Super Funds
November, 2007
Page: 4
General News
Region: National Circulation: 3200
Type: Magazines Business
Size: 147.19 sq.cms
Monthly

Directors balance competing interests

Australian directors prioritise shareholders only slightly over their employees, which ultimately distinguishes them from their US counterparts, according to a recent study into how company directors rank employees, shareholders and other stakeholders.

Conducted by University of Melbourne corporate law experts, the study involved the first in-depth survey of directors from a diverse range of Australian companies, including rarely studied small companies.

The report reveals 55% of directors believe acting in the best interests of the company means they are required to balance the interests of all stakeholders. It also found very few directors equate the best interests of the company with the short-term interests of shareholders.

According to the survey's primary researcher Meredith Jones, the study provides new evidence Australian directors have different priorities from 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," she notes.

"In contrast, in Japan studies have shown employees to be ranked highly over other stakeholder groups."

The survey findings may have significant policy implications.

According to Centre for Corporate Law and Securities Regulation Professor Ian Ramsay, the survey reveals there may be less need to change the laws relating to directors' duties to require directors to take into account the interests of defined groups of stakeholders other than shareholders. This is in light of evidence most directors are already balancing the interests of a range of stakeholders.

"The survey shows that an overwhelming majority of directors (94.5%) believe that the law concerning directors' duties is broad enough to allow them to consider the interests of stakeholders other than shareholders," he says.

The survey also indicates issues such as ensuring customers are satisfied, growing the business and ensuring employees are fairly treated, are all rated as important by the largest proportion of directors.

Overall, less than half the directors surveyed feel increasing the share price is important to them, although the proportion among directors of listed companies holding this view is considerably higher (60.4%), the report notes.