HIGH PAY CENTRE

High Pay Centre Briefing: Company Directors (Duties) Bill, 2nd Reading, House of Commons Friday 4 July 2025

- **Bill proposes a duty for business directors to act in the interests of workers, shareholders and environment, rather than requiring them to put shareholders first**

- **The proposals would help align business practice with the wider national interest, and raise very low levels of public trust in business**

- **MPs should support the bill – but also include a duty to act in the interests of wider society, and consider how the Bill's requirements can be enforced**

Executive Summary

The Bill proposes to refine directors' legal duties as outlined in the 2006 Companies Act. It will remove the clause that effectively means that shareholders' interests are elevated above those of all other stakeholders - including employees, customers, suppliers and wider society. The Bill will instead state that directors' have a responsibility to take the decisions that are likely to promote the success of the company for the benefit of shareholders, workers and the environment with no one group's interests taking precedence over the others.

The proposed changes would better reflect the reality of the important role that businesses play as employers, corporate citizens and environmental actors, and the complexity of balancing the sometimes conflicting interests of these groups. Generating returns for shareholders fills an important societal function, but when this comes at the expense of paying a fair wage to workers, investing in innovation and productivity or protecting the environment it has damaging socio-economic implications.

At a time of very low levels of public trust in business, when strong employee relations and a reputation for socially and environmentally responsible conduct are increasingly important to business's efforts to retain and attract staff and customers, this change would facilitate a business culture more aligned with the UK's national economic interest.

Therefore, we recommend that MPs should support the Bill.

We do propose that the text should be amended so that in addition to workers, shareholders and the environment, Directors should also be required to act in the interests of wider society.

There should also be some consideration given to how enforcement of these duties is applied – we set out some thoughts to this effect below.

Background

The current iteration of Directors' legal duties enshrines the concept of 'shareholder primacy' in UK business culture

Section 172 of the 2006 Companies Act, requires directors of businesses to promote "the success of the company for the benefit of its members" (shareholders)." Directors are encouraged only to "have regard" for the interests of the company's employees, relationships with customers and suppliers or the impact of their decisions on the environment or community.

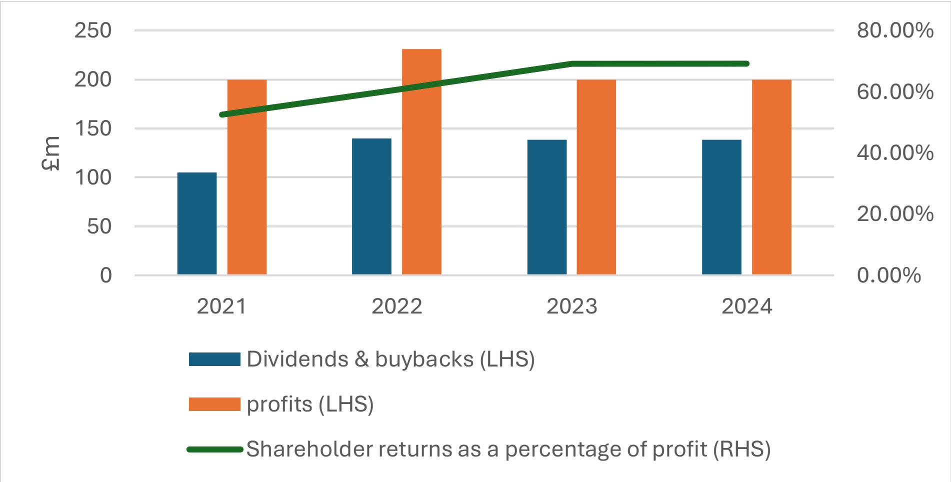
This effectively enshrines the culture of shareholder primacy in UK law. While the intention of Section 172 may have been to encourage an approach based on "enlightened shareholder value" in practice the distinction of shareholders, as the group in whose interests directors must act, from all other stakeholder groups for whom they must only have regard undoubtedly sends a message of 'shareholders first.' This is particularly the case in the UK, where shareholders have a dominant role in corporate governance – approving all appointments to company boards, unlike in most European countries where the company's workforce is able to nominate a proportion of board members. The UK also ranks 26th out of 28 European countries on the 'European Participation Index' (EPI), which measures worker participation in business decision-making.[1]

The impact of this is demonstrated by the fact that even at companies such as Carillion or Thames Water - where the looting of the business to pay shareholders and executives, to the detriment of workers, customers and other stakeholders, has been blatant - no director has been legally held to account for their responsibility under Section 172 to have regard for these stakeholders. Companies such as P&O Ferries have attracted public opprobrium for making swingeing job cuts while paying out huge dividends to shareholders.[2]

The culture of shareholder primacy encourages business practice that is contrary to the public interest

Across the FTSE 100 index of Britain's biggest companies, the proportion of profits returned to shareholders via dividends and share buybacks remains below the peak levels in the years running up to the pandemic. However, our analysis suggests it has increased every year since 2021 and was expected to reach almost three quarters of all profits in 2024.

Figure 1: FTSE 100 Shareholder returns as a proportion of profit 2021-24[3]

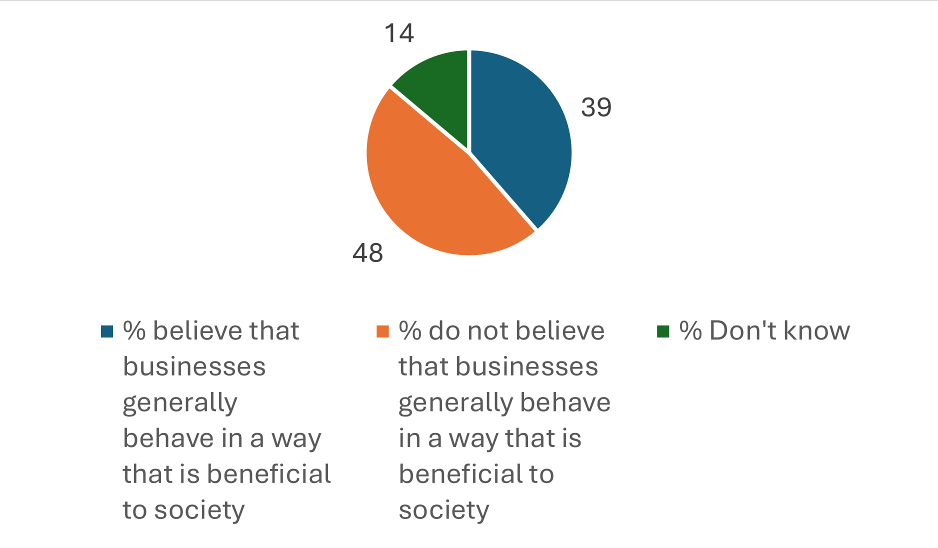


[1] European Trade Union Institute (2025), *European Participation Index* via https://www.europeanparticipationindex.eu/
[2] Guardian (2020), *P&O Ferries to cut 1,100 jobs – but owner to pay out £270m in dividends,* via https://www.theguardian.com/business/2020/may/11/p-and-o-ferries-to-cut-1100-jobs-owner-pay-270m-dividends
[3] High Pay Centre analysis of FTSE 100 accounts

This is money that could be spent on investment in innovation or productivity or on pay for low and middle-earning workers. Business investment in the UK has been the lowest of any G7 country in 24 out of the last 30 years.[4] This has major implications for the UK's productivity growth rate, which have lagged the United States by 28% since the global financial crisis and have lagged France and Germany by 13% and 14% respectively.[5] Pay levels across the UK economy are still in the throes of a two-decade stagnation, with a 2024 analysis finding that real wages were still below their 2008 level in 212 of 340 local authorities.[6]

This has contributed to public suspicion and distrust of business. High Pay Centre polling found that more people think business does not have a beneficial impact on society than view it as a force for good. A majority of people think business prioritise the wrong things – with providing decent pay and working conditions neglected in comparison to providing returns for shareholders.

Figure 2: Public attitudes on the benefits of business to society[7]



[4] Department for Business and Trade (2024), *Business investment analysis* via https://www.gov.uk/government/publications/business-investment-analysis/business-investment-analysis

[5] London School of Economics (2024), *Boosting growth and productivity in the United Kingdom through investments in the sustainable economy* via https://www.lse.ac.uk/granthaminstitute/wp-content/uploads/2024/01/Boosting-growth-and-productivity-in-the-UK-through-investments-in-the-sustainable-economy.pdf

[6] Trades Union Congress (2024). *Pay packets worth less than 2008 in nearly two-thirds of UK local authorities – TUC analysis reveals* via https://www.tuc.org.uk/news/pay-packets-worth-less-2008-nearly-two-thirds-uk-local-authorities-tuc-analysis-reveals

[7] High Pay Centre (2022), *Worker voice in corporate governance – How to bring perspectives from the workforce into the boardroom* via https://highpaycentre.org/wp-content/uploads/2022/11/STA0922916658-001_aFFT-Pay-Ratios-Report_1022_v5.pdf

Table 1: Public attitudes to business priorities

	Businesses should care about most (%)	Businesses care about most (%)
Better pay & working conditions for their workers	58	18
Paying a fair amount of tax	48	17
Delivering value for money for customers	40	23
Protecting the environment	40	15
Helping to improve society	26	14
Improving diversity of their workforce	18	15
Innovating new products	14	35
Generating higher profits for shareholders	10	54

Changing directors' legal duties to reflect the different stakeholder interests that businesses have to balance would send an important message about the fundamental purpose of business and its relationship to society. Shareholders and workers have some mutual interests: both groups want the company they work for to thrive, but there are also occasions on which their interests conflict - for example, holding down pay for workers can mean higher profits and greater returns for shareholders.

This Bill would help address imbalances in the UK's corporate governance policy regime and encourage business practice that enable improvements to pay and living standards

The new Bill would provide directors with a basis to take decisions that favour workers or the environment, even if this reduces pay-outs to shareholders.

This is particularly important, because as previously noted, the pressure on businesses when stakeholder interests collide is currently hopelessly unbalanced, to the benefit of shareholders given their dominant role in UK corporate governance. Decisions in favour of workers and the environment are also increasingly likely to be better aligned with the UK's national interests, given the increasing proportion of shares in UK companies held by overseas investors which had reached 58% in the most recent government figures, up from barely 30% at the turn of the century.[8] Even amongst UK investors, share ownership is highly unequal with the richest 1% of the population owning more direct share-based wealth than the poorest 90% combined.[9]

Recommendation

MPs should support the proposed Bill, but incorporate duty to wider society

As such, we are hoping as many MPs as possible will support the draft bill at the second reading on Friday.

We also think the Bill could be improved by incorporating a requirement to promote the success of the company for the benefit of wider society, alongside shareholders, the environment and the company's workforce. There is a growing interest in the social impact of business, and the importance of conduct in relation to customers, suppliers and communities in aligning practice with the interest of wider society.

This provision could be included by amending the text of subsection 2 of the proposed bill to read as follows (suggested amendment in bold):

> *"2) For subsection (1), substitute—*
>
> *"(1) 5*
>
> *A director of a company must act in the way he considers, in good faith, would be most likely to promote the success of the company for the benefit of—*
>
> *(a) its members as a whole,*
>
> *(b) the environment **and wider society**, and*
>
> *(c) the company's employees."*

MPs should also consider enforcement of the proposed changes

It is crucial that any re-wording of the Act is accompanied by genuine accountability and enforcement mechanisms to ensure duties are being taken seriously. The Financial Reporting Council (FRC) offers a useful model for audit regulation that could be followed with regard to directors' duties, whereby the FRC can investigate and issue sanctions, including fines, practice restrictions, or removal from the company directors' register, in response to complaints.

The Audit Reform and Corporate Governance Reform Bill announced in the 2024 King's Speech presents a timely option for developing this proposal. The bill will replace the FRC with the new Audit Reporting and Governance Authority (ARGA), and the powers to enforce a revised definition of directors' duties could be included under the new body's powers. The corporate

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[8] Office for National Statistics (2023), *Ownership of UK quoted shares* via https://www.ons.gov.uk/economy/investmentspensionsandtrusts/bulletins/ownershipofukquotedshares/2022

[9] High Pay Centre, Commonwealth and TUC. (2022). *Do dividends pay our pensions? A report from the TUC, Common Wealth and the High Pay Centre* via https://highpaycentre.org/wp-content/uploads/2022/01/Do-dividends-pay-our-pensions-Jan-2022.pdf.

governance bill could also be used to bring the UK in line with other European economies, and give worker directors a seat on company boards.

Further Reading

- HPC's Charter for Fair Pay sets out ten policies for reducing pre-tax inequality. The policy recommendations include reform of Section 172 of the Companies Act

- Two further HPC reports, How the shareholder-first business model contributes to poverty, inequality and climate change on the disproportionate and unsustainable returns to shareholders generated by FTSE 100 companies, and Who benefits from returns to shareholders? showing the diminishing extent to which dividend payouts and buybacks benefit ordinary savers in Britain, who represent a tiny and decreasing proportion of UK share ownership.

- For information on similar developments overseas, please see the Business Roundtable in the US's statement on its revised corporate governance principles. Shareholder primacy was replaced with a commitment to balance the interests of all stakeholders, including customers, employees, suppliers, communities, and shareholders.

- Companies for People – A report by the TUC into the conflict between wages and dividends and how business could be re-modelled to ensure a fairer distribution of wealth to workers.

About the High Pay Centre

The High Pay Centre (HPC) is an independent think tank focused on fair pay, worker voice in corporate governance, and responsible business practices. We produce regular research on the pay and governance structures of the UK's largest companies, and the regulatory regime that shapes their business models and employment practices.

Topics covered recently include reports into CEO pay levels and CEO-to-worker pay gaps across corporate Britain; a 'Charter for Fair Pay' identifying policies that could reduce pre-tax inequality; the 'Fair Reward Framework' an assessment tool comparing responsible business practices including compliance with the spirit of tax laws, dialogue with trade unions and pay practices across the FTSE 100; and an upcoming report analysing the reporting practices and disclosures of FTSE 100 firms. We have also responded to a series of government consultations on the Employment Rights Bill, as well as consultations on the corporate governance code and stewardship code overseeing boards and investors in the UK.

Contact details

We would welcome the opportunity to discuss this Bill or HPC's work on economic equality, corporate governance and responsible business more generally.

If you or any of your team would be interested in a call or meeting, please contact HPC Director Luke Hildyard via luke.hildyard@highpaycentre.org