



Predistribution Initiative Discussion Paper

Governance Sea Change

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The governance sea change

Corporate governance as it is practiced today is built upon a range of assumptions and decisions that have not been revisited or reinterrogated for many years. Some of the features that we take for granted today were once matters of active discussion and contestation, others encountered significant resistance, while some consequential changes attracted surprisingly little attention at all. But much of this has been forgotten and most of us simply accept things as they are.

This makes sense, most of the time. Companies, their workers and their investors benefit from knowing 'how things are' and work to them accordingly. We need to know the rules in order to orient ourselves to action in the here and now. It can seem impractical and time-consuming to ask 'why do we do it like this?'

But sometimes we do need to take our heads out of the day-to-day and ask whether assumptions still hold and, more importantly, whether the approaches we have inherited do what is expected of them.

The sediments of corporate governance

The corporate governance model we have in countries like the UK and the US was built over decades in several phases. The post-war reassertion of shareholder control was followed by a turn away from significant state involvement in the economy and the shift to market-based provision of many goods and services. By the 1980s and 1990s these strands increasingly formed part of a more coherent shareholder-centred governance settlement.

Prior to this, the idea that shareholders (who were largely individuals) would or could exercise meaningful oversight of investee companies was dismissed as entirely unrealistic. Berle and Means are famous for their identification of the separation of ownership and control (leaving aside the conflation of shareholding and ownership). Less remembered is their conclusion that this freed the corporation from a requirement to be governed by or in the service of its notional owners.

But a series of post-war developments pushed in a new direction. In the UK the Cohen Committee and the Companies Act 1948 strengthened shareholders' formal position relative to management, helping to re-establish shareholder control as an organising principle of company law. The rise of institutional investors as a material fact helped counteract the dispersion of share ownership, while agency theory supplied an efficiency rationale for shareholder primacy. Institutional investors increasingly had the scale to exercise influence.

Broadly described, this emerging model asserted that shareholders deserved prime position in governance given the risk they undertook and their residual claimant status in the corporate ranking of interests. Only they, it was claimed by advocates, had the clear self-interest to ensure that companies managed their resources efficiently in the pursuit of value creation. This made them the natural priority party.

From this basic framework has flowed a range of policy initiatives seeking to enshrine shareholder interest and provide tools to support it. These include the appointment of independent (or non-executive) directors; the creation of board committees covering nominations, audit and executive pay; greater corporate disclosure, both financial and non-financial; takeover regulation and strengthened shareholder voting rights.

It has also included the introduction of equity incentive schemes for executives intended to align their interests with those of shareholders. This creates a concentrated firm-specific economic interest for executives, that notionally mirrors the exposure of shareholders, to focus their attention on ensuring the success of the business as expressed through financial metrics.

The model, then, encompasses several core features:

- Shareholders as principals
- Independent directors as internal monitors
- Shareholders – with access to information and control rights – as external monitors (either directly or indirectly via exit and the market for corporate control)
- Executives incentivised with a concentrated, firm-specific economic interest

The settlement has held fast for several decades now and survived several crises. In many cases the policy response to crisis has consisted in trying to assert the model more forcefully: more disclosure of information to investors, stronger shareholder rights and greater board accountability.

This formulation seemed to enjoy a fairly broad consensus in support, perhaps in some cases in fear of alternatives.

But today the picture is much less clear, and so it is worth asking the big questions - does the corporate governance model still do what its proponents intended and, relatedly, can it still command support? If not, what could we envisage in its stead?

Diversification, indexation and monitoring

Since the current model relies on the structural reality of self-interested investors holding meaningful positions in public companies, let's consider how investors actually relate to investee companies.

The focus here is principally on listed public companies. Private equity raises related but distinct governance questions and is considered briefly later.

Many of today's institutional investors, the class of shareholders that do hold meaningful positions, are deliberately highly diversified. By holding a wide basket of stocks they seek to reduce the risk of significant loss driven by the failure of any one company. Logically, this should change the cost-benefit balance on the decision to allocate time and resource to monitoring investee companies.

Put simply, closely monitoring individual portfolio companies and intervening when needed has a stronger economic rationale when an investor has a limited number of large positions than when they hold a smaller position in many companies. And it is the latter approach which is common in developed markets.

Importantly this means that whilst the governance settlement has deliberately increased the concentrated, firm-specific economic interest that executives have, this has taken place concurrently with shareholders reducing their own. This is despite incentive schemes being intended to align executive and shareholder interests.

As is well known, the largest and most diversified investors are asset managers running large, indexed portfolios. Here the choice of which stocks to hold has no firm-specific investment case; it is driven by index construction. The growth of passive management has been significant over recent years and forms a central element of many asset owners' investment strategies. This has led to those asset managers

specialising in passive management becoming significantly larger, along with their positions. It is common for BlackRock to hold 10% of the issued shares of UK PLCs, for example, making it the largest single shareholder in numerous companies. Vanguard often holds around 5% and is regularly in the top three.

A manager such as BlackRock does not hold the economic interest in any underlying company, rather it passes the benefits on to its clients. And those clients in turn expect a market matching return (beta) rather than firm level outperformance. Again, this logically suggests that the cost-benefit decision regarding resources allocated to monitoring should change.

Relatedly, a number of investors themselves have sought to undertake a shift away from monitoring focused at firm level, to a market or system-wide approach. This has also been reflected in the UK Stewardship Code. The 2020 Code introduced an explicit expectation that investors identify and respond to market-wide and systemic risks, which the FRC itself has described as encouraging “a more system-wide approach to stewardship”. The 2026 Code retains this emphasis through its explicit recognition of “macro stewardship”, alongside continued expectations around engagement with individual issuers.

Taken together, this suggests that firm-level monitoring by investors has a relatively weaker economic rationale than it did when some fundamental theoretical assumptions about how corporate governance should be structured were developed and adopted. (This leaves aside other factors, such as extensive stock-lending, which further challenge the simplified model of share-ownership that underlies governance assumptions.)

This does not necessarily entail less monitoring-type behaviour by investors, but it may change the basis on which such activity is undertaken. Investors with a strong economic interest will monitor of their own accord. Where the immediate economic rationale is weaker they may require other incentives.

This logic does not apply uniformly across all investors. Concentrated active managers, and especially activist investors that build meaningful positions in individual companies, may have a much stronger economic incentive to undertake firm-specific research and intervention. In that sense they demonstrate the importance of concentrated exposure to monitoring. However, such approaches only represent part of the shareholder base, with shareholder activist funds a small niche. But governance rights attach to share ownership irrespective of an investor’s strategy or degree of concentration.

The role of public policy

For several decades there has been a consistent thread in public policy that has explicitly sought to provide incentives for investors to act. In response to either specific company level failures or scandals, or more systemic challenges such as executive pay, policymakers have nudged shareholders to play a more active role.

To encourage this, shareholders have been provided with expanded rights – both rights to information in the form of mandated corporate disclosures and participation rights in the form of votes on a growing range of issues.

A basic principle of behaviourally informed policy design is that if policymakers want an actor to pursue a particular path they should make it as easy as possible for them to do so.¹ As such, the policy initiatives

¹ For example, see Inside the Nudge Unit, David Halpern, 2015, WH Allen

undertaken can be interpreted as reducing the barriers to shareholder engagement. This seems likely to have at least marginally reduced the costs of monitoring and intervention.

It is not necessarily the case that large institutional investors as a whole sought these expanded rights, though some certainly did. Rather policymakers considered that they were required in order to fulfil the promise of self-interested monitoring and intervention by shareholders. This has been a consistent and growing thread in public policy, emerging from the 1970s onwards, even as the underlying character of shareholders has changed dramatically in terms of both geography and investment approach.

Over time the basis on which shareholder monitoring and intervention has taken place has also acquired a more normative aspect – this is something investors *ought* to do, even if the economic rationale is not always clear. Shareholder rights are seen as entailing responsibilities. This was essentially what the Stewardship Code sought to articulate as an equivalent to corporate governance expectations of business set out in the UK Corporate Governance Code. In combination, a range of interested parties have sought to expand the range of topics where investors ought to be monitoring company performance. As noted earlier, the response to various crises in recent years has been to demand more of the same, until recently.

The turning tide of reform

As is well understood, the tide has now turned. Public policy in some important markets is now pushing in a very different direction. Investors are increasingly challenged to demonstrate a clear economic rationale for their activity and have been criticised in some cases for pursuing objectives that are either non-economic or even alleged to be actively value destructive.

There is also a distinct critique of shareholder engagement from those who argue that excessive investor intervention can constrain boards, encourage short-termism or impede companies from pursuing broader corporate purposes. This is different from the argument developed here, but it forms part of the wider pushback against shareholder-centred governance.

Importantly, this is now resulting in the reduction of certain shareholder rights, again both rights to information and participation rights. The US has taken the lead, with concerted action by regulators, states and others to target forms of shareholder engagement deemed inappropriate. The interventions range from the approach to the filing of shareholder resolutions, to the application of competition policy against collaborative engagement, to financial reporting to the role of proxy advisory firms.

Most recently in September 2026 the SEC proposed rescinding Rule 14a-8, the federal mechanism through which qualifying shareholders can place proposals in company proxy materials, following an earlier decision by SEC staff to stop responding to shareholder-proposal no-action requests.

But this is no longer a purely US issue, as noted by the investment arm of the Norwegian sovereign wealth fund, Norges Bank Investment Management, which recently warned that “shareholder rights are weakening in many markets”.²

In the UK shareholders recently lost a vote on certain related-party transactions as part of a set of reforms of listing rules. More recently, under the banner of ‘modernising corporate reporting’, the UK government

² <https://www.nbim.no/en/news-and-insights/our-views/2026/shareholder-rights-under-pressure>

has begun consulting on proposals including the removal of an annual advisory shareholder vote on remuneration reports and significantly reduced company reporting, including around executive pay.³

The description of reporting makes clear the role envisaged for investors - allocation of capital: “Corporate reporting is central to maintaining trust in business and investor confidence. It plays a critical role in how investors value companies and assess investment opportunities and ensures transparency for everyone with an interest in a company. By providing information on company finances, strategy and risk, reporting supports capital allocation and management decisions to help grow businesses and the economy.”

The word ‘stewardship’ does not appear in the consultation, and limited references to investor engagement relate to access to information.

Relatedly, a recent academic paper reviewing changes to the Stewardship Code during its history identified a shift backwards in the ‘streamlining’ of the Code in its latest iteration effective from 2026. It concludes: “With respect to those who prioritise fostering shareholder activism... the way in which the Stewardship Code 2026 deals with the issue sends a clear message: it is the end of the road. To the extent that shareholder engagement is going to feature in UK public companies, other catalysts will be required.”⁴

The policy rationale for these developments is clear. In the text accompanying the launch of its company reporting consultation the UK government says simpler reporting will make firms more attractive to investors, and reduced administrative costs will free businesses to invest in staff, equipment and expansion. The objective is growth and competitiveness. These policy initiatives move away from earlier ideas that reporting should inform both shareholders and wider society. What are also not defined are mechanisms to ensure the benefits of any growth achieved flow through to workers and citizens.

In total, this suggests a shift in the way that the role of investors is envisaged by policymakers. Whereas they had previously been seen as a party that would hold companies ‘accountable’ as well as being responsible for allocating capital to business, it is now their role as allocators that dominates. This is explored further in stylised form in the table below, focusing on UK public policy.

	Accountability era, 1990s onwards	Allocation era, today
Primary focus of policy making	Firm-level performance	Economy-level performance
Animating ideas	Agency problems, accountability	Growth, national interest
Asset class focus	Public markets	Private markets
Asset owner character	Funds tied to workplace or region, lay governance (member trustees)	Funds spanning multiple employers or sectors, professional governance
How policy sees the investor role	Governance and stewardship	Capital allocation and deployment
Corporate governance policy orientation	Shareholder primacy, investors as restraint on boards, shareholder rights and corporate transparency presumed beneficial	Shareholder primacy, boards as primary actors, shareholder rights and corporate transparency viewed instrumentally
Exemplar policy initiatives	Enhanced company reporting and investor rights, Stewardship Code, Say on Pay, annual election of directors, TCFD, Myners Review, Kay Review	Scaling asset owners, Mansion House Compact, listing rules review, scrapping of Audit Reform and Corporate Governance Bill, Modernising Corporate Reporting consultation

³ <https://assets.publishing.service.gov.uk/media/6a9e72fe3b22fb169dc1929a/modernising-corporate-reporting-consultation-document.pdf>

⁴ <https://www.cambridge.org/core/journals/cambridge-law-journal/article/stewardship-code-and-shareholder-engagement-the-end-of-the-road/B41298615CF060A4C84A517F0ED75CA5>

The significance of this change in approach for corporate governance is that it further shifts the balance when considering the economic rationale for investor oversight.

Expanded reporting and participation rights reduced the information and transaction costs associated with shareholder monitoring (though it may have marginally increased company costs). If those rights are removed, investors must expend more time and resource to obtain information or exert influence. That raises the cost of firm-level monitoring and weakens the economic case for doing it, and in turn creates a potential gap in terms of ensuring accountability at a firm level.

It is important to be clear that none of these developments necessarily entail the abandonment of shareholder primacy as an operating logic for decision-making and the ordering of interests within the firm.

This is underlined in the consultation on corporate reporting which states clearly that investors are the principal interested party: “The annual report and accounts should be a focused document designed for a specific audience. The government proposes that the purpose should be to provide financially material and decision-useful information to investors and creditors.”

However, there is no emphasis here on the role of investor monitoring and intervention as a mechanism for the implementation of shareholder primacy in practice. Boards make decisions and implement them at firm level. Investors allocate capital, albeit increasingly on a passive basis.

Do rights sit with the wrong monitors?

We have entered an era where there is less encouragement, and active discouragement in some markets, for investors to monitor and intervene. In some cases a shift in public policy is increasing the costs of doing so. Meanwhile the continuing growth of passive management continues to erode the relative economic rationale to undertake such activity on a voluntary basis.

The growth of passive management concentrates the participation rights that do accrue to investors with a limited number of players and in doing so also delivers them to those with potentially limited incentive to act. The underlying economic exposure associated with residual claimant status sits with beneficial owners, while the associated participation rights are typically exercised collectively by the asset manager. That exposure is, in turn, deliberately diversified across many companies.

This turns the theoretical basis of the allocation of participation rights on its head. Modern capital markets separate some of the functions that the theoretical model tends to bundle together: underlying economic exposure, possession of participation rights and the incentive to undertake firm-specific monitoring. Those with the greatest rights in thousands of public companies have potentially limited incentives to act, and these may be growing weaker.

For a variety of reasons, it is contestable that the governance model that has been adopted does deliver what is expected of it. It is also demonstrably the case in certain markets that it no longer enjoys the same kind of support it once had.

Where else might we look?

Labour as a firm-specific monitor

As noted, a core element of the existing corporate governance settlement is the provision of equity incentives for directors. This is the quite deliberate creation of concentrated economic exposure to engender a clear focus on the company's success, as expressed in the metric of returns to shareholders. This is also one element of the existing corporate governance settlement that remains deeply embedded and has not been subject to the same policy retreat.

Of course, there is another stakeholder in public companies that has always had a concentrated firm-level interest in the financial success of companies that can't be diversified away, and which is well placed to monitor: the workforce.

It is curious, then, that whilst concentrated economic exposure to the firm for executives is treated as a positive governance feature by investors, labour's interest, and the potential that this should entail governance participation, is viewed very differently.

Labour is typically characterised in much financial literature as a contractual claimant on the firm ranking ahead of equity investors. This is in turn used to justify the existing allocation of participation rights. In addition, the idea that labour should participate in governance has been resisted on the basis that this could increase rent seeking and affect operational efficiency, innovation, profitability and firm value to investors.

In reality this oversells the case. Shareholder primacy as practiced by boards, even without the involvement of shareholders, can mean that decisions are taken that prioritise the creation of value for shareholders. Regular dividends and/or buybacks in service of shareholder interests today might take precedence over wage raises or benefit improvements in service of the company's longer-term performance. Job reduction announcements often result in an increase in share price, the market's assessment of the net present value of shareholders' interest in the firm. Whilst shareholders might be residual claimants when companies fail, during their ordinary operations it is difficult to see how they can be characterised as ranking last.

Consider this comment from an investor on how they believed the leadership of Carillion was oriented prior to the company's failure:

*"Mr Murchison said that, while dividends should be 'a residual', payable once liabilities had been met, there was a problem with 'corporate cultures where a lot of management teams believe dividends are their priority'. Carillion's board was a classic such case, showing: 'desire to present to investors a company that was very cash generative and capable of paying out high sustainable dividends. They took a lot of pride in their dividend paying track record. Such an approach was inconsistent with the long-term sustainability of the company.'"*⁵

Similarly, the precise contractual claim that workers have on a company is highly variable. Again, it is implausible to characterise workers in 'at will employment', or on zero-hour contracts, as enjoying a privileged status in the ranking of interests relative to external investors.

⁵ <https://publications.parliament.uk/pa/cm201719/cmselect/cmworpen/769/769.pdf>

And, obviously, the risk that workers shoulder cannot be diversified away by working for all the companies in the Russell 3000 or FTSE All Share.

Present value of labour income (PVI)

One way of conceptualising labour's firm-specific economic interest is by considering the present value of labour income, here called PVI. Just as the value of capital as expressed in a company's share price can be understood as the present value of expected future income flows to investors, PVI represents the expected value to workers of future pay, benefits and other income associated with employment at a particular firm. It is importantly different from "human capital", which attempts to value labour from the perspective of the firm. PVI is a way of conceptualising the value of the employment relationship from the perspective of workers themselves.

If we were to quantify it we would be able to see, for example, that PVI in Company X falls on news of job cuts even when there is a rise in the present value to capital as expressed in the share price. This would make the distributional effects of developments such as job cuts visible. In contrast, changes in share price – typically the only financial metric used - present a positive story because they only tell half of it. This can make corporate decisions such as job cuts appear to 'grow the pie' in economic terms when in reality they may only change the relative size of the slices in capital's favour.

For governance purposes, the particularly relevant element may be PVI at risk. That is the part of that future income stream that depends on the continued success of the individual company and could not readily be replaced through alternative employment. Workers therefore have a potentially substantial firm-specific economic exposure which, unlike an investor's exposure, cannot simply be diversified across hundreds or thousands of companies.

Workers also share an informational advantage. In contrast to investors, they see the company, up close, every day. They are much more likely to be able to ascertain the extent to which management claims, whether about use of resources or implementation of stated policy, match reality on the ground.

This informational advantage can also improve decision-making before the fact. Workers can bring operational knowledge, early warning of emerging risks and practical insight into how decisions on issues such as restructuring, technology adoption or changes to working practices are likely to play out in practice. As PDI has written elsewhere, worker input could help the governance of companies exhibit requisite variety.⁶

From experience, when workers and investors talk to each other, it is often revealing how differently they perceive an individual firm. Trivially, workers will tend to talk about operational factors and processes, investors will lean towards financial metrics and leadership issues. But more fundamentally, when workers say to investors "These are the issues we see within Company X" it is very common for investors to ask in return "How does Company X compare to peers Y and Z?"

Aside from the fact that workers have no specialised insight into peer group companies, though their union may, it exposes the logic of portfolio-based thinking. Investors are interested in relative performance, whether on financial or non-financial grounds, while workers are focused on one firm.

⁶ <https://predistributioninitiative.substack.com/p/boards-of-requisite-variety-the-cybernetic>

An investor might consider that Company X is performing poorly, but is still better than Y and Z. It might even overweight its position relative to the benchmark. Relative performance across peer groups has no relevance to the current employee of Company X. Their interests in prioritising an improvement in Company X do not coincide. Neither is irrational, but the worker perspective is potentially more relevant in firm-level performance.

It is also far easier for investors than workers to move between Company X, Y and Z. Investors prize liquidity, which might be described as “ease of exit”, and expect to be compensated for illiquidity through higher returns. Workers face meaningfully higher barriers to exit, such as the availability of equally good or better employment elsewhere. Using Albert Hirschman’s typology, we might expect ‘voice’ to be institutionalised for the party more likely to remain involved with the business.⁷ Instead, corporate governance in markets like the UK and US provides participation rights to the party most likely to leave.

None of this means that workers will always favour the strategy that maximises firm value, any more than shareholders or executives reliably do. But it does highlight the questionable exclusion of labour from governance.

Of course, employees and shareholders might have different views of what “success” looks like for the company. Employees might instinctively favour the ability to provide stable ongoing employment, which can only be achieved by a financially sustainable company. Investors may instinctively favour a relatively speedy increase in the value of the firm to investors, or the provision of steady income via dividends or buybacks. One might lean towards careful incremental change, the other disruptive innovation, one might have a more long-term focus, the other being more mindful of the short term.

Importantly, neither of these perspectives or potential objectives are inherently correct, nor are they set in stone. The workforce in a new company might be willing to shoulder greater employment risk in exchange for expected future income. Investors in certain companies will see the value in steady improvement over time. And there is scope for deliberation too.

This suggests that the perspectives of both labour and capital are valuable to the firm. Yet the existing allocation of governance rights is driven by the assumption that investor perspectives are those that should predominate.

This is curious. If concentrated economic exposure and access to relevant information are considered desirable characteristics in a monitor, it is difficult to explain why labour should be institutionally excluded from governance altogether. The question should be what participation rights would allow this monitoring capacity to be used effectively.

This does not entail the disenfranchisement of capital. Rather it suggests a more balanced governance framework. Labour and investor interests may not always coincide, but there may be cases where they do so in important ways.

This might have particular relevance in the technology sector which embodies such promise but also threat to our societies. Many firms in this sector have share structures that deliberately attenuate minority shareholder influence. For the most part, they also lack any tradition of organised labour.

⁷ Albert O. Hirschman, *Exit, Voice, and Loyalty: Responses to Decline in Firms, Organizations, and States* (Cambridge, MA: Harvard University Press, 1970)

It is perhaps not surprising that the leadership of technology companies can appear autocratic and extremely resistant to accountability to any stakeholder. This might be a sector where thoughtful alliances between labour and capital could deliver meaningful governance improvements that benefit all parties, on the basis of each respecting the other's claim.

In addition, as noted earlier, developments in the US and UK seek to reduce shareholder rights and corporate reporting by reference to the need to focus on generating wealth. But there are no accompanying mechanisms being proposed in this area to ensure that the wealth that is created benefits those workers and communities that help generate it. In contrast it can be paid out quickly and easily to shareholders. An expanded notion of corporate governance is one way this gap could be addressed.

A word on private equity is required here. In private companies, concentrated capital owners may have strong incentives to monitor management closely. But the underlying question remains. Why does labour, which also has concentrated economic exposure and informational advantages, lack participation rights?

“But labour is a shareholder too...”

Almost any discussion of the role of labour in corporate governance will quickly lead to the assertion that labour is a shareholder too, which, it is argued, complicates the picture. Whilst employee ownership schemes exist within public companies, giving the workforce equity exposure to their employer, most commonly this point is developed in relation to pension saving.

This argument asserts that making workers more powerful within the firm might reduce the value of firms in which their pension savings are invested. And in a world of defined contribution pensions anything that reduces investment returns affects the final income workers can expect in retirement.

Whilst it is true that workers' pensions are invested in company stock and thus, in a DC system, are affected by investment returns the argument as a whole can easily be challenged on numerous grounds.

First, it needs to be proven, not asserted, that an expanded governance role for workers does have the effects that its opponents claim. The existing evidence is far from settled here.

Second, if there were a trade-off between governance rights, that enable workers to have more stable and perhaps improved remuneration during their working life, versus marginally lower investment returns on some DC assets this might still be net positive for workers. The concept of PVI might be useful again here in clarifying the value of these potentially conflicting interests.

Third, the argument seeks to keep labour's interest as an employee and as an investor functionally separate to stress the conflict. In reality, they are intertwined.

The DC pot that is invested is dependent on contributions as well as investment returns to drive its growth. Those contributions are in turn dependent on employment. Both continuity of employment and the level of earnings on which contributions are based are important determinants of the eventual pension outcome.

It is entirely rational for a worker as both an employee and an investor to prioritise secure employment in order to ensure the ongoing payment of wages and pension contributions (often characterised as deferred wages). Investment returns alone cannot overcome a halt in contributions caused by unemployment. They cannot compound contributions that are not made.

Stronger governance rights for workers might lead to higher pension wealth if the result is secure, well-paid employment. This flips the usual logic of “labour as a shareholder” on its head. One might even call higher pension wealth as a result of governance participation rights an unintended consequence of such a reform.

Time for a fresh wave of governance reform

Today, after several decades of seeking to rely on shareholders as the privileged stakeholder to undertake monitoring and intervention, we can observe the challenges in making this model work.

Rational decisions made by shareholders – about diversification and passive management – have altered their relationship to companies. At the same time, the retreat in some markets from extensive shareholder rights has likely increased the costs of exercising the role expected of them.

In any case, the portfolio-level view adopted by many investors, shifting into a system-level view in some cases, is pointing attention both to relative performance and away from the level of the firm.

In contrast, labour’s interest continues to be firm specific. Even its additional interest as an investor, via pension fund investments, is dependent on continuing wages that drive contributions.

Traditional agency theory underpinning many of today’s corporate governance norms treats firm-specific economic interest for executives as desirable. But curiously this does not extend to providing governance rights to economically exposed labour.

Seen in this way, it is the *absence* of workforce participation in corporate governance, rather than its inclusion, that appears to be an anomaly in markets like the UK and the US. If we follow the logic used to develop our current governance norms we should consider how to enshrine participation rights for the workforce. We should stop expecting labour to justify its inclusion and instead challenge the existing governance system over labour’s exclusion.

If there are benefits to be gained from governance models aligned with company performance, this may improve firm-level efficiency and, in turn, support economic growth. This is worth policymakers pursuing on its own terms. Arguably more significantly, reform would be a signal that the workers in a firm are considered an important stakeholder at a time when public faith in the ability or desire of business to treat workers fairly is lacking.

We know from recent experience that a purely top-down and voluntarist approach does not deliver durable workforce participation. Rebalancing corporate governance therefore requires workers to have governance participation rights that do not depend on management choosing to grant them. One approach is an exercisable right to board representation, allowing workers themselves to decide.

It is not the purpose of this essay to specify what precise form that participation could take, a question which we will explore further in a separate forthcoming PDI report. Rather it is to make clear that the assumptions that underlie our current governance model are even more contestable than in the past, and this leads to the conclusion that significant change is required. Labour’s exclusion has always looked questionable; increasingly it appears a fundamental design flaw.