How the shareholder-first business model contributes to poverty, inequality and climate change

A briefing note from High Pay Centre and the TUC

Introduction and summary

New analysis of dividends and share buybacks paid by the FTSE 100 over the last five years reveals the extent to which companies protect and increase payments to shareholders, even when company finances are struggling. Putting shareholders first means less money for workers and other stakeholders, hampering efforts to tackle in-work poverty and climate change.

From 2014 to 2018, returns to shareholders across the FTSE 100 rose by 56%, growing nearly seven times faster than the median wage for UK workers, which increased by just 8.8% (both nominal).[1]

Over the same period, the UK's largest listed companies generated £551 billion in profit (net income attributable to shareholders), and paid out £443 billion in dividends and buybacks.[2] Even a small proportion of this money could mean better wages and working conditions for their staff and workers in their supply chains.

The UK's largest companies could play an important role in reducing poverty and inequality, but the current business model is designed to maximise profit for shareholders. Employing 6.3 million people worldwide[3], with many more in their supply chains, their actions have a major impact on global working conditions and living standards.

1 in 10 working households in the UK live in poverty, comprising eight million people in total[4], while at the same time the richest 34 people own the same wealth as the poorest 40% of the UK combined[5]. The TUC and The High Pay Centre are calling on our political leaders to take immediate steps to fix the broken economic model that puts shareholders first.

Key findings:

We studied the total net income, dividends and share buybacks for the current FTSE 100 companies index over the last five years.

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[1] Office for National Statistics, *Annual Survey of Hours and Earnings time series of selected estimates* via https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinghours/datasets/ashe1997to2015selectedestimates

[2] Our research is based on analysis of the companies that constituted the FTSE 100 as of July 2019, for their financial years ending 2014-2018 inclusive, with investment trusts (Scottish Mortgages Investment Trust) excluded on the basis of their exceptional structure

[3] Business in the Community, *FTSE 100 public reporting: employee engagement and wellbeing* via https://www.bitc.org.uk/sites/default/files/bitc_workwell_public_reporting_benchmark_summary_report_2014_1.pdf

[4] Office for National Statistics, *Households below average income, 1994/95-2017/18* via https://www.gov.uk/government/statistics/households-below-average-income-199495-to-201718

[5] Oxfam calculation based on 2018 Forbes Billionaire list and data from 2018 Credit Suisse Global Wealth report.

From 2014 to 2018 we found that:

- The FTSE 100 companies generated net profits of £551 billion and returned £443 billion of this to shareholders. This means that overall the FTSE 100 paid shareholders an average of £1.7bn a week over the period.
- Across the FTSE 100 as a whole, returns to shareholders increased by 56% (despite net incomes falling by 3% over the period).[6] This resulted from a 45% increase in dividends, while share buybacks more than doubled. If pay across the UK economy had kept pace with shareholder returns, the average worker would now be over £9,500 better off.[7]
- While FTSE 100 returns to shareholders rose by 56%, the median wage for UK workers increased by just 8.8% (both nominal).[8]
- Payments to shareholders primarily benefit a wealthy minority. UK taxpayers earning over £150,000 (barely 1% of all taxpayers) captured around 22% of all direct income from UK dividends.[9] Dividend income accruing via pension savings also primarily benefits those at the top – 46% of pension wealth is owned by the wealthiest 10% of households.[10]
- In 27% of cases, returns to shareholders were higher than the company's net profit, including 7% of cases where dividends and/or buybacks were paid despite the company making a loss. In 2015 and 2016, total returns to shareholders came to more than total net profits for the FTSE 100 as a whole.
- The theory is that when profits fall, returns to shareholders should fall too. Our research found that in practice this is not the case and that profits varied significantly more than returns. Total profits ranged from £53 billion in 2015 to £150 billion in 2017, a variation of £97 billion, with a fall between 2014 and 2015 and a sharp rise in 2017. Returns to shareholders had less than half as much variation, ranging from £74bn in 2015 to £122 billion in 2018. This contradicts the idea that shareholders are exposed to the greatest risk of all business stakeholders, as it suggests that they can expect consistent returns, regardless of profitability.

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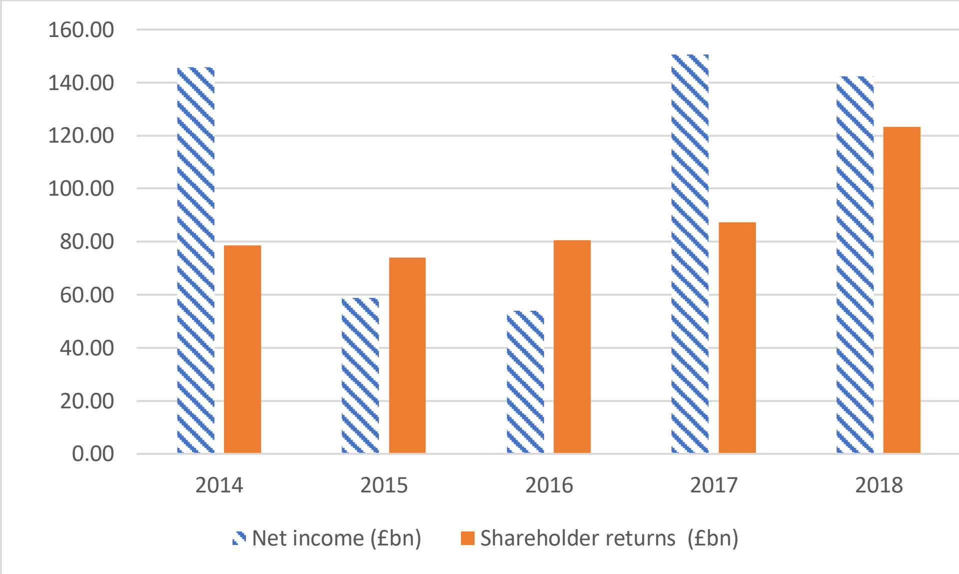
[6] Aggregate net profits in 2014 were distorted by an abnormally high (£56 million figure) recorded by Vodafone following a corporate event.
[7] See Office for National Statistics, *Annual Survey of Hours and Earnings time series of selected estimates* via https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinghours/datasets/ashe1997to2015selectedestimates - average wage for the median UK worker in 2014 was £22,069. A 56% increase would have taken their pay to around £34,428 by 2018 rather than the £24,897 recorded by the ONS.
[8] Office for National Statistics, *Annual Survey of Hours and Earnings time series of selected estimates* via https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinghours/datasets/ashe1997to2015selectedestimates
[9] Office for National Statistics, *Personal Income by year statistics: Property, interest dividend and other income/investment income*, via https://www.gov.uk/government/collections/personal-income-by-tax-year-statistics
[10] Office for National Statistics, *Pension wealth: wealth in Great Britain* via https://www.ons.gov.uk/peoplepopulationandcommunity/personalandhouseholdfinances/incomeandwealth/datasets/pensionwealthwealthingreatbritain

Figure 1: Total profits and returns to shareholders



Examining sectors, we found that:

- In 2018, the two largest energy companies spent at least 11 times more on their shareholders than they invested in low carbon activity[11].
- In 2018, the 4 largest food and drinks companies[12] paid shareholders almost £14bn – more than they made in net profit (£12.7bn). To put that into perspective, just a tenth of this shareholder pay-out is enough to raise the wages of 1.9 million agriculture workers around the world to a living wage[13]. These companies source raw material from some of

[11] BP report that they spend $500m on their low carbon business https://www.bp.com/content/dam/bp/business-sites/en/global/corporate/pdfs/sustainability/group-reports/bp-sustainability-report-2018.pdf. Shell reported they planned to invest between $1-2bn on new energy. https://www.shell.com/energy-and-innovation/the-energy-future/shell-energy-transition-report/_jcr_content/par/toptasks.stream/1524757699226/3f2ad7f01e2181c302cdc453c5642c77acb48ca3/web-shell-energy-transition-report.pdf

[12] The 4 largest food and drinks companies in the FTSE 100 are Unilever, Coca-Cola, Diageo and Associated British Foods

[13] We estimate that the average annual gap between prevailing and living wage in agriculture in non-developed countries is £716 per person by averaging all available Global Living Wage Coalition research for agriculture workers in Nicaragua, Guatemala Brazil, Costa Rica, Sri Lanka and Malawi and adjusted their figures for inflation using www.usinflationcalculator.com. This figure does not imply that UK food and drink companies are necessarily purchasing from the regions in the Global Living Wage Coalition studies. Neither does it seek to estimate how many workers are in agriculture supply chains of food and drinks companies. The purpose of this statistic is to provide perspective on the size of the dividends and buybacks in contrast to workers around the world. More information about the living wage studies can be found at www.globallivingwage.org

the poorest people in the world – none take sufficient steps to ensure that a living wage is paid to workers in their supply chains[14].

- The UK's largest house builders paid their shareholders £6bn between 2014-2018 - enough to buy 25,000 homes[15]. It would take the workers who build the houses 92 years to pay for the average UK house and 19 years to save for the deposit[16].

Shareholder primacy in corporate governance

Section 172 of the 2006 Companies Act in 2006 requires company directors to act in the interest of shareholders, and only 'have regard' to a wider set of stakeholders. There are no significant examples of a director being held to account for their failure to 'have regard' for their wider stakeholders. As Andy Haldane, Chief Economist at the Bank of England put it, "shareholder primacy was not just retained but now made legally explicit in Section 172."[17]

The UK Corporate Governance Code was revised in 2018. It now describes the role of the board as being to 'promote the long-term sustainable success of the company, generating value for shareholders and contributing to wider society'[18]. This can be seen as a welcome first step towards moving away from shareholder primacy, but one that is unlikely, on its own, to have a significant impact on corporate practice.

The tide may be turning against the shareholder first mantra. The Edelman Trust Barometer 2019 found that 52% of respondents agreed that the way business works today is not good for British society. Asked why, 67% replied that companies prioritise profit over looking after people. 65% of those surveyed said that treating employees fairly is the greatest obligation for business.[19]

An opinion poll for the Legatum Institute think tank found that 71% of survey respondents felt that making a profit should be just one consideration amongst many for companies, versus 26% who said it should be their primary consideration. 60% of respondents said

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[14] Based on Oxfam's in-depth research into agriculture supply chains and the Corporate Human Rights Benchmark

[15] In July 2019, the most recent data, the average UK house price was £232,710. See http://landregistry.data.gov.uk/app/ukhpi

[16] We have taken the average wage in the UK construction industry to be £24,964 based on figures provided by Unite the Union for workers in the civil engineering industry, such as carpenters, bricklayers and plasterers, qualified to NVQ level 2 (the level to which the largest proportion of workers are qualified). For more details see http://highpaycentre.org/files/Housebuilder_briefing.pdf

[17] Andrew G Haldane: *Who owns a company? Via* https://www.bis.org/review/r150811a.pdf

[18] Financial Reporting Council *The UK Corporate Governance Code 2018* via https://www.frc.org.uk/getattachment/88bd8c45-50ea-4841-95b0-d2f4f48069a2/2018-UK-Corporate-Governance-Code-FINAL.pdf

[19] Edelman UK, *Edelman Trust Barometer 2019 – a disunited kingdom* via https://www.edelman.co.uk/sites/g/files/aatuss301/files/2019-04/Edelman-Trust-Barometer-UK-2019.pdf

companies make so much profit it cannot be justified, as opposed to 39% who said companies can make as much profit as they like, as long as it's legal.[20]

> *"The public at large increasingly views corporations as sociopathic and so as indifferent to everything, other than the share price."*
>
> *Martin Wolf, Chief Economics Commentator, Financial Times*[21]

Our findings suggest that our corporate governance system leads to rewards for shareholders, regardless of profitability. The relationship between the level of shareholder payments and the level of company profits is weak, with companies returning more to shareholders than they generated in net profits in 27% of the cases in our sample. In 2015 and 2016, current FTSE 100 companies as a whole returned more to shareholders than they generated in net profits. The difference between the highest and lowest aggregate annual returns to shareholders in the five years from 2014 was less than two thirds of the difference between the highest and lowest aggregate net profit.

> *"They're almost eating themselves – they're taking their internal funds and distributing that to shareholders, rather than investing it themselves."*
>
> *Andy Haldane, Chief Economist, Bank of England*[22]

Company law and the UK's corporate governance system put shareholders at the centre of corporate decision making (they vote to approve major governance matters at AGMs, including the appointment of board directors) on the basis that as investors, their capital is at risk if the company underperforms. Yet our figures show that returns to shareholders are consistent, regardless of company performance.

The consequence of excessive rewards to shareholders is less money available for investment in long-term, organic growth, wages, R&D, training and steps that would reduce environmental impact.

> *"For this lack of shared prosperity, the allocation of corporate profits to stock buybacks bears considerable blame."*
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> *Prof William Lazonick, University of Massachussetts*[23]

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[20] Populus, *Left wing populism survey* via http://www.populus.co.uk/wp-content/uploads/2017/09/OmLeft_Wing_Populism.pdf

[21] Financial Times, *We must re-think the purpose of the corporation* via https://www.ft.com/content/786144bc-fc93-11e8-ac00-57a2a826423e

[22] BBC Newsnight, *Andy Haldane interview* via https://www.youtube.com/watch?v=rx2xXbLnI5w&feature=emb_title

[23] Institute for New Economic Thinking, *Profits Without Prosperity: How Stock Buybacks Manipulate the Market, and Leave Most Americans Worse Off* via https://www.ineteconomics.org/research/research-papers/profits-without-prosperity-how-stock-buybacks-manipulate-the-market-and-leave-most-americans-worse-off

This report contributes to the debate on the impact of shareholder primacy within corporate governance and sets out a series of reforms, including reform of directors' duties and requirements for worker directors on company boards.

Consequences of putting shareholders first

Economic inequality

The UK has amongst the highest income inequality in the developed world[24], with the top 1% of the population taking around 15% of total incomes.[25] Wealth inequality in the UK is also vast: the bottom 50% owns 4% of wealth and the top 10% owns about 60%[26]. The richest 34 people in the UK own the same wealth as the bottom 40% of the population[27].

A study by the London School of Economics found that "over the last fifty years in the UK there is a clear positive empirical association between income inequality and relative income poverty. Years with comparatively low inequality had lower relative poverty, and those with high inequality had higher poverty rates."[28] Looking to the future at a global level, a World Bank study found that "reductions in inequality will be key to reaching the poverty goal by 2030"[29].

Wealth and income inequality rose rapidly from the 1980s, coinciding with deregulations of the financial markets and a focus on creating profit for shareholders and a lower share of income going to labour.

Share ownership is concentrated in the wealthiest households, meaning that prioritising shareholders overwhelmingly benefits the wealthy.

The richest 10% of household received 55% of all 'investment income' (not including pension payments), while the poorest 50% received just 14%.[30] The wealthiest 10% own 46% of all pension wealth, while the poorest 10% own less than 1%.[31]

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[24] Organisation for Economic Co-operation and Development, *Income Inequality* via https://data.oecd.org/inequality/income-inequality.htm

[25] University of Essex, *Top Incomes in the UK: Analysis of the 2015-16 Survey of Personal Incomes* via www.iser.essex.ac.uk/research/publications/working-papers/iser/2019-06

[26] Oxfam calculation based on 2018 Credit Suisse Global Wealth report.

[27] Oxfam calculation based on 2018 Forbes Billionaire list and data from 2018 Credit Suisse Global Wealth report.

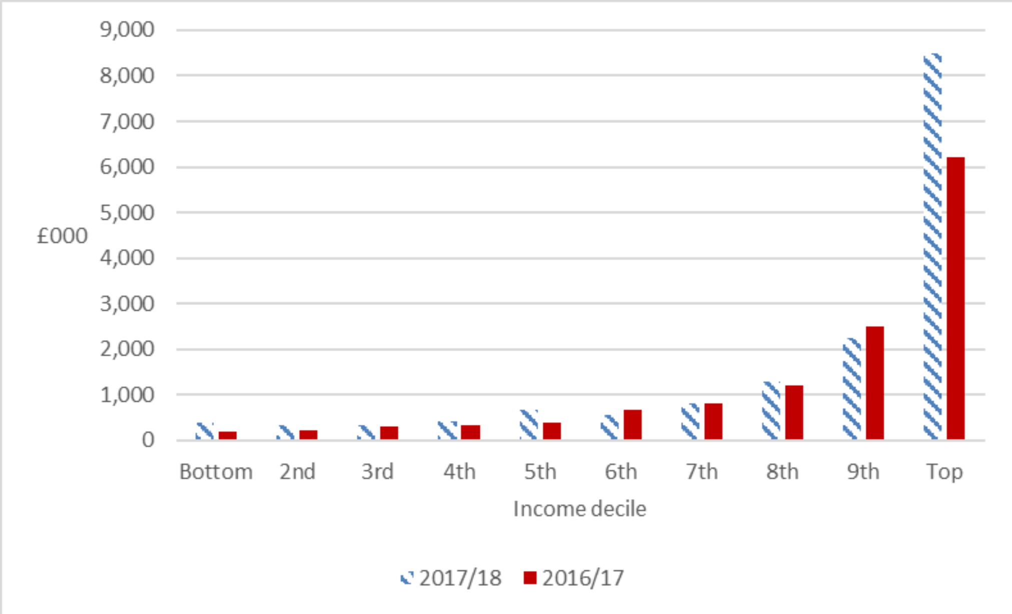
[28] LSE, Understanding the relationship between poverty and inequality: overview report via http://eprints.lse.ac.uk/100396/

[29] World Bank, *Poverty and Shared Prosperity 2016 : Taking on Inequality via* https://openknowledge.worldbank.org/handle/10986/25078

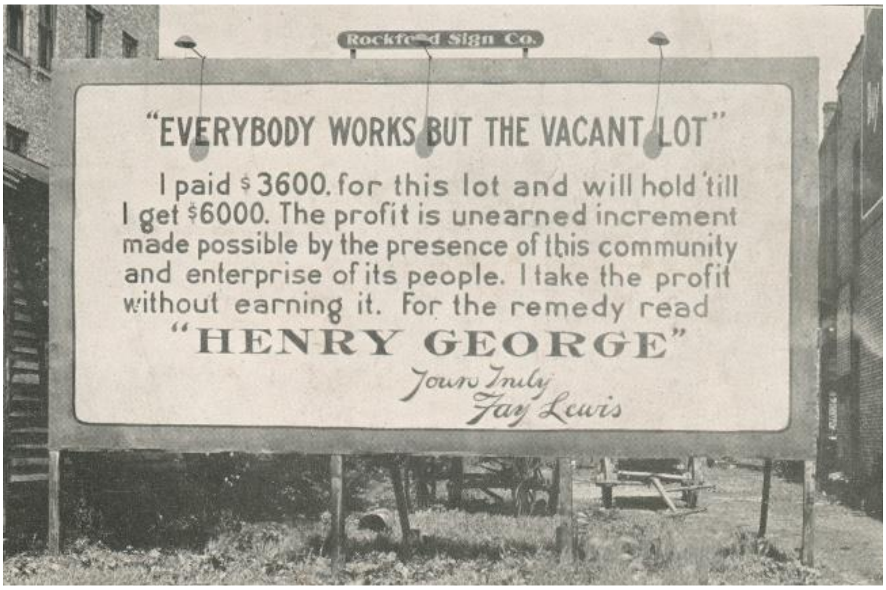
[30] Office for National Statistics, The effects of taxes and benefits on household income, disposable income estimate: 2018 via https://www.ons.gov.uk/peoplepopulationandcommunity/personalandhouseholdfinances/incomeandwealth/datasets/householddisposableincomeandinequality

[31] Office for National Statistics , Pension wealth: wealth in Great Britain via https://www.ons.gov.uk/peoplepopulationandcommunity/personalandhouseholdfinances/incomeandwealth/datasets/pensionwealthwealthingreatbritain

Figure 2: Average investment income by decile[32]



Unlike going to work, the owners of shares don't have to do anything to get reward - Fay Lewis' 1914 political performance artwork put it simply - "Everybody works but the vacant lot".



Source: The New York Public Library[33]

[32] Office for National Statistics, The effects of taxes and benefits on household income, disposable income estimate: 2018 via https://www.ons.gov.uk/peoplepopulationandcommunity/personalandhouseholdfinances/incomeandwealth/datasets/householddisposableincomeandinequality

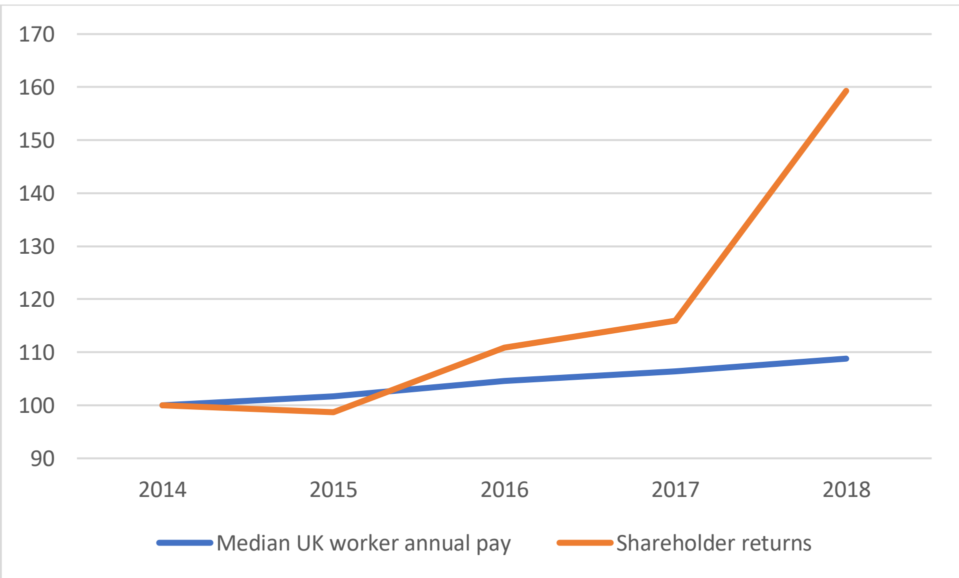
[33] https://digitalcollections.nypl.org/items/510d47de-036a-a3d9-e040-e00a18064a99

Thomas Piketty's seminal research found that the relationship between returns to capital versus returns to labour is a major driver of inequality.

> *"When the rate of return on capital exceeds the rate of growth of output and income, as it did in the nineteenth century and seems quite likely to do again in the twenty-first, capitalism automatically generates arbitrary and unsustainable inequalities." — Thomas Piketty, Capital in the Twenty-First Century*[34]

The graph and table below compare the indexed growth in FTSE 100 shareholder returns and median UK wages from 2014 to 2018, showing that while median wages in the UK have remained flat, shareholder returns have increased substantially. Dividends to FTSE 100 shareholders have risen by 58.3% while average UK worker wages increased by just 8.8% (both nominal).

Figure 3: Shareholder returns versus median UK worker pay (all figures nominal)



[35]

Investor pressure to minimise tax to maximise profit is undermining government revenue - 77% of companies from Western Europe, the U.S. and Australia "feel that investor influence on tax decisions has increased over the past five years" and 66% said "the key objective for the tax function is to achieve the lowest Effective Tax Rate"[36]. Oxfam analysis of 25 FTSE 100

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[34] Thomas Piketty, *Capital in the 21st Century*

[35] Office for National Statistics, *Annual Survey of Hours and Earnings time series of selected estimates* via https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinghours/datasets/ashe1997to2015selectedestimates

[36] Allen & Overy, *Negotiating the minefield: challenges facing the corporate tax function* via http://www.allenovery.com/SiteCollectionDocuments/Global_Tax_Challenges%20facing%20the%20corporate%20tax%20function.pdf

companies found that half the companies paid corporate tax significantly below the OECD average statutory rate during at least one of the five-year periods researched[37]. Developing countries lose an estimated $100bn a year in tax revenue as a result of tax dodging by multinational corporations[38].

Gender inequality

Gender inequality is deeply embedded within the history of business. The merchant class of the 16th Century was exclusively dominated by men, the rise of the joint stock corporation in the 17th Century were socially defined as men's institutions and the multinational corporations of the 21st Century exploit gender inequity to maximise shareholder profit.

The gender pay gap in the FTSE 100 is reported to be double the national average[39]. This is driven by:

- discrimination about how we value different forms of work, with stereotypically female work generally lower paid;
- women making a disproportionate contribution to the unpaid work economy – in 2014, women did 60% more unpaid caring and domestic work than men in the UK;[40]
- the lack of women in senior positions - there are only six female CEOs in the FTSE 100 and only 8% of executives are women. Male FTSE 100 CEOs are paid 68% more on average than female CEOs.[41]

Companies who source from poorer countries are benefiting from gender discrimination as it lowers their supply costs. In supply chains where women are the prevailing workforce, the gap between their income and a living wage is 16% larger than in male dominated industries.[42]

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[37] Oxfam, *British-Based corporations and the tax 'race to the bottom'* via http://policy-practice.oxfam.org.uk/publications/british-based-corporations-and-the-tax-race-to-the-bottom-620871

[38] Oxfam, *Endless corporate tax scandals? Oxfam's 5-point plan to build a fairer global tax system* via https://oxfamilibrary.openrepository.com/bitstream/handle/10546/620848/mb-endless-corporate-tax-scandals-mauritius-290719-en.pdf

[39] Evening Standard, *Anger as leading FTSE 100 firms have gender pay gap twice UK average* via https://www.standard.co.uk/business/anger-as-leading-ftse-100-firms-have-gender-pay-gap-twice-uk-average-a4110246.html

[40] Office for National Statistics, *Women shoulder the responsibility of 'unpaid work'* via https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinghours/articles/womenshouldertheresponsibilityofunpaidwork/2016-11-10

[41] High Pay Centre and CIPD, *Executive pay in the FTSE 100: is everyone getting a fair slice of the cake?* via http://highpaycentre.org/files/CIPD_HPC_FTSE_100_executive_pay_report.pdf

[42] Oxfam, *Ripe for change: ending human suffering in supermarket supply chains* via https://policy-practice.oxfam.org.uk/publications/ripe-for-change-ending-human-suffering-in-supermarket-supply-chains-620418

The human cost of a cup of tea[43]
Interviews of 510 workers on 50 Indian tea estates shows the shocking scale and depth of human suffering of the women who produce Assam tea to supply to supermarkets. Including the unpaid domestic work women do, by the time they go to bed (usually for a maximum of six hours) they have done around 13 hours of physical work, including plucking and carrying up to 30kg of tea leaves. Women tea workers do the labour-intensive, low-paid task of plucking tea, while men get the better paid, more respected factory jobs. Workers struggle to earn enough to cover even their basic living costs and many cannot afford to access drinking water that will not give them typhoid or cholera. Half of households interviewed receive government 'below poverty line' ration cards. Workers could earn a living wage if they were received just €0.06 more of the retail price on a 100g pack of black tea.

In-work poverty

Pressure on companies to maximize profits for shareholders creates a constant squeeze on the wages of workers in the UK and in supply chains around the world.

In the UK, the percentage of people in poverty who live in working households has risen to a record high. The latest government statistics show that, after housing costs, 57 per cent of those living in relative poverty are in working households. [44] A staggering 8 million people are in poverty despite living in a working household.[45]

Not only is the percentage of those in poverty living in a working household at its highest since records began, but so is the percentage of children in poverty who live in a working household. Seventy per cent of the 4.1 million children living in poverty are in households where at least one adult works.[46]

The retail and the food and drink sectors have some of the worst paid workers but some of the best paid shareholders.

Our research found that:

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[43] Oxfam, *Addressing the Human Cost of Assam Tea: An agenda for change to respect, protect and fulfil human rights on Assam tea plantations via* https://policy-practice.oxfam.org.uk/publications/addressing-the-human-cost-of-assam-tea-an-agenda-for-change-to-respect-protect-620876

[44] Office for National Statistics, *Households below average income 1994/95 to 2017/18 table 3.5ts* via https://www.gov.uk/government/statistics/households-below-average-income-199495-to-201718

[45] TUC *Make the economy fair again* https://www.tuc.org.uk/news/make-economy-fair-again-end-record-working-poverty-says-tuc

[46] Office for National Statistics, *Households below average income 1994/95 to 2017/18 table 4.6ts* via https://www.gov.uk/government/statistics/households-below-average-income-199495-to-201718

- The UK's seven largest (listed) retailers paid over £2bn to shareholders in 2018[47], despite none of them being Living Wage Foundation accredited.
- The UK's four largest listed supermarkets paid shareholders £800m in 2018[48], despite none of them being Living Wage Foundation accredited.
- In 2018, the UK's four largest food and drinks companies paid shareholders almost £14bn – more than they made in net profit (£12.7bn). To put that into perspective, just a tenth of this shareholder pay-out is enough to raise the wages of 1.9 million agriculture workers around the world to a living wage[49].These companies' source raw material from some of the poorest people in the world – none of take sufficient steps to ensure that a living wage is paid to workers in their supply chains.[50]

Worker's experience
In the UK: Stephan works at a factory that supplies one of the UK's largest listed retailers. He works 12 hours a day, 6 days a week, working overtime so that he can provide for his family. His shift starts at 6 in the morning, but he leaves his house at 4 because the factory is deep in the countryside. He has a 2-year-old daughter who is in bed by the time he gets back. Despite living in the same house, he only gets to see her on Sunday, his only day off. Last year Stephan's employer paid a £20 million dividend to their shareholders. Divided across all the company's employees it's enough for an £800 annual bonus. The difference for Stephan between seeing his daughter or not. In Vietnam: Lan works in a factory in southern Vietnam, which produces shoes for global fashion brands. She works three jobs, six days a week for at least nine hours a day, earning around $1 per hour. She has two children: a fifteen-month-old baby and a twelve-year-old son. She moved 1500km to earn a better living, but she can't afford for her children to live with her, so her parents look after them. She can only visit her young family once a year, due to the expensive travel costs and difficulty in taking annual leave. It would take just 11 days for a CEO from one of the top five garment companies to earn what Lan could expect to earn in her entire lifetime. You can watch Lan's story here.

[47] The seven largest retailers are Tesco, J Sainsbury, Wm Morrison Supermarkets, Kingfisher Marks and Spencer Group, Next and JD Sports Fashion
[48] The four largest supermarkets are Tesco, J Sainsbury, Wm Morrison Supermarkets and Marks and Spencer Group
[49]See reference 13 for methodology
[50] Based on Oxfam's in-depth research into agriculture supply chains and the Corporate Human Rights Benchmark

Climate change

- In 2018, the UK's two largest listed energy companies spent 14 times (BP) and at least 11 times (Shell) as much on their shareholders as they invested in low carbon activity[51].
- Between 2010 and 2018, the UK's largest energy company spent 1.3% of its total capital expenditure on low carbon energy, while the second largest spent 2.3%.[52]

In order to avoid catastrophic climate change, the vast majority of proven fossil fuel reserves would need to be left in the ground. The carbon in existing oil and gas fields currently under exploitation would be enough to exceed the 1.5 degrees limit agreed in the Paris Climate Agreement[53]. The last of the fossil fuels should be prioritised for developing country needs[54]. Between 2020-2029 UK's two largest energy companies will spend $220bn developing new oil and gas fields,[55] taking us in the opposite direction.

According to the IPCC, both electricity and transport will need to be fully decarbonised by 2050 to have a chance of keeping heating below 1.5 degrees[56]. This requires unprecedented investment in renewable energy sources with a guarantee of good jobs, which is sadly lacking from energy companies who have prioritised dividends and share buybacks over investment in a sustainable future.

In 2018 the UK's largest energy company pledged to invest $1-2bn in 'new energy', while the second largest invested $500m in low carbon activity energy – at the same time as they paid their shareholders a total of £25bn. This is a clear misallocation of capital that is at odds with a just transition towards a sustainable world.

Who takes the heat? Untold stories of the climate crisis in Africa[57]
Battered by cyclones and ravaged by extreme drought, poor communities in the Horn of Africa and Mozambique have found themselves on the front line of a climate crisis they did little to create. Fitina from Ibo Island, where Cyclone Kenneth hit, told Oxfam "I can't even think of repairing my house. Where do I get the money? I have to find a solution because there's nowhere else for me to go."

[51] Shell and BP are the two largest energy companies in the UK – see reference ix for methodology
[52] Reuters, *Big Oil spent 1 percent on green energy in 2018* via https://uk.reuters.com/article/us-oil-renewables/big-oil-spent-1-percent-on-green-energy-in-2018-idUKKCN1NH004
[53] Guardian, *Existing coal, oil and gas fields will blow carbon budget – study* via https://www.theguardian.com/environment/2016/sep/23/existing-coal-oil-and-gas-fields-will-blow-carbon-budget-study
[54] Oxfam, *Who should sell the last of the fossil fuels: Stranded assets, equity and climate change* via https://politicsofpoverty.oxfamamerica.org/2016/05/who-should-sell-the-last-of-the-fossil-fuels-stranded-assets-equity-and-climate-change/
[55] Global Witness, *Overexposed* via https://www.globalwitness.org/en/campaigns/oil-gas-and-mining/overexposed/
[56] United Nations Inter-Governmental Panel on Climate Change, *Headline statements from the summary for policymakers* via https://www.ipcc.ch/site/assets/uploads/sites/2/2018/07/sr15_headline_statements.pdf
[57] Oxfam, *Who takes the heat? Untold stories of climate crisis in the Horn of Africa and Mozambique* via https://oxfamilibrary.openrepository.com/bitstream/handle/10546/620870/mb-who-takes-the-heat-230919-en.pdf?sequence=1

Village Elders from Somaliland, which has been savaged by deadly drought told us "we can't describe the drought with words. It was so hard. Where we are sitting now, it was full of dead animals. Everyone was devastated."

Corporate sustainability raiders

While many companies have made commitments to the Sustainable Development Goals, too often their practice reflects a drive for short-term financial returns. Any effort to act responsibly is constrained by the straightjacket of maximizing shareholder value.

Executives are perhaps understandably nervous about prioritising other stakeholders or boosting investment at the cost of lower returns to shareholders. Even if funds have been used to invest in organic growth, lower dividends generally cause share prices to fall. This leaves companies vulnerable to hostile takeover or predatory investment firms that try to acquire a controlling stake in the business and replace the management with a team who will deliver short-term profits. Once these investors have extracted as much value as they can, they often sell their stake and move on to their next target.

Unilever has taken some industry-leading steps on climate change, human rights and smallholder agriculture. Over time, their long-term vision created tensions with short-term financial performance, leaving them vulnerable to hostile takeover.

In 2016 Unilever was subject to a £115bn hostile bid. It was fought off, but subsequently, in an attempt to make themselves less vulnerable to future hostile takeover bids, Unilever has cut costs and loaded up debt, which has been used to pay off shareholders. Despite having a management that believed in creating long-term organic growth to benefit all stakeholders, our corporate governance system has facilitated the interests of short-term financial extraction.

Civil society and trade unions are now concerned that companies that invest in more responsible business practice may be more susceptible to hostile takeovers. In the 1970s and 80s we had the corporate raiders. We may now be entering a period of the corporate sustainability raider.

Proposals for reform

"If working people are losing out because corporate governance is set up to favour shareholders over workers...we need to change the rules"

Sir Angus Deaton, Nobel Prize winning Economist[58]

We need significant reform of our corporate governance system to address shareholder primacy and protect the interests of other stakeholders. While the below proposals are not

[58] Sir Angus Deaton, *Inequality and the future of capitalism*, via https://www.ifs.org.uk/inequality/expert-comment/inequality-and-the-future-of-capitalism/

exhaustive, they would, if implemented, be a significant step towards creating an economy that is run in the interests of society, not shareholders alone.

1. **No dividends if no living wage.** Multinational companies can choose to prioritise the well-being of lower paid workers by refraining from rewarding shareholders through dividends or buybacks or paying bonuses to executives and the highly paid until all their workers have received a living wage (calculated using an independent standard), and steps have been taken to ensure they are paying prices that can provide a living income for workers or producers in their key supply chains.
2. **Worker Directors on company boards**. Evidence for requiring companies to include worker directors on their boards is compelling. Countries with strong rights for workers' participation have higher levels of employment, higher expenditure on R&D, lower rates of poverty and inequality and use more low carbon energy[59]. Worker directors should comprise one third of the board at all listed and private companies with 250 or more workers, with a minimum of two worker directors per board. The Government should consult on ways to require companies to meaningfully include the voice of other stakeholders, like workers in supply chains and local communities, into decision making processes.
3. **Reform the responsibilities of directors**. Company law requires directors to prioritise the interests of shareholders, thus enshrining shareholder primacy in law. Section 172 of the Companies Act should be amended to require company directors to promote the long-term success of the company as their primary aim, with directors required to have regard to the interests of shareholders, alongside those of the workforce and the other stakeholder groups already included in section 172. A possible formulation for this, based on the existing wording with minor amendments, is set out below:

'The directors of the company are required to act in good faith to promote the long-term success of the company, and in so doing, should have regard to the need to:

i) deliver fair and sustainable returns to investors

ii) promote the interests of the company's workforce

iii) foster the company's relationships with suppliers, customers, local communities and others, and

iv) take a responsible approach to the impact of the company's operations on human rights and on the environment.'

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[59] Sigurt Vitols, European Trade Union Institute, The European Participation Index (EPI): A Tool for Cross-National Quantitative Comparison via http://www.worker-participation.eu/About-WP/European-Participation-Index-EPI

About the report

The objective of this work is to contribute to the debate on the role of business in society and corporate governance reform. Our joint ambition is to advocate to all UK political parties to adopt policy reforms that tackle in-work poverty and promote sustainable development in the UK and internationally.

This paper builds on the TUC's and High Pay Centre's long-standing policy and advocacy work on corporate governance. Over the last two years this has included submitting evidence to the Government on corporate governance reforms and meeting with Department for Business, Energy and Industrial Strategy civil servants and the Financial Reporting Council. Both organisations have independently published research and policy papers on corporate governance issues.

The partnership between TUC and High Pay Centre was agreed by contract on 30.7.19.

Appendix 1 – Methodology

This report analyses the returns produced by companies listed in the FTSE 100 index as constituted from July 2019 over the course of the five years between 2014 and 2018. Using data disclosed in annual reports and regulatory filings, we calculated these companies':

- Total net income
- Total dividend payments
- Total share buybacks
- Total returns to shareholders

Where companies have reported their results in foreign currencies, we have converted to sterling using the rate at the end of the relevant year.

The figures are:

Year	Net income (£bn)	Dividend (£bn)	Buyback (£bn)	Shareholder returns (dividend/buyback combined) (£bn)
2014	145,938	63,451	15,143	78,594
2015	58,773	65,369	8,746	74,115
2016	53,888	70,722	9,815	80,538
2017	150,477	71,032	15,393	86,425
2018	142,352	91,706	30,784	122,491
Total	**551,428**	**362,281**	**79,881**	**442,162**