managers/ Staff hold between 5 percent and 30 percent	40.7	6.8**
Directors/Managers/Staff hold between 31 percent and 50 percent	6.6	5.1
Directors/Managers / Staff hold more than 50 percent	6.6	67.8**

n= 351, ** significant at 1 percent level

This data shows that unlisted companies are more likely to have 'insider' type ownership and control with more significant block-holdings, shareholder representation on the board, lower proportions of shares held by institutions and higher levels of holding by directors, managers and staff.

Twenty percent of the sample overall had foreign ownership of 51 percent or more and 86.2 percent had an Australian head office. Again there were significant differences

between listed companies and unlisted companies in this regard and the breakdowns are set out in Table 2.

Table 2: Foreign Ownership in Listed and Unlisted Companies

	percent of Listed Companies	percent of Unlisted Companies
No Foreign Ownership	22.6	83.3**
Foreign Ownership between 1 percent and 10 percent	21.5	1.2**
Foreign Ownership between 11 percent and 30 percent	12.9	1.2**
Foreign Ownership between 31 percent and 50 percent	3.2	1.6
Foreign Ownership of 51 percent or more	39.8	12.6**
Head Office in Australia	62.1	95.3**

n= 351, ** significant at 1 percent level

The average number of directors on the board in the companies in our sample was 4.6. For unlisted companies it was 4.0 and for listed 6.1. Unsurprisingly listed companies had a significantly higher number of both independent directors (3.1 compared with 1) and non-executive directors (4.1 compared with 2.0) on the board.

With regard to the number of employees employed by the companies, our sample comprised:

- 10.8 percent with fewer than 50 employees;
- 19.4 percent with between 51 and 100 employees;
- 28.3 percent with between 101 and 250 employees;
- 11.6 percent with between 251 and 1000 employees; and
- 29.9 percent with over 1000 employees.

The population we sent the survey to was fairly evenly divided between companies with between 50 and 100 employees, between 101 and 250 employees and with over 250 employees. Our sample is therefore, slightly over-represented in the 250 or over employees' category and slightly under-represented in the 50 to 100 category.

More than half the companies had increased the number of staff in the past year (57.3 percent) while 25.9 percent had remained about the same and 16.8 percent had decreased the number of staff over that period. The mean percentage of staff represented by trade unions in the sample was 20.1 percent. We asked directors to identify the main mechanisms by which the company determined the terms and conditions of its staff. As Table 3 sets out, most directors reported the use of more than one mechanism.

Table 3: Mechanisms for Setting Terms and Conditions of Employment

Main Mechanisms for Terms and Conditions	Mean percent of Employees Covered
Enterprise Agreement with Union	40.8
Enterprise Agreement directly with Staff	45.1
Common Law Individual Contract	55.4
Australian Workplace Agreement (AWA)	47.2
Award only	52.7
Other	41.3

n=375

Only a very small proportion (7.5 percent) of directors reported that their company's board included an employee representative.

We asked directors about the dominant form of finance for the company and the time frame for debt financing. The most common form of finance was retained earnings (51.3

percent) followed by cash from operations (24.5 percent), then credit (13.4 percent) with very small numbers identifying venture capital, new share issues and other sources (shown in Figure 1). In the main, debt financing was medium term (45.5 percent) or short term (36 percent) with 18.5 percent on long-term debt financing arrangements (see Figure 2). Only 4.6 percent of companies had their creditors represented on the board.

Figure 1: Sources of finance

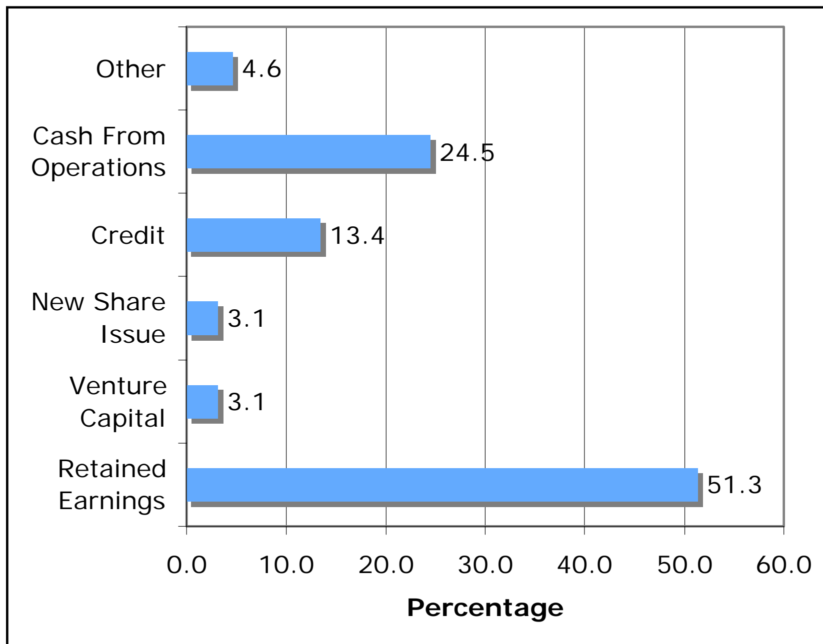
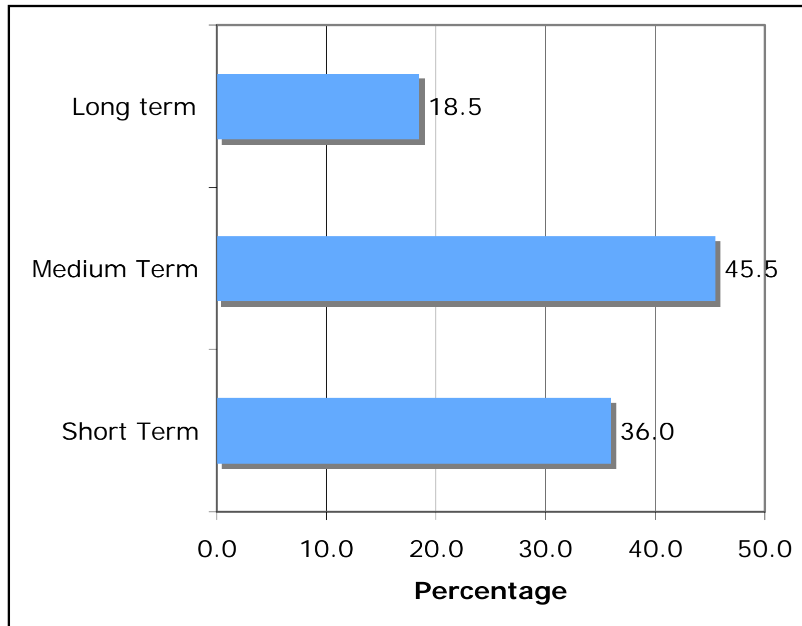


Figure 2: Terms of debt arrangements



We sought directors from a wide range of industries and our sample reflected this. The following shows the industries represented in the sample.

Table 4: Sample Breakdown by Industry of Operation

Industry	percent of Companies
Agriculture	4.9
Mining	5.5
Manufacturing	22.3
Electricity, Gas, Water	1.6
Construction	11
Wholesale Trade	9.3
Retail Trade	10.2
Accommodation, Cafes and Restaurants	3.8
Transport and Storage	7.4
Communication Services	4.4
Finance and Insurance	5.8
Property and Business Services	6.6

Education	1.4
Health and Community Services	2.5
Cultural and Recreational Services	1.4
Personal and Other Services	1.9

n=375

Using the information gathered about the characteristics of the companies represented in the survey, we have attempted to build typologies of companies based on the categories market/outsider and relational/insider, derived from the work of Howard Gospel and Andrew Pendleton.[14] This was done to enable us to compare the responses of directors from these different types of company and thereby 'test' aspects of the theoretical framework offered by these authors. Based on their analysis of broad company characteristics in market/outsider and relational/insider national systems, we established a set of criteria which would allow us to categorise the companies represented in our sample as either a market/outsider or relational/insider company.

The model comprises six criteria which are characteristics we would expect to find in a market/outsider company. These are: listed company; largest shareholder not represented on the board; no other shareholders represented on the board; higher level of holding by institutional investors; short term debt financing; and creditors not represented on the board. For the relational/insider model the criteria are: unlisted company; largest shareholder is on the board; other shareholders on the board; lower level of institutional holding; long term debt financing; and creditors on the board. Each item was given a score 1=present, 0=not and two indexes developed Index.I6 and Index.O6. Those which scored 4 or more on the Index.I6 were categorised as HighIns6 and those that scored 3 or more on the Index.O6 were categorised as HighOut6.

Whilst the model produced some interesting results, our modelling remains experimental at this stage. The reliability test conducted for the six criteria of the model gave a reliability coefficient of 0.4434 which suggests that the six items have a low 'stickability',

[14] H. Gospel and A. Pendleton (eds), *Corporate Governance and Labour Management*, Oxford University Press, Oxford, 2005; H.Gospel and A.Pendleton, as above, n. 6.

that is, they do not truly belong together. Removing the criteria relating to debt financing would improve the model (alpha .5143). For the purposes of this research report, however, we worked with our original model despite its limitations and the results of further analysis and improvements to the model will be presented in further publications by the project team.

6. Directors' Understanding of Their Duties as Directors

One of the central aims of the survey was to explore directors' understandings of their legal obligations and the way that this might affect their approach to stakeholders. We were particularly interested in the extent to which shareholders were perceived to be the most important among several stakeholders. We hypothesised that directors would perceive that their primary obligation was to shareholders in the short term and that this would partly be a result of their understanding of their obligations as a director. This section presents the survey findings on these matters.

In order to set these findings in their legal context, we note that directors' legal obligations are owed not to the shareholders as such, but to the company.[15] Directors are legally required to act in the best interests of the company. The interests of the company are usually regarded by courts as those of the company's shareholders.[16] However, recent Australian government inquiries have confirmed the legal competence of directors to adopt a broader set of interests in pursuing corporate strategy.[17] Directors are, under the common law and the Corporations Act, accountable to shareholders in some important respects, but this does not mean that their interests must always be preferred over other stakeholders,[18] and the limited control rights which shareholders enjoy are, in themselves, usually too restricted to enable them to dictate corporate strategy to that end.[19]

We asked directors to indicate which of four statements best represented their understanding of their obligation to act in the best interests of the company. We also

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[15] Section 181(1) of the Corporations Act requires directors and other company officers to exercise their powers and discharge their duties 'in good faith in the best interests of the corporation". For analysis of the meaning of the 'interests of the corporation" see R.P. Austin, H.A.J. Ford and I.M Ramsay, *Company Directors: Principles of Law and Corporate Governance*, LexisNexis Butterworths, Sydney, 2005, Ch 7.
[16] Ford, Austin and Ramsay, above n 15, Ch 7.
[17] See Corporations and Markets Advisory Committee, *The Social Responsibility of Corporations*, Report, December 2006, Chapter 3; Parliamentary Joint Committee on Corporations and Financial Services, *Corporate Responsibility: Managing Risk and Creating Value*, June 2006, Senate Printing Unit, Canberra.
[18] See Deakin above, n. 8 at pp.81-82.
[19] See Mitchell, O'Donnell and Ramsay, above n. 3, pp. 431-439; Deakin, above n. 8, pp. 81-89; M. Blair and L. Stout, 'Specific Investment and Corporate Law' (2006) 7 *European Business Organisation Law Review* 473.

asked them to indicate whether they believed the law required them to act only in the interests of shareholders or whether it allowed them to consider a broader range of stakeholders. Table 5 sets out the responses for these questions. A majority of directors understood that their primary obligation to act in the best interests of the company meant that they should balance the interests of all stakeholders (55 percent). A further 38.2 percent believed that they must, by means of acting in the interests of all stakeholders, ensure the long-term interests of shareholders. Contrary to our hypothesis, no directors believed that they were required to act in the short term interests of shareholders only and only a very small proportion (6.6 percent) believed that they were required to act in the long term interests of shareholders only.

On directors' understanding of the parameters of their obligation, it is very clear (as shown in the bottom of Table 5) that most directors take a broad view. Nearly all directors (94.3 percent) believed that the law was broad enough to allow them to take the interests of stakeholders other than shareholders into account.

Table 5: Directors' Understanding of the Scope of Directors' Duties

Primary Obligation: I must act in the best interests of the company and this means acting in the….	percent Yes
Short term interests of shareholders only	0.0
Long term interests of shareholders only	6.6
Interests of all stakeholders to achieve short term interests of shareholders	0.3
Interests of all stakeholders to achieve long term interests of shareholders	38.2
Balancing the interests of all stakeholders	55
Parameters of Law on Directors' Duties	percent Yes
I must only be concerned with shareholders' interests	5.7
Allows me to take account of interests other than shareholders	94.3

n=368

We sought information about directors' understanding of their responsibilities to various company stakeholders, and asked directors to undertake a priority ranking of stakeholders. Table 6 sets out the average ranking given to each stakeholder group, the percentage of directors who ranked that stakeholder group as their number one priority and the percentage of directors who included that stakeholder group as one of their top three priorities. It indicates that shareholders were most commonly ranked number one, followed closely by 'the company' according to both the average ranking and the percentage who ranked that group as their number one priority. These results differ from earlier research conducted from which this ranking exercise was drawn. In 1997, Francis surveyed Australian and international company directors and found that a large majority of Australian directors ranked shareholders number one (74 percent), regardless of the

fact that their actual legal obligation was to the company.[20] We found that employees were highly ranked based on the average ranking given (2.87). However, very few directors (6.7 percent) ranked employees as their number one priority.

Table 6: Priority Ranking of Company Stakeholders

Stakeholder	Average Ranking#	Percentage Ranked 1	Percentage included in Top 3
1. Shareholders	2.23	44.0	78.2
2. The Company	2.25	40.4	71.1
3. Employees	2.87	6.7	72.8
4. Customers	3.53	8.2	44.8
5. Suppliers	5.99	1.2	3.9
6. Lender/Creditors	5.83	0.6	10.6
7. The Community	6.43	0.3	3.4
8. The Environment	7.07	0.6	2.0
9. The Country	8.41	0.3	1.1

n=356

Directors were asked to rank the list of stakeholders in order of priority between 1 and 9 with 1 being highest priority. The smaller the average rank, the higher the priority.

[20] Francis, above n. 4.

7. Directors' Priorities

To gain further insight into the way that directors balance their priorities among particular stakeholders, we sought information about directors' priorities with respect to certain policy items. We asked directors to rate a list of items on a scale ranging from 'not important' to 'very important'. In addition, we asked directors to indicate what their priority actions would be in the event of either an improvement or deterioration in the financial performance of the company. Our hypothesis was, reflecting the supposition of the existence of a 'shareholder primacy' norm, that directors would place a higher value on the matters which were directed toward the interests of shareholders, such as 'dividend policy', 'increasing share price', 'reducing costs' and 'special dividends'.

Table 7 sets out the proportion of directors who identified each 'matter' as either 'most important' or 'very important'. The most important matters for directors were 'ensuring customers/clients are satisfied' (97.4 percent of directors), 'growing the business' (95.4 percent), and 'ensuring employees are fairly treated' (94.2 percent). Less than half of the directors surveyed felt that 'increasing share price' or 'dividend policy' were important to them. It is also noteworthy that a larger proportion of directors valued those matters which may be regarded as being particularly directed to the interests of employees such as 'improving employee morale' (87.3 percent) and 'safeguarding existing employees' jobs' (66.2 percent) than items of specific relevance to shareholders.

Table 7: Importance to You as a Director

Item	Percentage of Whole Sample Important#
Ensuring Customers/Clients are Satisfied	97.4
Growing the Business	95.4
Ensuring Employees are Fairly Treated	94.2
Improving Productivity	92.8
Improving Employee Morale	87.3
Reducing Costs	80.1
Ensuring Other Stakeholders are Satisfied	67.2
Safeguarding Existing Employee Jobs	66.2
Diversifying and Expanding into New Markets	48.8
Creating Job Opportunities within the Company	46.3
Increasing Share Price	45.0
Dividend Policy	41.0
Making a Contribution to Society	32.1
Special Dividends	6.6

Where rated either most, or very important, n=351

To ascertain the extent to which these matters of importance varied according to the characteristics of the company of which the respondent was director, we cross tabulated the findings against three company variables: whether the company was listed or unlisted; whether it was public or proprietary; and whether it fitted the model of market/outsider or relational/insider. Table 8 shows these breakdowns.

Table 8: Matters of Importance by Company Type

Matters of Importance to You as a Director	Listed /Unlisted percent Important		Proprietary / Public percent Important		Insider/Outsider percent Important	
	Listed (n=95)	Unlisted (n=256)	Prop. (n=259)	Public (n=81)	Insider (n=137)	Outsider (n=95)
Dividend Policy	48.4	38.5	35.0	59.2**	46.0	38.5
Growing the Business	98.9	94.2	95.1	97.5	95.0	93.5
Improving Employee Morale	83.3	88.7	89.6	81.8	89.3	83.3
Creating Job Opportunities within the Company	40.7	48.4	49.0	38.5	44.2	40.0
Improving Productivity	94.4	92.2	93.8	90.9	93.5	91.3
Ensuring Customers/Clients are Satisfied	96.7	97.7	97.7	96.2	97.9	97.8
Making a Contribution to Society	25.3	34.5	30.9	30.4	31.7	24.7
Increasing Share Price	60.4	38.9**	38.7	64.5**	46.1	50.0
Diversifying and Expanding into New Markets	48.9	48.8	48.4	50.6	51.1	46.7
Safeguarding Existing Employee Jobs	54.3	70.5**	70.4	51.3**	67.1	57.8
Reducing Costs	81.1	79.7	80.8	78.2	79.1	80.9
Ensuring Employees are Fairly Treated	96.7	93.3	93.8	96.2	93.6	93.3
Ensuring Other	68.1	66.8	65.0	70.9	63.0	71.9

Matters of Importance to You as a Director	Listed /Unlisted percent Important		Proprietary / Public percent Important		Insider/Outsider percent Important	
	Listed (n=95)	Unlisted (n=256)	Prop. (n=259)	Public (n=81)	Insider (n=137)	Outsider (n=95)
Stakeholders are Satisfied						
Special Dividends	4.5	7.3	6.4	5.3	6.5	4.5

** significant at 1 percent level

It can be seen that the top three or so matters of importance do not vary according to company type. There are, however, some important differences indicated. 'Increasing share price' was, perhaps obviously, more important to directors in listed than unlisted companies and in public rather than proprietary companies. It must be noted that the listed companies are also public companies so there is a degree of overlap. Conversely, 'safeguarding existing employees' job' was more important to directors in unlisted and proprietary companies than it was to directors in listed and public companies.

In addition to understanding the matters which are important to directors overall, we sought to understand directors' priorities in the event of a change in the financial performance of the company. To do this, we asked two questions; one which asked directors to number their priority actions in the event of an *improvement* in the financial performance of the company and another that asked them to do the same assuming a *downturn* in financial performance.[21] Consistent with our hypothesis that the interests of shareholders would be prioritised over the interests of employees, we expected that shareholders would benefit from an improvement in financial performance while

[21] This question was drawn from responses in a 1999 Japanese Ministry of Labour survey of executives at large firms, cited in I. Takeshi, 'From Industrial Relations to Investor Relations? Persistence and Change in Japanese Corporate Governance, Employment Practices and Industrial Relations' (2001) 4 *Social Science Japan Journal* 225, see footnote 10. In this study, contrary to the expectation that the interests of employees would prevail, the interests of shareholders and employees appeared to be treated fairly equally.

employees would be adversely affected in the event of a downturn. However, while it was the case that shareholders were the first to gain in the event of an improvement in the performance of the company (average rank of 1.74), they were also the first to be affected (by a decrease in dividend) in the event of a downturn. Increasing employees' salaries was the second highest priority in the event of an improvement in company performance, but decreasing employees' salaries was the lowest priority in the event of a downturn. Directors were unlikely to prioritise changes in the number of staff in either event. Decreasing executive remuneration was the second highest priority for directors in the event of a downturn.

Table 9: Priority in Event of Improvement or Downturn in Business

Priority Action	Improvement		Downturn	
	Average Rank#	percent Ranked No. 1	Average Rank#	percent Ranked No. 1
Increase/Decrease Number of Employees	3.29	12.0	3.00	14.9
Increase/Decrease Executive Compensation or Bonuses	2.77	6.2	2.19	25.7
Increase/Decrease Shareholders Dividend	1.74	60.8	1.76	58.7
Increase/Decrease Employees Salaries or Bonuses	2.14	24.0	3.01	2.7

n=351

Directors were asked to rank in order of priority from 1 to 4 with 1 being highest priority.

There were a number of significant differences, however, that were revealed when we cross-tabulated the responses with whether the company was listed or unlisted. Priorities in the event of an improvement in the financial performance of the company did not vary much (not shown in Table form), although a greater proportion of directors in listed

companies than directors in unlisted companies prioritised an increase in the shareholder dividend in the event of an improvement. However, for directors in both types of company, this was still the number one priority when measured by average rank (average rank of 1.48 in listed companies with 71.6 percent of directors ranking it number one, compared with average rank of 1.83 and 56.8 percent of directors in unlisted companies). These figures are not shown in Table form.

Table 10 shows the order of priority for directors in the event of a downturn in the financial performance of the company.

Table 10: Priority in Event of a Downturn in Business – Listed and Unlisted Compared

Priority Order **Listed Company Directors**	**Priority Order** **Unlisted Company Directors**
Decrease executive compensation (average rank 2.12, 36.7 percent ranked no.1)	Decrease or suspend dividend payment (average rank 1.55, 66.7 percent ranked no. 1)
Decrease or suspend dividend payment (average rank 2.31, 36.7 percent ranked no.1);	Decrease executive compensation (average rank 2.21, 21.6 percent ranked no.1)
Decrease employees' salaries or bonuses (average rank 2.72, 5.6 percent ranked no.1);	Retrench staff (average rank 3.05, 12.7 percent ranked no. 1)
Retrench staff (average rank 2.86, 20.1 percent ranked no.1)	Decrease employees' salaries or bonuses (average rank 3.12, 1.7 percent ranked no.1)

n=351

Directors were asked to rank in order of priority from 1 to 4 with 1 being highest priority.

There were statistically significant differences between listed and unlisted companies with regard to the average rank of both ‘decrease employees’ salaries or bonuses’ and ‘decrease or suspend dividend payments’ with listed companies more likely to prioritise a decrease in employees’ salaries and less likely to prioritise a decrease in dividend to shareholders, with the reverse true of unlisted companies. Overall, directors in both listed and unlisted companies are more likely to prioritise actions affecting shareholders or executives than actions affecting lower level employees.

8. The Company's Relationship with Shareholders

The survey sought information from directors about the relationship the company had with its shareholders. In particular, we sought information about the frequency of dealings with shareholders, the main points of contact between shareholders and the company, the types of issues raised with management by shareholders and whether there had been areas of tension between the company and its shareholders. We hoped that these questions would assist us to understand the influence of shareholders, the way in which shareholders make their demands felt and the type of matters about which shareholders raise concerns. We combined these questions with other questions which measured relative shareholder, employee and creditor influence or 'salience'.

A majority of directors indicated that the person who dealt most frequently with shareholders was the Chief Executive Officer (CEO) or managing director; this was the case in 77.5 percent of cases. The Chair of the board of directors was the next most commonly indicated with 16.2 percent followed by the Chief Financial Officer or other senior management (3.7 percent) and other board members (2.6 percent). Nearly half of the sample indicated that that person would deal with shareholders on a daily (23.2 percent) or weekly (22.1 percent) basis. A further 29.8 percent indicated that they would deal with shareholders on a monthly basis and 17.5 percent would do so bi-annually or annually. The frequency of dealing with shareholders is significantly different between listed and unlisted companies. Some 49.8 percent of directors in unlisted companies indicated daily or weekly contact with shareholders compared with 37.2 percent of directors in listed companies.

Table 11 shows that the most commonly raised issues were those directly relating to the financial performance of the company such as 'financial performance of the company', 'expenditure or investment strategy', 'new business strategy' and 'expenses'. Interestingly, a larger proportion of directors indicated that 'human resource management strategy' was raised more often than 'dividend policy' or share price'. However as would be expected in listed companies, share price was a commonly raised concern (70.5 percent of directors indicating this issue was raised daily or weekly). This was significantly higher than in unlisted companies (24.9 percent). In unlisted companies, the issue of 'expenses' was raised more frequently than in listed companies; 80.7 percent of directors indicating the issue was raised daily or weekly compared with 62.2 percent in listed companies. The percentages distinguishing between listed and unlisted companies in relation to specific issues are not shown in Table form.

Table 11: Dealing with Shareholders

Dealings with Shareholders	**percent**	
Frequency of Dealing with Shareholders (percent indicating daily or weekly contact)[#]	45.3 percent	
	Listed	**Unlisted**
	37.2	49.8*

How often issues discussed	**percent Sometimes or Often**
Dividend Policy	50.1
Financial Performance of Company	94.5
Social / Environmental Performance of Company	40.9
Expenses	75.9
Share Price	38.9
Expenditure/Investment	82.6

How often issues discussed	percent Sometimes or Often
New Business Strategy	82.6
Corporate Governance Concerns	49.4
Executive Remuneration	44.7
Capital Management Strategy	64.0
Human Resource Management Strategy	65.3

n=366

Frequency with which person who deals with shareholders does so (not necessarily respondent director)
*significant at 5 percent level

We also asked directors whether there had been areas of tension between the company and its shareholders over the past twelve months. Only about a quarter of directors (25.6 percent) responded positively to this question. Where there had been areas of tension, the most commonly cited cause of tension was 'financial performance of the company' and this did not differ significantly between listed and unlisted companies. Again, we see (in Table 12) the concern of shareholders in unlisted companies with 'expenses' and of those in listed companies with 'share price' with significant differences between the two. Human resource management strategy was more likely to be indicated as an area of tension in unlisted companies (15.1 percent) than in listed companies (4.3 percent) although the difference was not significant.

Table 12: Areas of Tension between Company and Shareholders

Areas of Tension	Whole Sample	Listed	Unlisted
Dividend Policy	24.0	13.0	27.4
Financial Performance of Company	60.4	65.2	58.9
Social / Environmental Performance of Company	3.1	4.3	2.7

Areas of Tension	Whole Sample	Listed	Unlisted
Expenses	19.8	0.0	26.0**
Share Price	19.8	43.5	12.3**
Expenditure/Investment	30.2	21.7	32.9
New Business Strategy	34.4	17.4	39.7
Corporate Governance Concerns	15.6	30.4	11.0
Executive Remuneration	15.6	13.0	16.4
Capital Management Strategy	21.9	26.1	20.5
Human Resource Management Strategy	12.5	4.3	15.1

n=351

** significant at the 1 percent level

Where there had been areas of concern, we were interested to know the mechanisms by which such concerns were raised. Shareholders raised concerns predominantly in private meetings with senior management; this was the case in 77.1 percent of cases in which there had been areas of tension. A further 17.7 percent indicated that concerns were raised at annual general meetings. In listed companies, concerns were more likely to be raised at investor briefings or through the investor relations office though this is probably because listed companies are more likely to have such institutions.

9. The Company's Relationship with Employees

A central aim of the survey of directors was to gain an understanding of the relationship between the company and its employees. Firstly, we sought to understand the role of law in framing that relationship. Secondly, we aimed to investigate the institutional features of the relationship between the company and its employees, such as where the human resources function sits within the company structure (is there a centralised human resource function, does the human resources manager report to the CEO or managing director) and the types and frequency of issues relating to employees raised and considered by the board. Our final area of investigation was in regard to the existence of partnership style relations between the company and its employees.

To begin with the role of law in framing the relationship with employees, we asked directors questions about their perception of the dominant source of their obligation to employees and about the role of the law in the determination of their human resources strategy.

Table 13: The Role of Law in Framing the Relationship with Employees

Which is the dominant source of your responsibilities to employees?	percent of Directors Agree
Labour Laws (e.g. Workplace Relations Act (WRA), Occupational Health and Safety laws)	15.8
Corporate Law	16.9
Business Imperatives	42.5
Ethical or Social Values	24.8
Which best describes the role law plays in determining your human resource strategy?	
The WRA and other employment laws operate as a constraint on our human resources strategy	3.7
The WRA and other laws provide the guiding legal framework within which strategy is developed	22.7
The WRA and other laws provide bare minimum standards only	36.3
Using the WRA helps facilitate a best practice approach in our company	37.4

n=371

As Table 13 indicates, most directors reported that they derive their sense of obligation toward employees from sources other than law. Forty-two percent reported that it was business imperatives that underpinned their obligation to employees. A further 24.8 percent believed that they had ethical or social responsibilities to ensure the well being of employees and this was the dominant source of obligation. A slightly higher proportion of directors (16.9 percent) believed that their obligations stemmed primarily from corporate law, than did so in relation to labour law (15.8 percent).

When it comes to the role that law plays in determining the human resources strategy of the company, directors are divided between seeing it as largely irrelevant and seeing it as a ‘best practice’ guide. Just over a third of directors believed that the law had little role beyond the provision of bare minimum standards (36.3 percent), while a similar proportion believed that the opposite was the case; the law facilitated a ‘best practice’ approach to human resource management for these directors (37.4 percent). Very few (3.7 percent) felt that labour law acted as a constraint and a further 22.7 percent believed that labour law played a fairly neutral role: it provided the guiding legal framework within which the human resources strategy was developed.

There were no significant differences between either listed or unlisted and insider or outsider companies with regard to directors’ attitudes on the sources of obligation toward employees.

In terms of the structure of human resources within the company (shown in Table 14), a majority of companies had a centralised human resource function (69.5 percent) and a large majority (89 percent) reported that the human resource manager reported directly to the CEO or managing director. This differed according to company type (listed or unlisted) with the existence of a centralised human resource function being more likely in listed than unlisted companies (80 percent compared with 65.6 percent) and in outsider than insider companies (77.9 percent compared with 64.3 percent). Company characteristics did not affect whether the human resource manager reported to the CEO or managing director.

Table 14: The Position of Human Resources Within the Company

Where does HR sit within the company?	percent Yes
Does company have centralised HR? (n=375)	69.5
Does HR manager report directly to CEO/MD? (n=261)	89

As we were seeking to understand the relationship between corporate governance and labour management, we were interested to discover the extent to which the board of directors considered or discussed human resource management issues concerning employees below executive level. We asked directors to identify, from a list of issues, which ones had been raised at board level in the past twelve months and approximately how often these issues had been raised. The issues and the percentage of directors who indicated that the issue had been raised three or more times in the past twelve months are set out in Table 15.

Table 15: Human Resources Issues Raised at Board Level in Past Twelve Months

HR Issues Raised at Board	percent of Whole Sample raised 3 or more times
Remuneration	37.1
Productivity	66.3
Performance Management	64.2
Industrial Disputes	10
Enterprise Bargaining	15.4
Restructuring or Retrenchments	16.1
Employee Share Schemes	15.8
Work Organisation	56.9
Training	65.0
Occupational Health and Safety	73.3

n=353

The most commonly raised issue was ‘occupational health and safety’ with 73.3 percent of directors indicating that this issue had been raised at board level three or more times over the past twelve months. Other commonly raised issues were; ‘productivity’, ‘training’ and ‘performance management’, all with around 65 percent of directors having considered these issues three or more times over the past year. ‘Industrial disputes’ and

‘enterprise bargaining’ were among the least raised issues with only 10 percent and 15.4 percent respectively of directors indicating that these issues had been considered by the board.

We compared the issues raised across different types of companies. In listed companies, directors were more likely to have considered the issue of ‘employee share schemes’ with 26.3 percent of directors of listed companies indicating that this issue had been raised three times or more compared with only 11.9 percent of directors in unlisted companies. This is probably just a feature of the fact that listed companies have certain structural advantages when it come to offering employee share plans and thus are more likely to do so.[22]

Our final area of investigation reported in this section is that relating to the question of partnership. The survey sought to identify two basic features of directors’ attitudes toward partnership. The first was whether they regarded the relationship between their company and its employees as being best described as one of partnership. Having ascertained this, we sought to gain some insight into directors’ understanding of the nature of that partnership, if they had identified the existence of one. If they had not, we sought to understand what it was about the relationship between the company and its employees that the director believed stood in the way of a partnership-style relationship. We had hypothesised that directors with a stronger orientation toward short term returns for shareholders would be less likely to identify a partnership style relationship with employees. However, as there were no directors in our sample who identified this short term approach, we cannot test this hypothesis. We do compare results across different company types and by the level of shareholder orientation to identify any differences in approach to partnership based on these characteristics.

[22] J. Lenne, R. Mitchell, and I. Ramsay, ‘Employee Share Ownership Schemes in Australia: A Survey of Key Issues and Themes’ (2006) 14 *International Journal of Employment Studies* 1.

Table 16: Directors' Attitudes to Partnerships with Employees

Relationship with employees is best described as partnership			
Yes percent		**No percent**	
76.9		23.1 percent	
Parties **separate** interests but common goals	29.2	Parties same interests, employees work under direction for company goals	38.3
Parties **same** interests and common goals	70.8	Parties with separate and sometimes conflicting interests	18.5
		Employees and company one and the same: employees are part of the company	43.2

n=373

A large majority of directors (76.9 percent) reported that the relationship between the company and its employees was best described as one of partnership as in set out in Table 16. This was a surprisingly large proportion given our assessment, based on the case study research, that the notion of partnership had little resonance in the Australian context. Whilst interviewees did not necessarily reject the idea of partnership, it was not part of their every day parlance used to describe employee/company relations. This outcome may, therefore, tell us more about the lack of definitional clarity (we did not define what we meant by partnership in the survey) than it does about the incidence of partnership style relations in Australian companies. It has elsewhere been observed that 'partnership' is such a broad and ambiguous term, that it is difficult to disagree with. Nevertheless, our results help to elucidate directors' understanding both of 'partnership' as a concept and their understanding of the nature of the relationship between employees and the company by their responses to the second part of the question. A large majority of those who said 'yes' to partnership (70.8 percent) believed that the partnership was based on an

alignment of interests between the company and employees who worked toward common goals. A smaller, but not insignificant proportion (29.2 percent) believed that the partnership was based on a relationship that recognised separate interests but entailed working toward common goals.

Where directors did not characterise the relationship with employees as a partnership the largest proportion (43.2 percent) indicated that this was because they understood that it was not possible to conceive of employees and the company separately. Rather they conceived employees as part of the company. A further 38.3 percent believed that the relationship was founded on a 'command and control' type relationship with employees working under direction to further company goals. We had observed in our case study companies that this conceptualisation of the relationship between employees and the company was likely to militate against partnership style relations. The final group of 'no partnership' directors believed that the company and its employees had 'separate and sometimes conflicting interests' (18.5 percent). Given that the majority of directors who did identify a partnership did so on the basis of an alignment of interests and work toward common goals, it is unsurprisingly that directors who saw the relationship between the company and its employee as inherently conflictual were unlikely to do so.

As discussed previously, we had hypothesised that directors with a short term focus on outcomes for shareholders would be less likely to identify partnerships with employees. The absence of any such directors in our sample made this impossible to test. However, as discussed in Section 10, we used the shareholder salience scale as a proxy for shareholder orientation and looked for differences between the responses of directors in the high range of the scale and those in the low range and found no differences in response that were significant. This suggests that orientation toward shareholders is not necessarily inconsistent with partnership relations.

Nonetheless we were able to identify where responses did vary according to company type. Directors in unlisted companies, while no less likely to identify a partnership relationship between the company and its employees, were more likely to indicate that

they believed that the company and its employees could not be conceived of separately (51.7 percent of directors in unlisted companies compared with 21.7 percent of listed company directors). The same finding occurred when we cross-tabulated the partnership questions with the insider and outsider company models. Insider company directors were more likely than outsider directors to indicate that they could not conceive of the company and its employees separately, but no less likely to identify a partnership relationship.

10. The Influence of Key Stakeholders

It is often assumed that companies within Australia operate with a 'shareholder value' orientation in corporate governance, and that shareholders' interests are therefore given priority over the interests of other key stakeholders, such as employees. We have seen already that the evidence presented in this survey suggests that this is not always the case. While a large proportion of directors do rank shareholders as their number one priority, an almost equal proportion rank the company as their number one priority. Similarly, directors were not inclined to believe that their legal obligations required them to act solely in the interests of shareholders, nor were the matters that were most important to directors related specifically to the interests of shareholders. In this section we explore the influence of shareholders and other key stakeholder, employees and creditors in more detail. We measure the influence of shareholders, employees and creditors using a scale devised in research conducted in the US by Agle, Mitchell and Sonnenfeld into which stakeholders matter most to CEOs.[23] Agle et al sought to move beyond the assumption that stakeholders have a fixed position of influence in relation to the company and devised a model of salience (as they call it) or importance which is based on the assumption that salience depends upon managers' perceptions of the power, urgency and legitimacy of stakeholders

The scale was comprised of seven items: directors were asked to rate the extent to which they agreed or disagreed with certain statements on a scale of one (strongly agree) to 5 (strongly disagree).

[23] Derived from B. R. Agle, R.K. Mitchell and J.A. Sonnenfeld, 'Who Matters to CEOs? An Investigation of Stakeholder Attributes and Salience, Corporate Performance and CEO Values' (1999) 42 *The Academy of Management Journal* 507-525, Special Research Forum on Stakeholders, Social Responsibility and Performance Appendix, Table A (with minor modification – some of the items were removed because of duplication).

Table 17: Proportion of High and Low Ratings on Salience Scale

Stakeholder	percent High^ 3+	percent Low^ <3	Mean score
Shareholders	78.3	18.1	3.70
Employees – Active	72.4	19.3	3.49
Employees – Legitimate#	69	31	3.49
Creditors – Active	22.9	71.4	2.38
Creditors – Legitimate	52.6	25.7	3.0

n=359

^ scores of exactly 3 were treated as 'missing'

for the employees' legitimate scale, high is a score of 4 or more due to very high overall scores, no scores treated as 'missing'.

Table 17 indicates that the proportion of directors who rated shareholders as having a high degree of salience was 78.3 percent. The items in the scale measuring shareholder salience were all highly correlated (standardised alpha = .8732) and averaged for a scale that runs from high (average score of 3 or higher) which represents the strong influence of shareholders to low (average score of less than 3) for weak influence of shareholders in the company.

For the employee salience scale, all the items were not highly correlated and so the scale was arranged as two scales; 'employees active' (standardised alpha = .7523) and 'employees legitimate' (standardised alpha = .6220). The 'employees active' scale contained the items: (a) power to influence management; (b) active in pursuing demands; (c) actively sought the attention of management team; and (d) employees urgently communicated their demands or wishes to our company, which were all correlated. The scale runs from high (scores 3 or over) representing strong active influence of employees to low (scores under 3) representing weak active influence of employees.

The ‘employees legitimate’ scale contained the items: (e) demands or wishes of our employees were viewed as legitimate; (f) employees received a high degree of time and attention from our management team; and (g) satisfying the demands or wishes of employees was important. Scores were averaged and run from high (scores 4 and higher) representing strong legitimate influence of employees in the company to low (scores under 4) representing weak legitimacy and influence of employees. In this scale only, the scores would have to have been 4 or 5 to be classified as high because the overall scale scores were high and there were too few under a score of three.

Similarly with the creditors salience scale, all seven items were not highly correlated, so the scale was divided into ‘creditors active’ (standardised alpha = .8737) and ‘creditors legitimate’ (standardised alpha = .7080). The ‘creditors active’ scale contained the items: (a) power to influence management; (b) active in pursuing demands; (c) actively sought the attention of management team; (d) creditors urgently communicated their demands or wishes to our company; and (f) creditors received a high degree of time and attention from our management team.[24]

The ‘creditors legitimate’ scale contained two items: (g) satisfying the demands or wishes of creditors were important to our management team; and (e) demands or wishes were viewed as legitimate.

Only 22.9 percent of directors were rated in the high range of the ‘creditors active’ scale. This was a much smaller proportion compared with those whose responses placed them in the high rage of the ‘shareholders active’ or the ‘employees active’ scale. Just over half of the directors (52.6 percent) were in the high range of the ‘creditors legitimate’ scale. The proportion of directors in the high range of the shareholder, ‘employee active’ and ‘employee legitimate’ scales was also similar. Creditors as stakeholders are perceived to be less active and to have less legitimacy according to these findings.

[24] The individual scale items in the employees and creditors 'active' and 'legitimate' scales are so included based on correlation between the items. Therefore the employees ‘active’ scale and the creditors ‘active’ scale are not comprised of the same individual scale items.

The following table (Table 18) breaks down the items in the salience scale and shows both the percentage of directors who agreed (agree and strongly agree) and the mean score for the item. As can be seen, with the exception of one item, the proportions and the scores are remarkably similar for both shareholders and employees. The exception to this is the item “received a high degree of time and attention from our management team” with which 65 percent of directors agreed in relation to shareholders compared with 85.9 percent in relation to employees. As we have seen from the previous analysis of the overall scores and comparison of the proportion of directors in the high range of each scale, creditors are the least influential of the three stakeholders groups. Significantly smaller proportions of directors agree with all of the items that comprise the scale in relation to creditors. The items ‘creditors demands or wishes were viewed as legitimate’ and ‘satisfying the demands of creditors was important to our management team’ had the largest proportion of directors agreeing with them and yet this was only around half of the directors (47.3 percent and 54.7 percent respectively). These findings suggest that creditors have some degree of legitimacy but low levels of power and urgency.

Table 18: Comparison of Shareholders, Employees and Creditors Salience

Statement	S/H percent of Directors Agree	S/H Mean score	Emp'ees percent of Directors Agree	Emp'ees Mean score	Cred's percent of Directors Agree	Cred's Mean Score
Had the power to influence management	81.2	4.03	78.0	3.74	23.6	2.44
Were active in pursuing demands or wishes which they felt were important	66.5	3.61	65.4	3.48	20.3	2.37
Actively sought the attention of our management team	64.6	3.54	70.5	3.60	21.6	2.39
Urgently communicated their demands or wishes to our company	48.8	3.20	47.0	3.14	19.6	2.35
Demands or wishes were viewed by our management team as legitimate	78.7	3.88	76.7	3.83	47.3	3.17
Received a high degree of time and attention from our management team	65.0	3.61	85.9	4.03	30.4	2.63

Statement	S/H percent of Directors Agree	S/H Mean score	Emp'ees percent of Directors Agree	Emp'ees Mean score	Cred's percent of Directors Agree	Cred's Mean Score
Satisfying the demands or wishes of this stakeholder group was important to our management team	83.3	4.02	87.9	4.04	54.7	3.22

11. Exploration of Major Relationships

11.1 The Effect of Shareholder Salience on Directors' Attitudes

The focus of this section is an analysis of the relationship between the level of shareholder salience, (ie, the influence of shareholders as perceived by directors) and directors' attitudes to other aspects of their role, including their priorities in the event of an improvement or downturn in the financial performance of the company and the matters of importance to them in their role as director. We compare the responses of directors who were in the high range of the shareholder salience scale with those who were in the low range as a means by which to ascertain the extent to which the influence of shareholders appears to be related to directors' attitudes.

Directors' Values and Priorities: Does Shareholder Salience Make a Difference?

Beginning with directors' priorities in the event of an improvement or deterioration in the financial performance of the company, it emerges that priorities in the event of an improvement or decline in company fortune[25] were relatively consistent between directors who regarded shareholder salience as being high and those who regarded it as being low. Table 19 shows the results of these questions. There were no significant differences revealed by this analysis.

[25] This question is taken from a 1999 Japanese Ministry of Labour survey of executives of large firms: I. Takeshi, 'From Industrial Relations to Investor Relations? Persistence and Change in Japanese Corporate Governance, Employment Practices and Industrial Relations' (2001) 4 *Social Sciences Japan Journal* 225-241.

Table 19: Priority in Event of Improvement or Downturn in Business

Priority	Improvement Average Rank#		Downturn Average Rank#	
	High Shareholder (n=264)	Low Shareholder (n=63)	High Shareholder (n=264)	Low Shareholder (n=63)
Increase/Decrease Number of Employees	3.32	3.36	2.98	3.19
Increase/Decrease Executive Compensation or Bonuses	2.75	2.79	2.22	2.03
Increase/Decrease Shareholders Dividend	1.72	1.68	1.75	1.77
Increase/Decrease Employees Salaries or Bonuses	2.14	2.14	3.00	2.98

Directors were asked to rank in order of priority from 1 to 4 with 1 being highest priority. The smaller the average rank, the higher the priority.

What is apparent from these results is that shareholders were likely both to be the first to gain from an upturn in the financial performance of the company (with average rank of less than 2) and equally likely to be first to be affected by a downturn in financial performance (again shown by average rank of less than 2). Directors were more likely to prioritise rewarding shareholders financially in the event of an upturn than employees or executives.

We asked directors to rate a series of items on a scale indicating the importance of the items to the director.[26] Table 20 shows the items that were important to directors overall

[26] This question was adapted from S. Jacoby, E. Nason, K. Saguchi, 'The Role of the Senior HR Executive in Japan and the United States: Employment Relations, Corporate Governance and Values" (2005) 44 *Industrial Relations* 231. They present results for their key executive values for Japanese directors (1993)

and the comparison between directors in the high range of the shareholder salience scale and those in the low range. As can be seen, there are very few differences across the groups. Ensuring that customers and clients were satisfied was the most important item to directors (97.4 percent of whole sample). Growing the business was also very important (95.4 percent of sample) as was ensuring employees are fairly treated (94.2 percent of sample), with improving productivity highly important as well (92.8 percent). Interestingly, and contrary to the assumption that the shareholder value model of governance would lead to the prioritisation of shareholders' interests by directors, the results show that generally the items that relate to employees' interests (morale, fair treatment, safeguarding jobs and creating more job opportunities) were rated as more important by more directors than those relating to shareholders interests (dividend policy, share price and special dividends).

It is also noteworthy, and contrary to our hypothesis (Hypothesis 3), that the only statistically significant difference between the responses of directors was that directors in the high range of the shareholder salience scale rated 'ensuring employees are fairly treated' as significantly more important than did directors who were in the low range of the scale. Directors who rated shareholder salience highly were not, however, more likely to view the items relating to shareholders as more important than directors who gave it a lower rating.

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and recently for Japanese human resource executives, US human resource executives, and US chief financial officers.

Table 20: Importance to You as a Director

Item	percent of Whole Sample Important#	percent of High Shareholder Important# (n=264)	percent of Low Shareholder Important# (n=63)
Dividend Policy	41	43.7	33.3
Growing the Business	95.4	95.4	96.7
Improving Employee Morale	87.3	87.5	86.9
Creating Job Opportunities within the Company	46.3	46.7	43.3
Improving Productivity	92.8	93.8	91.8
Ensuring Customers/Clients are Satisfied	97.4	97.3	96.7
Making a Contribution to Society	32.1	31.6	26.7
Increasing Share Price	45.0	48.1	37.5
Diversifying and Expanding into New Markets	48.8	49.8	37.5
Safeguarding Existing Employee Jobs	66.2	63.8	70.0
Reducing Costs	80.1	81.1	76.7
Ensuring Employees are Fairly Treated	94.2	95.7	86.7**

Item	percent of Whole Sample Important#	percent of High Shareholder Important# (n=264)	percent of Low Shareholder Important# (n=63)
Ensuring Other Stakeholders are Satisfied	67.2	68.5	60.0
Special Dividends	6.6	6.9	5.0

Where rated either most or very important

** Significant at 1 percent level, significant difference is between high and low shareholder groups

The Priority Ranking of Stakeholders

As noted, we included in the survey a question that asked directors to rank key stakeholders in order of priority with one being the highest priority. The following table (Table 21) shows the result of this, cross tabulated against the shareholder salience rating.

Table 21: Stakeholders in Order of Priority#

Stakeholder	High Shareholder (Average Rank) (n=264)	Low Shareholder (Average Rank) (n=63)
Shareholders	2.12	2.29
The Community	6.42	6.59
The Company	2.61	2.48
Lenders/Creditors	5.84	5.90
The Environment	7.04	7.19
Employees	2.95	2.78
Customers	3.60	3.53
Suppliers	6.05	5.80
The Country	8.38	8.51

Directors were asked to rank in order of priority from one to 10 with one being the highest priority.

Table 20 indicates that shareholders were the most highly ranked stakeholder, followed by ‘the company’ and then, very closely, by employees. There were no significant differences between the responses of directors who were in the high range of the shareholder salience scale and those in the low range.

The Relationship with Shareholders: Does Shareholder Salience Make a Difference?

We tested the extent to which the company’s relationship with shareholders may be affected by the degree of salience and found some statistically significant differences between the responses of directors in the high range and those in the low range of the shareholder salience scale. As would be expected, in companies where directors rated shareholder salience as high, the person who deals with shareholders does so more frequently than those in the lower range of the scale. Additionally, shareholders raised

particular issues more frequently in companies where shareholder salience was in the higher end of the scale. Table 22 sets out the responses to this question.

Table 22: Dealing with Shareholders

Dealings with Shareholders	High Shareholder percent (n=264)	Low Shareholder percent (n=63)
Frequency of Dealing with Shareholders (percent indicating daily or weekly contact)#	49.2	34.9*
How often issues discussed	**percent Sometimes or Often**	**percent Sometimes or Often**
Dividend Policy	51.4	47.5
Financial Performance of Company	96.2	88.3*
Social / Environmental Performance of Company	43.7	28.1*
Expenses	81.3	53.3**
Share Price	40.5	38.9
Expenditure/Investment	85.5	70.0**
New Business Strategy	83.7	78.3
Corporate Governance Concerns	52.3	42.1
Executive Remuneration	48.9	32.2*
Capital Management Strategy	68.1	50.0**
Human Resource Management Strategy	68.4	55.2

*significant at 5 percent level, ** significant at 1 percent level
Frequency with which person who deals with shareholders does so (not necessarily respondent director)

It can be seen that there were highly significant differences between the responses of directors in the high range of the shareholder salience scale and those in the low range regarding the frequency with which matters to do with expenses, expenditure or investment, and capital management strategy were raised. There were significant differences in the frequency with which financial performance of the company, social or environmental concerns and executive remuneration were raised – again, being more frequently raised in companies where directors were in the high range of the scale than in the lower range.

It is interesting to note the relatively high proportion of each group that reported that shareholders had discussed matters to do with the company's human resources strategy with management. For directors in the high range of the shareholder salience scale, the percentage was 68.4 compared with 55.2 percent of directors in the lower range.

Another highly significant difference (which is not shown in the tables) emerges in response to the question about whether there had been areas of tension between company direction and shareholder expectation in the past twelve months. In companies where shareholder salience was rated as high, 30 percent of directors indicated that there had been areas of tension compared with only 12.7 percent of companies where directors were in the lower range – a difference significant at the 1 percent level. This probably reflects higher levels of engagement between the company and shareholders in these companies. However, there was only one significant difference in the responses indicating what the area(s) of tension were and this was that directors in the low range of the shareholder salience scale were more likely to report tension over the dividend policy or payout ratio (62.5 percent of 'low shareholder' compared with 19.8 percent of 'high shareholder', significant at the 1 percent level).

The three most common areas of tension indicated by directors in the high range of the shareholder salience scale were financial performance of the company (64.2 percent of those that indicated there had been areas of tension), new business strategy (38.3 percent) and expenditure / investment (32.1 percent). For directors in the low range of the shareholder salience scale, the three most common areas of tension were dividend policy (62.5 percent of those that indicated that there had been areas of tension), financial performance of the company (62.5 percent) and expenditure or investment policy (25 percent). Only a small proportion of either group reported tension over the human resources strategy, with 13.6 percent of 'high shareholder' directors and 12.5 percent of 'low shareholder' directors.

The Relationship with Employees: Does Shareholder Salience Make a Difference?

Having examined the relationship between directors and shareholders to assess the extent to which the respondent directors' sense of shareholder salience appears to make a difference to this relationship, we move to examine the situation in relation to employees. Just as we asked directors about the company's relationship with its shareholders, we asked about the relationship with employees. We assumed that if shareholders were seen to be important and influential, then employees' interests and demands might receive a lower priority from directors. The results of this are presented now along with comparisons of the responses of directors in the high range of the shareholder salience scale and those in the low range.

We asked directors to indicate the issues concerning employees below executive level which had been raised at board level over the past twelve months. The following table (Table 23) shows those results.

Table 23: Human Resources Issues Raised at the Board

HR Issues Raised at Board	percent of Whole Sample raised 3 or more times	percent of High Shareholder raised 3 or more times (n=264)	percent of Low Shareholder raised 3 or more times (n=63)
Remuneration	37.1	37.9	35.5
Productivity	66.3	65.4	68.3
Performance Management	64.2	63.0	71.4
Industrial Disputes	10	10.2	6.5
Enterprise Bargaining	15.4	15.9	14.5
Restructuring or Retrenchments	16.1	18.9	4.8**
Employee Share Schemes	15.8	17.2	14.5
Work Organisation	56.9	57.6	61.3
Training	65.0	65.0	63.9
Occupational Health and Safety	73.3	71.6	74.2

** significant at 1 percent level, significant difference is between high and low shareholder groups.

As can be seen, the most striking finding is that directors in the high range of the shareholder salience scale were significantly more likely to report that restructuring and retrenchments concerning employees below executive level had been considered by the board during the previous twelve months (18.9 percent) than directors in the low range (4.8 percent). A similarly significant and related finding (not shown in the above table) is that directors in the high range of the shareholder salience scale were more likely to report that staff numbers had decreased in the past year (20.4 percent) than those in the

low range (7.9 percent). This finding seems to provide some support for the view that a strong shareholder orientation in companies may lead to an emphasis on costs and job reduction.

In terms of other matters raised there were no significant differences.

Partnership with Employees

Finally, regarding the relationship with employees, as reported above, we asked directors about partnership. We asked them to indicate whether they conceived of the relationship between their company and its employees as being one of partnership. We also asked them to indicate whether, if they did conceive of a partnership, it was founded on the alignment of interests between employees and company or whether it allowed for difference. If they did not think that a partnership style relationship was operating, we asked them to identify the reason for this. The responses are shown in the following tables (Table 24 contains the ‘yes’ responses and Table 25 contains the ‘no’ responses) cross tabulated with shareholder salience findings.

Table 24: Yes to Partnership between Company and Employees

Partnership with Employees?	percent of Whole Sample - Yes	percent of High Shareholder –Yes (n=264)	percent of Low Shareholder –Yes (n=63)
Is the relationship between the company and its employees best described as one of partnership?	76.9	75.8	76.2
If yes, which of the following best describes your understanding of that partnership?			
Company and employees are parties with **separate** interests working toward common goals	29.2	30.2	25.5
Company and employees are parties with **same** interests working toward common goals	70.8	69.8	74.5

Table 25: No Partnership between Company and Employees

Partnership with Employees?	percent of Whole Sample - No	percent of High Shareholder – No (n=264)	percent of Low Shareholder – No (n=63)
Is the relationship between the company and its employees best described as one of partnership?	23.1	24.2	23.8
If no, which of the following best describes your understanding of the relationship between the company and its employees?			
Company and employees are parties with same interests, with employees working under direction to further company goals	38.3	41.3	26.7
Company and employees are parties with separate and sometimes conflicting interests	18.5	17.5	26.7
Company and employees cannot be conceived of separately – employees are part of the company	43.2	41.3	46.7

We can see that a large majority of directors conceived of the relationship between the company and it's the company as being one of partnership. This did not vary between directors in the high range and those in the low range of the shareholder salience scale. In terms of the type of partnership, a large majority of directors, around 70 percent, saw the company and its employees as parties with the same interests working toward common goals. Again, the importance of shareholders within the company did not have a significant effect on this response.

In the smaller proportion of companies that did not describe the relationship between employees and the company as being one of partnership, the most common reason identified was that employees are part of the company and so cannot be conceived of separately. There were no significant differences in this respect between directors in the high range and those in the low range of the shareholder salience scale.

Further Analysis of the Shareholder Salience Scale

As indicated earlier in this report, the items in the shareholder salience scale were all highly correlated and all comparisons reported thus far in this report have been between directors in the high range of the scale and those in the low range. However, the items in the employee salience scale were not as highly correlated and this prompted us to conduct further analysis in which we categorised directors as belonging to one of four groups according to their perception of the activity and legitimacy of employees and we then compared the responses of the different groups. This analysis is presented later in this section (see Tables 34 and 35). For consistency, we have conducted the same type of analysis in relation to the shareholder salience scale. The results that follow are comparisons of responses between four groups of directors:[27]

- Active and Legitimate: Directors with above average scores on all items in the scale.
- Active and Weakly Legitimate: Directors with above average scores on items a, b, c, and d on the shareholder salience scale[28] and below average scores on items e, f and g.[29]

[27] The four groups are the same as those used to categorise directors' responses to the employee salience scale items. The groups are a better fit in relation to the employee salience scale as they were devised to reflect the correlation between items in that scale, whereas all items in the shareholder salience scale were highly correlated.

[28] These items are: (a) shareholders had the power to influence management; (b) shareholders were active in pursuing demands or wishes which they felt were important; (c) shareholders actively sought the attention of our management team; and (d) shareholders urgently communicated their demands or wishes to our company.

[29] These items are: (e) shareholders demands or wishes were viewed as legitimate by our management team; (f) shareholders received a high degree of time and attention from our management team; and (g) satisfying the demands or wishes of shareholders was important to our management team.

- Passive and Legitimate: Directors with below average scores on items a, b, c, and d and above average scores on items e, f and g.
- Passive and Weakly Legitimate: Directors with below average scores on all items.

Having grouped the directors in this way, we compared the responses of each group with those of the other groups combined and now report on the statistically significant differences.

There were some significant differences between the groups regarding the relationship between the company and its shareholders. First, as would be expected, there was a relationship between directors' perception of shareholders as active and the frequency with which dealings between the company and shareholders occurred. Directors in the 'active and legitimate' group were significantly more likely to report daily or weekly dealings between the company and its shareholders (55 percent compared with 37.9 percent for the combined other groups, significant at the one percent level). Similarly, directors in the 'passive and weakly legitimate' group were less likely to report that dealings occurred on a daily or weekly basis than directors in the other groups combined (34.5 percent compared with 50.2 percent, significant at the one percent level).

Directors in the 'active and legitimate' group were more likely to report that there had been tension between shareholders and the company over the past year (33.1 percent compared with 18.2 percent of directors in the other groups combined, significant at the one percent level). These directors were also more likely to report that the raising of shareholder concerns had led to change than were directors in the other groups combined (48.1 percent of directors in the 'active and legitimate' group compared with 23 percent in the other groups combined, significant at the five percent level). Directors in the 'passive and weakly legitimate' group, on the other hand, were less likely to report that there had been tension between the company and its shareholders (15.9 percent compared with 28.5 percent of the other groups combined, significant at the one percent level). These directors were also less likely to report that the raising of shareholder concerns led

to change (11.1 percent compared with 43.8 percent of the other groups combined, significant at the five percent level).

The relationship between the company and its shareholders appears to be a more direct one where the director is in the group 'active and legitimate'. This is suggested by the fact that directors in the 'active and legitimate' group were more likely to indicate that shareholder concerns were raised in private meetings with management (85.2 percent of that group compared with 67.4 percent of the other groups combined, significant at the five percent level) whereas directors in the 'passive and legitimate' group were more likely than other directors to indicate that concerns were raised by shareholders through the investor relations function (35.7 percent compared with 7.2 percent of the other groups combined, significant at the one percent level), while directors in the 'passive and weakly legitimate' group were the only group to report that shareholder concerns were raised via proxy advisory services (5.6 percent of these directors compared with none of the others) or at the annual general meeting (38.9 percent compared with 12.7 percent, a difference significant at the one percent level).

We also used this more detailed examination of the shareholder salience scale to explore the relationship between directors' perceptions of the salience of shareholders and that of employees. One of the hypotheses that we sought to test through the survey was that directors who have a strong notion of 'shareholder primacy' may tend to place less emphasis on the interests of employees. However, our findings here suggest that directors who perceive that shareholders are active and have high levels of legitimacy may also be more likely to be responsive to the demands or wishes of employees. For example, directors in the 'active and legitimate' group in relation to shareholders were more likely than other directors to report that 'employees urgently communicated their demands or wishes to our company' (54.7 percent compared with 40.1 percent, a difference significant at the one percent level) and to report that 'satisfying the demands or wishes of employees was important to our management team' (91.9 percent compared with 84.5 percent of other directors, a difference significant at the five percent level). On the other hand, directors who had a lower than average perception of the legitimacy of

shareholders, those in the ‘active and weakly legitimate’ and ‘passive and weakly legitimate’ were less likely to report that ‘employees urgently communicated their demands or wishes to our company’ and those in the ‘active and weakly legitimate’ group were less likely to report that ‘employees received a high degree of time and attention’ (64.5 percent compared with 88 percent of other directors, a difference significant at the one percent level) and that ‘satisfying the demands or wishes of employees was important to our management team’ (71 percent compared with 89.2 percent of others, significant at the one percent level).

By comparing the groups’ ratings on the ‘employees active’ and ‘employees legitimate’ scale, we see that there was a significant relationship between directors’ perception of the legitimacy of shareholders and their rating of the legitimacy of employees.

Table 26: Comparison of Shareholder Scale Groups Mean Scores on Employees Legitimate Scale

Shareholder Scale Group	‘Group’ Mean Score on Employees Legitimate Scale	‘All Others’ Mean Score on Employees Legitimate Scale
Active and Legitimate (n=156)	4.06	3.91**
Active and Weakly Legitimate (n=30)	3.67	4.00**
Passive and Legitimate (n=52)	4.10	3.95*
Passive and Weakly Legitimate (n=113)	3.85	4.02**

* significant at 5 percent level, ** significant at 1 percent level

Directors who had a higher than average score on the legitimacy of shareholders interests were also likely to have a significantly higher score on the employees’ legitimate scale (4.06 for directors in the ‘active and legitimate’ group compared with 3.91 for the other groups combined, and 4.10 for the ‘passive and legitimate’ group compared with 3.95). Conversely, directors who had a lower than average score on the shareholders’ legitimacy scale had a significantly lower score on the employees’ legitimacy scale than other directors (3.67 for directors in the ‘active and weakly legitimate’ group compared with

4.0 for the other groups combined and 3.85 for directors in the ‘passive and weakly legitimate’ group compared with 4.02 for the other groups combined).

A somewhat contrary finding was that in regard to the priority ranking of stakeholders, directors in the ‘active and legitimate’ group were significantly less likely to rank employees number one than were other directors (3.2 percent compared with 9.2 percent of others, the difference is significant at the five percent level). Interestingly though, directors in this group were not more likely to rank shareholders as number one.

The final area in which differences emerged between groups of directors based on their perception of the activity and legitimacy of shareholders was regarding the characteristics of the company of which they were directors. Directors in the ‘active and legitimate’ group were more likely to be directors of proprietary companies (86.1 percent of directors compared with 67.5 percent of other directors), whereas directors in both the ‘passive and legitimate’ and ‘passive and weakly legitimate’ groups were less likely to be directors of proprietary companies (52.9 percent compared with 79.2 percent and 67.9 percent compared with 78.8 percent respectively). A larger proportion of directors in the ‘passive and legitimate’ group were directors of listed companies (39.6 percent) than were directors in the ‘active and legitimate group (6.7 percent).

We see that there is a relationship between where directors are placed within the four groups and factors such as turnover, the proportion of shares held by the largest shareholder and shareholder representation on the board. Directors in the ‘active and legitimate’ group were *less* likely to be directors of companies with turnover of more than $100 million (24.4 percent of these directors compared with 35.7 percent of others, significant at the five percent level), while directors in the ‘passive and legitimate’ group were *more* likely to be directors of companies with turnover of $100 million or more (52.8 percent compared with 27.1 percent, significant at the one percent level).

Directors in the ‘passive and legitimate’ group were more likely to be directors of companies where the largest shareholder held between five and 30 percent (37.7 percent

of this group compared with 20.6 percent of others combined, significant at the one percent level). Directors in the ‘passive and weakly legitimate’ group were less likely to be directors of companies where the largest shareholder held over 51 percent of the shares (32.1 percent compared with 46.8 percent of others, significant at the one percent level), while directors in the ‘active and legitimate’ group were more likely to be in this type of company (51.3 percent compared with 35.5 percent, significant at the one percent level). It was also the case that directors in the ‘active and legitimate’ group were more likely (89.2 percent compared with 35.5 percent) to be directors of companies in which the largest shareholder was represented on the board, while directors in the ‘passive and weakly legitimate’ group were less likely (67.9 percent compared with 84.7 percent) to be from such companies.

11.2 The Effect of Employee Salience

Having considered the extent to which shareholder salience influences directors, we move now to consider whether employee salience appears to have an effect on the relationship between employees and the company, shareholders and the company and whether directors’ attitudes vary according to whether employee salience is perceived by directors to be high or low. Assuming that the interests of shareholders and employees are often conflictual, we might have expected, for instance, that directors for whom employees were highly influential (or ‘salient’) to take matters concerning employees more seriously than those that didn’t, and likewise those for whom employees were less ‘salient’ to take matters concerning shareholders more seriously. As noted earlier, the measure for employee salience was divided into two scales according to correlations within the scale items. These two scales are called the ‘employees active’ scale and the ‘employees legitimate’ scale.

Directors' Duties, Values and Priorities: Does Employee Salience Make a Difference?

The following tables (Table 27 and 28) indicate the directors' responses regarding their priorities in the event of an improvement or, conversely, a downturn in the financial performance of the company. The overall sample scores are provided in the first column to provide a comparison. Here, we might have expected that directors in the high range of either the 'employees active' or 'employees legitimate' scales would be more inclined than those in the low range to prioritise the interests of employees in the event of an improvement in the financial performance of the company, and conversely, to protect the interests of employees in the event of a downturn.

Table 28: Priority in Event of Improvement or Downturn in Business

Priority	Improvement in Company Performance			Downturn in Company Performance		
	Av. rank – Whole sample	Av. rank – High Legitimate Employee (n=241)	Av. rank – Low Legitimate Employee (n=109)	Av. rank – Whole Sample	Av. rank – High Legitimate Employee (n=241)	Av. rank – Low Legitimate Employee (n=109)
Increase/Decrease Number of Employees	3.29	3.28	3.29	3.00	3.04	2.90
Increase/Decrease Executive Compensation or Bonuses	2.77	2.79	2.72	2.19	2.15	2.27
Increase/Decrease Shareholders Dividend	1.74	1.71	1.79	1.76	1.74	1.79

Priority	Improvement in Company Performance			Downturn in Company Performance		
	Av. rank – Whole sample	Av. rank – High Legitimate Employee (n=241)	Av. rank – Low Legitimate Employee (n=109)	Av. rank – Whole Sample	Av. rank – High Legitimate Employee (n=241)	Av. rank – Low Legitimate Employee (n=109)
Increase/Decrease Employees Salaries or Bonuses	2.14	2.14	2.14	3.01	3.01	3.01

Directors were asked to rank in order of priority from 1 to 4 with 1 being highest priority.

There are no significant differences between the directors who were in the high range of either the 'employees active' or the 'employees legitimate' scales and those in the low range. The amount of dividend paid to shareholders is the highest priority in the event of either an improvement or a downturn in financial performance for the respondent directors in each group.

We asked directors to indicate the importance of particular items on a scale. The results are shown below in Table 29 with the whole sample results for comparison.

Table 29: Importance to You as a Director

Item	percent of Whole Sample Important#	percent of Employee Active Important#		percent of Employee Legitimate Important#	
		High (n=252)	Low (n=68)	High (n=241)	Low (n=109)
Dividend Policy	41	40.2	40.9	44.9	32.7*

Item	percent of Whole Sample Important#	percent of Employee Active Important#		percent of Employee Legitimate Important#	
Growing the Business	95.4	94.9	97.1	95.0	96.3
Improving Employee Morale	87.3	90.0	76.5**	89.5	82.2
Creating Job Opportunities within the Company	46.3	49.6	33.8*	50.8	35.3**
Improving Productivity	92.8	92.4	94.2	92.9	92.5
Ensuring Customers/Clients are Satisfied	97.4	98.0	94.3	97.9	96.4
Making a Contribution to Society	32.1	32.3	29.9	32.4	30.8
Increasing Share Price	45.0	41.8	54.1	46.4	42.3
Diversifying and Expanding into New Markets	48.8	48.4	53.7	47.9	50.5
Safeguarding Existing Employee Jobs	66.2	67.2	55.9	68.8	60.2
Reducing Costs	80.1	79.8	81.8	76.9	87.3*
Ensuring Employees are Fairly Treated	94.2	94.4	92.5	97.1	87.5**
Ensuring Other Stakeholders are Satisfied	67.2	68.4	59.7	67.2	66.7

Item	percent of Whole Sample Important#	percent of Employee Active Important#		percent of Employee Legitimate Important#	
Special Dividends	6.6	5.4	7.6	6.1	6.9

Where rated either most or very important

*significant at 5 percent level, ** significant at 1 percent level

The top four matters of importance to directors do not appear to be influenced by relative employee salience measured either on the ‘active’ scale or the ‘legitimate’ scale. These matters are ‘ensuring customers and clients are satisfied’, ‘growing the business’, ‘ensuring employees are fairly treated’ and ‘improving productivity’. There was however some significant differences between responses according to employee influence. For the active scale, directors in the high range of the scale were significantly (at the 1 percent level) more likely to indicate that improving employee morale was important to them than directors in the low range of the scale. Similarly, a greater proportion of directors in the high range of the active scale felt that creating jobs was important than those in the low range of that scale and this was also a significant difference.

There were also some significant differences on the legitimacy scale. Contrary to what we might have expected, dividend policy was important to a larger proportion of directors who were in the high range of the employee legitimacy scale than those in the low range. Creating job opportunities was important to a greater proportion of directors in the high range of the scale. Ensuring employees were fairly treated was also important to a greater proportion of directors in the high range of the scale than those in the low range. Reducing costs was important to more directors in the low range of the ‘employee legitimate’ scale than in the high range.

Table 30 compares the responses of directors in the high and low ranges of both the employee scales for the question about the human resources issues raised at board level over the past twelve months. The results are again fairly similar regardless of where the director is situated on the employee salience scales. The matters relating to below-

executive level employees raised most often at board level were occupational health and safety, training, productivity and performance management. There was one statistically significant difference, with employee share schemes more likely to be raised in companies where directors are in the high range of the employee legitimacy scale (19 percent of directors in the high range of this scale compared with 9.1 percent of those in the low range).

Table 30: Human Resources Issues Raised at Board

HR Issues Raised at Board	percent of Whole Sample raised 3 or more times	percent of High Employee Active raised 3 or more times (n=252)	percent of Low Employee Active raised 3 or more times (n=68)	percent of High Employee Legitimate raised 3 or more times (n=241)	percent of Low Employee Legitimate raised 3 or more times (n=109)
Remuneration	37.1	39.8	32.9	36.9	37.8
Productivity	66.3	66.5	68.1	68.6	60.9
Performance Management	64.2	62.8	63.8	63.3	65.8
Industrial Disputes	10	11.2	5.7	9.2	11.8
Enterprise Bargaining	15.4	15.1	14.3	15.0	16.4
Restructuring or Retrenchments	16.1	16.6	15.7	14.9	19.1
Employee Share Schemes	15.8	16.1	15.7	19.0	9.1*
Work Organisation	56.9	56.2	55.1	59.0	52.7
Training	65.0	64.5	61.4	68.0	58.7
Occupational Health and Safety	73.3	75.1	67.1	73.4	73.6

** significant at 1 percent level, significant difference is between high and low range of legitimacy scale

Partnership

We have already seen that directors' perceptions of shareholder salience did not seem to have a relationship with directors' responses to the question of partnership and that this was contrary to our hypothesis. This section compares the responses of directors on the partnership question in order to ascertain whether employee salience seems to have a relationship with directors' understanding of the existence of partnership between the company and its employees.

Table 31 and Table 32 show these results. The results on the relationship between partnership and employee salience are useful for our exploration of the notion of partnership as they show that companies situated in the high range of both the employees active and employees legitimate scale were significantly more likely to identify a partnership relationship between the company and its employees. While 82 percent of those in the high range of the 'employees active' scale and 83.1 percent of those in the high range of the 'employees legitimate' scale said that the relationship with employees was best described as a partnership, only 59.4 percent and 63.1 percent in the low range of the respective scales did. However, where directors were located on either scale did not make a difference to the type of partnership identified, nor to the reasons provided for the non-existence of a partnership relationship. This suggests that while partnership is not related to shareholder influence as we had hypothesised, it does appear to be related to employee influence and seems to be more likely where employees are viewed as having power, legitimacy and voice within the company.

Table 31: **Yes to Partnership between Company and Employees**

Partnership with Employees?	percent of Whole Sample	percent Yes of High Active (n=252)	percent Yes of Low Active (n=68)	percent Yes of High Legitimate (n=241)	percent Yes of Low Legitimate (n=109)
Is the relationship between the company and its employees best described as one of partnership?	76.9	82.0	59.4**	83.1	63.1**
Company and employees are parties with separate interests	29.2	29.9	24.4	27.0	35.7
Company and employees are parties with same interests	70.8	71.0	75.6	73.0	64.3

** significant at the 1 percent level, significant differences are between high and low range of same scale.

Table 32: No Partnership between Company and Employees

Partnership with Employees?	percent of Whole Sample - No	percent of High Active (n=252)	percent of Low Active (n=68)	percent of High Legitimate (n=241)	percent of Low Legitimate (n=109)
Is the relationship between the company and its employees best described as one of partnership?	23.1	18.0	40.6	16.9	36.9
Company and employees are parties with same interests, with employees	38.3	37.8	35.7	39.0	37.5

Partnership with Employees?	percent of Whole Sample - No	percent of High Active (n=252)	percent of Low Active (n=68)	percent of High Legitimate (n=241)	percent of Low Legitimate (n=109)
working under direction to further company goals					
Company and employees are parties with separate and sometimes conflicting interests	18.5	22.2	10.7	19.5	17.5
Company and employees cannot be conceived of separately – employees are part of the company	43.2	40.0	53.6	41.5	45.0

The Role of Law

We also wanted to explore how directors' perception of the power and influence of employees ('employees salience') related to their understanding of the dominant source of their obligation to employees and the role that law plays in the determination of their human resources strategy. We might have expected, for example, that if labour laws establish an influential role for employees within the company, then those who rated employee salience highly would also believe labour laws were the dominant source of their obligation to employees. In this section we compare the responses of directors in the high range of the 'employees active' and 'employees legitimate' scales with those in the low ranges of those scales regarding these questions.

As Table 33 indicates, directors who rated employees in the low range of the legitimacy scale were significantly more likely to see labour laws as the dominant source of their obligation to employees than those that rated employees in the high range. The proportion of directors from the low range of the legitimacy scale who believe that labour laws are the dominant source of obligation was much higher than for any other group at 28.6 percent (compared with 9.9 percent of high range directors and 15.8 percent of directors in the whole sample). Similarly, directors in the high range of the legitimacy scale were significantly more likely to see their dominant source of obligation to employees as lying in ethical or moral considerations (28.1 percent) than those from the low range of that scale (17.9 percent).

Table 33: The Role of Law

Dominant Source of Obligation to Employees	**percent Whole Sample**	**percent High Active (n=252)**	**percent Low Active (n=68)**	**percent High Legitimate (n=241)**	**percent Low Legitimate (n=109)**
Labour Laws	15.8	15.3	17.1	9.9	28.6**
Corporate Law and Directors' Duties	16.9	17.6	14.3	16.1	18.8
Business Imperatives	42.5	39.2	51.4	45.9	34.8
Ethical or Social Values	24.8	27.8	17.1	28.1	17.9*

Role the Workplace Relations Act plays in HR Strategy	**percent Whole Sample**	**percent High Active**	**percent Low Active**	**percent High Legitimate**	**percent Low Legitimate**
Acts as a Constraint	3.7	4.0	2.9	2.9	5.4
Guiding Legal Framework	22.7	22.6	25.7	20.3	27.9
Bare Minimum	36.3	37.7	32.9	40.2	27.0*

Role the Workplace Relations Act plays in HR Strategy	percent Whole Sample	percent High Active	percent Low Active	percent High Legitimate	percent Low Legitimate
Standards Only – little to do with HR Strategy overall					
Facilitates a Best Practice Approach in HR	37.4	35.7	38.6	36.5	39.6

* significant at 5 percent level, ** significant at 1 percent level, significant differences are between the high and low range within each scale.

Additionally, as shown in Table 33, there was a significant difference between the percentage of directors from the high end of the legitimacy scale who indicated that the Workplace Relations Act and other employment laws provided bare minimum standards only (40.2 percent) and the percentage from the lower range (a much smaller 27 percent).

Further Analysis of Employee Salience Scale

As indicated by the fact that the items on the salience scale were highly correlated for shareholders but not employees, the salience of employees appears to be more complex. We believed that it was worth exploring employee salience in more detail. To do this, we placed directors into one of four groups based on their perception of the salience of employees in their company:

- Active and Legitimate (above average score on items in ‘employees active’ scale and above average score on items in ‘employees legitimate’ scale);
- Active and Illegitimate (above average score on items in ‘employees active’ scale and below average score on items in ‘employees legitimate’ scale;
- Passive and Legitimate (below average score on items in ‘employees active’ scale and above average score on items on ‘employees legitimate’ scale); and

- Passive and Illegitimate (below average score on items in ‘employees active’ scale and below average score on items in ‘employees legitimate scale’).

Table 34 shows the relationship between the ‘employees active’ and ‘employees legitimate’ categories and the four groups by indicating the mean scale scores for each of the groups.

Table 34: Comparison of Employee Scale Groups Mean Score on Employees Active/Legitimate Scale

Employee Scale Group	Employees - Active	
	Group Mean	All Others Mean
Active and Legitimate (n=168)	4.01	3.06**
Active and Illegitimate (n=51)	3.84	3.44**
Passive and Legitimate (n=83)	2.82	3.69**
Passive and Illegitimate (n=65)	2.77	3.65**

	Employees - Legitimate	
	Group Mean	All Others Mean
Active and Legitimate	4.26	3.73**
Active and Illegitimate	3.46	4.05**
Passive and Legitimate	4.18	3.91**

	Employees - Legitimate	
	Group Mean	All Others Mean
Passive and Illegitimate	3.37	4.10**

** significant at 1 percent level

As the table shows, directors in the 'active and legitimate' and 'active and illegitimate' group had higher average scores on the 'employees active' scale while 'passive and legitimate' and 'passive and illegitimate' had lower average scores. Similarly, directors in the 'active and legitimate' and 'passive and legitimate' had higher average scores on the 'employees legitimate' scale than directors in the 'active and illegitimate' and 'passive and illegitimate' groups.

In order to examine whether directors in the different groups were likely to respond in different ways, we cross tabulated the responses for the questions relating to the interests of employees. We found that there were some interesting differences between the groups and present those findings now. These results are not shown in tabular form.

Firstly, it is the case that directors in the 'active and legitimate' group were significantly more likely to rank employees as their number one priority in the priority ranking exercise. Ten percent of directors in this group ranked employees number one compared with only 3.6 percent of directors in all the other groups combined (significant at the 5 percent level).

There were no significant differences regarding the priorities of directors in the event of either an improvement or decline in the company's financial performance. There were some differences in the responses to the question about the matters of importance (regarding employees) to directors in their role as directors. Improving employee morale was important to fewer directors in the 'passive and illegitimate' group (77.8 percent) than it was to directors in the other groups combined (89.3 percent). Creating more job

opportunities within the company was important to a larger proportion of 'active and legitimate' directors (54.5 percent) than it was to the other groups combined (39.9 percent, significant at the1 percent level) and important to a smaller proportion of directors in the 'passive and illegitimate' group (30.5 percent) than it was to the other groups combined (49.8 percent, significant at the 1 percent level). Ensuring employees are fairly treated was important to a larger proportion of directors in the 'active and legitimate' group than it was to those in the other groups combined (97 percent compared with 91.8 percent, significant at the 5 percent), while it was important to a smaller proportion of directors in both the 'active and illegitimate' and 'passive and illegitimate' groups (86.3 percent compared with 95.5 percent and 88.3 percent compared with 95.4 percent respectively).

Regarding directors' understanding of the dominant source of their obligation to employees, there were further significant differences among directors who nominated either 'labour law' or 'business imperatives' as the dominant source of their obligation to employees.

Table 35: Comparison of Employee Scale Groups and Source of Obligation to Employees

Group	**Labour law is dominant source of obligation to employees**		**Business Imperatives is dominant source of obligation to employees**	
	Group percent	Others combined percent	Group percent	Others combined percent
Active and Legitimate (n=168)	10.1	20.7**	43.2	42.4
Active and Illegitimate (n=51)	39.2	12.7**	23.5	45.8**
Passive and Legitimate (n=83)	8.3	18.1*	54.8	39.2*
Passive and Illegitimate (n=65)	22.4	14.4	40.3	43.3

* significant at 5 percent level, ** significant at 1 percent level

As Table 35 indicates, directors in both the ‘active and legitimate’ and ‘passive and legitimate’ groups were *less* likely to indicate that labour law is the dominant source of obligation to employees. Those in the ‘active and illegitimate’ group were *more* likely (39.2 percent) than the other groups combined (12.7 percent) to indicate that labour law was the dominant source of obligation and less likely to indicate that business imperatives were the dominant source (23.5 percent compared with 45.8 percent). These findings seem to suggest that it is directors’ sense of the legitimacy of employees claims that is more important to their outlook than directors’ sense of employees’ activity or urgency of claim making.

Similarly, directors who were in the ‘active and legitimate’ group were more likely to indicate that the Workplace Relations Act and other employment laws provided the bare minimum standards only (42.5 percent compared with 31.4 percent) whereas those in the ‘passive and illegitimate’ group were less likely to indicate this (23.9 percent compared with 39.1 percent).

As would be expected, a larger proportion of directors in the ‘active and legitimate’ group indicated that the relationship between their company and its employees could best be described as being one of partnership (89.3 percent compared with 67.2 percent, significant at the 1 percent level) whereas those in the ‘passive and illegitimate’ group were less likely to indicate this (60.6 percent compared with 80.8 percent, significant at the 1 percent level).

Interestingly, there appears to be a relationship between directors’ responses to the employee salience scale and their responses to items on both the shareholder salience scale and the creditors scale. Directors in the ‘active and legitimate’ group were more likely to agree that shareholders had actively sought the attention of management (71.1 percent compared with 59.1 percent), and that shareholders demands or wishes were perceived as legitimate (84.8 percent compared with 73.2 percent). On the other hand, directors in the ‘passive and illegitimate’ group were less likely to agree that shareholders urgently communicated their demands or wishes (36.9 percent compared with 51.2

percent), that shareholders demands were viewed as legitimate (67.7 percent compared with 80.8 percent) and that shareholders received a high degree of time and attention from management (49.2 percent compared with 68.3 percent).

In relation to creditors, the findings are more complex. Directors in the ‘active and illegitimate’ group were *more* likely to agree that creditors were active in pursuing demands (31.4 percent compared with 18.0 percent) and that creditors urgently communicated their demands or wishes (39.2 percent compared with 16.0 percent). However, they were *less* likely to agree that satisfying the demands or wishes of creditors was important (40.8 percent compared with 56.0 percent).

Directors in the ‘active and legitimate’ group were more likely to agree that creditors had received a high degree of time and attention from management (35.5 percent compared with 24.9 percent) while those in the ‘passive and illegitimate’ group were less likely to agree with this statement (18.5 percent compared with 32.1 percent).

Overall, these findings suggest that directors’ attitudes to one stakeholder group may be related to their attitudes to other stakeholder groups. It appears that in some ways, directors who perceive employees to be active and legitimate are more inclined to be receptive to claims by shareholders and creditors, while those who perceive employees to be less active and legitimate are not as likely to be receptive to such claims.

11.3 Company Characteristics

A central issue for the larger Corporate Governance and Workplace Partnerships Project (of which this directors’ survey is a part) is the relationship between corporate governance and labour management. As part of the investigation of this question, we conducted a series of case studies of companies with a range of governance structures. This enabled us to explore the effect of these different structures on labour management in those companies and to have some capacity to explore whether there are differences in approach between, for example, listed and unlisted companies. The survey of directors

gave us an opportunity to test these questions quantitatively. In this section, we present the results of our analysis on these questions. We explore the following questions: first, whether directors' attitudes, values and priorities appear to differ according to the type of company they direct; and second, whether the priority that directors accord to shareholders, employees and creditors differs according to company type.

Before we move to consider these questions, it is necessary to provide some background to our analysis. As we described in Section 5, we gathered data from directors about some of the characteristics of the company of which they were director, including whether the company was listed or not, its size by turnover, its legal structure (public or proprietary), the size of the board, and the number of employees. In part, this information was gathered to allow us to attempt to build typologies of companies based on the categories 'market/outsider' and 'relational/insider', derived from the work of Howard Gospel and Andrew Pendleton.[30] Based on their analysis of broad company characteristics in market/outsider and relational/insider national systems, we established a set of criteria which would allow us to categorise the companies represented in our sample as belonging either to the market/outsider or relational/insider group.[31] The selected criteria relate to particular characteristics such as whether there was shareholder representation on the board, the level of shareholding by institutional investors, and whether the company was listed or not, among others. This was done to enable us to compare the responses of directors from these different types of companies and thereby test aspects of the theoretical framework offered by these authors. Our modelling is, however, fairly experimental and it is necessary to bear this in mind when considering the

[30] H. Gospel and A. Pendleton (eds), *Corporate Governance and Labour Management*, Oxford University Press, Oxford, 2005; see also H. Gospel and A. Pendleton, *Financial Structure, Corporate Governance and the Management of Labour*, Research Paper No 6, Kings College London, The University of London, October 2001.

[31] The model comprises six criteria which are characteristics we would expect to find in a market/outsider company. These are: listed company; largest shareholder not represented on the board; no other shareholders represented on the board; higher level of holding by institutional investors; short term debt financing; and creditors not represented on the board. For the relational/insider model the criteria are: unlisted company; largest shareholder is on the board; other shareholders on the board; lower level of institutional holding; long term debt financing; and creditors on the boards. Each item was given a score 1=present, 0=not present and two indexes developed Index.I6 and Index.O6. Those which scored 4 or more on the Index.I6 were categorised as HighIns6 and those that scored 3 or more on the Index.O6 were categorised as HighOut6.

findings. Reliability tests on the scale items show that they are not highly correlated (alpha = .4434). This may either point to a flaw in the model used or a more serious problem with the theoretical argument. For future analysis, the item 'debt financing' can be removed and this would improve the model somewhat (alpha if 'debt financing' removed = .5143).

We have presented some of the results of our exploration of the relationship between company characteristics and directors' priorities earlier in this report (Section 7). These findings indicated that the top three priorities for directors did not vary according to company type, whether between listed and unlisted companies, public and proprietary companies or 'insider' and 'outsider' companies. There were, however, some differences between the responses of directors in listed companies and those in unlisted companies, with listed company directors more likely to indicate that 'increasing the share price' was important to them while directors of unlisted companies were more likely than those of listed companies to indicate that 'safeguarding existing employees jobs' was important. Table 8, above, sets out these differences.

When it came to directors' priorities in the event of deterioration in the financial performance of the company, we saw that directors in listed companies, public companies and 'outsider' companies were less likely to prioritise a decrease in the dividend paid to shareholders than were their counterparts in unlisted companies, proprietary companies and 'insider' companies. These findings are discussed in Section 7.

Are there other significant differences between different types of companies that are evident from the survey? We begin with an examination of the difference between listed and unlisted companies, and between public and proprietary companies before moving to consider differences between 'insider' and 'outsider' companies.

To begin with the findings on the priority order given to stakeholders by directors, we see that directors in listed companies are more likely than directors in unlisted companies to rank shareholders as their number one priority. A larger proportion of directors from

unlisted companies ranked ‘the company’ as their number one priority whereas a larger proportion of directors from listed companies ranked ‘shareholders’ as their first priority. Nonetheless, when measured by mean rank, shareholders were still the number one priority of directors in unlisted companies. As can be seen in Table 36, there are no significant differences between listed and unlisted companies regarding the priority given to any other stakeholders.

Table 36: Priority Ranking of Stakeholders by Company Type

Stakeholder	percent Ranking Number 1		Mean Rank		percent Ranking in Top Three	
	Listed	Unlisted	Listed	Unlisted	Listed	Unlisted
Shareholders	55.4	39.7**	1.78	2.39**	86.3	75.2*
The Company	35.1	42.3	2.62	2.58	74.7	69.8
Employees	5.4	7.2	2.95	2.85	70.5	73.7
Customers	4.3	9.6	3.73	3.46	46.3	44.3
Lenders	0.0	0.8	6.10	5.74	10.5	10.7
Suppliers	0.0	0.0	6.16	5.93	2.1	4.6
The Community	0.0	0.4	6.41	6.44	2.1	3.8
The Environment	0.0	0.8	6.96	7.11	1.1	2.3
The Country	0.0	0.4	8.35	8.44	0.0	1.5

* significant at 5 percent level, ** significant at the 1 percent level, n=351

There were very few statistically significant differences between the responses of public and proprietary company directors on this question (not shown in tabular form). When measured by mean rank, directors of public companies gave shareholders a higher priority than did directors of proprietary companies. However, this difference was not evident when the other measures (percentage ranking number one and percentage ranking in top three) were used. The mean score given to ‘suppliers’ by directors of proprietary companies was significantly higher than that given by directors of public companies (5.88 compared with 6.26), and the mean score given to ‘the country’ by public company directors was significantly higher than that given by proprietary company directors (8.16 compared with 8.49). Again, this difference was not evident when the other measures

were used to compare responses. The only statistically significant differences between 'insider' and 'outsider' directors were that directors of insider companies gave 'lenders' a higher average rank (5.55) than did directors of outsider companies (6.09).

We can see that company characteristics, such as whether the company is listed or unlisted, whether it is a public or a proprietary company and whether it best fits the 'insider' or 'outsider' model, do appear to affect the relationship between the company and its shareholders. Directors in both unlisted and 'insider' companies were likely to report more frequent dealings with shareholders than directors in listed and 'outsider' companies.[32] Some 52.9 percent of 'insider' company directors and 49.8 percent of unlisted company directors reported that the company had daily or weekly dealings with their shareholders. These proportions were significantly higher than the equivalent in 'outsider' and listed companies (35.9 percent and 37.2 percent respectively).

There were also some differences evident between the types of issues that had been discussed between senior management and shareholders over the past twelve months.

Table 37: Issues Discussed by Company Type

Issue	**Company Type** **percent of directors who indicated issue discussed sometimes or often over past twelve months**					
	Listed (n=95)	Unlisted (n=256)	Proprietary (n=259)	Public (n=81)	Outsider (n=95)	Insider (n=137)
Dividend Policy/Payout Ratio	52.8	49.2	48.0	57.5	49.5	55.5
Financial Performance of the Company	95.6	94.1	95.4	92.2	94.6	97.1
Social/Environmental	34.1	43.3	40.6	36.0	33.3	41.0

[32] This does not mean that the respondent directors deal more frequently with shareholders. Directors were asked to identify the person who had most frequent dealings with shareholders and then to indicate the frequency with which that person dealt with shareholders (Questions 3 and 4 of the survey).

Issue	Company Type percent of directors who indicated issue discussed sometimes or often over past twelve months					
	Listed (n=95)	Unlisted (n=256)	Proprietary (n=259)	Public (n=81)	Outsider (n=95)	Insider (n=137)
Performance of the Company						
Expenses	62.2	80.7**	81.8	58.4**	68.5	79.3
Share Price	70.5	24.9**	26.6	75.3**	55.2	33.6**
Proposed Expenditure/Investment	78.7	83.9	85.7	71.4**	80.4	82.1
Proposed New Business Strategy	83.5	82.3	84.1	76.9	82.6	82.0
Corporate Governance Concerns	51.1	48.8	48.2	48.7	50.0	47.1
Executive Remuneration	41.1	46.0	45.9	39.5	48.9	46.7
Capital Management Strategy	61.8	64.8	65.4	59.2	66.3	66.7
Human Resources Management Strategy	58.4	67.7	69.0	52.6**	59.8	65.5

** significant at the 1 percent level

As is evident from Table 37, ‘share price’ was discussed significantly more often in listed, public and outsider companies than it was in unlisted, proprietary and insider companies. This is not a surprising result. However, we also see that ‘expenses’ was more likely to have been discussed between shareholders and management in unlisted, proprietary and insider companies, than in listed, public and outsider companies. This suggests, perhaps, that financial pressures are greater in these company types. In proprietary companies, shareholders and management were also more likely (than in public companies) to have

discussed proposed expenditure or investment strategy and the human resource management strategy.

There were no significant differences between the groups with respect to the question, 'have there been areas of tension between company direction and shareholder expectation?' Around a quarter of directors in each type of company reported that there had been areas of tension. There were, however, differences regarding what those areas of tension were. Table 38 sets out these results.

Comparing public and proprietary companies, we find that share price was more likely to be an area of tension or concern in public companies (39.1 percent of directors reporting that it had been an area of concern) than it was in proprietary companies (14.3 percent of directors). In proprietary companies, there was more likely to be tension over expenses (27.1 percent of directors of proprietary companies compared with 0 percent of directors of public companies), expenditure or investment strategy (35.7 percent compared with 13 percent), new business strategy (42.9 percent compared with 13 percent) and human resource management strategy (18.6 percent compared with 8.7 percent).

When we compare listed and unlisted companies, we see that, again not surprisingly, share price was more likely to be an area of tension in listed companies (43.5 percent of directors) than in unlisted companies (12.3 percent of directors). Corporate governance concerns were also more likely to have been raised as an area of concern in listed companies (30.4 percent of directors compared with 11 percent of unlisted company directors). In unlisted companies, as with proprietary companies, expenses was an area of tension with 26 percent of directors of unlisted companies reporting this compared with no listed company directors. Similarly new business strategy was more likely to be of concern to shareholders in unlisted companies (39.7 percent of directors in unlisted companies reported such concerns) than in listed companies (17.4 percent). As between insider and outsider companies, one significant difference was that dividend policy was more likely to be an area of tension in insider companies with 35 percent of directors of insider type companies reporting this compared with 13.8 percent of outsider type

company directors. The only other significant difference was that outsider type company directors were more likely to report that corporate governance was an area of tension (31 percent compared with 7.5 percent of insider type company directors).

Table 38: Areas of Tension by Company Type

	Company Type percent of directors who indicated areas of tension between company and shareholders over past twelve months					
	Listed (n=95)	Unlisted (n=256)	Proprietary (n=259)	Public (n=81)	Outsider (n=95)	Insider (n=137)
Have there been areas of tension?						
Yes	24.2	26.2	25.7	27.2	29.8	28.1
Dividend Policy/Payout Ratio	13.0	27.4	28.6	8.7	13.8	35.0*
Financial Performance of the Company	65.2	58.9	67.1	47.8	75.9	65.0
Social/Environmental Performance of the Company	4.3	2.7	1.4	8.7	3.4	0.0
Expenses	0.0	26.0**	27.1	0.0**	17.2	27.5
Share Price	43.5	12.3**	14.3	39.1*	31.0	15.0
Proposed Expenditure/Investment	21.7	32.9	35.7	13.0*	34.5	22.5
Proposed New Business Strategy	17.4	39.7*	42.9	13.0**	31.0	35.0
Corporate Governance Concerns	30.4	11.0*	12.9	26.1	31.0	7.5*
Executive Remuneration	4.3	15.1	17.1	0.0	17.2	12.5

	Company Type percent of directors who indicated areas of tension between company and shareholders over past twelve months					
	Listed (n=95)	**Unlisted (n=256)**	**Proprietary (n=259)**	**Public (n=81)**	**Outsider (n=95)**	**Insider (n=137)**
Capital Management Strategy	26.1	20.5	24.3	17.4	20.7	30.0
Human Resources Management Strategy	13.0	16.4	18.6	8.7*	17.2	12.5

* significant at the 5 percent level, ** significant at the 1 percent level

Having explored the relationship between company type and the company's interaction with shareholders, we move to examine whether the type of company appears to influence directors' perceptions of the importance of particular stakeholders, namely shareholders, employees and creditors. The following three tables (Tables 39, 40 and 41) show these results. Table 39 sets out the comparative percentage of directors from different company types (listed, unlisted, proprietary, public, insider and outsider) who agreed with the individual items on the shareholder salience scale. Tables 40 and 41 do the same, but for employees and creditors respectively. As can be seen, there were a number of significant differences between different types on the shareholders and creditors salience scale but only one on the employees scale. Hence, it appears that company type may affect the relationship with shareholders and creditors in particular ways but is unlikely to affect the relationship with employees.

Table 39: Shareholder Salience by Company Type

Shareholders	**Listed (n=95)**	**Unlisted (n=256)**	**Proprietary (n=259)**	**Public (n=81)**	**Insider (n=137)**	**Outsider (n=95)**
Had the power to influence management	68.5	85.9**	84.9	68.4**	86.9	75.0*

Shareholders	Listed (n=95)	Unlisted (n=256)	Proprietary (n=259)	Public (n=81)	Insider (n=137)	Outsider (n=95)
Were active in pursuing demands or wishes which they felt were important	47.8	73.3**	72.4	48.1**	75.0	53.3**
Actively sought the attention of our management team	56.0	67.7*	68.0	57.0	70.1	56.5*
Urgently communicated their demands or wishes to our company	33.7	54.4**	55.4	27.8**	50.4	42.4
Demands or wishes were viewed by our management team as legitimate	74.7	80.2	79.2	74.4	81.8	71.4
Received a high degree of time and attention from our management team	58.1	67.6	67.2	58.8	72.1	59.8
Satisfying the demands or wishes of shareholders was important to our management team	82.8	83.5	83.7	82.5	87.6	81.5

* significant at 5 percent level, ** significant at 1 percent level

Table 40: Employee Salience by Company Type

Employees	Listed (n=95)	Unlisted (n=256)	Proprietary (n=259)	Public (n=81)	Insider (n=137)	Outsider (n=95)
Had the power to influence management	84.2	75.8	74.9	86.6*	75.7	78.9
Were active in pursuing demands or wishes which they felt were important	68.4	64.2	65.4	65.9	61.9	63.2
Actively sought the attention of our management team	73.7	69.4	69.8	75.6	70.5	67.4
Urgently communicated their demands or wishes to our company	49.5	46.2	47.5	50.0	46.4	45.3
Demands or wishes were viewed by our management team as legitimate	75.8	77.0	75.0	81.7	75.7	73.7
Received a high degree of time and attention from our management	85.3	86.2	86.7	85.4	87.1	85.3

Employees	Listed (n=95)	Unlisted (n=256)	Proprietary (n=259)	Public (n=81)	Insider (n=137)	Outsider (n=95)
team						
Satisfying the demands or wishes of employees was important to our management team	85.3	88.9	87.1	90.2	87.1	88.4

* significant at 5 percent level, ** significant at 1 percent level

Table 41: Creditor Salience by Company Type

Creditors	Listed (n=95)	Unlisted (n=256)	Proprietary (n=259)	Public (n=81)	Insider (n=137)	Outsider (n=95)
Had the power to influence management	19.6	25.1	24.0	22.5	28.8	20.0
Were active in pursuing demands or wishes which they felt were important	11.8	23.3*	21.5	16.3	24.5	13.7*
Actively sought the attention of our management team	15.1	23.9	23.2	16.3	25.2	16.8
Urgently communicated their demands or wishes to our company	18.3	20.1	21.3	13.8	20.9	18.9
Demands or wishes were viewed by our management team as legitimate	35.9	51.4*	50.6	35.4*	55.4	37.6*
Received a high degree of time and attention from our management	18.3	34.7**	33.5	21.3*	33.8	22.1

Creditors	Listed (n=95)	Unlisted (n=256)	Proprietary (n=259)	Public (n=81)	Insider (n=137)	Outsider (n=95)
team						
Satisfying the demands or wishes of creditors was important to our management team	42.4	59.1**	57.3	44.3*	62.6	46.8*

* significant at 5 percent level, ** significant at 1 percent level

Table 42 shows the differences between the overall scale scores for the shareholder, employee and creditor salience scales as rated by directors of listed compared with unlisted companies, proprietary compared with public companies, and insider compared with outsider companies. As explained in Section 10 of the report, all the items in the shareholder salience scale were highly correlated, whereas for the employees and the creditors salience scale, they were not. For both the employees and creditors salience scale, the overall scale was divided into two: the 'active' and the 'legitimate' scale. It confirms that there does not appear to be a relationship between employee salience and company type as there were no significant differences between the overall scores on either the 'employees active' scale or the 'employees legitimate' scale according to company type. It also confirms that shareholder salience was lower overall in listed than unlisted companies, in public than proprietary companies, and in outsider than in insider type companies. For the creditors salience scale, directors in insider companies were more likely than directors in outsider companies to rate the 'activity' (2.55 compared with 2.32) and 'legitimacy' (3.36 compared with 3.04) of creditors more highly.

Table 42: Stakeholder Salience Scale Mean by Company Type

Stakeholder	Listed (n=95)	Unlisted (n=256)	Proprietary (n=259)	Public (n=81)	Insider (n=137)	Outsider (n=95)
Shareholders	3.42	3.80**	3.79	3.40**	3.82	3.46**
Employees - Active	3.56	3.47	3.47	3.60	3.44	3.45
Employees - Legitimate	3.98	3.96	3.94	4.05	3.99	3.91
Creditors - Active	2.30	2.49	#	#	2.55	2.32**
Creditors - Legitimate	2.99	3.27	#	#	3.36	3.04**

** significant at 1 percent level

comparison not undertaken

We have seen then that the relationship with employees as measured by the salience scale appears to be largely unaffected by the type of company. We now look at our other indicators of the relationships between the company and its employees to examine whether the same pattern emerges. As was described in Section 9 of the report, we asked directors about the position of the human resources management function within the company and about the types and frequency of human resources matters raised at board level. The position of human resources within the company did vary significantly according to company type, with listed and outsider companies more likely than unlisted and insider companies to have a centralised human resources function (80.0 percent of listed companies compared with 65.6 percent of unlisted companies and 77.9 percent of outsider companies compared with 64.3 percent of insider companies). This may be a factor of size rather than anything else as listed companies are likely to be larger than unlisted companies. There were no statistically significant differences between public and proprietary companies in this regard but proprietary companies were significantly more likely to have a human resources manager reporting directly to the CEO or managing director (93.1 percent compared with 80.3 percent).

With regard to the matters affecting employees below executive level raised at board level over the past twelve months, the only significant difference was that employee share schemes were likely to have been raised by shareholders with management three or more times in public companies than in proprietary companies (30.4 percent compared with 12.0 percent), in listed rather than unlisted companies (26.3 percent compared with 11.9 percent) and outsider than insider companies (24.7 percent compared with 10.7 percent). The possible reasons for this have been noted in Section 9 of the report.

11.4 The Effect of Directors' Understandings of Their Legal Obligations

One of the tasks for the project was to undertake an examination of the way that directors balanced their responsibilities to stakeholders within the framework provided by the law. In particular, we sought to understand how directors' understanding of the scope of directors' duties affected this balancing. We also sought to understand how directors conceived of their obligation to employees and the extent to which that obligation was framed by the law. In this part of the report, we explore whether there are differences between directors' attitudes according to their understanding of their legal obligations.

We first explore whether directors who indicated, in relation to directors' duties, that they believed that acting in the best interests of the company required them to balance the interests of all stakeholders, had significantly different attitudes to those who indicated that acting in the best interests of company required them to act in the interests of shareholders. We then look at whether those directors who believed that their obligation to employees stemmed from either corporate law or labour law had significantly different attitudes to those who believed that their obligation stemmed primarily from business, social or ethical considerations.

In Question 1 of the survey, directors were asked to indicate what their understanding of the 'best interests of the company' was by choosing one of the possible meanings offered. Two of the possible options which respondents could choose from equated the best interests of the company with either the long or short term interests of shareholders only

(strong shareholder orientation).[33] Another two options also equated the best interests of the company with the long or short term interests of shareholders but provided that the means to achieving these ends was acting in the interests of all stakeholders in the company (mixed shareholder/stakeholder orientation).[34] The final option was that acting in the best interests of the company meant balancing the interests of all stakeholders (stakeholder orientation).[35] As was discussed in Section 6 of the report, this was the response of a majority of directors (55 percent). For this analysis, we have created two groups by combining all the responses that equated the best interests of the company with the long or short term interests of shareholders, either directly or indirectly, to form one group and making another group comprised of those directors who responded that they were required to 'balance the interests of all stakeholders'. We then compared the responses of these two groups in the following areas:

- the priority ranking of stakeholders (Q.2);
- the priorities of directors, including the priorities in the event of a downturn or improvement in the financial performance of the company and the matters of importance to directors (Q. 11, 12, and 13);
- directors' perceptions of the role the law plays in regard to their relationship with employees; and
- the responses to items on the salience scale for shareholders, employees and creditors (Q. 21, 22 and 23).

The following table (Table 43) shows, as would be expected, that directors who equated the best interests of the company with those of shareholders were more likely to accord first priority to shareholders. Those directors who believed that acting in the best interests

[33] These options were: 'I must act in the best interests of the company and this means acting in the short term interests of shareholders only' and 'I must act in the best interests of the company and this means acting in the long term interests of shareholders only'.

[34] These options were: 'I must act in the best interests of the company and this means acting in the best interests of all stakeholders to ensure the short term interests of shareholders' and :'I must act in the best interests of the company and this means acting in the best interests of all stakeholders to ensure the long term interests of shareholders'.

[35] This option was: 'I must act in the best interests of the company and this means balancing the interests of all stakeholders'.

of the company required them to balance the interests of all stakeholders were more likely to prioritise 'the company' with 48.5 percent of those directors ranking the company number one compared with 31.3 percent of more shareholder oriented directors. This result shows that respondents had a consistent understanding of the nature of their responsibilities and the questions yielded comparable results. There were no other significant differences between the groups in the ranking of stakeholders such as employees, creditors or customers.

Table 43: Priority Ranking of Stakeholders

Stakeholder	percent Ranked Number One: Stakeholder Oriented Group (n=195)	percent Ranked Number One: Shareholder Oriented Group (n=155)
Shareholders	33.8	55.5**
The Company	48.5	31.3**
Employees	8.8	4.4
Customers	8.3	8.1
Creditors	0.0	1.3

**Significant at 1 percent level

When we exained at the responses to the question asking directors to indicate their priorities in the event of an improvement or deterioration in the financial position of the company, we found only one significant difference between the groups of directors. Directors who were stakeholder oriented were more likely to prioritise taking the action of suspending or decreasing the dividend to shareholders than were shareholder oriented directors (63.6 percent compared to 51.3 percent of directors who indicated that this would be their first priority). Nevertheless, a majority of shareholder oriented respondents prioritised this action, so it is not possible to read too much into this finding.

Regarding the matters of importance to directors, the only significant difference between the groups was that 'improving productivity' was important to a larger proportion of stakeholder-oriented directors (95 percent) than shareholder oriented directors (89.2 percent, significant at the 5 percent level).

The other area in which we found differences between stakeholder- and shareholder-oriented directors was in relation to their beliefs about the source of their obligation to employees and the role that the law plays in relation to the human resources strategy of the company. We asked directors to identify which of four possible sources was the dominant source of their obligation to employees. Table 44 shows the responses for both stakeholder and shareholder oriented directors.

Table 44: Dominant Source of Obligation to Employees by Director's Orientation

Dominant Source of Obligation to Employees	Stakeholder Oriented Group (n=195)	Shareholder Oriented Group (n=155)
Labour Laws	14.3	17.3
Corporate Law and Directors' Duties	16.3	17.9
Business Imperatives	39.9	47.5
Ethical or Social Values	29.6	17.3**

** significant at 1 percent level

As can be seen, the stakeholder-oriented group was statistically more likely to indicate that the dominant source of obligation to employees was ethical or social values (29.6 percent) than were shareholder-oriented directors (17.3 percent). The dominant source of obligation for both groups was business imperatives (39.9 percent of stakeholder oriented directors and 47.5 percent of shareholder oriented directors).

Looking at the responses to the question about the role of the law in relation to the human resources strategy of the company, as we do in Table 45, we see further significant differences between the groups.

Table 45: Role of Law in Human Resources Strategy by Director's Orientation

Role of Workplace Relations Act (WRA) and other employment laws in HR Strategy	Stakeholder Oriented Group (n=195)	Shareholder Oriented Group (n=155)
WRA acts as a constraint on HR strategy	3.4	4.3
WRA provides the guiding legal framework within which HR strategy developed	18.6	28.0*
WRA provides bare minimum standard for compliance only	33.3	39.1
WRA helps facilitate a best practice approach	44.6	28.6**

* significant at 5 percent level, ** significant at 1 percent level

18.6 percent of the stakeholder-oriented directors group believed the Workplace Relations Act and other employment laws provide the guiding legal framework within which the human resources strategy of the company is developed compared with 28 percent of shareholder-oriented directors. These stakeholder-oriented directors, however, were more likely to believe that the Workplace Relations Act and other employment laws help facilitate a best practice approach to human resources in their company.

We compared the responses of stakeholder- and shareholder-oriented directors to the salience scales for shareholders, employees and creditors but found very few statistically significant differences. This was a surprising result, as we might have expected correlations between shareholder orientation and shareholder salience and between stakeholder orientation and employee salience. There were no significant differences

between the groups in responses to the items on the salience scale for employees. In relation to shareholders, we might have expected some differences, but found only that shareholder-oriented directors were more likely to indicate that ‘satisfying the demands or wishes of shareholders was important to our management team’ (89.7 percent) than were stakeholder-oriented directors (77.7 percent, significant at the 1 percent level). Similarly with the creditors salience scale, the only significant difference was that the mean score for the item ‘creditors’ demands or wishes were viewed as legitimate’ was higher for shareholder-oriented directors than for stakeholder-oriented directors (3.3 percent compared with 3.07 percent, significant at the 5 percent level).

We now compare the responses of directors who indicated that their dominant source of obligation to employees was the law (either labour laws or corporate law)[36] with the responses of directors who indicated that sources other than the law underpinned their obligations to employees.[37] We compared the responses of directors in each group to the following questions:

- the priority ranking of stakeholders (Q.2);
- the priorities of directors, including the priorities in the event of a downturn or improvement in the financial performance of the company and the matters of importance to directors (Q. 11, 12, and 13);
- directors’ perceptions of the role the law plays in regard to their relationship with employees; and
- the responses to items on the salience scale for shareholders, employees and creditors (Q. 21, 22 and 23).

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[36] This group comprises directors whose responses to Q. 14, Which of the following best describes the dominant source of your responsibilities to employees?, were either ‘Labour laws [e.g. Workplace Relations Act and Occupational Health and Safety Laws]’ or ‘Corporate law and directors’ duties [i.e. considering the interests of employees is fundamental to acting in the best interests of the company/shareholders]’.

[37] This group comprises directors whose responses to Q. 14 were either ‘Business imperatives [i.e. my responsibilities to employees derive primarily from their importance to ensuring the success of the business]’ or ‘Ethical or social values [i.e. I have an ethical or social responsibility to ensure the well being of employees of the company]’.

There were no significant differences between the responses in regard to the priority ranking of stakeholders or the priorities of directors in the event of an improvement or decline in the company's financial performance.

There was, however, a difference regarding the matters that were important to directors. Table 46 shows this.

Table 46: Obligations of Directors Compared with Matters of Importance to Directors

Matters of Importance	Obligations derive from Law Group (n=119)	Obligations derive from Business/Ethical/Social Group (n=246)
Dividend Policy	44.4	40.3
Growing the Business	95.9	95.5
Improving Employee Morale	85.7	88.4
Creating More Job Opportunities within Company	44.4	48.1
Improving Productivity	92.6	92.5
Ensuring Customers/Clients are Satisfied	94.2	98.8
Making a Contribution to Society	32.2	31.3
Increasing Share Price	50.9	42.2
Diversifying and Expanding into New Markets	51.7	46.5
Safeguarding Existing Employees Jobs	65.8	66.0
Reducing Costs	87.3	76.9*

Matters of Importance	Obligations derive from Law Group (n=119)	Obligations derive from Business/Ethical/Social Group (n=246)
Ensuring Employees are Fairly Treated	93.2	94.6
Ensuring other Stakeholders are Satisfied	70.9	64.9

* significant at 5 percent level

The table indicates that fewer directors who believed that their obligations to employees stemmed primarily from the ethical, social or business imperatives believed that 'reducing costs' was important (76.9 percent) than did directors who believed that their obligations stemmed from legal sources (87.3 percent).

Other significant differences emerged when we compared the responses of the two groups to the question on the role of law in regard to the human resources strategy of the company. We found (shown in Table 47) that directors who believed that their obligation to employees stemmed primarily from the law were more likely to see the Workplace Relations Act and other laws as facilitating a best practice approach to human resources management, while those who believed that their obligation stemmed from business or ethical considerations were more likely to indicate that the Workplace Relations Act and others laws had little to do with their overall human resources management strategy, providing bare minimum standards for compliance only.

Table 47: Role of the Law Compared with Sources of Obligation

Role of Workplace Relations Act (WRA) and other employment laws in HR Strategy	Obligations derive from Law Group (n=119)	Obligations derive from Business/Ethical/Social Group (n=246)
WRA acts as a constraint on HR strategy	5.0	3.2
WRA provides the guiding legal framework within which HR strategy developed	24.2	22.5
WRA provides bare minimum standard for compliance only	19.2	45.0**
WRA helps facilitate a best practice approach	51.7	29.3**

** significant at 1 percent level

It is clear from this data that directors who believed that their obligations to employees stemmed primarily from the law were more likely to view the law as playing an important role (facilitating a best practice approach) in human resources management than those who believe that their obligations derive from other sources. Where law was not considered to be the main source of obligation, directors were more likely to regard the Workplace Relations Act and other employment laws as providing only a bare minimum standard for compliance only.

Coming now to our analysis of the salience scales for shareholders, employees and creditors, we note first that in relation to the scale for shareholders, there were no significant differences between groups. However, in regard to employees and creditors, there were a number of significant differences. Tables 48 and 49 set out these findings.

Table 48: Salience Scale for Employees

Statement	Obligations derive from Law Group percent Agree (n=119)	Obligations derive from Business/Ethical/Social Group percent Agree (n=246)
Employees had the power to influence management	73.6	81.1
Employees were active in pursuing demands or wishes which they felt were important	66.9	63.9
Actively sought the attention of our management team	68.3	72.6
Urgently communicated their demands or wishes to our company	48.8	45.4
Demands or wishes were viewed by our management team as legitimate	66.9 (mean=3.69)	82.0** (mean=3.90**)
Received a high degree of time and attention from our management team	86.0	86.3
Satisfying the demands or wishes of this stakeholder group was important to our management team	77.7 (mean = 3.89)	92.4** (mean=4.12**)

** significant at 1 percent level

In Table 48, it can be seen that a larger proportion of directors who believed that their obligations to employees were primarily founded in either business imperatives or social or ethical obligations also perceived that the demands of employees were legitimate (82.0 percent compared with 66.9 percent) and that satisfying those demands was important to the management team (92.4 percent compared with 77.7 percent). The difference between

the mean scores for these items was also significant.

Table 49: Salience Scale for Creditors

Statement	Obligations derive from Law Group percent Agree (n=119)	Obligations derive from Business/Ethical/Social Group percent Agree (n=246)
Creditors had the power to influence management	26.7	21.1
Creditors were active in pursuing demands or wishes which they felt were important	23.5 (mean=2.55)	18.3 (mean=2.28*)
Actively sought the attention of our management team	22.5 (mean=2.57)	21.5 (mean=2.32*)
Urgently communicated their demands or wishes to our company	25.0 (mean=2.61)	16.6 (mean=2.22**)
Demands or wishes were viewed by our management team as legitimate	43.3	48.8
Received a high degree of time and attention from our management team	28.3	30.8
Satisfying the demands or wishes of this stakeholder group was important to our management team	54.6	53.9

* significant at 5 percent level, ** significant at 1 percent level

Table 49 shows that, when responses to the creditor salience scale were measured by the percentage of directors who agreed with a particular statement, there were no significant differences between the responses of law oriented directors and those of business or

ethically oriented directors. However, the mean scores were significantly different for the items related to the activity or urgency of claims made by creditors.

12. Conclusion

This report documents the results of a survey of Australian company directors concerning the corporate governance and employment practices of the companies in which the respondents are board members.

One of the major purposes of the survey was to determine whether directors adhere to a 'shareholder primacy' understanding of their responsibilities, as is often believed to be the case with Australian directors. We expected that this understanding would derive from a number of sources, including understandings of legal obligations, institutional frameworks and business imperatives. Our findings in this regard were quite mixed, and it cannot be said that the data confirmed the 'shareholder primacy' view, regardless of how broadly 'shareholder primacy' is defined (ie, whether shareholder primacy is regarded as involving the prioritisation of shareholder interests in the short term or the long term, to the exclusion or detriment of other stakeholders interests). The first of our findings in this regard was that the majority of directors surveyed had what might be termed a 'stakeholder' understanding of their obligations. Just over half of the respondents believed that acting in the best interests of the company meant they are required to balance the interests of all stakeholders. Furthermore, whilst 44 percent of directors perceived shareholders as their number one priority, almost as many (40 percent) regarded the company as their number one priority. However, questions which sought to test the shareholder primacy thesis in a more complex way did provide support for the argument that shareholder interests are prioritised over those of other stakeholders. When shareholder 'salience' (influence and ability to make demands) was measured relative to the salience of other stakeholders, shareholders had a higher level of salience than employees and creditors.

Despite this broad expectation that directors would prioritise the interests of shareholders, based on the existing international literature, we anticipated some variation between respondents based on the characteristics of company they direct. Using Gospel and

Pendelton's model, we expected that directors who came from companies that were closer to the 'market-outsider' model would be more likely to emphasise their primary obligation to shareholders in the short term. However, the data suggested the opposite. The evidence appears to suggest that it is more likely that shareholder interests are given a higher priority by directors in insider-type companies than in outsider companies, measured in terms of shareholder salience. The hypothesis was made difficult to test by the fact that only a small proportion of directors believed they must act to ensure the short-term interests of shareholders. Most directors who upheld a broad 'shareholder primacy' view of their obligations took a long term view of those obligations. Apart from data arising from the shareholder salience measure, there were no significant differences in the responses of directors between insider-type companies and outsider-type companies in relation to the range of questions we asked to test shareholder primacy.

We tested the hypothesis that where directors perceived that their primary responsibility was to shareholders, the interests of employees would receive a lower priority. The evidence on this matter was mixed. Questions regarding directors' understandings of their obligations under the law did not suggest that prioritising shareholders' interests resulted in a diminution or de-prioritising of employees' interests. However, when we tested this issue using the 'salience' scale as a measure of the orientation towards shareholders and cross-tabulated it with other measures, we found significant evidence that employees' interests may receive a lower priority. For instance, those directors in the high range of the shareholder salience scale were more likely to indicate that matters relating to restructuring and retrenchment had been discussed at the board level over the past year than those directors in the lower range of the scale. On the other hand, dividend policy and increased share price ranked relatively poorly as against job security and employee morale in the list of specific corporate agenda items put to directors.

Also on the topic of directors' attitudes towards employees, we hypothesised that where directors adhered to a 'shareholder primacy' understanding of their obligations, they would be less likely to believe the relationship with employees is one of partnership. This expectation was not supported by the data. The data shows that the idea of partnership

has a high level of resonance with respondent directors, 77 percent of whom said that 'the relationship between the company and its employees is best described as one of partnership'. Whilst this may not reflect the adoption of partnerships in practice for all employees engaged by the companies of the respondent directors, that the idea of partnership enjoys such a high level of popularity amongst directors is a significant finding. The view that employees had the same interests as the company dominated respondents' understanding of the nature of the relationship between employees and the company, whether the director believed it was one of partnership or not. Seventy-one percent of those who said there was a partnership with employees believed that the company and its employees were parties with the same interests working in partnership. The data also suggested that where directors believe the company is pursuing partnership relations with employees, this sometimes brings the company into conflict with shareholders over dividend payments: an issue which we would expect to be important to shareholders.

Taken as a whole, the data suggests that the 'shareholder primacy' view of the company has cogency, but it does not flow from this that directors will always pursue shareholders' interests at the expense of other stakeholders. Nevertheless, 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.

Appendix 1: Survey Instrument

THE UNIVERSITY OF
MELBOURNE

Corporate Governance and Workplace Partnerships
Director's Survey

Centre for
Employment
& Labour
Relations Law

CORPORATE GOVERNANCE AND WORKPLACE PARTNERSHIPS

You are invited to participate in important research being conducted by the University of Melbourne. As you would be aware, the obligations a director has toward company stakeholders has recently been the subject of public debate and the focus of two government inquiries. This research will facilitate a greater understanding of the pressures facing company directors as they balance competing interests within the framework provided by the law.

The survey is the first large scale survey of its kind in Australia and is being conducted by Professor Ian Ramsay of the Centre for Corporate Law and Securities Regulation and Associate Professor Richard Mitchell of the Centre for Employment and Labour Relations Law at the University of Melbourne. The survey is part of a larger project which has been funded by the Australian Research Council.

You have been sent this survey form because your name was selected as part of a random sample of directors of Australian companies. You are not required to put your name or the name of your company anywhere on the survey form and all the responses you provide will be completely anonymous. There is a numeric code on the reply paid envelope that we have provided, which will be used only for the purposes of following up on survey forms that are not returned. Completed and returned survey forms will not be identified in any way. All results from the survey will be published as aggregate statistics only.

The survey takes about 20 minutes to complete and most of the questions just require you to tick the most appropriate box. When the survey is complete please return it in the reply paid envelope. Please return the survey form even if you have not been able to answer every question.

If you are a director of more than one company, please only answer the questions in relation to the company to which this survey has been sent.

If you have any questions about the survey, please contact:
Meredith Jones
Research Fellow
Centre for Employment and Labour Relations Law
University of Melbourne
Phone: 8344 1083
Email: m.jones@unimelb.edu.au

The project has been approved by the Human Research Ethics Committee. If you have any concerns about the conduct of this research project, you can contact:

The Executive Officer
Human Research Ethics
The University of Melbourne
Phone: 8344 7507
Fax: 9347 6739

SECTION ONE: YOUR DUTIES AS A DIRECTOR

1. Which of the following best describes your understanding of your primary obligations as a director?
Please tick only one box.

- ☐ I must act in the best interests of the company and this means acting in the **short term** interests of the **shareholders** only.
- ☐ I must act in the best interests of the company and this means acting in the **long term** interests of **shareholders** only.
- ☐ I must act in the best interests of the company and this means acting in the best interests of all **stakeholders** to ensure the **short term** interests of shareholders.
- ☐ I must act in the best interests of the company and this means acting in the best interests of all **stakeholders** to ensure the **long term** interests of shareholders.
- ☐ I must act in the best interests of the company and this means balancing the interests of all **stakeholders.**

2. Please rank the following stakeholders in order of priority to you as company director.
Number the boxes from 1 to 10 with 1 being the highest priority and 10 the lowest.

- ☐ Shareholders
- ☐ The Community
- ☐ The Company
- ☐ Lenders / Creditors
- ☐ The Environment
- ☐ Employees
- ☐ Customers
- ☐ Suppliers
- ☐ The Country
- ☐ Others

SECTION TWO: THE COMPANY'S RELATIONSHIP WITH SHAREHOLDERS

3. Of the board and senior management, who has the most frequent direct dealings with shareholders?
Please tick one box only.

- ☐ The CEO or Managing Director
- ☐ Other board member/s
- ☐ The Chair
- ☐ CFO/other senior management representative

4. Please indicate the frequency with which you believe that person would deal with shareholders.
*Please tick one box only***.**

- ☐ Daily
- ☐ Weekly
- ☐ Fortnightly
- ☐ Monthly
- ☐ Bi-annually or annually, prior to ½ yearly or annual reports/AGM

5. How often have the following issues been discussed between senior management and shareholders over the past 12 months? (Answer to the best of your knowledge and leave blank if you do not know.)
Please circle the number which accurately reflects your position.

1 = never 2 = rarely 3 = sometimes 4 = often

a) Dividend Policy/Payout Ratio	**1**	**2**	**3**	**4**
b) Financial Performance of Company	**1**	**2**	**3**	**4**
c) Social/Environmental Performance of Company	**1**	**2**	**3**	**4**
d) Expenses	**1**	**2**	**3**	**4**
e) Share Price	**1**	**2**	**3**	**4**
f) Proposed Expenditure/Investment	**1**	**2**	**3**	**4**
g) Proposed New Business Strategy (including merger or acquisition)	**1**	**2**	**3**	**4**
h) Corporate Governance concerns (i.e. disclosure, composition of board)	**1**	**2**	**3**	**4**
i) Executive Remuneration (i.e. quantum, options, performance hurdles)	**1**	**2**	**3**	**4**
j) Capital Management Strategy	**1**	**2**	**3**	**4**
k) Human Resource Management Strategy	**1**	**2**	**3**	**4**
l) Other, *please state* ______	**1**	**2**	**3**	**4**

6. In the last twelve months, have there been areas of concern or tension between the company direction and shareholder expectation?

☐ Yes [*If yes, please go to Q.7*] ☐ No [*If no, please go to Q.11*]

7. If yes, please indicate what these areas were:
Please tick as many as are applicable.

☐ Dividend Policy/Payout Ratio
☐ Financial Performance of Company
☐ Social/ Environmental Performance of Company
☐ Expenses
☐ Share Price
☐ Proposed Expenditure/Investment
☐ Proposed New Business Strategy (including merger or acquisition)
☐ Corporate Governance concerns (i.e. disclosure, composition of board etc)
☐ Human Resource Management Strategy
☐ Capital Management Strategy
☐ Executive Remuneration (i.e. quantum, options, performance hurdles)
☐ Other, please state ______

8. If yes, how were these concerns raised by shareholders or institutional investors with management/ the Board?
Please tick as many as are applicable.

- ☐ Via Investor Relations function
- ☐ In private meetings with management
- ☐ At investor briefings
- ☐ Via proxy servers
- ☐ At AGM
- ☐ At EGM
- ☐ Through the media
- ☐ Other, please state____________________

9. Did the raising of these shareholder concerns lead to a change in company policy or direction?

☐ Yes [*Please go to Q.10*] ☐ No [*Please go to Q. 11*]

10. If yes, please briefly state what the issue was and outline the company's response

____
____
____
____

SECTION THREE: YOUR PRIORITIES AS A DIRECTOR

11. What actions would you prioritise in the event of a marked improvement in the financial performance of the company?
Please rank in order of priority from 1-4 with 1 being the highest priority and 4 being the lowest.

- ☐ Increase numbers of employees?
- ☐ Increase executive compensation/bonuses?
- ☐ Increase dividend to shareholders?
- ☐ Increase employees' salaries or bonuses?

12. What actions would you prioritise in the event of a marked downturn in the financial performance of the company?
Please rank in order of priority from 1–4 with 1 being the highest priority and 4 being the lowest.

- ☐ Decrease executive compensation/ bonuses?
- ☐ Decrease employees' salaries or bonuses?
- ☐ Decrease or suspend dividend payments?
- ☐ Retrench staff?

13. How important are the following to you in your role as a director?
Please rate each item of the following list according to the following:

1 = most important 2 = very important 3 = somewhat important 4 = not important

- ☐ Dividend Policy
- ☐ Growing the Business
- ☐ Improving Employee Morale
- ☐ Creating more job opportunities within the company
- ☐ Improving Productivity
- ☐ Ensuring Customers/ Clients are satisfied
- ☐ Making a contribution to society
- ☐ Increasing Share price
- ☐ Diversifying and Expanding into New Markets
- ☐ Safeguarding Existing Employee jobs
- ☐ Reducing Costs
- ☐ Ensuring Employees are treated fairly
- ☐ Ensuring other stakeholders are satisfied
- ☐ Special Dividends

SECTION FOUR: THE COMPANY'S RELATIONSHIP WITH EMPLOYEES

14. Which of the following best describes the *dominant* source of your responsibilities to employees?
Please tick one box only.

- ☐ Labour laws [e.g., Workplace Relations Act and Occupational Health and Safety laws]
- ☐ Corporations law and directors duties [i.e., considering the interests of employees are fundamental to acting in the best interests of company/shareholders]
- ☐ Business imperatives [i.e., my responsibilities to employees derive primarily from their importance to ensuring the success of the business]
- ☐ Ethical or social values [i.e., I have an ethical or social responsibility to ensure the well being of employees of the company]

15. Please indicate which of the following best describes the role the law plays in the determination of your company's HR strategy.
Please tick one box only.

- ☐ The Workplace Relations Act and other employment laws operate as a constraint on our human resources strategy.
- ☐ The Workplace Relations Act and other employment laws provide the guiding legal framework within which our human resources strategy is developed.
- ☐ The Workplace Relations Act and other employment laws provide the bare minimum standards for compliance only and have little to do with our overall human resources strategy.
- ☐ Using the Workplace Relations Act and other employment laws to determine human resources policies and strategies helps facilitate a best practice approach in our company.

16. Which of the following statements best describes your understanding of the law on directors' duties?
Please tick one box only

☐ The law regarding directors' duties makes it clear that I must be only concerned with shareholders' interests when making decisions.

☐ The law regarding directors' duties is broad enough to allow me to take into account the interests of stakeholders other than shareholders when making decisions.

17. Does the company have a centralised human resource management function?

☐ Yes ☐ No

18. If yes, does the Human Resources Manager report directly to the CEO or Managing Director?

☐ Yes ☐ No

19. Thinking about the last twelve months, please indicate how often each of the following human resource management issues in relation to *employees below executive level* have been considered by the board?
Please circle the number which accurately reflects your position.

1 = never 2 = one or two times 3 = three or four times 4 = five or more

a) Remuneration	1	2	3	4
b) Productivity	1	2	3	4
c) Performance management	1	2	3	4
d) Industrial disputes	1	2	3	4
e) Enterprise bargaining	1	2	3	4
f) Restructuring or retrenchments	1	2	3	4
g) Employee share schemes	1	2	3	4
h) Work organisation or systems (i.e. quality systems, production processes, etc)	1	2	3	4
i) Training	1	2	3	4
j) Occupational Health and Safety	1	2	3	4
k) Other, *please state* ________	1	2	3	4

20. Would you say that the relationship between the company and its employees is best described as being one of partnership?

☐ YES *[Please go to Q.20A]* ☐ NO *[Please go to Q. 20B]*

20A. If you answered YES to the previous question, please indicate which of the following statements best describes your understanding of that partnership.
Please tick one box only

- ☐ The Company and its employees are parties with **separate** interests working in partnership toward common goals.
- ☐ The Company and its employees are parties with the **same** interests working in partnership toward common goals.

20B. If you answered NO to the previous question, please indicate which of the following statements best describes your understanding of the relationship between the company and its employees.
Please tick one box only.

- ☐ The Company and its employees are parties with same interests, with employees working under direction to further company goals.
- ☐ The Company and its employees are parties with separate and sometimes conflicting interests.
- ☐ The Company and its employees cannot be conceived of separately. Employees are part of the company.

SECTION FIVE: THE INFLUENCE OF KEY STAKEHOLDERS

21. Thinking about the relationship between the Company and its shareholders over the past year, please indicate the extent to which you agree or disagree with the following statements. If your company has a large number of shareholders, your response need not be true of every shareholder. It is sufficient if it is only true of a particular shareholder or group of shareholders.
Please circle the number which accurately reflects your position.

1 = Strongly agree 2 = Agree 3 = Unsure 4 = Disagree 5 = Strongly disagree

a) Shareholders had the power to influence management	**1**	**2**	**3**	**4**	**5**
b) Shareholders were active in pursuing demands or wishes which they felt were important..	**1**	**2**	**3**	**4**	**5**
c) Shareholders actively sought the attention of our management team	**1**	**2**	**3**	**4**	**5**
d) Shareholders urgently communicated their demands or wishes to our company	**1**	**2**	**3**	**4**	**5**
e) Shareholders demands or wishes were viewed by our management team as legitimate.	**1**	**2**	**3**	**4**	**5**
f) Shareholders received a high degree of time and attention from our management team	**1**	**2**	**3**	**4**	**5**
g) Satisfying the demands or wishes of shareholders was important to our management team	**1**	**2**	**3**	**4**	**5**

22. Thinking about the relationship between the company and its employees or their representatives over the past year, please indicate the extent to which you agree or disagree with the following statements. If your company has a large number of employees or deals with a number of trade unions, your answer need not be true of every employee or union. It is sufficient if it is true of a small group of employees or a particular union.

Please circle the number which accurately reflects your position.

1 = Strongly agree 2 = Agree 3 = Unsure 4 = Disagree 5 = Strongly disagree

a) Employees had the power to influence management	**1**	**2**	**3**	**4**	**5**
b) Employees were active in pursuing demands or wishes which they felt were important.	**1**	**2**	**3**	**4**	**5**
c) Employees actively sought the attention of our management team.....	**1**	**2**	**3**	**4**	**5**
d) Employees urgently communicated their demands or wishes to our company...	**1**	**2**	**3**	**4**	**5**
e) The demands or wishes of employees were viewed by our management team as legitimate..	**1**	**2**	**3**	**4**	**5**
f) Employees received a high degree of time and attention from our management team...	**1**	**2**	**3**	**4**	**5**
g) Satisfying the demands or wishes of employees was important to our management team..	**1**	**2**	**3**	**4**	**5**

23. Thinking about the relationship between the company and its creditors over the past year, please indicate the extent to which you agree or disagree with the following statements. Your answer need only relate to major creditors or the company's creditors as a whole.

Please circle the number which accurately reflects your position.

1 = Strongly agree 2 = Agree 3 = Unsure 4 = Disagree 5 = Strongly disagree

a) Creditors had the power to influence management..............................	**1**	**2**	**3**	**4**	**5**
b) Creditors were active in pursuing demands or desires which they felt were important...	**1**	**2**	**3**	**4**	**5**
c) Creditors actively sought the attention of our management team........	**1**	**2**	**3**	**4**	**5**
d) Creditors urgently communicated their demands or wishes to our company...	**1**	**2**	**3**	**4**	**5**
e) The demands or wishes of creditors were viewed by our management team as legitimate..	**1**	**2**	**3**	**4**	**5**
f) Creditors received a high degree of time and attention from our management team...	**1**	**2**	**3**	**4**	**5**
g) Satisfying the demands or wishes of creditors was important to our management team..	**1**	**2**	**3**	**4**	**5**

SECTION SIX: ABOUT YOU

The following questions are to assist us with analysing the results of the survey.

24. Are you an independent director? [Definition: not a substantial shareholder or directly associated with such; not employed in executive capacity in last three years; not a material consultant/ professional advisor; not a material supplier; no material contractual relationship; not served on board for period which could interfere with independence; and free from other interests or relationships which could interfere with ability to act in best interests of the company]

☐ Yes ☐ No

25. Are you:

☐ Executive ☐ Non executive

SECTION SEVEN: ABOUT THE COMPANY

26. What type of company is it?

☐ Proprietary Company ☐ Public Company

27. Is it listed on any of the following stock exchanges?

☐ Australian Stock Exchange
☐ Other Australian Exchange
☐ Other International Exchange

28. Does your company produce an annual report disclosing its social and environmental performance?

☐ Yes ☐ No

29. What was the annual turnover of the company in the last year?

☐ less than $20M, ☐ $20M – less than $50M ☐ $50M – less than $100M ☐ $100M or more

30. What proportion of shares does your largest shareholder hold?

☐ less than 5% ☐ 5% – 30% ☐ 31% – 50% ☐ 51% or more

31. Is the largest shareholder represented on the board?

☐ Yes ☐ No

32. Are any other shareholders represented on the board?

☐ Yes ☐ No

33. What proportion of shares is held by institutional investors such as insurance companies, banks, superannuation funds, and investment companies?

☐ less than 10% ☐ 11% – 30% ☐ 31% – 50% ☐ 51% or more

34. What proportion of shares is held by retail investors?

☐ less than 10% ☐ 11% – 30% ☐ 31% – 50% ☐ 51% or more

35. What proportion of shares is held by directors/ management and staff?

☐ less than 5% ☐ 5% – 30% ☐ 31% – 50% ☐ 51% or more

36. Please indicate the level of foreign ownership of the Company

☐ 0 ☐ less than 10% ☐ 11% – 30% ☐ 31% – 50% ☐ 51% or more

37 Is the company's head office based in Australia?

☐ Yes ☐ No

38. How many directors are there on the board of the company?

____

39. How many directors are executive?

____

40. How many are non-executive?

____

41. How many are independent directors? (according to definition provided in Question 24 above)

____

42. How many employees does the company have in Australia?

☐ Less than 50 ☐ 51 – 100
☐ 101 – 250 ☐ 251 – 1000
☐ More than 1000

43. In the past year, has the number of employees:

☐ Increased ☐ Decreased ☐ Stayed about the same

44. Approximately what percentage of Australian employees are represented by a trade union?

_____________ %

45. What are the main mechanisms used by the company for determining the terms and conditions of employment for its employees?

Mechanism	% of Employees Covered
Enterprise Agreements (with union)..	____________________
Enterprise Agreements (directly with groups of employees)	____________________
Common Law Individual Contracts (not AWAs)...	____________________
Australian Workplace Agreements..	____________________
Award only..	____________________
Other	____________________

46. Does the company have an employee representative on the Board?

☐ Yes ☐ No

47. What is the dominant source of finance for the firm?

☐ Retained earnings
☐ Venture capital
☐ New share issues
☐ Credit
☐ Cash from operations
☐ Other, please state ____

48. What is the Company's debt to equity ratio?

_____________ %

49. Are the Company's debt finance arrangements predominantly:

☐ short term ☐ medium term ☐ long term

50. Are any creditors/financiers represented on the board?

☐ Yes ☐ No

51. Which of the following best describes the industry in which the company operates?

- ☐ Agriculture, Forestry and Fishing
- ☐ Mining
- ☐ Manufacturing
- ☐ Electricity, Gas and Water Supply
- ☐ Construction
- ☐ Wholesale Trade
- ☐ Retail Trade
- ☐ Accommodation, Cafes and Restaurants
- ☐ Transport and Storage
- ☐ Communication Services
- ☐ Finance and Insurance
- ☐ Property and Business Services
- ☐ Education
- ☐ Health and Community Services
- ☐ Cultural and Recreational Services
- ☐ Personal and Other Services

52. Is there anything else you would like to say about any of the issues raised by this survey?

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Thank you for taking the time to complete this survey.
Please return it immediately in the reply paid envelope provided.