Responsible investment in the UK is fighting the wrong battles

By Emmet McNamee. The online version of this article is available here.

The UK recently released its *Modernising Corporate Reporting* consultation. On the grounds of reducing reporting burden and administrative costs for companies, it has proposed reducing obligations for companies to provide details on their impacts on stakeholders listed under section 172 of the Companies Act, as well as the ratio of CEO pay to the median employee. It would scrap annual Say on Pay votes. It also enables companies to hold virtual-only AGMs, subject to shareholder approval.

The consultation (and other recent corporate governance rollbacks in the UK) touches on two big questions, important for investors and broader society.

The first issue is the future of corporate accountability. By removing mandatory shareholder votes and the requirement to hold in-person meetings, the consultation appears to be removing avenues by which shareholders and others can challenge management decisions, and has not proposed replacing them with anything. In theory this could make it harder to hold companies accountable for negative impacts.

The second issue is stagnant living standards and inequality. Many of the disclosures that will be removed relate to how corporate profits are shared among workers and other stakeholders. The UK is one of the most unequal countries in Europe, a factor which may be contributing to political instability and weak economic growth.[1] In theory, removal of these disclosures could make it more difficult to understand the role the corporate sector is playing with respect to inequality.

On paper I would be a textbook opponent to the proposed changes. My first direct role in ESG was issuing shareholder voting recommendations on Say on Pay votes for one of the two major proxy advisors. I went on to lead UK policy engagement efforts at the Principles for Responsible Investment, and then was its head of Active Ownership 2.0, PRI's advanced systemic stewardship framework. I was also fairly obsessed with corporate and investor accountability, believing this was an area where we needed to do more work.

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[1] Some may already object to this on the grounds that the US has seen strong growth despite higher inequality. Many have argued about US vs Europe approaches to inequality and growth in recent months, and I'm not going to wade into that here. Suffice it to say for now that the US has many unique characteristics that may make it better able to sustain growth and inequality simultaneously that the UK may not be able to replicate, and in any case it does not follow from this that the US or any other country could not grow by/while tackling inequality. Lower life expectancy, a higher homicide rate, and weak worker protections may also be trade-offs that come with the US' growth package. A more palatable goal may be that set by a Resolution Foundation report in 2022: "Comparing the UK, not to the world's most productive or equal countries, but to a group of five comparable nations – Australia, Canada, France, Germany and the Netherlands – the report illustrates the scale of Britain's challenges, but also catch-up potential. If the UK had the average income and inequality levels of these countries, typical household incomes in Britain would be a third higher – equivalent to £8,800 per household – and those of the poorest households 40 per cent greater."

Yet the proposed changes don't stir outrage or dismay in me. They make me hopeful that we have an opportunity to finally move beyond a theory of change that has delivered next to nothing.

This essay is in 5 parts:

1. **An analysis of how the introduction of the disclosures have affected outcomes.**
2. **A look at stewardship in the UK, and whether cultural and structural barriers are hurting accountability.**
3. **Popular solutions to the challenges of accountability and inequality in the UK, and their shortcomings**
4. **Tools that could give employees greater power within companies, and how that could affect outcomes**
5. **How investors' approach to policy engagement often locks in bad outcomes, and why now there's an opportunity to do things differently.**

Have outcomes improved?

Let's look at three areas where disclosures have been introduced and outcomes can be easily quantified: executive pay, pay ratios, and the gender pay gap (which is not on the chopping block under the current consultation, but is subject to a similar theory of change[2] and touches on similar issues of inequality and fairness).

Executive Pay

Below is the evolution of average FTSE 100 CEO pay over the past 50 years or so, adjusted for inflation, up to 2022.[3] The High Pay Centre's 2026 report tracks more recent pay, which shows pay is now close to its 2016 peak once more.[4]

[2] This theory of change is that encouraging companies to disclose this information will make it pertinent and will enable stakeholders including investors to scrutinise it. That scrutiny will result in the underlying practices improving.
[3] Data prior to the creation of the FTSE 100 in 1984 covers comparable groups.
[4] The High Pay Centre report does not adjust for inflation, so the report states that CEO pay is at record levels for the past 4 years.

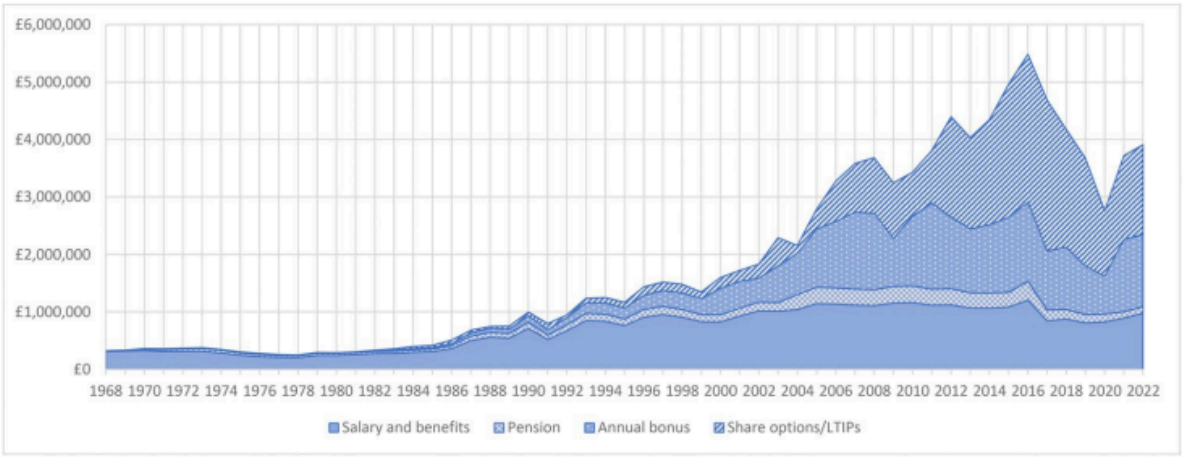


Figure 1. UK large company CEO pay 1968–2022 (inflation adjusted to 2022 rates).

Source: Pepper (2024), CEO pay in the United Kingdom, 1968-2022

Annual advisory votes took effect from 2003; binding triennial votes on remuneration policy took effect from 2014. The advisory votes seem to have caused an explosion rather than contraction in CEO wages; the binding votes may have contributed to a temporary pullback which has since rebounded (COVID-19 also played a role, likely a larger one).

If investors' (or policymakers') intent was to reduce or restrain executive pay via shareholder votes, the policy clearly would have been an abject failure. However, this was never an explicit priority of either group; rather, the stated intention of these votes was to incentivise executives to deliver value for shareholders, and put an end to unmerited high pay awards. In other words, pay-for-performance.

On this front, investors might point to a variety of successes - most executive plans now have short- and long-term incentive plans with a variety of metrics tied to performance targets and clawback provisions. Executives are also subject to minimum shareholding requirements.

I would like to point out two problems with the idea that Say on Pay has delivered pay-for-performance.[5]

The **first** is what all of this "incentivisation" has cost. The explosion in CEO pay quantum is directly attributable to Say on Pay. Incentive plans and share grants were on top of rather than replacing existing compensation. CEOs demanded higher gross pay to account for the added risk, complexity and delayed payouts. Public disclosure of pay plans led to CEO pay being benchmarked against peers, leading to a neverending cycle of the below median CEOs' pay being increased to catch up with their higher paid peers (whose pay would then fall below the median).

These increases vastly outpace the performance these executives have delivered (see chart below). Thus it feels inaccurate, or missing the forest for the trees, to claim that what Say on

[5] A third problem is that many metrics are gameable, and/or pay out substantial amounts for mediocre performance. But I want to focus on the two more fundamental problems.

Pay has achieved is “pay-for-performance” - rather, they’ve increased pay’s sensitivity to performance, which isn’t quite the same thing. The worst-performing CEOs today receive a lot more than the top performers in 2004. If you were pissed off in 2004 about executives receiving awards beyond what their performance justified, you should be even angrier today.

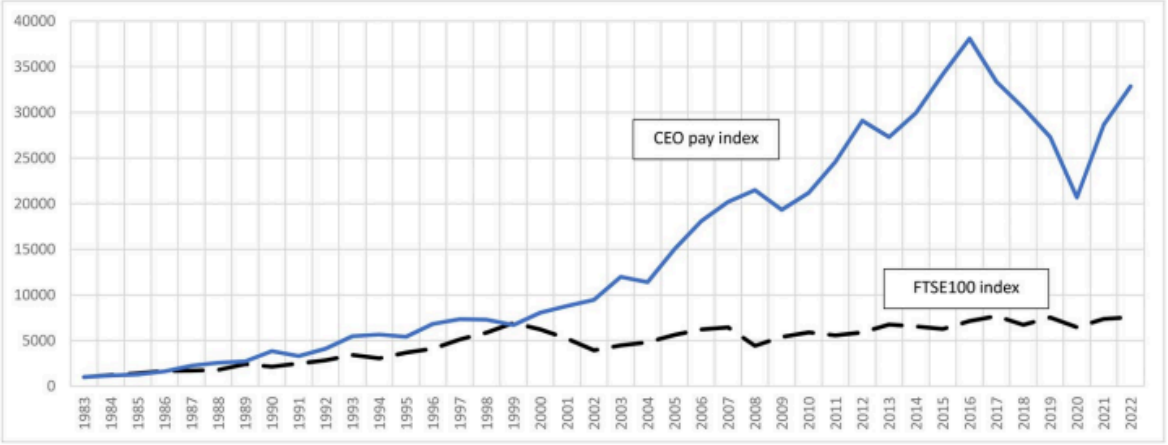


Figure 5. FTSE 100 index vs. CEO pay index, 1984–2022.

Source: Pepper (2024), CEO pay in the United Kingdom, 1968-2022

Then there’s the indirect costs. These votes have swelled the ranks and demanded the resources of an industry of compensation consultants, proxy advisors and investors’ governance staff. The rising quantum has also further exacerbated inequality, stoked public rage and demotivated employees.

The **second** problem with this story is that it’s not even clear that all of this was necessary or effective in actually incentivising CEOs. A recent survey by Edmans, Gosling and Jenter found that both investors and boards believe a CEO’s intrinsic motivation to do a good job and their personal reputation are much more important drivers for their efforts than their pay packages. Many of the motivating aspects of modern CEO pay packages (such as getting paid more than peers) would only be missed because of Say on Pay in the first place. And the FTSE 100 index has not seen dramatic performance improvements since Say on Pay was introduced.

Given the number of metrics and targets a CEO is subject to under these plans at any given moment (from an example chosen at random, I counted at least 23 metrics or targets which the CEO is currently subject to[6]), it’s hard to say how effective they can be at motivating

[6] At the time of writing, Smiths Group plc was the most recent FTSE 100 company to publish their annual report. CEO Roland Carter’s annual bonus plan contains 7 named metrics, one of which is “strategic objectives”. The named objectives are “energy reduction targets, innovation priorities and [a] strategic separation programme”; let’s conservatively count this as 3 metrics, meaning the annual bonus is rewarding performance against 9 measures. There is a long-term incentive plan granted in 2026 which contains 4 performance metrics. The 2024 and 2025 LTIP plans are also still active, containing 5 performance metrics. Of course, several of the metrics across plans are the same, but they cover different performance periods. Does anyone really think the CEO is weighing these 23 factors when he makes decisions (on top of other factors outside of his pay plan)? Isn’t the whole point of paying a CEO well that they have superior judgment and instincts, and so trying to minutely proscribe decision-making in this way is counterproductive?

behaviour. On the other hand, some have also found incentive plans increase risks of illegality and crowd out prosocial behaviour. It is then no wonder that investors like NBIM have called for simpler plans. That, coupled with stronger monitoring by boards and investors, could have achieved superior results without all the headaches and ££££.

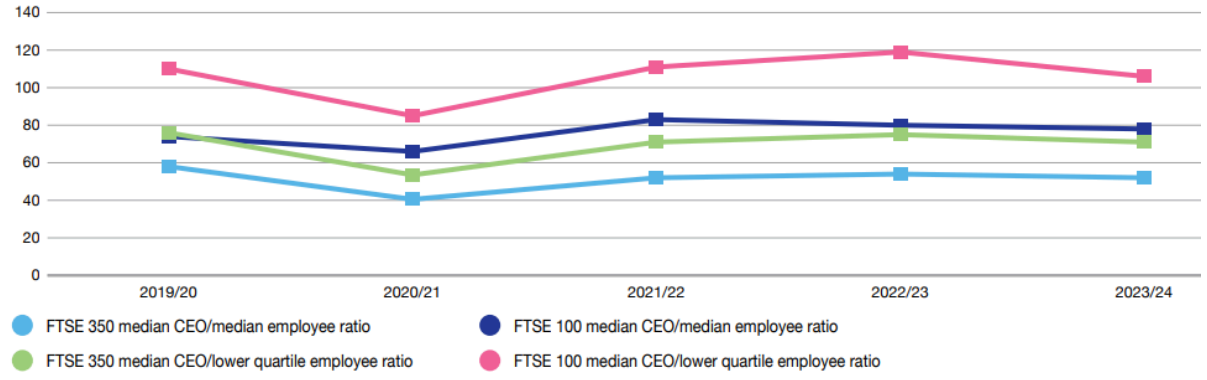
Say on Pay has had the most time of the measures discussed here to achieve its stated goals, and shareholders have been granted extensive rights to shape outcomes in their desired direction. The results have not been exemplary.

Pay Ratios

For all of the attention and ink spilled over executive compensation (to which I have reluctantly just added), it can be a bit of a distraction. From a public interest angle, executive compensation is a rough proxy invoked in conversations and commiserations over inequality, and who shares in the benefits of wealth that was collectively created.[7] In recognition of that, the UK government introduced a requirement in 2018 for companies to report against the ratio of CEO pay to a company's median employee (and employees at the 25th and 75th percentiles).

Fortunately, compared with Say on Pay, there is less ambiguity about the goal of ratios: bring them down. While pay ratios dropped substantially in 2020, this was a COVID-19 blip, reversed the following year; ratios stayed largely flat through 2024. Not captured in the below graph is early data from 2025, which suggests ratios are rising and may reach record levels: the median FTSE 100 CEO to lower quartile employee ratio was 127:1; the median employee ratio was 95:1.

Figure 1: Historic pay ratios – CEO pay as a multiple of UK employee pay (full-time equivalent basis)



Source: High Pay Centre (2025), Five Years of pay ratio disclosures

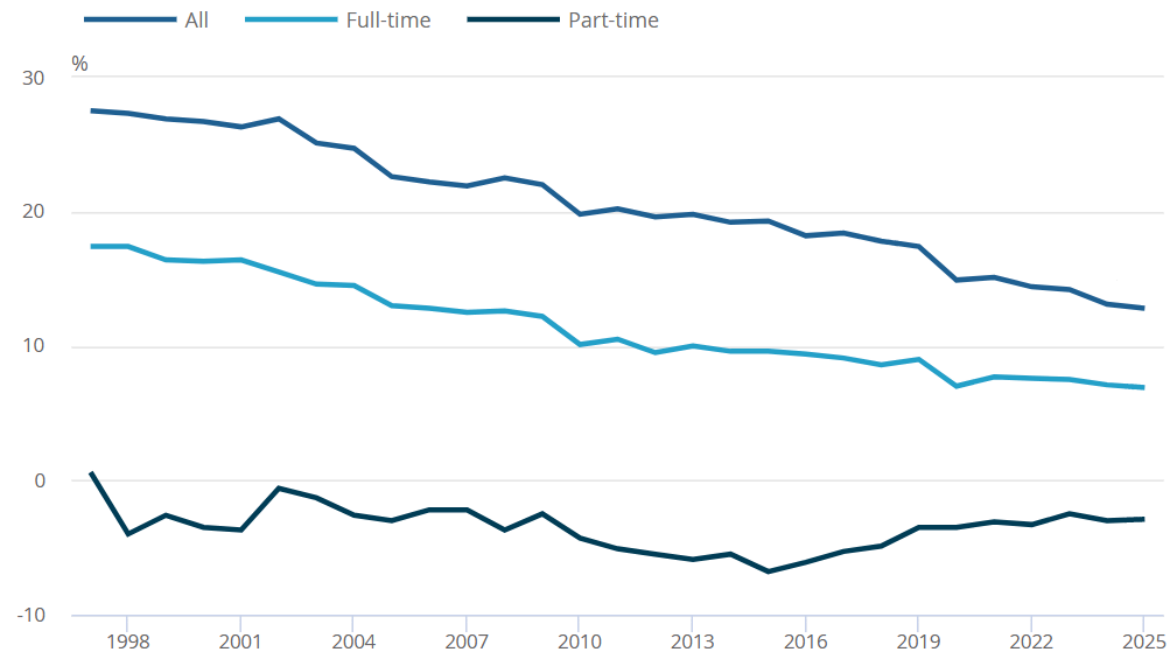
[7] Though that being said, I was taken aback by this High Pay Centre finding: "Capping the pay of CEOs of the 112 UK companies in the sample that are not accredited living wage employers at 10 times that of their median employee would have saved about £267m on CEO pay in 2023/24. This would be enough to raise the pay of nearly 87,000 minimum wage workers to the level of the real living wage."

Gender Pay Gap

Gender Pay Gap reporting commenced in 2018 for companies with over 250 employees. Again, its stated aim was clear: the gender pay gap was closing too slowly, and the government wanted to accelerate progress.

The evidence here is mixed. Below is ONS tracking of the gender pay gap for the past 30 years.

Gender pay gap for median gross hourly earnings (excluding overtime), UK, April 1997 to April 2025



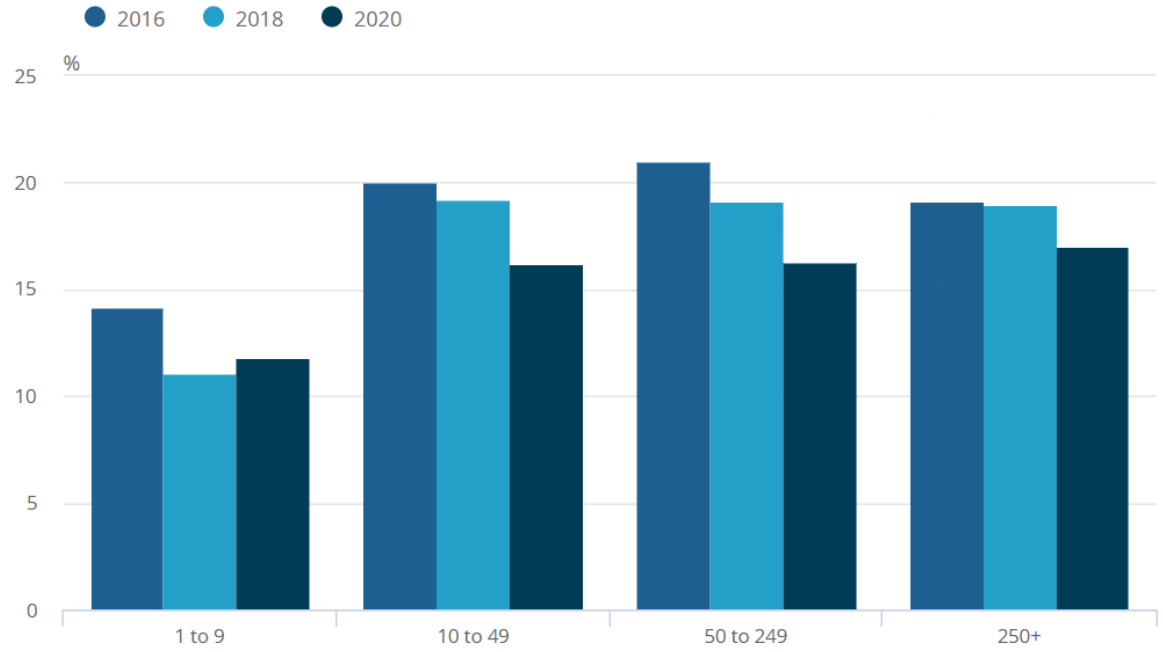
Source: Annual Survey of Hours and Earnings (ASHE) from the Office for National Statistics

There appears to be a substantial drop occurring in 2020, with the gap falling from 17.4% to 14.9%. It could be tempting to ascribe that to the impact of COVID-19 and furloughs, but according to the ONS, "furloughing had a small impact on the gender pay gap, and the majority of the reduction in the gap is because of underlying changes in pay."[8]

Attributing this fall to the influence of GPG reporting, though, seems even more unlikely. As you can see from the below chart, companies which were subject to reporting requirements (250+ employees) actually saw *less* reduction in their pay gap than those who weren't.

[8] There appears to be disagreement about the extent to which the lasting fall in the GPG visible in the chart is accurate. There is a discontinuity in the ONS data in 2021. A 2026 study commissioned by the government concluded: "We find little evidence of a reduction of the GPG in recent years. Over the last 10 years the GPG has remained broadly stable. It declined slightly between 2009 and 2016 and then levelled off thereafter." Nonetheless, it claimed "Mandatory GPG reporting . . . promotes transparency and accountability."

Gender pay gap for median gross hourly earnings (excluding overtime) by size of company (number of employees) that employees work for, UK, April 2016, 2018 and 2020, all employees



Source: Office for National Statistics – Annual Survey of Hours and Earnings (ASHE)

The study with the most positive evidence of GPG reporting efficacy found that it narrowed the gap at firms just over the 250-employee threshold by 19% in the 2 years after reporting was introduced. This was achieved by reducing men's pay growth rather than improving women's pay. Given the size of companies where this effect was observed, the improvement may have been driven by internal forces triggered by revelation of the gap, rather than external pressure.[9] Indeed, FTSE 100 companies - which are subject to greater public scrutiny as well as investor stewardship - have a larger GPG than the UK's average (15% vs 12.8% in 2025).

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Perhaps more worrying than the fact that these approaches have not delivered against their stated goals, is a failure to learn from their shortcomings. The unconvincing evidence on the impact of gender pay gap reporting has not deterred the proposed introduction of ethnic pay gap reporting. And then there was the campaign to introduce annual "Say on Climate" votes, without seemingly any sense of irony of the failures of the Say on Pay votes the concept was based upon.[10] This habit of defending or even extending measures which have failed to deliver results or accountability is endemic.

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[9] The authors suggest public scrutiny was a causal mechanism; however that is difficult to square with the weaker progress at public companies subject to much greater scrutiny. The early period of GPG reporting also coincided with the peak of the #MeToo movement, which could have increased attention to GPGs and efforts to close them.

[10] That said, its failure to catch on is at least partly due to enough investors and other groups updating their thinking on what works.

Of course, a simple analysis such as this does not account for many nuances - for example, could outcomes without these disclosures have been even worse? More importantly, are these even appropriate measures against which to measure progress? They all gesture at the underlying systemic issue of inequality, though they are mostly crude proxies.[11]

To varying degrees for each of these measures, part of the reason for the poor outcomes has been a weak or unclear theory of change underpinning them. Successive governments have focused on the easy work of surfacing inequalities through disclosure, rather than considering what are the drivers and who has the incentives and power to change them.[12]

Another lesson from this though is that when it comes to tackling the challenges of inequality and corporate accountability, investors may not be a very reliable partner.

Is accountability being delivered?

The *Modernising Corporate Reporting* consultation proposes allowing virtual-only AGMs, subject to shareholder approval. Investors and related groups have been highly critical of the trend towards online-only AGMs since COVID-19. ShareAction has been one of the most outspoken, claiming it would be a "massive setback for corporate accountability", and putting out a 13-page policy statement on "Defending and Strengthening the AGM as a forum for corporate accountability". The word "accountability" appears in the document 18 times.

Yet what accountability is actually being defended here? ShareAction cites evidence that virtual-only AGMs constrain shareholder voice by "1. Ignoring submitted shareholder questions; 2. Preventing shareholders from presenting questions in their own words; 3. Restricting questions only to proposal-related topics; 4. Reporting only pass/fail voting outcomes instead of exact vote tallies."

These shortcomings may relate to accountability in a hyper-literal sense.[13] But the kind of corporate accountability we need in the UK is not the ability to put hard-hitting questions to executives and directors in front of other shareholders (the majority of whom are absent and/or have already cast their votes), and watch directors provide canned PR-prepared responses. The accountability we lack is the ability to drive changes in corporate behaviour

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[11] For example, higher pay ratios might be desirable if it's because a company has outsourced fewer functions, extending employment protections and mobility opportunities to a wider range of workers. Larger gender pay gaps could be a product of subtle discrimination within a firm, or it could reflect uneven take up of generous flexible working arrangements by men and women.

[12] I will leave it to others to opine on which of these disclosures should be retained. Some disclosures obviously play a supporting role in enabling change (indeed, some of this essay would be impossible without them).

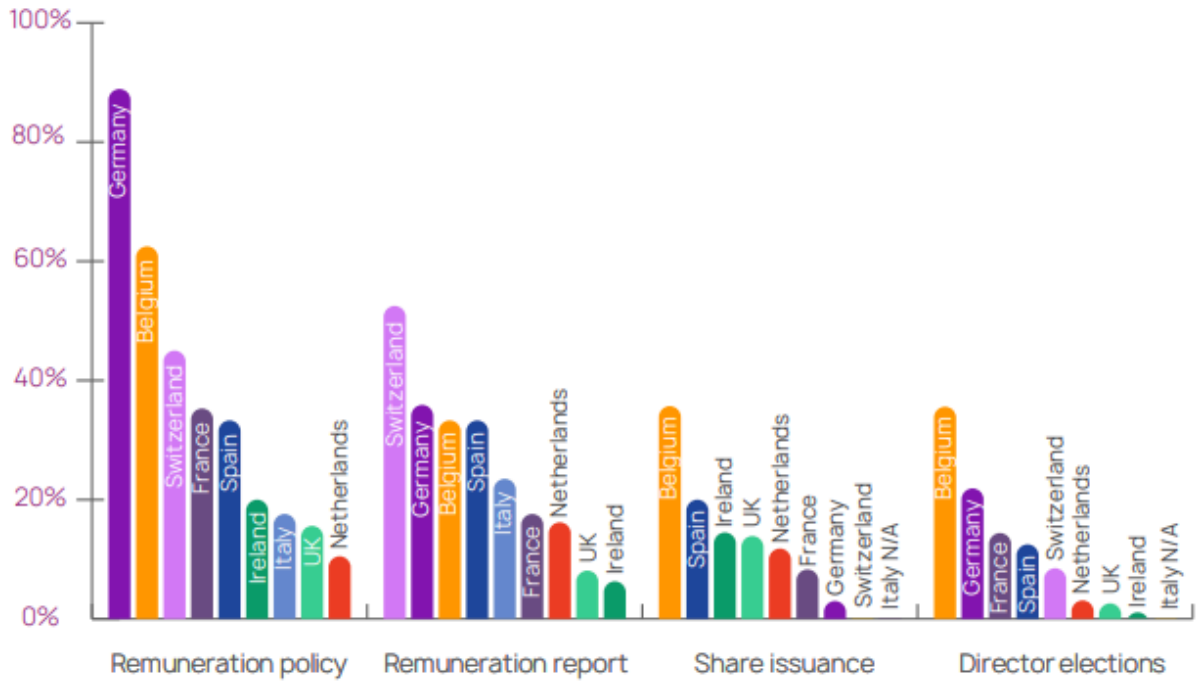
[13] Merriam-Webster defines accountability as "an obligation or willingness to accept responsibility or to account for one's actions". Nuanced approaches to accountability differ between ''soft' accountability (transparency and answerability) and 'hard' accountability (facing consequences, sanctions, remediation).

in response to well-publicised behaviour which negatively impacts stakeholders and exacerbates systemic risks. In this, physical AGMs have played no discernible role.[14]

Another irony of the proposal to permit virtual-only AGMs is that companies would need to obtain shareholder approval to have them. What, then, is there to fear? Can shareholders not be relied upon to vote in line with their own long-term interests, and to support accountability?

Well, no. In fact, much of what goes for accountability in a stewardship context is highly counterintuitive. Those who work in the industry are perhaps so used to it that they no longer question it. But taking a step back, it's unclear why we accept the logic of this system as we find it.

A 20% vote against an AGM proposal is generally considered "significant" and meriting a company response, per the UK Corporate Governance Code. But why should this be? If a public election or referendum saw 60%+ support, it would be considered a landslide. Internationally, there are all sorts of elements that distort shareholder voting tallies: a large shareholding from a founding family in much of Europe, dual-class structures in the US, or uninformed retail investors who might blindly support management. None of these are significant in the UK. Here, shareholder vote outcomes should reflect the preferences of theoretically long-term institutional investors.



*Above: Proportion of 2026 AGM proposals seeing at least **10%** opposition. Source: Georgeson, [2026 European AGM Season Review](#).*

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[14] By the way, I'm not seeking to take a pot-shot at ShareAction here, who do leading work on accountability throughout the investment chain, and given their tactics and broader goals it's understandable why they would defend physical AGMs. They've also previously proposed more significant reforms to AGMs that go unmentioned in that policy paper but which could actually make in-person AGMs worth defending, if they were implemented. More on that later.

Shareholder opposition to AGM proposals in the UK is extremely low. This would suggest a high degree of shareholder satisfaction with outcomes at UK publicly listed companies, despite the findings set out in the preceding section.[15] Director reelection defeats are almost unheard of.[16] Even major scandals such as BP's Deepwater Horizon oil spill or the awful factories supplying Boohoo in Leicester did not see any directors lose their jobs.[17]

"Against" votes are too often treated as a precious, scarce resource that can only be used when all other efforts have failed, rather than an honest verdict on the substance of a proposal. Investors look for all sorts of reasons to justify supporting inadequate proposals (or opposing desirable shareholder proposals): progress is insufficient but has exhibited a positive direction of travel; it's better to vote against advisory proposals for a year or two rather than going straight for a director; let's engage first so management understands our view.[18] Escalation is step-by-step, it unfolds over multiple years, and skipping steps is discouraged. Such an approach betrays a lack of urgency, despite the high-stakes rhetoric the responsible investment industry is fond of deploying. It stems from a culture of timidity in responsible investment, and a lack of accountability throughout an investment chain which manages other people's money.

Corporate governance theory tells us that voting outcomes aren't the only way of ensuring corporate accountability, however. According to the theory of the market for corporate control, boards and management are also held accountable by the potential for activist investors intervening if a company seems undervalued or shareholders are dissatisfied. These activists may shake up the board and/or use their influence to realign the company with a vision for value creation that investors share.[19]

The trouble here is that this approach only really works for changes that can deliver near-term share price gains at an individual company. Activists' asks normally revolve around cutting R&D budgets, spinning off assets, and returning more money to shareholders. Their playbook is a decidedly poor match for systemic issues like inequality which require long-term action across entire sectors.[20] Thus the most proven avenue for accountability by investors is actually tilted against long-term sustainable outcomes.

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[15] Noting that on occasion companies will withdraw proposals rather than risk their defeat by a shareholder vote, slightly depressing these numbers.
[16] According to Georgeson data from the past 5 AGMs, only 2 companies have seen a director receive less than 50% of the vote, and both occasions (Petropavlovsk in 2021 and EWIT in 2026) were caused by a dispute between management and a large blockholder shareholder seeking control, not opposition from institutional investors.
[17] BP's CEO did step down, though that does not seem attributable to shareholder pressure in particular.
[18] I'm aware that some investors fear damaging their relationship with management if they vote against proposals. Yet this becomes a self-fulfilling prophecy which traps them. Engagement with companies which is collaborative and constructive (rather than adversarial) is perfectly compatible with an approach to voting which focuses on substance and accountability.
[19] See, for example, Gilson and Gordon (2013), *The Agency Costs of Agency Capitalism: Activist Investors and the Revaluation of Governance Rights*.
[20] I hardly need to remind readers of the lack of outcomes delivered by the only climate-focused proxy battle to date.

To summarise the state of corporate accountability to investors today, then: some of the main tools relied upon today are either ineffective (in-person AGMs), underutilised (voting), or skewed against a long-term perspective (activist investors).

For an illustration of all of these dynamics at once, take a look at developments at BP over the last two years. Elliott Investment Management - which is a highly (short-term) outcomes-driven activist investor - achieved many of its key goals with a minority stake, which included accelerating BP's abandonment of its sustainability commitments. Responsible investors' stewardship was by contrast much more process-driven, and as Tom Powdrill points out in his write-up, ended up being largely orthogonal to the ultimate outcome.[21] At the 2026 AGM, BP's chair pursued a number of "anti-accountability" measures - including virtual-only AGMs and refusing to put a shareholder proposal to a vote - and yet while problematic individual proposals were voted down, the chair's apparent disconnect from shareholder preferences did not even generate a significant vote against his reappointment. It fell to the board to police itself, ousting its chair due to governance concerns just weeks later.

Partial solutions

So, all of the foregoing suggests that even prior to this consultation and recent governance rollback, there was a significant governance and accountability gap, and investor stewardship was not addressing the systemic issue of economic inequality. Whether the consultation's proposed measures are implemented or not, neither of these issues are likely to improve. So what should be done?

There are a few answers that some people may default to, which I'd like to address first.

Shareholder empowerment

Stewardship and responsible investment are often premised on the idea that greater shareholder empowerment will lead to better outcomes. It may be tempting to conclude that far from rolling back governance requirements, many of the UK's challenges result from insufficient shareholder rights which should be enhanced instead.

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[21] And isn't this true of so much of stewardship - it ends up being a showy distraction? It reminds me of a common criticism of the sport of quidditch in *Harry Potter*, which here in the obscurity of the footnotes I'm only too delighted to explain. In quidditch, there are three chasers who can score 10 points every time they throw a ball through a hoop, guarded by a keeper. The majority of the game's action revolves around this. Yet all the while, there is one player on each team - a seeker - who is looking for a separate tiny ball called the snitch. Catching the snitch earns the seeker's team 150 points, and ends the game. The criticism made of quidditch is that the presence of the snitch mostly renders the rest of the game irrelevant - the team who catches the snitch will almost always win. This is how it can feel watching stewardship - it's the flashier side of the game, focusing the crowd's attention on bold public statements and vote tallies. Yet it too often doesn't affect the outcome of the match.

The issues identified with the current state of stewardship in the previous section show some of the flaws with this thinking. The failure to keep down CEO pay or remove directors who've exhibited poor oversight is not due to a lack of shareholder rights.

A recent paper from Tom Powdrill with The Predistribution Initiative covers some of the same challenges and solutions as this piece. It points to structural ways in which investors' firm-level monitoring incentives have changed, and thus why further shareholder empowerment is unlikely to deliver optimal firm governance:

- For many investors, the companies they invest in is a consequence of index construction rather than a researched firm-specific investment case.
- Large index managers do not hold the economic interest in their underlying holdings, and do not benefit from performance improvements.

I would also add that, from a UK perspective, the recent backlash against ESG has revealed how outcomes in the UK can be unduly and worryingly influenced by political currents in the US. Pressure from US politicians - often based on shaky legal grounds - has seen many large US managers pull back from holding investee companies accountable, and is likely to worsen the weak stewardship approaches detailed in the previous section.[22]

Investors will thus also be poorly placed to deliver positive outcomes on inequality. What fair pay looks like in an organisation, across seniority levels and genders, will vary significantly depending on company-specific contexts, requiring significant firm-level monitoring. It would necessitate extensive disclosure of a range of workforce-related data, a significant number of investors prioritising the issue, analysing the data and participating in prolonged engagements with companies across sectors in the UK, and those companies agreeing to address shareholder concerns.[23]

ShareAction has been testing the water on investors' appetite to support a living wage at UK companies with a number of targeted shareholder proposals in recent years. The three they submitted in 2025 saw over two-thirds of shareholders reject them.[24]

An earlier ShareAction proposal at Sainsbury's generated a lot of debate, and was ultimately rejected by 83% of shareholders. A key motivation for those opposing the proposal was that Sainsbury's faced a first-mover problem: no other UK supermarkets were accredited by the

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[22] For more on this, I recommend Benjamin Braun's 2022 paper *Exit, Control, and Politics: Structural Power and Corporate Governance under Asset Manager Capitalism*.

[23] 50% of the FTSE 100 are accredited living wage employers, and according to ShareAction, "Investor engagement has played a key role in reaching this milestone." It is unclear whether this is the case; a 2024 CIPD survey found a similar proportion (45%) of companies with 250+ employees who responded were also accredited, and "External pressures (e.g. investors, media, client/customers, etc)" was the second lowest reason given for accreditation, by 10% of respondents. Yet even if investor pressure has been instrumental at raising the baseline for low-wage employees - a positive outcome - they may still not be well-placed to advocate for fairer pay throughout the wage distribution.

[24] Of course, this was classified by many as a win, a rebellion, a revolt. From a campaigning point of view ShareAction should indeed be credited for moving this issue up investors' agenda. But claiming victory is again revealing of our low expectations when it comes to stewardship. Reminds me of this poem.

Living Wage Foundation, and if Sainsbury's was the only one to do so then it would risk being less competitive than its peers. Investor stewardship may thus keep us in a low-wage trap: if worker power is too weak to push for higher wages, investors will not step in to support pay increases unless it rises in all peer companies simultaneously.

All this being said, clearly there are many investors in the UK who have a strong long-term orientation, who engage in outcomes-focused stewardship and have a theory of change for how their actions connect with systemic risks like inequality. Such investors are often strong advocates for "good governance" as a way to hold companies accountable and drive progress. Yet they overlook that they are in fact a minority of shareholders in most companies; interventions that empower them also empower short-term or short-sighted investors. It would potentially be beneficial for UK corporate governance if leading investors had a greater input on board composition, perhaps adopting a version of the shareholder-led nomination committees common in Nordic countries. This could help reduce the unaccountable, self-perpetuating nature of many UK boards, ensuring that major underperformance is not a prerequisite for strategic changes becoming plausible.

Yet this can, at most, be a small part of a package for delivering greater accountability at UK companies. Shareholder empowerment has a poor record of improving outcomes in the UK; we should not place all our eggs in this basket.

Public benefit corporations and stakeholder capitalism

Concerns about stakeholder outcomes in recent years have led to a renewed interest in corporate purpose, stakeholder capitalism and alternate corporate forms. Yet in the most commonly discussed versions of this, unfortunately, there is little hope of salvation.

In 2019, the US Business Roundtable put out a statement signed by 181 CEOs on the purpose of a corporation, claiming they were moving away from shareholder primacy and setting out how they were intending to deliver for other stakeholders. While nice-sounding, signatories had actually been more likely to violate environmental and labour laws than peers, and signing did not lead to any significant governance changes at any of the companies to give force to the commitments.

Some other US commentators advocate for companies converting to the legal form of a public benefit corporation, to put a commitment to stakeholder capitalism on a firmer footing. Yet PBCs simply give companies greater permission to consider other stakeholders; it introduces no accountability or incentives to actually do so, which is the whole ball game. Allbirds was a sneaker company that IPO'd in 2021 as a public benefit corporation, advertising "sustainability in every step". Less than 5 years later, it had pivoted to become an AI company and sought to drop its green commitments.

In any case, the UK is already a leader when it comes to toothless gesturing at stakeholder capitalism; section 172 of the Companies Act requires directors to "have regard to" a range of other stakeholders while making clear that their responsibility is to shareholders. The consultation proposes cutting back on companies' obligation to report on this.

Conventional policy tools

For the issues touched on in the *Modernising Corporate Reporting* consultation and those analysed in an earlier section - pay ratios, the gender pay gap, how a company has regard to other stakeholders - optimal outcomes will vary on a firm-by-firm basis. Policy may play a role in setting a floor and shaping the overall environment - e.g. minimum wages, employment rights, elimination of zero-hour contracts - but these are unlikely to have a major effect on inequality overall. More prescriptive interventions - such as setting upper limits for pay ratios or pay gaps - could introduce a lot of inefficiencies. After all, these figures are only imperfect proxies for the outcomes society really cares about: are workers being treated fairly? Are they adequately sharing in the gains they've helped create?

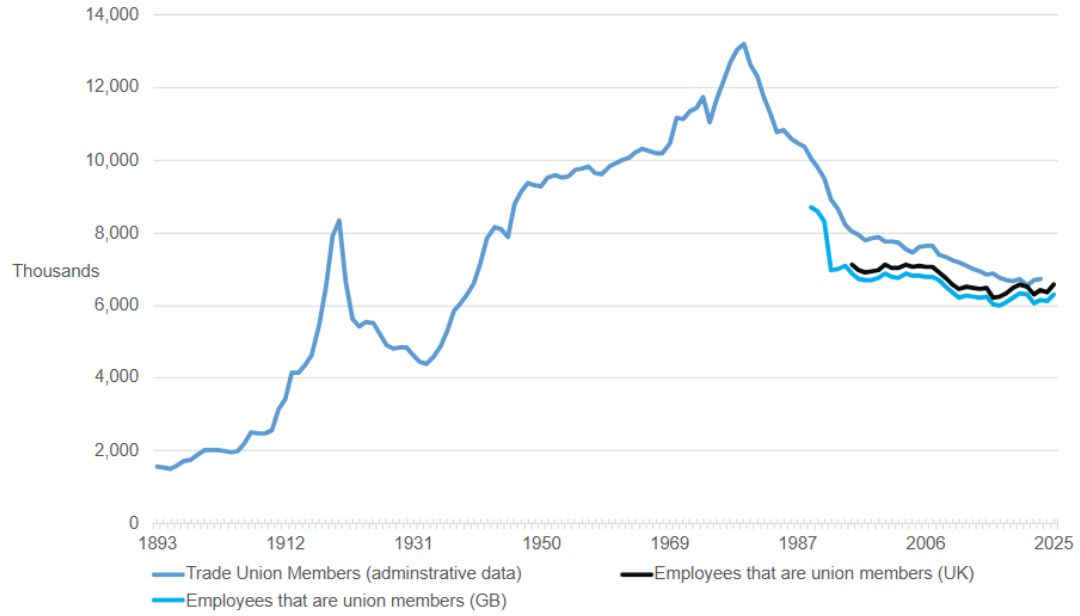
What fair outcomes look like will vary on a company-by-company basis. To achieve them, employees need stronger bargaining power.[25]

Trade unions

Unions have historically been the way employees have achieved improved wages and conditions. They enable workers to pool their bargaining power together to achieve collective outcomes. Sectoral bargaining also overcomes the first-mover problem discussed above.

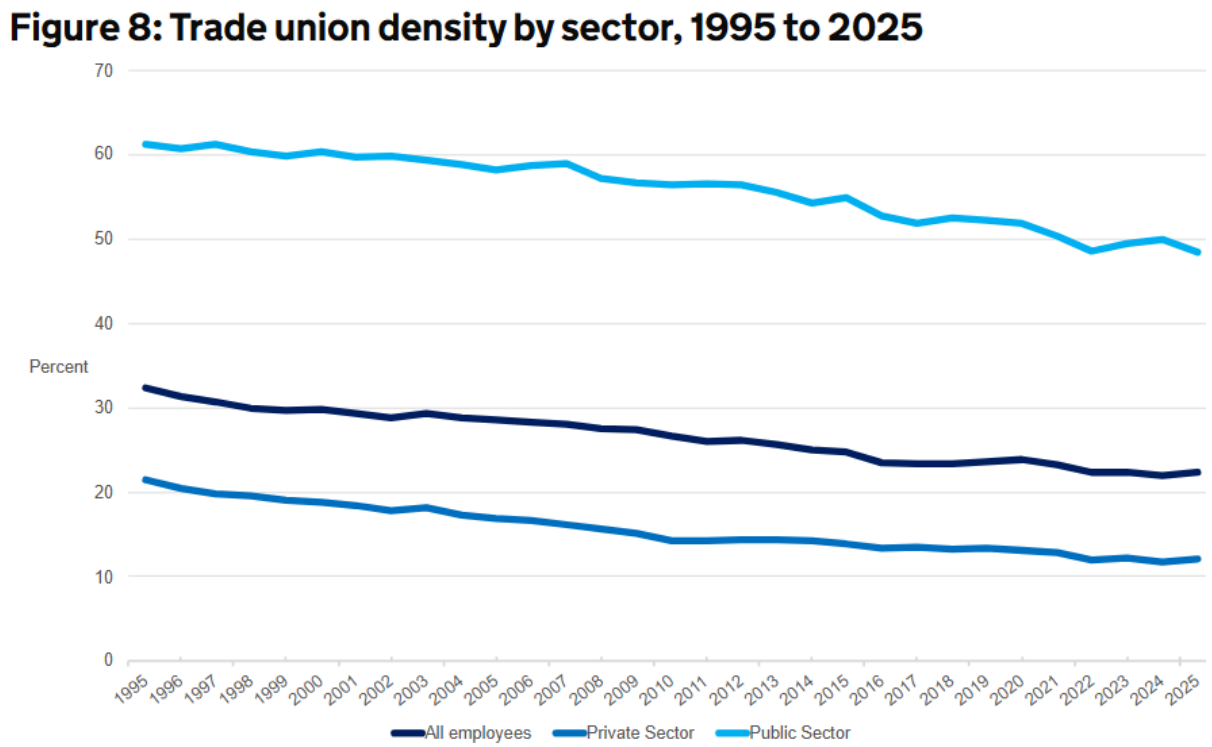
The trouble is that trade union membership in the UK is the lowest it has been in almost a century. The decline is proportionally largest in the private sector.

Figure 1: trade union membership levels among employees in the UK and Great Britain, 1892 to 2025



[25] And as things stand, employees' bargaining power looks set to weaken further with the threat of AI-induced unemployment hanging over them.

Source: Trade union membership, UK, 1995 to 2025: statistical bulletin



Source: Trade union membership, UK, 1995 to 2025: statistical bulletin

This is a product of many factors, including structural changes to the economy, though an aggressively anti-union stance by Margaret Thatcher's government over the 1980s explains the steepest decline in the above graph.

The UK's Employment Rights Act 2025 included a number of measures designed to make it easier for trade unions to recruit members, such as requiring employers to share a government-approved message with workers setting out their right to join a union. These are beneficial, but also feel like a drop in the bucket considering the steep decline in union membership over the past four decades.

With respect to inequality, this is probably the most relevant of all the interventions that have been mentioned so far. Yet restoring private sector workers to anything close to historical levels of union representation will be a potentially decades-long process. Nearer-term solutions are needed.

Summary of likely effects of solutions

Intervention	Likely effects on accountability	Likely effects on inequality
Extending (long-term) shareholder rights	Partial improvement	None
Public benefit corporations	None	None
Minimum wages and individual employee rights	None	Partial improvement
Encouraging trade union membership	Partial improvement over long-term	Improvement over long-term

Giving employees (significantly) more power

Investors have tended to be sceptical of empowered employees, and in particular the idea of workers on boards. It goes against dominant ideas of what "good governance" should look like. The thinking goes that employees have their own set of interests that are not always going to be aligned with shareholders'; give them enough power to influence corporate decision-making, and the result will be sub-optimal outcomes. Even those investors who have demonstrated support for the idea of workers on boards have been clear that such workers must be a small minority of board seats; worker directors' role is to better inform a shareholder-governed board.

So I will be clear up front that what I am proposing goes beyond that, to (eventually) making employees a countervailing source of power in firm governance and decision-making. There are a variety of forms this could take and I will not recommend any in particular, beyond saying that a wide range of options should be on the table, including working towards a model where a sizable number of directors are employee-nominated.

I understand that for some investor readers, you may now be shaking your head dismissively. "Sure," you think, "investor stewardship has its problems, and something more than a disclosure-based regime is necessary. But firm-level decision-making should be a combination of management knowledge and shareholder input." Please, suspend your disbelief, and read with as open a mind as you can!

Powdrill and The Predistribution Initiative's recent paper helpfully outlines why investors need to reconsider their opposition to employee governance, especially in light of how corporate ownership and practices have changed in recent decades:

- Workers have a single-firm focus, and so are more incentivised to ensure the financial success of any given company compared with investors who are highly diversified
- Shareholders' governance rights are partially based on the notion that shareholders are the last to be paid after all other stakeholder obligations have been met. In reality, companies often prioritise retaining a steady dividend and returning cash to shareholders over delivering wage increases or avoiding redundancies.
- Workers have an informational advantage; they are able to evaluate whether management claims match the reality on the ground.
- Workers face higher barriers to exit. Governance theory would suggest that "voice" rights should be granted for the parties most likely to remain involved with the business; instead in the UK it's reserved for the party most likely to leave.

This last point is particularly important from an accountability point of view. Even when an investor does everything right - adopts a long-term perspective, enters into informed engagement with investee companies - they might rationally decide to exit a company rather than seek to turn it around. This is for example what occurred at Carillion - leaving workers and other shareholders holding the bag.

What is the evidence for how a more empowered employee base might affect outcomes?

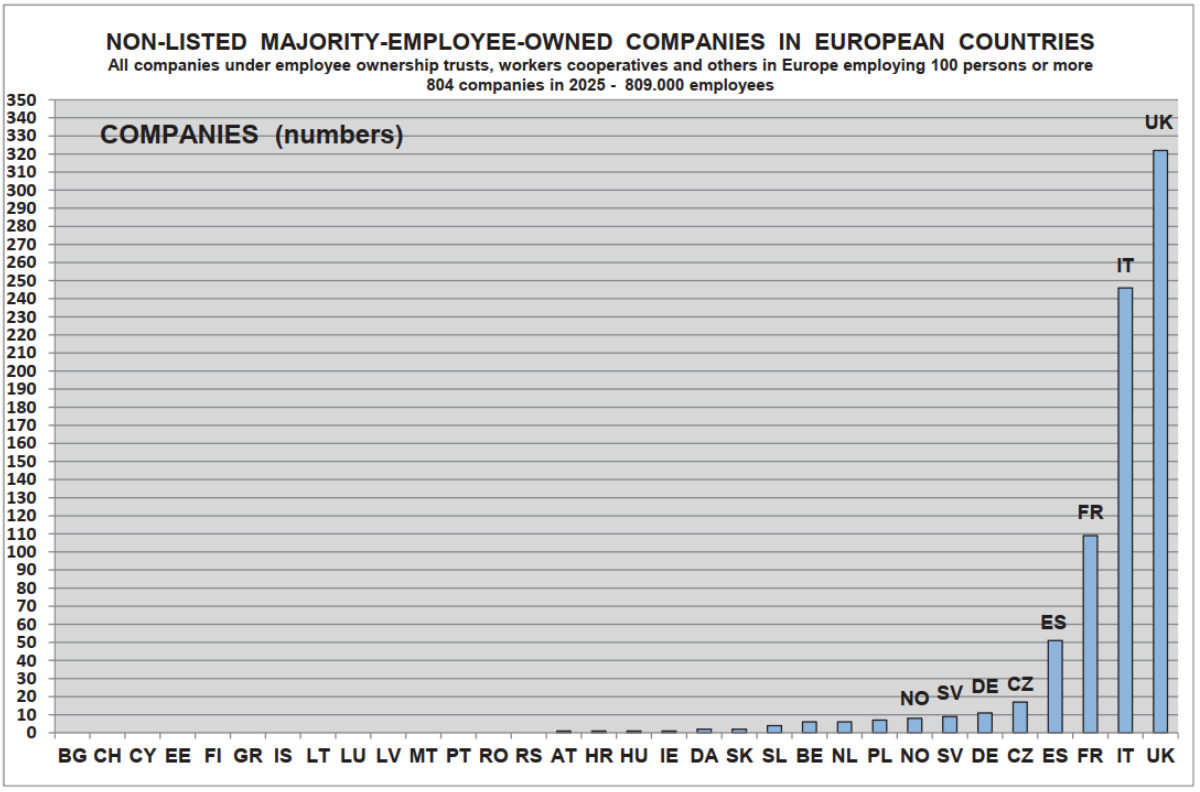
The answer is "it depends". Workers on boards is one of the most studied phenomena; a recent literature review found "codetermination has zero or very small positive effects on worker and firm outcomes". More studies with similar findings are summarised in the footnotes.[26] The limitation of virtually all of these studies is that workers on boards are usually one feature of a policy architecture and economic environment which are already more favourable to workers than the UK. The literature review thus concluded: "Several important labor market institutions—sectoral collective bargaining, widespread union representation, and extensive regulation—may already capture most of the low-hanging fruit when it comes to affecting worker outcomes, leaving little room for German and Nordic codetermination to make an impact. If this explanation is correct, then codetermination may have larger impacts (either positive or negative) if implemented in contexts like the United States, where these institutions are less powerful."

Regarding workers' councils, most of the evidence comes from Germany. One review: "Most empirical studies find a positive effect of works councils on establishment productivity in Germany . . . with the majority of estimates between 12 and 25 percent." On wages, "Works council firms pay higher wages than firms without a works council . . . between 5 per cent and 22.5 percent". Some studies find that these benefits are dependent on the presence of collective bargaining. Perhaps most interestingly, regarding profitability, it notes that studies

[26] Other studies: A 2022 paper: While some of the studies still point to the negative consequences of BLWR [board-level worker representation] for the firm's value, an increasing number of studies point to non-negative effects of BLWR for the employees and the company as a whole. A French study found a positive impact on job quality, with no evidence of adverse effects on firm performance. A Finnish study found "worker voice raised labor productivity. . . no effects on voluntary job separations, and at most small positive effects on other measures of job quality. However, we find evidence for reductions in involuntary separations during the recessionary context." In Norway there were no significant effects on firm performance; there was a wage premium but the authors claimed this was not caused by representation.

which find a negative impact on profitability generally rely on managers' *s*ubjective evaluations, while those relying on *objective* measurements find a *positive* impact.[27]

Employee ownership is an area that has seen massive success in the UK over the past decade. The number of businesses converting to majority employee ownership has been doubling roughly every 1.7 years (though this growth has declined significantly since tax changes last year), and the UK now has the most mid-sized companies which are majority employee-owned in Europe.

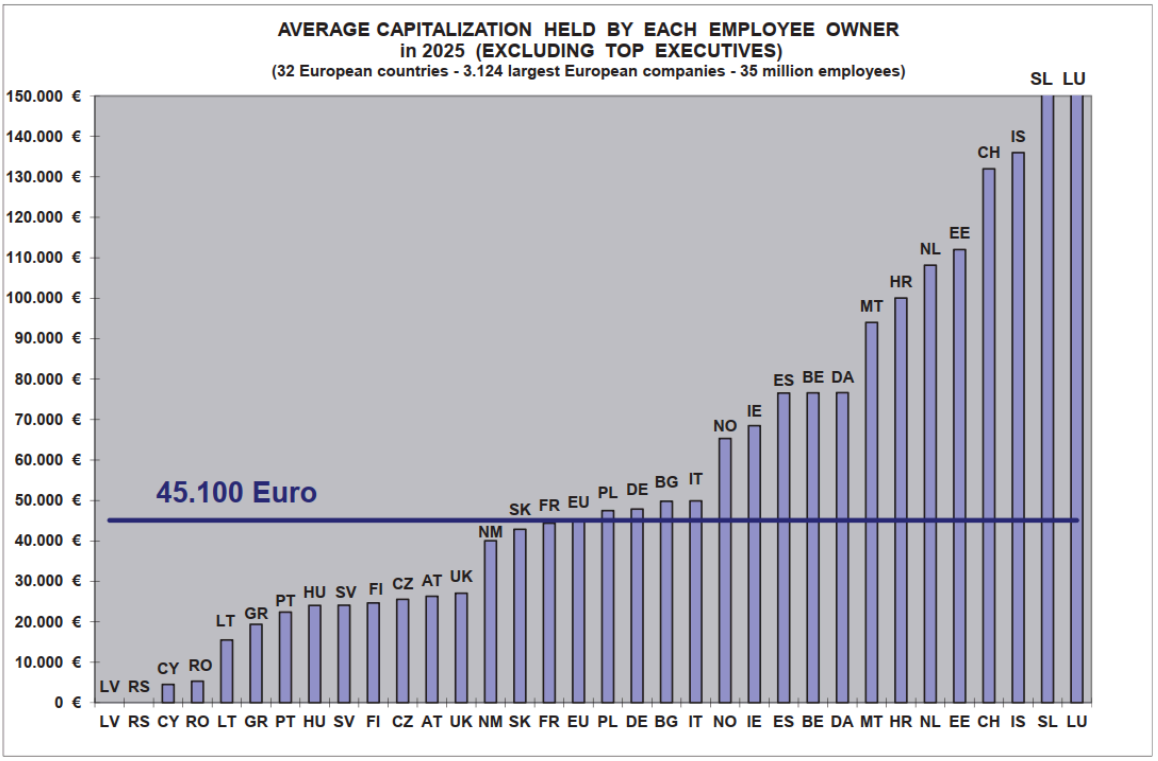


Source: EFES, 2025 Annual economic survey of employee share ownership in European countries (Page 120)

Yet this story gets flipped when applied to publicly listed companies. The proportion of employees with some share ownership - 24.1% - is higher than the European average, surpassed only by France.[28] Yet the value of the average employee's shareholding is actually substantially lower than the European average - about €27,100 per employee, compared with Europe's €45,100.

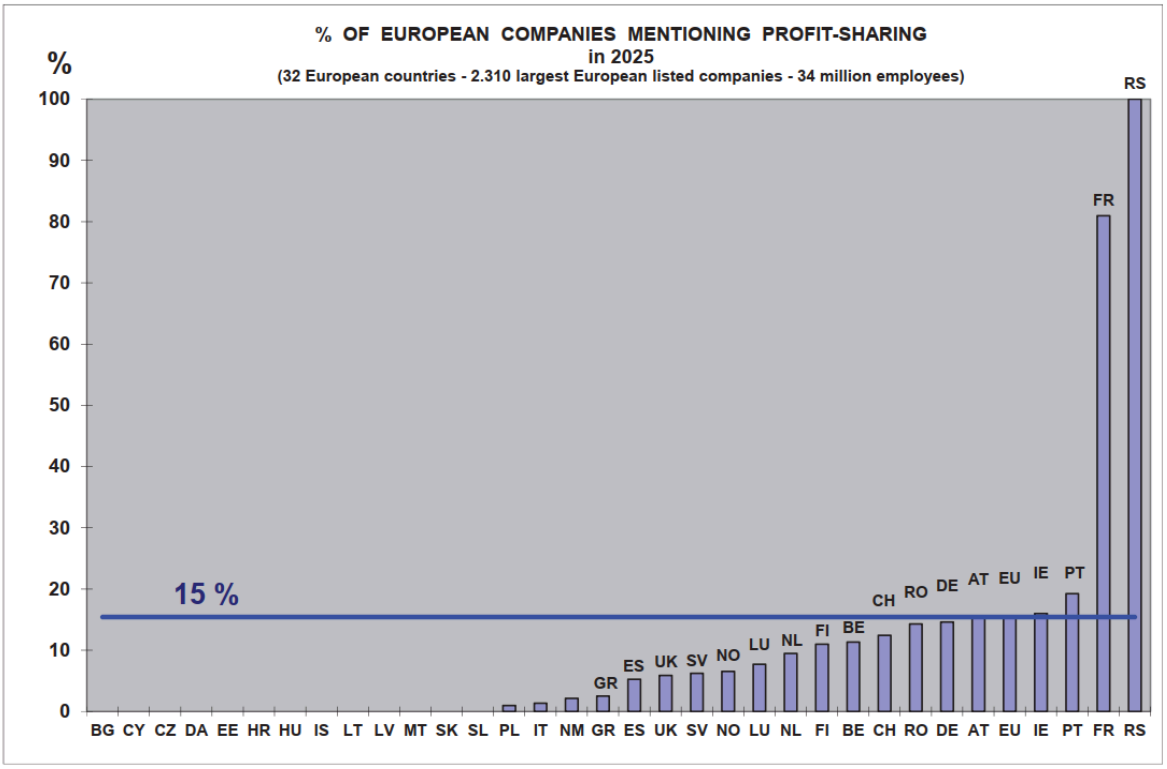
[27] Another study finds councils induce larger performance effects in adverse economic conditions. Councils let workers check management's claims about a crisis, so workers accept "legitimate" concessions.

[28] EFES, 2025 Annual economic survey of employee share ownership in European countries, Page 147. However, this is also the lowest proportion it has been in the UK in 12 years; see Page 19.



Source: EFES, [2025 Annual economic survey of employee share ownership in European countries](#) (Page 82)

In many of those other countries where employees hold less value in shares, public companies instead use profit-sharing schemes; however here too the UK is substantially below the average.



Source: EFES, 2025 Annual economic survey of employee share ownership in European countries (Page 110)

All of this suggests that workers stand to gain little in the event that the UK government's growth agenda manages to deliver greater profitability for UK plc. It doesn't have to be this way; the Ownership Works initiative has shown that even cold-blooded private equity firms see that sharing gains with employees can be a win-win for everyone.[29] Employee ownership is starting to gather support among mainstream investors; now is the time to translate that into action.[30]

There are also more niche interventions to consider as part of an employee empowerment package. For example, under Czech, Hungarian and Polish legislation, minority worker directors are able to submit a special report to the AGM in case of serious dissent; this is much more useful than the current lengthy strategic reports prepared by management on how stakeholders have been considered. In the US, billionaire Mark Cuban has proposed that employees and CEOs should earn the same percentage of their pay in stock. Bernie Sanders has proposed a tax-based approach, where companies with CEO-to-worker pay ratios over 50x face progressive tax burdens.

What precisely the right mix of these tools looks like in a UK context is an open question. The above studies can only inform us so far; the UK has different features from many of those countries such as a unitary board structure[31], a more adversarial relationship between labour and management, weak worker power, fragmented share ownership, higher inequality. These aren't reasons against action; many of them are products of what we're seeking to solve.

A 2020 paper, *A flexible model for efficient employee participation in UK companies,* makes a compelling case for a gradual model whereby employee advisory panels are introduced, with a non-executive director liaison, which over time builds towards increasing employees' ownership stake in the companies they work for and their representation on the boards of directors.[32] Something like this could provide a starting point for discussions between investors, companies, labour groups and government bodies to advance a workable plan to increase labour power over the short- and medium-term.

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[29] Noting that there's a fair discussion over whether this should be considered true employee ownership, and the need to weigh this with the private equity industry's broader impacts. Nonetheless, the initiative has clearly done a great service by helping raise expectations of what a fair deal for employees looks like.

[30] The investment industry could also support this trend by developing investment products that finance employee ownership conversions. The US has a substantial and growing selection of investment funds in this space; the UK has almost none.

[31] Though nor should this be exaggerated; there are several markets which incorporate worker representatives on unitary boards.

[32] The paper points out the interplay between various aspects of the German system and thus why simply transplanting co-determination rules alone could prove counterproductive. Where I depart from the author is on the idea that this could be achieved without regulatory reforms; for the reasons set out above on the impasse over improving worker wages, I do not believe that voluntary action here will be able to overcome first-mover and accountability problems. A just released paper from The Predistribution Initiative also explains some of the limits of a voluntary model.

What about the impact on other ESG issues?

Even responsible investors who might accept the need for a rebalancing of a share of corporate income, and power, towards workers, might fear that it will come at the cost of progress on other sustainability issues. That workers will take a narrow view of their own and their firms' interests. I do not believe that will be the case; in fact, I believe workers will often have an advantage when it comes to addressing systemic issues.

As was seen in the Sainsbury's living wage vote - and more famously with climate change - investor stewardship often struggles in the face of first-mover and collective action problems. But despite a lack of formal governance power, employees have often shown themselves capable of navigating these challenges and achieving breakthroughs. Witness the well-known concerns about AI safety, where leading AI companies are concerned about the safety of their own products but none feel capable of slowing down lest a more irresponsible company takes the lead. An open letter from over 1,300 employees of these companies called for a government intervention to "pace the frontier" of AI development; this plus high-profile resignations led to Anthropic CEO Dario Amodei writing a blog post titled "We must pace the frontier" also calling for government intervention, which was then endorsed by the CEOs of other major US AI companies (the US government has refused to act). This is by no means an isolated example.[33]

So, far from workers posing a barrier to progress on systemic issues, I think they may be our best chance. So much of the investment chain often seems paralysed by competitive pressures and concerns about fiduciary duty that there's no space for human moral judgement. I find myself reading paper after paper noting that 1.5 degrees of warming may be terrible for the world, but asking: is the business case strong enough? Investors need workers to save them from themselves.

Fighting the wrong battles

I turn to a final question: why now? This article has been framed around the *Modernising Corporate Reporting* consultation, and yet has mostly spoken about corporate governance and investor stewardship rather than disclosure.

This piece has deliberately not taken a stance on which of the proposed disclosures should be kept, and which repealed. The appropriate balance of disclosures depends on a number of factors, including companies' cost of producing them, their usefulness to investors, and

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[33] Employee activism on ethical grounds has a long history. Several whistleblowers have come forward in recent months with concerns about how their employers have handled AI safety. Last week UK employees at Meta issued a statement condemning the company for interfering with elections in Brazil. Dockworkers have refused to load military material bound for Israel. Senior employees at UK food companies have alerted the public to the climate impacts they are causing. I could go on; other research I've done finds 100s of examples. Of course this won't be the case at every company; it's unlikely to unleash a renewables revolution at fossil fuel companies, say (though don't underestimate the degree to which workers at these companies see the need for change either).

the degree to which they support progress on the outcomes they relate to. This last consideration is surprisingly absent from the consultation paper. The near-exclusive focus on cost and usability may suggest a loss of faith in the idea that these disclosures lead to changes in the real economy.[34]

To me, this consultation, following on from other governance rollbacks, appears to be opening up a familiar two-sided debate, with each side offering answers which have already been proven not to work. On the "pro-business" side, we have the idea that requirements pushing businesses to be managed better and to do better by broader society are holding back growth; we need to cut red tape to unleash innovation and productivity. It seems unlikely these disclosures are the difference between stagnation and high growth. Yet even if it does succeed, we lack the incentives for the *right* kind of inclusive, broadly-shared growth. We'd end up right back here in a few years, mourning that inequality has worsened, communities are being left behind, and workers feel like they're not sharing in the value they've created. Probably with some new ideas around what companies should disclose.

On the other side, we have the pro-shareholder camp, the investors and related organisations that are defending the status quo, saying that this information is useful for investor decision-making and public scrutiny, and that strong shareholder rights are an enabler rather than a threat to inclusive green growth. Yet this is a regime that has dominated much of the last two decades, and has often failed to do much more than frantically wave at a range of systemic risks worsening all around it.[35] To reject the need for reform is to privilege ideology over evidence.

Neither side can permanently win because neither side seems capable of delivering the decent living standards and sustainability that we need. A third way, based on a governance structure that promotes the shared interests of management, investors and workers, each holding the others to account, appears to me to offer a better path forward.

I do not expect mobilising investor support for these reforms to be straightforward. In the near-term, we're less than a month out from the consultation close; most investors and related groups will be hurrying to put together their responses, relying on familiar lines. A long piece like this (or this), essentially asking individuals and organisations to reconsider their world view, is easy to brush off at times like this, essentially when faced with an imminent erosion of rights and disclosures. "Maybe I'll think about it another time", you might say.

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[34] Tellingly, the only part of the consultation document where the effectiveness of a reporting measure was discussed in detail was the Payments to Government Regulations 2014 (pages 66-67). It asked companies to disclose payments to governments of resource-rich countries in an effort to combat corruption. However, "no evidence was found that the regulations reduced corruption." Civil society and investors did not use the information and, crucially, the Bribery Act 2010 (which makes it an offence to engage in bribery) "has directly been used to legally pursue companies and is arguably a more effective deterrent to corruption."

[35] This is not to say that responsible investment and stewardship have had no impact; Stewardship Code reports regularly include details of successful case studies. Nor do I consider this piece a rejection of the importance of systemic stewardship - rather it's calling on investors to recognise the limits of what has been achieved and reconsider biases against interventions that can support their end goals.

Yet just as shareholders often find themselves trapped voting for proposals whose substance they don't truly support, so it often is with policy engagement. Many in responsible investment accept that the current set-up isn't working, but find themselves propelled into defending it. I myself have penned many consultation responses over the years, on implementation of TCFD reporting, or changes to the Stewardship Code, suggesting where tweaks could be made. I've done this despite knowing that the very policy tool I'm commenting upon does not have the weight to drive the changes sought. But I responded nonetheless, as that was the open door on which to push, progress there might build momentum for more substantial reforms down the line, and in any case my job was to articulate my organisation's viewpoint, not necessarily my own.[36] I suspect many others have found themselves in the same position, and may now find themselves defending policies which they know don't really deliver.

To take just one example: I have already mentioned ShareAction's recent briefing on virtual-only AGMs, calling them a "massive setback for corporate accountability" and emphasising that "AGMs are vital to effective corporate governance". It proposes some moderate administrative tweaks to improve them, but otherwise implies they're A-OK.

Yet here is an excerpt from their 2021 paper, Fit-for-purpose? The future of the AGM:

> "Yet even before this crisis, company AGMs had shortcomings. Many FTSE 100 companies held AGMs with less than a handful of attendees present, and occasionally no questions asked at all. Institutional investors, who generally own over 90% of the company's shares, are frequently absent. At the other end of the spectrum, some AGMs suffer from heated exchanges and unmet expectations as the major - but very brief - forum for contact between shareholders, stakeholders and company staff each year. Even the value derived by boards themselves has not always been clear. Many AGMs have ossified in style and content - but the AGM is not beyond redemption."

Reforms it proposes include allowing other stakeholders to attend and delaying voting until after the AGM has taken place, so that AGM proceedings can influence outcomes. These go unmentioned in the recent briefing, presumably on the basis that now is the moment to defend what we have rather than push for what we want. But this has it backwards - the reason physical AGMs are on the chopping block is *because* they've ossified in the ways ShareAction pointed out. Their 2021 proposals, however, offer a vision of something that might be worth saving.[37]

There are times when the best course of action is to take a policy agenda as you find it, and use your influence to tweak it in the best way you can. But here we have a new Prime Minister who has complained about power being held in too few hands, and a policy consultation threatening to swap one failed theory of change for another. The Overton window is open. Those committed to addressing inequality and corporate accountability have a chance to pitch something that works.

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[36] Only to a limited degree, in my case. PRI was pretty open-minded when it came to an evaluation of what policies were working, debate was encouraged and did lead to position changes.
[37] I must stress again that I admire ShareAction! This is just a pertinent example of something many of us are guilty of.

With some former responsible investment colleagues, I’m inviting UK-based investors and others who would be interested in actively discussing this more, with a view to engaging the UK government on reforms along these lines. If that sounds like you please get in touch.