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SHARE DEVILS

Executives with majority stakes are expected to align interests with shareholders. But it doesn't always work that way. Report: John Stensholt

* Combined wealth
** Since May 2007 float
^ Since December 2007 float
Source: Company reports, Aspect Huntley, Bloomberg, BRW

So disappointed was he with the performance of his company last financial year, Tamawood managing director Lev Mizikovsky asked the board to cancel his $150,000 salary. As a 77 per cent shareholder, Mizikovsky took most of the pain associated with the Queensland property developer's share-price fall last year as well.

Like many on the *BRW Executive Rich* list, Mizikovsky has a majority stake in his company. And there is a long-held belief that a manager with a large amount of shares – or "skin in the game" – is beneficial for other shareholders too.

After all, both an executive and investor will want the value of their shares to increase. "The conventional wisdom is they will act in your interest as well as theirs," fund manager, Roger Montgomery, says.

The managing director of dental services firm 1300 Smiles, Daryl Holmes, strives for this too. "As a shareholder and an executive I think it's a good thing [that I own a large amount of shares] because I am always going to do what is in the best interests of the company, which is the ultimate alignment of interests. Plus I pay myself a modest wage and practise as a dentist as well."

The flipside of this argument is that executives can become too powerful and run the company into trouble, destroying shareholder value for both themselves and shareholders.

For example, last year, nine Babcock & Brown employees made the Executive Rich – this year there are none. Babcock executives also paid themselves high salaries. Holmes says he would rather take a low salary and derive most of his income from share dividends.

Then there is the question of independence. Plumbing supplies company Reece Australia has four Wilson family members on its board of six, including executive chairman Alan Wilson (the family owns about two-thirds of Reece's shares).

Yet while Australian Securities Exchange guidelines say that boards should comprise a majority of independent directors, Reece's management argues that its good track record is grounds for not complying.

The company's 2008 annual report states: "An internal process of evaluation was undertaken of the performance of the board and its committees. This review provided satisfaction to the board that it is effective and appropriate to the company's circumstances." It is hard to argue with this when Reece keeps outperforming the rest of the market.

But the performance of executives with 50 per cent or more shares is mixed (see diagram). If the share price is rising, complaints are unlikely, but it becomes a bigger issue if the company is not performing well and the shareholders cannot take action because they are in the minority.

"What happens if their shareholding is so big that they can't be removed if they are not performing?" asks Montgomery. "Eddy Groves had a lot of shares in ABC Learning Centres and that was no good in the end." BRW