Directors balance stakeholder interest

A new study has found that Australian directors prioritise shareholders only slightly above employees, distinguishing them from their US counterparts.

The study was conducted by University of Melbourne corporate and employment law experts and analyses the way that directors balance the competing and sometimes conflicting interests of stakeholder groups, such as employees, creditors and shareholders.

It reveals that a majority of directors (55 per cent) believe that acting in the best interests of the company means they are required to balance the interests of all stakeholders. Very few directors equate the best interests of the company with the short-term interests of shareholders (0.3 per cent).

Meredith Jones, the primary researcher on the survey, says the study provides new evidence that Australian directors have different priorities to those of their US counterparts.

"US studies, for example, show that around eight out of 10 directors rank shareholders ahead of all other stakeholders, including employees. The Melbourne University study shows that only four out of 10 Australian directors rank shareholders first. In contrast, in Japan studies have shown employees to be ranked highly over other stakeholder groups," she says.

The study was led by Professor Ian Ramsay, from the Centre for Corporate Law and Securities Regulation, and Professor Richard Mitchell, from the Centre for Employment and Labour Relations Law.

Professor Ramsay notes: "The survey reveals that there may be less need to change the law of directors' duties to require directors to take into account the interests of defined groups of stakeholders other than shareholders in light of evidence that most directors are already balancing the interests of a range of stakeholders. The survey shows that an overwhelming majority of directors (94.5 per cent) believe that the law concerning directors' duties is broad enough to allow them to consider the interests of stakeholders other than shareholders."

The survey also shows that ensuring customers are satisfied, growing the business and seeing that employees are fairly treated are the matters rated as important by the largest proportion of directors. Overall, less than half (45 per cent) of the directors surveyed believe that increasing the share price is important to them, although the proportion of directors of listed companies holding this view is considerably higher (60.4 per cent).

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