Directors show sense of balance

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Only four out of 10 Australian directors rank shareholders first, suggesting it might not be necessary to widen directors' duties to ensure they consider groups other than shareholders.

The results contrast with the US, where studies show that eight out of 10 directors rank shareholders ahead of all other stakeholders, including employees.

Two federal government inquiries triggered by the James Hardie asbestos compensation scandal are considering whether reforms to widen the scope of directors' duties are necessary.

But the co-author of the Melbourne University study of 375 directors, Ian Ramsay, said the results showed directors were successfully juggling competing interests.

"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," he said.

"The survey shows that an overwhelming majority of directors [94.5 per cent] believe the law concerning directors' duties is broad enough to allow them to consider the interests of stakeholders other than shareholders." But while the interests of employees, customers and other stakeholders are being considered, tensions with shareholders remain high.

A quarter of directors reveal there have been disputes between the company and its shareholders over the past year, most commonly over the financial performance of the company.

Korn/Ferry International yesterday also released a survey of directors at 350 sharemarket-listed companies that suggested directors were more accountable than before.

"External pressures from the media and shareholders as well as internal pressures are creating more work than ever for directors," Korn/Ferry partner Robert Webster said. "They are tending to be on less boards because it takes up more time. That is also making it harder to recruit top-draw potential directors."
But the survey reveals directors are being better compensated for their work, with the fees paid to a chairman at major companies reaching $700,000, after having broken the $500,000 barrier in the

past few years.

Non-executive directors are earning fees in excess of $200,000, according to the report.

The managing director of governance adviser Regnan, Erik Mather, said it was reassuring that directors were giving due consideration to employees.

"The view that stakeholder interests are mutually exclusive has been firmly knocked on the head," he said.
"But when companies have dialogues with their owners, they should disclose how they exercise governance over stakeholder interests. Companies which have mismanaged interests can potentially wipe millions of dollars from shareholder value."

Australian Shareholders Association chairman Ian Curry agreed: "It is in the interests of all stakeholders that directors understand that having balance between stakeholders can be to the overall benefit of all groups."

The Australian Institute of Company Directors' chief executive, Ralph Evans, said: "Rather than looking at stakeholders in isolation, the survey shows directors are juggling their diverse interests very effectively."