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CORPORATE GOVERNANCE – WHY IT MATTERS FOR YOUR BUSINESS

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ACKNOWLEDGEMENTS

This report covers complex subject matter. The research has involved wide-ranging conversations over a number of months, during which time the situation was evolving rapidly. Due to the broad scope of the report, a number of experts from various professions and disciplines have helped us to shape and develop it. Some of these contributors have asked not to be named in the acknowledgments. We thank them for their advice.

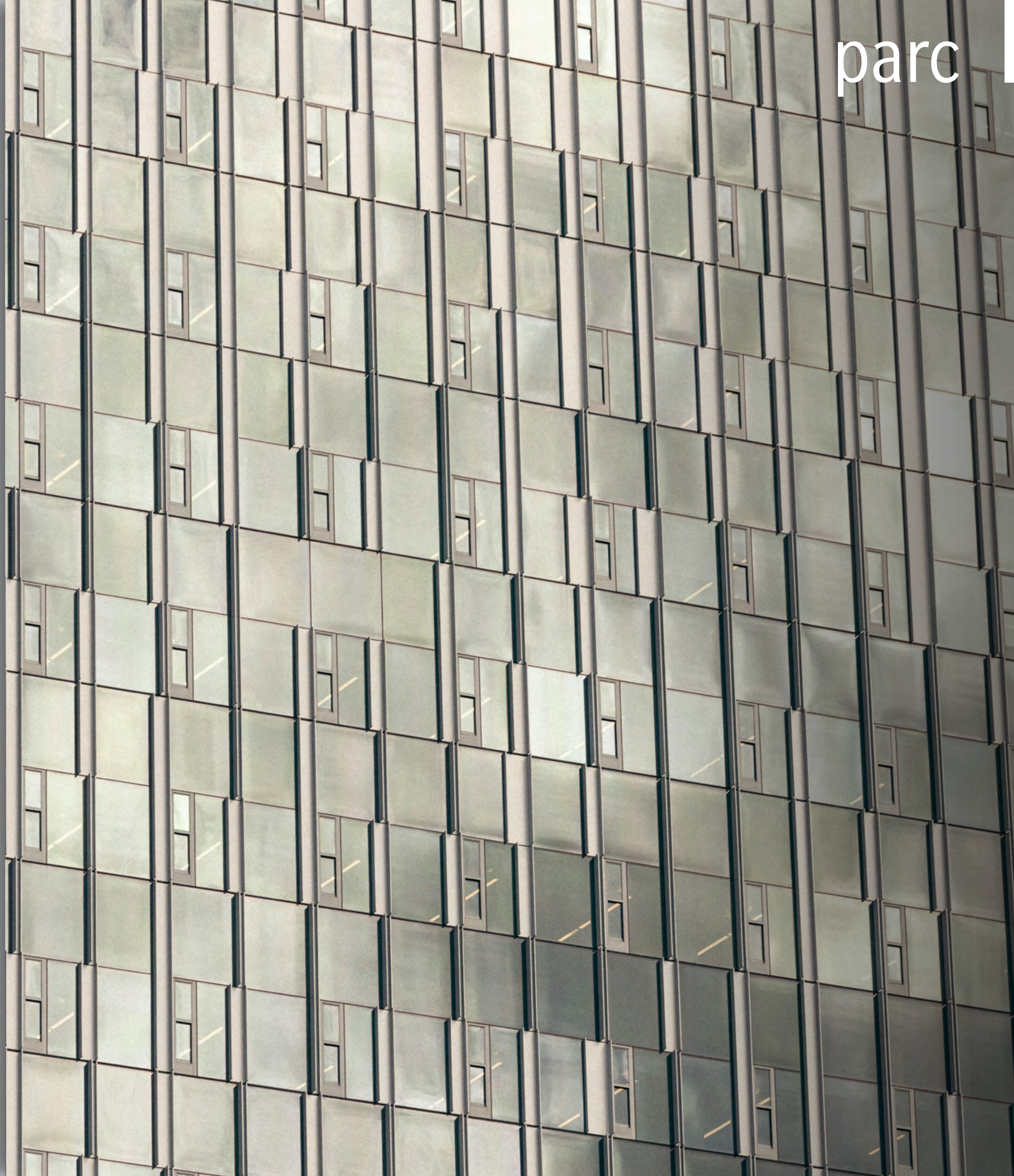
We would like to thank the following people for their insights and comments:

- **Renée Adams,** Professor of Finance at Saïd Business School, University of Oxford, and a Fellow of the European Corporate Governance Institute
- **Ian Burger,** Chair of the ICGN Board, and Head of Stewardship and Integration at Universities Superannuation Scheme
- **Dionysia Katelouzou,** Associate Professor of Corporate Law at Kings College London
- **Duncan Lamont,** Head of Strategic Research, Schroders
- **Stefan Stern,** business author, financial commentator and former Director of the High Pay Centre

Sadly, during the writing of this report, **Andrew Kakabadse,** Professor of Governance and Leadership at Henley Business School, died after a short illness. Andrew was a widely respected figure in the field of corporate governance. He was generous with his time and a great help in the compilation of PARC's Corporate Governance report in 2018.

Andrew, of course, had a wealth of insights and a large body of research on the subject but this one, from his comments quoted in our 2018 report, perhaps gets to the root of some of the malaise:

> *"A lack of tough introspection is leading to corporate collapse and scandals. As a result boards are becoming paralysed and unwilling to speak out, even though they know something isn't right within the organisation.*
>
> *Board members in 66% of the world's top teams simply don't talk to each other enough. They are too concerned about their own specialist areas, or are too inhibited to raise challenging issues."*



There is a strong argument for having some consistent standards about how a company should be run, certainly within a specific jurisdiction and, where possible, globally.

1.0

SETTING THE SCENE

What is the purpose of corporate governance? It is a question we have been discussing for over three decades now and arguably we are none the wiser for it. Few would argue that having sound procedures in place for making critical decisions about both the strategic direction of a company and its day-to-day running makes sense. There is also a strong argument for having some consistent standards about how a company should be run, certainly within a specific jurisdiction and, where possible, globally. Beyond that, though, the discussion quickly becomes a lot more complicated.

The modern era of corporate governance started in the UK in the 1990s. During that time the scope of the subject has broadened to include the involvement of stakeholders other than managers and shareholders and to questions of long-term stewardship. At the same time, the debate has widened from safeguarding the interests of shareholders and preventing corporate collapse to include political, social and economic questions such as fairness, equality, trust in business, stagnant productivity, falling levels of business investment and protecting the environment.

This significant expansion, both in the subject matter captured and in the number of actors involved, is a reflection of economic shifts, changing social attitudes and the resulting political attention. From the beginning, governments' focus on corporate governance was a response to specific problems and the political and media debate that followed. The UK government's first report on the subject, by Sir Adrian Cadbury in 1992, was precipitated by high profile and scandalous corporate failures. By the time of the second report three years later, led by Sir Richard Greenbury, 'doing something about fat cat pay' had been added to the agenda. And on it went, with each report broadening the agenda and the number of stakeholders until, as one academic quipped (in a paper we discuss later in this report) by 2020 we had shifted from 'saving the company to saving the planet'.

The consensus of opinion after the Covid pandemic seemed to be that we would see more of the same. The sharp increase in catastrophic climate events in the latter days of the pandemic gave a renewed sense of urgency to the Net Zero imperative.

At the same time, the rise of global protest movements, such as 'Black Lives Matter' and 'Me Too', pushed matters of diversity and inclusion up the political and corporate agenda. The CEO of BlackRock, the world's largest asset management firm, proclaimed "*a fundamental reshaping of finance*" while emphasising *"the importance of serving stakeholders and embracing purpose"*. Business groups, the World Economic Forum and other former advocates of shareholder value rallied to the cause. The acronym of the moment was ESG (Environmental Social and Governance) and it seemed that the new spirit of the times would turbocharge it into a new decade. The Financial Times remarked that the *"corporate zeitgeist"* looked *"notably different"*.

Five years on, the zeitgeist looks notably different again. There has been something of a backlash against both the complexity and the coverage of internal corporate governance and of investor stewardship. Much of this is due to recent political shifts but not all of it. An impatience with the bureaucracy was apparent in many jurisdictions and, in this sense, the political shift may have caught a wave that was ready to break anyway. An indicator of the change in direction is that the EU's Corporate Sustainability Reporting Directive (CSRD), one of the most far-reaching expansions of corporate governance regulations, was significantly de-scoped for non-listed entities in 2025 and may yet be de-scoped further. Clearly something has changed and, at the time of writing, it is difficult for companies, academics and other commentators to anticipate the direction of travel.

To date, most of the focus on corporate governance has been on listed companies. But why? If good corporate governance is a genuine business asset, it should be of vital interest to all companies. The EU's CSRD was intended to close this gap with wide-ranging targets and an extension of its reach outside the listed sector. However, the de-scoping of the directive may reflect a wider pull-back from regulators, which we discuss in more detail below.

What is corporate governance supposed to achieve? Is it something you do to appease existing investors or to attract new ones? Does it encourage a tick box culture or is it a guiding star for responsible management supportive of performance and growth? Is it a way of hedging against reputational damage or a way of enhancing your company's image among investors and the wider public?

PARC produced a report on Corporate Governance in 2018 and on Stewardship in 2019. Since then, we have revisited aspects of both in our Performance Trilogy (2022), *Getting to Net Zero* (2024) and *Remuneration Committee Effectiveness* (2024) reports. This discussion will revisit some our previous content and consolidate it with a more global perspective and in the context of recent and rapidly changing political developments. As we will show, corporate governance is very much a product of its times and of the political, economic and social forces that shape the context in which companies and investors must operate.

For the purposes of this report we are using the term **'corporate governance'** to cover both the governance of the company and the stewardship obligations placed on investors. In the UK, both codes are governed by the Financial Reporting Council and the OECD's Corporate Governance Factbook covers both. We have adopted the same approach on the grounds that, because of the increasing coverage and interdependency of company governance and investor stewardship, it is becoming increasingly difficult to discuss one without the other and practically we needed to create some boundaries for this discussion paper.

We start **Section 2** with some **definitions** then go on to trace the **evolution of corporate governance,** showing how it has been, and continues to be, shaped by the events of the time.

In **Section 3** we take stock of the **impact of corporate governance and stewardship,** what effect it has had on companies and the wider economy and whether it is reasonable to expect so much of it.

Section 4 looks at **recent developments,** another rapid shift in the governance landscape, and a potential schism between the US and Europe. After decades of broad consensus, the likelihood of conflicting governance requirements in different jurisdictions now looks likely.

In **Section 5** we look at the **developing scenarios and their potential impact on organisations.** We discuss how companies might respond and what Reward leaders can do to advance this conversation and prepare for this ambiguous and constantly evolving environment. We end with drawing together the themes of the report and summarising our **overall conclusions.**

“There is no definitive historical treatment of corporate governance and there may never be one, given the vastness of the subject. Corporate governance has been with us since the use of the corporate form created the possibility of conflict between investors and managers.”

BRIAN CHEFFINS, PROFESSOR OF CORPORATE LAW,
CAMBRIDGE UNIVERSITY

2.0

HOW DID WE GET HERE? *“A PRIMER”*

The concept of corporate governance shouldn’t really be controversial. Most people would accept the basic idea that organisations should be properly run and should have rules and procedures to guide those charged with managing them and setting their direction. Nevertheless, the scope of those rules and how they should be applied is a debate almost as old as the concept of a commercial company. While the term **‘corporate governance’** is relatively recent, people have been arguing about what the purpose of companies should be and how they should be governed for centuries.

2.1

SOME DEFINITIONS

Before going much further, we think it is helpful to clarify some of the terms that are used in the debate about corporate governance and to establish a common understanding for the discussion.

CORPORATE GOVERNANCE

Refers to a system of rules, responsibilities, policies and processes by which a company is directed, controlled, and held to account. In most jurisdictions, **corporate governance** codes apply to the behaviour of directors and executives employed by the company.

STEWARDSHIP

Is a set of similar obligations placed upon investors in a company. While clearly directors are also charged with the **stewardship** of a company, the term has come to be associated with the expanding corporate governance responsibilities of investors. In the UK, which led the way on many of the recent developments in this area, the Corporate Governance Codes apply to directors while the **Stewardship** Codes apply to investors.

STAKEHOLDER

Is a term which came into widespread use in the early years of the 21st Century to describe those who are impacted by a company, but beyond its shareholders, directors and employees. While the early debates about corporate governance were about protecting the interests of shareholders, in the late 1990s the idea that companies had obligations to other groups of people led to the emergence of the **stakeholder** concept. Over time, the definition of who counts as a **stakeholder** has broadened to include not only employees, suppliers and customers but also the wider communities in which businesses are located and, more recently, the environment and the future of the planet.

CORPORATE PURPOSE

This term has gained currency alongside the rise of the stakeholder concept. At its basic level, it is simply a statement of what the company exists to do. However, the argument has more recently broadened to include the question of who the company exists to serve. As Professor Alex Edmans of London Business School says:

> *"A purpose should contain two related dimensions – who it exists for and why it exists. The why explains the company's reason for being. The who highlights which members an enterprise particularly endeavours to serve."*

The concept of **corporate purpose** has become linked with the issue of social purpose, multiple stakeholders and business responsibility. When academics, business commentators and CEOs talk about 'purposeful organisations', they are often using the term to describe businesses that have a social purpose beyond profit and therefore, almost by definition, seek to benefit other stakeholders, such as employees, customers or even society as a whole. There has been an increasing level of cynicism about the use of the term **corporate purpose** – not least in the light of the second Trump presidency and companies rapidly dropping some of their previously held commitments.

2.2

SOME EARLY HISTORY

To understand the current corporate governance landscape and where things might go next, it is helpful to take a brief look at the history of the concept. A number of persistent themes emerge. Fear (or at best, mistrust) of corporations goes back to the start of their existence and government interventions are usually precipitated by some form of crisis. A 2017 UK House of Commons report on corporate governance (in response to governance failings at BHS and Sports Direct) noted:

> *"Corporate governance has gradually evolved, usually following reviews and reports established to tackle a particular failing."*

The history of companies, and the response of public opinion and governments to their growth, provides some useful insights for the current debates on the subject. Even in a much less interventionist age than today, governments realised that the company was a huge concentration of economic power and that the reckless or malfeasant behaviour by its management could impact people beyond its officers and shareholders. Companies also changed society and continue to do so. Inevitably that brought them into conflict with other interests. That this has been a recurring theme suggests that the question of how to tame or control the company has never been fully resolved.

Brian Cheffins, Professor of Corporate Law at Cambridge University, remarks:

> *"There is no definitive historical treatment of corporate governance and there may never be one, given the vastness of the subject. Corporate governance has been with us since the use of the corporate form created the possibility of conflict between investors and managers."*

At the heart of much of the debate was the question of ownership and control. The question of corporate governance therefore assumed more salience in countries where there was a greater diffusion of ownership and a greater separation between those owning a company's shares and those controlling its operations. Shareholder protection, perhaps unsurprisingly, has seen more debate and legislation in countries with common law systems derived from English law. While the United States and United Kingdom have been two of the largest capitalist economies for the last two centuries, the ownership structure of their companies is somewhat unusual. In many other countries it has been more common for businesses to have smaller numbers of owners with larger shareholdings, often through family control or pyramidal business groups. This separation of ownership and control made corporate governance more of a live issue in the US and UK than in most other countries, so it is in these jurisdictions that the early discussion of corporate governance is to be found.

Much of the early debate was around the conflict of interest between a company's management and its shareholders – the Agency Problem – and between large and small shareholders. In the years after US independence, American companies experimented with republican-style constitutions to check the powers of management and large shareholders and protect the interests of smaller investors. In the UK, in 1720, the collapse of the South Sea Company ruined thousands of investors and caused such a fear of out-of-control companies that their formation was severely restricted. Between 1720 and 1844 it required an Act of Parliament to establish a joint stock company. The need to finance the railways was one of the major factors in the liberalisation of company regulation in the UK, with the establishment of limited liability in 1855 and the Joint Stock Companies Act in 1856, considered to be the foundation of modern company law.

Throughout the 19th and 20th Centuries, as capitalism developed, and enterprises grew larger, debates about how to control them intensified. The vast wealth accumulated by the Robber Baron industrialists in the decades after the US Civil War led to a political backlash and the enactment of anti-trust laws. In 1930, the US government formed the Securities and Exchange Commission in response to the Wall Street Crash.

Historians of corporate governance have noted the cyclical or 'pendulum' nature of corporate governance. Professor Harwell Wells, in his study of shareholder power in US companies over two centuries, notes *"the complicated and shifting nature of shareholder power"* and that *"shareholder power has ebbed and flowed across the last two centuries"*. Its resurgence at the end of the 20th Century should, he argues be seen in this context:

> *"Shareholder power, which would have been ordinary in the 1800s, but ridiculous in 1960, was again a force with which to be reckoned."*

Government intervention in the affairs of companies usually came as a response to economic developments or to perceived crises. It is notable that, in both the UK and the US, the period during which there was relatively little discussion of the subject was during the years of rapid economic growth after the Second World War. This underlines the reactive nature of much of the debate. Public and political concern about a number of economic and social issues tends not to track the issues themselves but instead rises and falls in line with economic prosperity.

As we noted in PARC's Remuneration Committee Effectiveness report, public concern about inequality and high executive pay doesn't follow the growth of either. Rather, it rises and falls in line with low economic growth. A recent Bank of England paper made a similar observation about mentions of the public debt in the speeches of UK chancellors. The word almost disappeared during the postwar economic boom, only to emerge again in the 2000s. It's a similar story with corporate governance. As Professor Cheffins notes:

> *"In the decades immediately following World War II, the U.S. experienced a prolonged economic boom and its leading corporations grew rapidly. Amidst the widespread corporate prosperity, the internal governance of companies was not a high priority and the phrase 'corporate governance' was not in use. With the 'managed corporations' that were in the U.S. economic vanguard during this era managers led, and directors and shareholders followed."*

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2.3

MODERN RESURGENCE

The revival of interest in corporate governance began during the slowdown in economic growth during the 1970s. While stagflation gave rise to a general sense of economic malaise, a series of corporate bribery scandals and the collapse of Penn Central railway reinforced the perception that something was wrong with American business. Boards were criticised for their passivity and apparent lack of oversight.

The term **'corporate governance'** first appeared on the Federal Register (the US government's official journal) in 1976. The following year, the SEC held six weeks of hearings into corporate governance and shareholder participation in the corporate electoral process. This renewed political focus led to the Protection of Shareholders' Rights Act in 1980.

In the UK, the concept of corporate governance took longer to become an established part of political discourse. In the 1970s, the term was not widely used. Prime Minister Harold Wilson's use of the word 'governance' was described as 'pompous' by a commentator in 1976. However, the UK certainly made up for lost time after 1992, publishing on average one report every two years. As in the US, the impetus came from a series of corporate scandals and failures. The UK government initiated a series of corporate governance reports which led to the establishment of the world's first corporate governance code in 1998. The frequency of these reports was in response to a rapidly evolving debate in the UK about what companies were for and who they should serve. The Cadbury Report in 1992 was primarily focused on avoiding corporate malfeasance and failure. By the time of the Greenbury Report in 1995, the focus had broadened to include curbing executive remuneration, partly in response to an outcry over 'fat cat pay' in the privatised utilities.

This set a pattern under which the concept of corporate governance came to be applied to an ever larger range of issues. Each report widened the scope of what should be covered and the development of the concept of stewardship pushed responsibility further up the line from executives to directors to the company's investors.

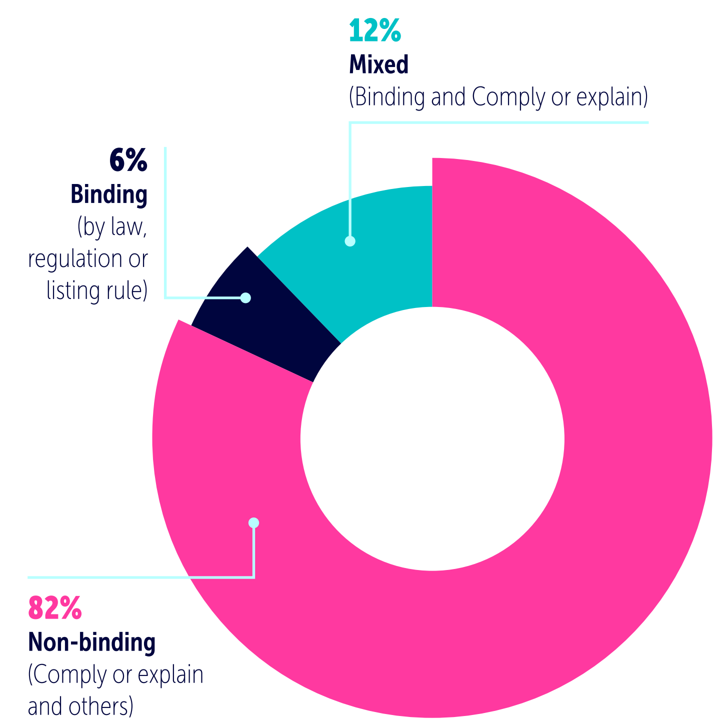
A decade after the publication of his report, Sir Adrian Cadbury, gave a significantly expanded definition of corporate governance in his introduction to a World Bank paper:

> *"In its broadest sense, corporate governance is concerned with holding the balance between economic and social goals and between individual and communal goals. The governance framework is there to encourage the efficient use of resources and equally to require accountability for the stewardship of those resources. The aim is to align as nearly as possible the interests of individuals, of corporations, and of society."*

It was a sign of how far and how fast the debate had shifted. As public and political opinion changed, governments responded by nudging first company directors and then investors to 'fix' an expanding range of problems. During the 2000s, the idea that a company should have responsibilities to a broader group of stakeholders took root. In 2006, the UK government introduced the concept of 'Enlightened Shareholder Value' to UK company law, modifying the duty of directors to have regard to a wider range of stakeholders in addition to its shareholders, such as employees, suppliers, customers, the community and the environment. After the 2008 financial crisis, *"restoring faith in capitalism, stopping short-termism and increasing investment"* were added to the remit of corporate governance and the scope broadened still further.

The Cadbury Report and the UK's adoption of its first corporate governance code started a trend. The concept spread globally. The Organisation for Economic Co-operation and Development (OECD) produced its first set of Principles of Corporate Governance in 1999 and in its most recent Corporate Governance Factbook (2023) notes that most of its jurisdictions have some form of national corporate governance code or an equivalent instrument in place. Most of these codes adopt the British approach of 'comply or explain', while a few jurisdictions take a more legally binding stance.

IMPLEMENTING MECHANISMS FOR CORPORATE GOVERNANCE CODES AND REGULATIONS



Note: Based on 49 jurisdictions. When not categorised as 'Binding', or 'Mixed', notwithstanding different perspectives in naming approaches by jurisdictions, non-binding approaches fall within the category 'Non-binding (Comply or explain and others)', including those named 'Apply or explain', 'Apply or explain an alternative', and 'Apply and explain'.

Source: OECD Corporate Governance Factbook, 2023

2.4

STEWARDSHIP

Since the 1990s, the concept of investor stewardship has developed in parallel with that of corporate governance. As Dionysia Katelouzou of King's College London notes, the first example of a stewardship code was published by the UK's Institutional Shareholder's Committee in 1991, the year before the Cadbury Report:

> *"It is important in the evolution of stewardship as it was the first document to define the responsibilities of institutional shareholders to use their influence as owners to ensure that the companies in which they have invested adopt good corporate governance standards. Historically, therefore, the UK was clearly the forerunner in the development of stewardship responsibilities for institutional shareholders."*

However, it was not until the 2010s that the idea really gathered momentum. Continuing the theme of 'crisis as a catalyst', the 2008 financial crash prompted the UK government to publish its first Stewardship Code in 2010. Over the subsequent decade, the concept of stewardship took hold, with most advanced economies and many emerging ones adopting some sort of stewardship code.

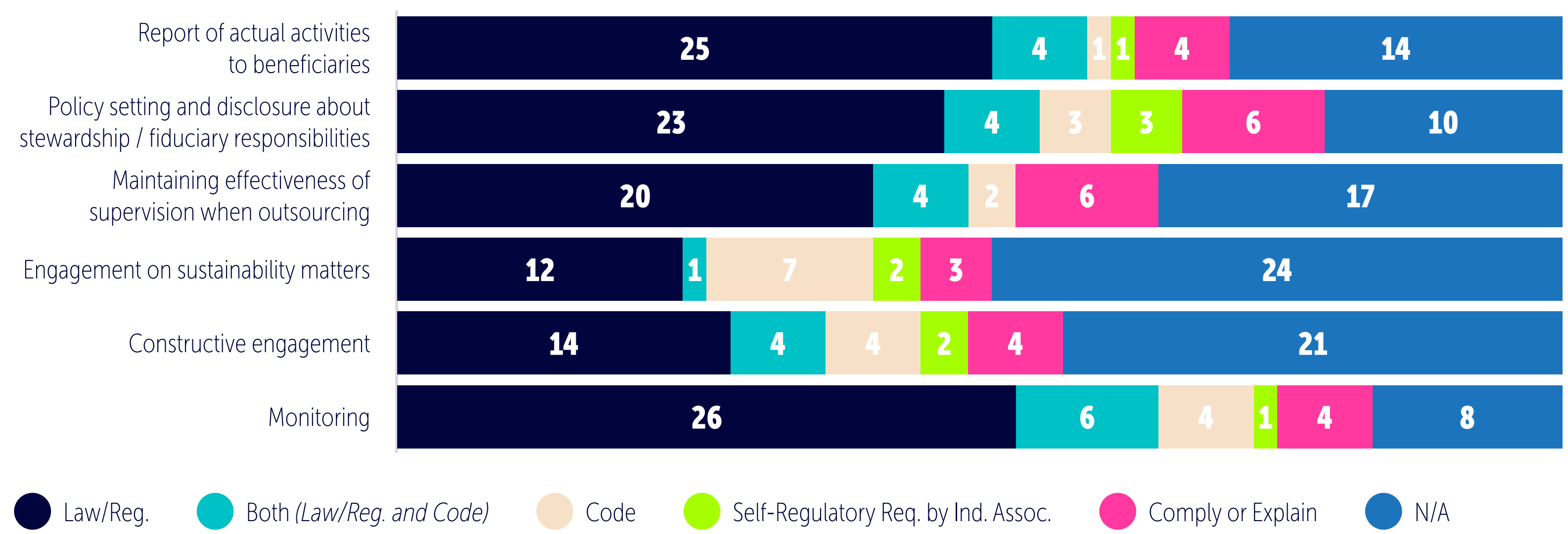
The concept of stewardship is now widespread. Most of the OECD's member countries impose some sort of stewardship obligations on investors.

As with corporate governance codes, stewardship codes have evolved with the shifting zeitgeist. The UK's first code in 2010 emphasised improving long-term returns to shareholders. The only mention of *"social and environmental matters"* was in the context of risks to the company. The second version in 2012 saw a reference to *"the long-term success of companies"* and stewardship benefitting *"the economy as a whole"*.

The third version in 2020 Stewardship Code marked a significant extension of the concept. Stewardship was defined as:

> *"The responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society."*

STEWARDSHIP AND FIDUCIARY RESPONSIBILITIES OF INSTITUTIONAL INVESTORS



Source: OECD Corporate Governance Factbook, 2023

As a commentary by RBS noted, the code was very much 'of the moment':

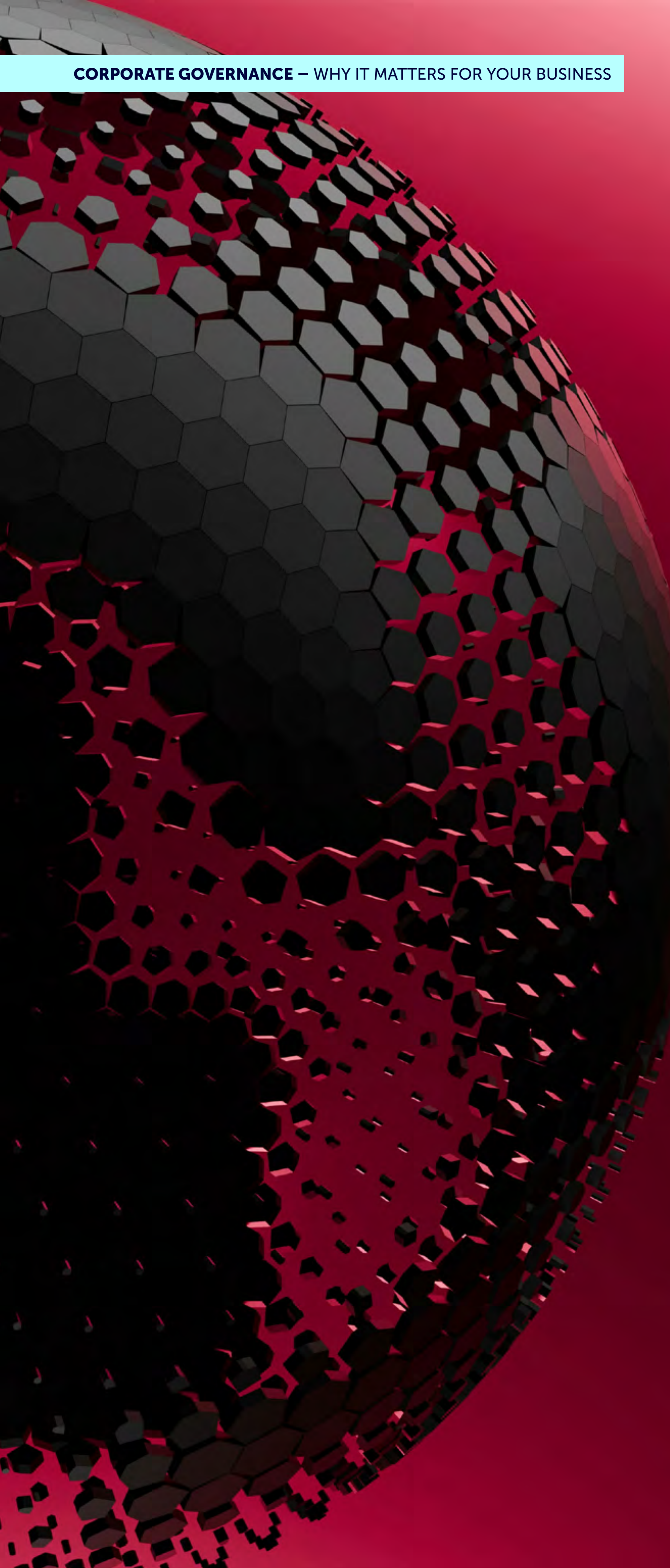
> *"Many of the new themes that it covers have become increasingly topical: the Stewardship Code has proved prescient in aligning with the public mood. It is increasingly relevant given increased public focus on climate change, global protests against racial inequality, and amid the context of Covid-19. For asset managers, asset owners, and service providers, becoming a signatory to the new Stewardship Code represents an opportunity to demonstrate engagement with some of the key themes driving change in 2020."*

In a paper entitled *The UK Stewardship Code 2010-2020: From Saving the Company to Saving the Planet?* Oxford Law Professor Paul Davies remarked that the 2020 code was born out of the failure of the earlier versions and that the extension of its scope represented a 'doubling down' by the UK's regulator, the Financial Reporting Council (FRC):

> *"None of the plausible reasons to explain the reluctance of asset owners and asset managers under the first version of the Code to engage with investee companies have been addressed in the second (2020) version. Instead, the focus of the Code has pivoted away from the performance of individual companies towards the impact of companies on society."*

Other countries, such as Japan and Switzerland, followed the UK's lead by emphasising the ESG responsibilities of investors in their stewardship codes. The OECD Corporate Governance Factbook noted:

> *"Several jurisdictions also set forth requirements and recommendations regarding engagement on matters of sustainability. While this is a relatively new trend, it is now required in 12 jurisdictions, while another 13 rely upon code recommendations. Both Japan and the United Kingdom included sustainability considerations in the revisions to their stewardship codes in 2020."*



2.5

THE BROADENING AND DEEPENING OF CORPORATE GOVERNANCE

Over the past three decades, the concept of corporate governance has broadened and deepened. Companies now have obligations to a wide range of stakeholders and those charged with these obligations now go beyond the company's executives and directors to those who invest in companies and those who act on investors' behalf.

This shift in the governance conversation can broadly be tracked by decade, with these developments coming together at the end of the 2020s in the concept of Environmental Social and Governance measures.

1990s – Shareholders and Non Executives

The separation of the executive and non-executive roles was intended to create a board accountable to investors and prepared to challenge executives on their decisions, performance and rewards. The first Corporate Governance Code stated clearly that companies should be run primarily in the interests of their shareholders.

2000s – Stakeholders

Corporate governance expanded to include the interests of a wider array of stakeholders. The 2006 Companies Act introduced the concept of 'Enlightened Shareholder Value' to company law. Directors were still expected to act in shareholders' interests, while having regard to employees, customers, suppliers, the wider community and the environment. This reflected a growing concern for corporate social responsibility and the interconnectedness of business with its broader environment.

2010s – Stewardship

The mandate deepened to incorporate 'stewardship', emphasizing that investors have a duty to actively oversee and guide the companies they invest in. This implied a more engaged and responsible role for capital providers in promoting good governance practices.

Early 2020s – ESG and Net Zero

Most recently, corporate governance has integrated Environmental, Social, and Governance (ESG) principles and Net Zero targets. This signifies a strong emphasis on environmental sustainability, social equity, and robust governance structures as integral to long-term value creation and corporate legitimacy.

By the early 2020s, then, the debate about corporate governance had moved significantly away from its origins. It had also moved beyond being primarily an Anglo-American discussion to an international one.

The history of corporate governance reveals a number of persistent themes. Fear (or at best, mistrust) of the corporation goes back to the start of their existence. Every so often, a public outcry, a corporate collapse, an economic crisis or a high profile case of illegal or unethical executive behaviour prompts another government intervention. As a result, 'the problem corporate governance is trying to solve' has evolved over time as social attitudes and political imperatives have changed. Which raises the question, after 35 years and the global spread of corporate governance and stewardship, how much difference has corporate governance made?

"There is a danger that anything a company does that someone doesn't like can be labelled as a failure of corporate governance. If we lay too much at the door of corporate governance, we may well lose focus on tackling the problems that really matter."

STEVEN TOFT, ASSOCIATE RESEARCH DIRECTOR, **PARC**

3.0

STATE OF PLAY

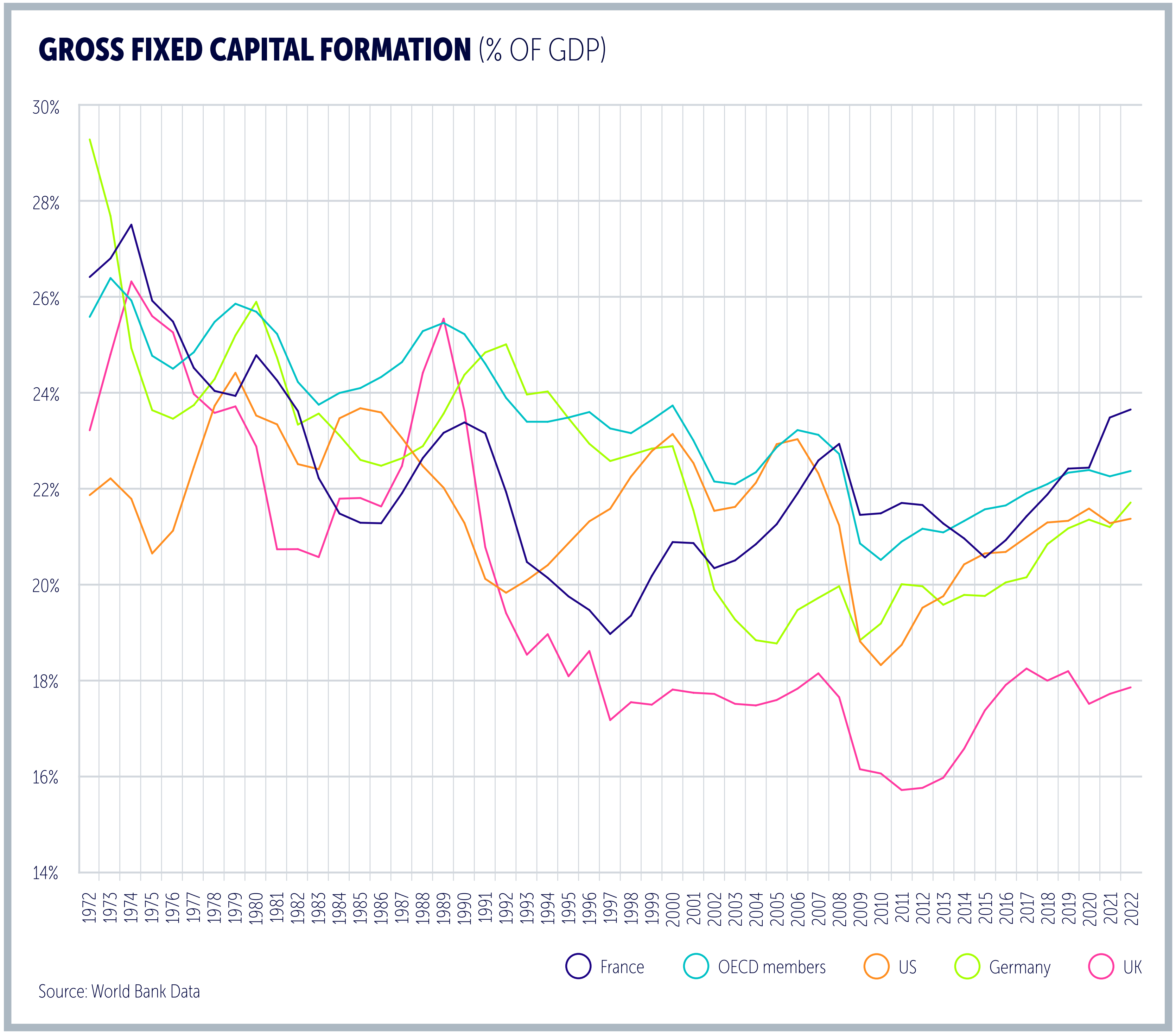
3.1

WHAT'S THE PROBLEM CORPORATE GOVERNANCE IS TRYING TO SOLVE (AND HAS IT DONE SO)?

Given the multitude of issues that now come under the umbrella of corporate governance, attempting to evaluate its success is a daunting task. As the scope has widened, the number of 'illnesses' corporate governance is supposed to cure has increased. It is debatable, though, whether poor corporate governance can be blamed for these malaises, or indeed, whether it is even a partial cure for some of them. As we said in our 2018 report:

> *"There is a danger that anything a company does that someone doesn't like can be labelled as a failure of corporate governance. If we lay too much at the door of corporate governance, we may well lose focus on tackling the problems that really matter."*

At a macro-economic level, the argument for corporate governance and stewardship doesn't look very strong. Since the concepts rose up the political agenda in the 1990s, the performance of the advanced economies has declined. Investment has collapsed, productivity growth has stalled and business dynamism, on a number of measures, has weakened. Many of these trends started before the financial crisis. (For a detailed discussion, see PARC's March 2025 report Is Your Organisation Built to Adapt and Survive?) As the scope of corporate governance and stewardship codes expanded, economies contracted. When it comes to productivity growth and investment, one of the lowest performers in recent years has been the UK, the initiator of both corporate governance and stewardship codes.



In 2015 the then Bank of England Chief Economist Andy Haldane, citing evidence from the US and the UK, noted:

> *"Investment is consistently and significantly higher among private than public companies with otherwise identical characteristics, relative to profits or turnover."*

In other words, the 'ungoverned' companies invested more than the 'governed' ones.

Faith in capitalism and free markets has also taken a knock over the same period. High profile corporate collapses haven't helped. A report in February 2025 found that corporate failures are undermining trust in business, citing recent governance failings in a diverse range of companies, such as Boeing, FTX and the UK Post Office. The original rationale for corporate governance was the prevention of large corporate failures. Yet despite the number of government reports and the global proliferation of corporate governance and stewardship codes, companies still collapse due to executive negligence or malpractice. Often these companies are cited as examples of superior performance or exemplary governance until months or even weeks before they collapse. Carillion, for example, was something of a corporate governance poster child. Even as investors were starting to short its stock, its chairman was acting as an advisor on responsible business to David Cameron and Theresa May.

A report by Sheffield University in 2024 found that audit firms had failed to raise the alarm before three-quarters of big UK corporate collapses since 2010. The same year, the UK's Financial Reporting Council (FRC) imposed multimillion pound fines on auditors after the collapse of London Capital & Finance in 2019. One such fine was imposed for what the FT described as *"a failure to apply sufficient professional scepticism"*.

A similar charge could be levelled against non-executive directors. The people charged with asking the awkward questions have often failed to do so. After the Carillion collapse, there were calls for tougher sanctions on Non Executive Directors and five of the company's board were due to be prosecuted until the UK government's Insolvency Service quietly dropped the case in October 2023. But, while pursuing the directors of failed companies has a certain political appeal, such sanctions are likely to put people off becoming a non-executive director.

The media commentary on the corporate malaises of the early 2020s have a depressingly familiar ring to them. Is Boeing's board "*up to the task of good corporate governance?*" Boeing's shareholders are "*complicit in its mess*". Wirecard's non executives "*didn't keep up with the complexity of the company*". Why did "*so many significant investment funds throw money at FTX without proper due diligence?*" The cases have a similar feel to those we looked at in PARC's previous Corporate Governance and Stewardship reports. Once again, commentators ask where were the NEDs and why didn't the shareholders apply greater scrutiny?

When set against rising expectations of companies from employees and the wider public, this is a worrying trend. Public scrutiny of companies and expectations about their standards of behaviour increased during the 2010s, as did anti-corporate rhetoric from politicians and commentators on both right and left. Public criticism of corporate behaviour is no longer the preserve of political activists. Customers, employees and potential recruits can now be expected to respond to perceived unethical behaviour online. A company is only one social media storm away from a damaging front-page headline.

Of course, inferring causation from correlation is a cardinal sin. It would be an overstatement to blame corporate governance for multi-faceted problems of synchronised stagnation, company failures and public cynicism about business. Comparatively low productivity, low investment and low public trust in business have been features of the UK economy and some other advanced economies for decades. It is possible that economic performance and business decisions might have been even worse without the structures of corporate governance. As one Remuneration Committee chair remarked:

> *"Governance keeps us honest. It makes us think that bit more carefully and take time to weigh up the evidence before making decisions."*

It is impossible to say what might be different if the governance and stewardship structures brought in over the last three decades had not been implemented. Even so, corporate governance reform has fallen some way short of UK Prime Minister Theresa May's hope in 2016 it would restore faith in capitalism and free markets. The development of corporate governance since the 1990s seems to have made little difference to these historic trends. It may be that it was never likely to and that the expectations policy makers had were unreasonable from the start.

3.2

IS THE CONCEPT OF CORPORATE GOVERNANCE FLAWED?

In PARC's Corporate Governance and Stewardship reports, we raised questions about the capacity of NEDs and investors to deliver what was being required of them by the codes.

The 2018 report was entitled *Corporate Governance: Are we expecting too much?* We noted that corporate governance was being asked to address an ever-wider range economic, environmental and social issues:

> *"There is a danger that the corporate governance debate becomes a catch all for anything that companies do that people don't like and any political or economic problems for which politicians need a scapegoat."*

We pointed out that this would be a tall order for any system but especially so for one that was relying on part-time NEDs as its main instrument:

> *"We seem to be expecting non-executive directors to be highly professional corporate trouble-shooters on the pay and time commitment of visiting lecturers. Improving the performance of NEDs means giving them more time and resources with which to perform. It is likely to require an increase in their hours, their access to information and the level of investment in their development. The corollary is this is that they will expect to be paid more."*

Stewardship faces a similar dilemma, once removed, to that of internal corporate governance. Just as there is separation of ownership and control in companies, there is also a separation of ownership and control in the investment and management of shares. Professor John Kay, author of the UK's 2012 report on governance and equity markets, noted:

> *"The term **share ownership** is often used, but the word **ownership** must be used with care. It is necessary to distinguish:*
>
> - *Whose name is on the share register? (often a nominee)*
> - *For whose benefit are the shares held? (e.g. a pension fund trustee)*

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- *Who makes the decision to buy or hold a particular stock? (normally an asset manager)*
- *Who effectively determines how the votes associated with a shareholding should be cast? (this might be an asset manager, a pension fund trustee, or a specialist proxy voting service); and*
- *Who holds the economic interest in the security? (i.e. who is the saver who bears the gains and losses from investment?)*

It is possible, and in fact common, for each of these rights of ownership to be held by different people."

As the OECD noted, institutional owners accounted for approximately 43% of global market capitalisation at the end of 2019.

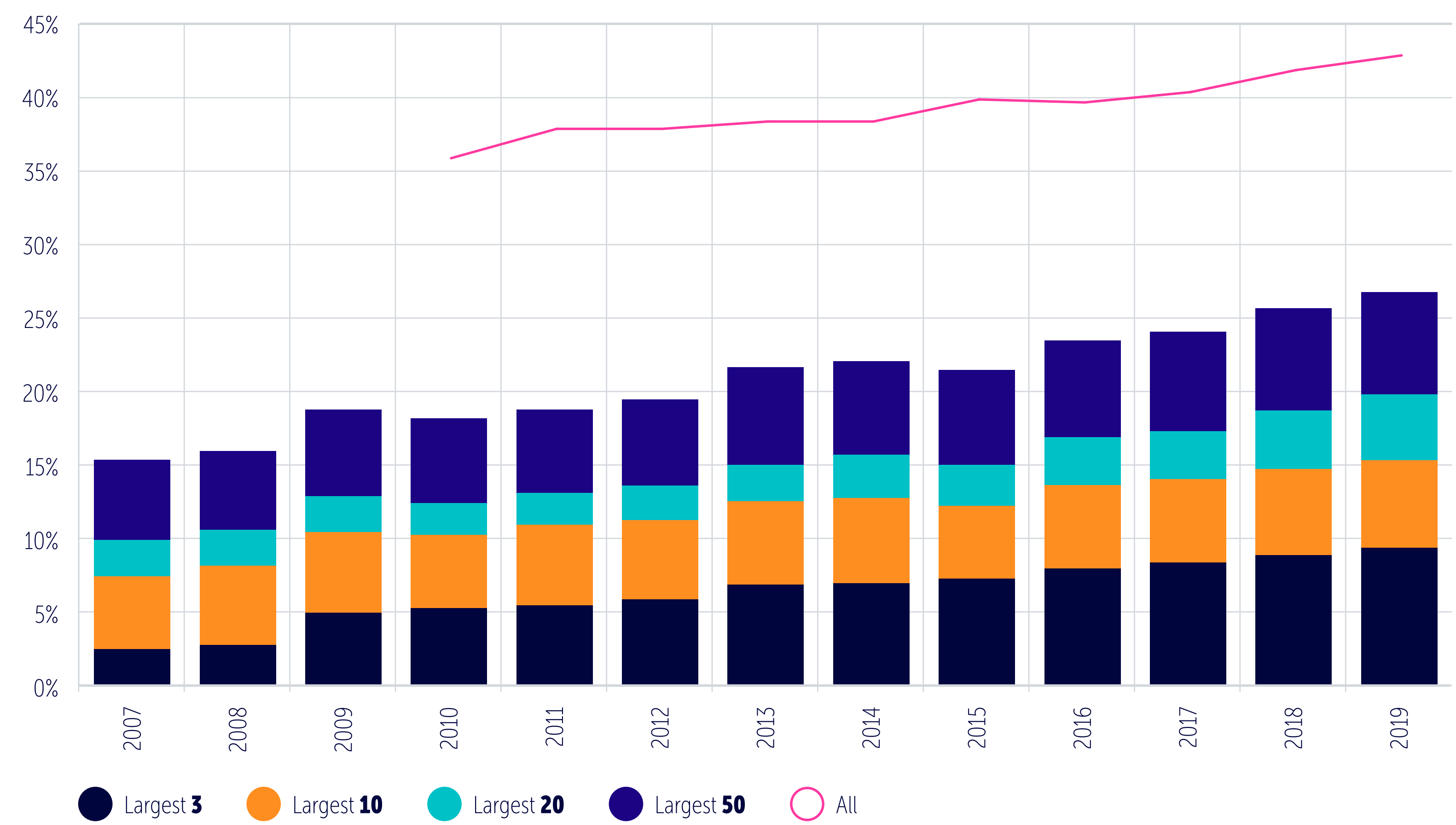
We were equally sceptical of the ability of investors to perform this role. In PARC's 2019 report, [*Is Stewardship Really the Role of the Investor?*] we concluded:

What is true of non-executive directors is all the more true of institutional investors. They have less regular contact with executive teams, less access to information, less direct contact with the company and more distant relationships with the key decision makers.

Few would dispute the idea that shareholders would be wise to take more of an active interest in the companies in which they invest. Almost no-one would argue with the suggestion that non-executive directors should both guide and challenge executive management. But these fine ideas founder due to lack of capacity. It is unreasonable to expect diverse and globally dispersed shareholders to exercise the sort of stewardship implied in the conclusions of the Kay Report and the Stewardship Code. Likewise, it is unreasonable to expect non-executive directors to be strategists, mentors, custodians, critical friends and shareholders' tribunes all in the space of a day or so a month.

Shortly after the publication of the 2020 Stewardship Code. Cambridge Professor, Bobby Reddy published a paper entitled *The Emperor's New Code* casting doubt on the likelihood of stewardship ever being a truly effective way of influencing companies' behaviour. He questioned whether investors have the capacity or motivation for the level of pro-active engagement envisaged by the code:

INSTITUTIONAL INVESTORS SHARE OF MARKET CAPITALISATION



Source: Institutional Shareholding, Common Ownership and Productivity: A cross-country analysis, OECD, 2023

"Taking the 2020 Code on its face, it is difficult to see how it will encourage further engagement in the manner requested by the Kingman Review, and its broader focus unveils an acknowledgment by the FRC that the 2020 Code is grappling for greater relevance in the face of a losing battle to encourage more issuer-specific engagement by institutional investors. Eventually, the emperor's subjects were no longer fooled by invisible clothes; in the same way, there has been a dawning realisation that attempting to use soft law to compel institutional investors to take actions that do not correlate with their duties and commercial interests is an illusory endeavour."

3.3

DE-EQUITISATION

In PARC's 2019 report on Stewardship, we posed the question of whether, by imposing more rules on listed companies, governments were in danger of regulating the shrinking part of the market while ignoring what's going on in the growing part. We likened it to putting a dam part way across a river.

Since then, the trend towards de-equitisation has continued, with more share buybacks, more firms being taken private and fewer IPOs listing. Schroders reported that 'net equity supply' (the combined effect of net buybacks and new entrants/delistings) was negative in the US, UK, Japan, France, and Germany in 2023. In other words, more equity was taken out of the market than put into it in the form of new share issues. It remarked:

> *"What is most striking is that the pace of de-equitisation has recently been greater in non-US markets than in the US."*

In April 2024, the Financial Times reported that *"the global supply of public equity is shrinking at its fastest pace in at least 25 years."*

Duncan Lamont of Schroders, who has been tracking de-equitisation for many years, explained that a trend that started in the UK is now a growing international phenomenon:

> *"In 1996 there were over 2,700 companies on the main market of the London Stock Exchange. At the end of 2022 this had collapsed to 1,100 – a 60% reduction.*
>
> *Individual countries like to beat themselves up about their failings on this front – self-flagellation is a popular British pastime – but the reality is that it has been a global trend. In the US, over 300 companies a year, on average, joined the stock market between 1980 and 1999. Since, there have been only 129 a year.*
>
> *In the UK, the number of new listings dropped after the financial crisis and has failed to pick up meaningfully since. Money raised in UK IPOs has also been on a steady downtrend. For UK-based companies this trend set in in the early 1990s. For overseas companies, it has been in the past ten years."*

He puts at least part of the blame for this on governance requirements:

> *"More private finance is available and can now finance companies to a much later stage of their development. At the same time, there has been an ever-greater administrative burden on listed companies. The cost and hassle of being a public company has increased. Recent research has found that the average UK company's annual report has increased in length by 46% in the past five years. For FTSE 100 companies it now stands at 147,000 words and 237 pages."*

BlackRock raised similar concerns in its response to the consultation on the UK's 2020 Stewardship Code:

> *"It may in fact, instead of raising the bar across the market, prompt some market participants to opt out entirely. This could include companies considering whether to list in the UK. If such companies believe that, were they to become a public company, any attempts to engage on difficult issues with shareholders will become the next case study in those shareholders' public disclosures, there is a real risk not only that they will be disinclined to have those conversations, but also that they will not put themselves in a position of having to hold the conversations in the first place."*

Contrary to some expectations, the increase in the cost of borrowing does not appear to have stemmed the de-equitisation tide, suggesting that, while cheap debt might have helped the process, its causes are deeper. The extent to which governance requirements are a significant factor in driving investment away from public markets is difficult to say but the EU's move to exclude private companies with fewer than 1,000 employees from its Corporate Sustainability Reporting Directive may cause some smaller firms to re-consider their listings.

"The global supply of public equity is shrinking at its fastest pace in at least 25 years."

FT

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There is a recognition that they had pressured companies, in all sorts of ways, into overzealous compliance, which was actually starting to impinge on the competitiveness of UK business."

CAROL ARROWSMITH,
REMCO CHAIR

3.4

TIME FOR A RE-POSITIONING?

A sense that corporate governance and stewardship codes have not made much difference has led some to call for a re-think. In 2022 Brian Cheffins published a paper entitled *Thirty Years and Done – Time to Abolish the UK Corporate Governance Code*. He argued that, despite the code's significant expansion of scope and size, that there is no empirical evidence that good governance translates into good returns:

> *"Much of the current Code's content is now irrelevant, and disclosure and compliance expectations have escalated to levels that create substantial net costs for companies. Additionally, the Code is now being used to address 'stakeholder' issues for which the Code's shareholder enforcement dependent comply-or-explain mechanism is poorly suited."*

Much of the growth in scope, he argued, was due to the politicisation of the Code:

> *"Government policy has started to bleed into the Code. It will be sorely tempting for policymakers to duck hard policy choices when they know UK Corporate Governance Code reforms can be cited to say 'something is being done'."*

In this, he echoed comments made by Peter Montagnon, former Head of the Association of British Insurers, who remarked in 2019 that investors were being asked to become *"unpaid, unelected agents of public policy"*.

His suggestion was also supported by Laura Spira, a contributor to PARC's 2018 report, who wrote in the FT:

> *"Shifting attention to the responsibilities of directors was a shrewd move at the time but not a long-term solution.*
>
> *A fundamental reassessment of the means of securing corporate accountability is long overdue: abolition of the code could be a small step on the route to wider reform."*

In the PARC Remuneration Committee Effectiveness report in 2024, we noted a sense of frustration and a feeling that the governance regime on executive pay may have reached a tipping point. The fear that the UK and Europe might fall behind the US was also expressed by some of those we spoke to. As we noted:

> *"Terms like 'box-ticking', 'boilerplate solutions' and 'jumping through hoops' create the sense that the structure is stifling creativity and innovation in reward design and execution, rather than enabling it to become a source of strategic competitive advantage.*
>
> *Equally, there is a rising level of concern about the lack of flexibility to recognise the competitiveness of the market for critical talent – particularly on the part of UK listed companies. Over the past two years, a number of companies have been seen to have broken ranks and increase their senior executives' pay in excess of what would normally have been deemed acceptable."*

RemCo Chair Carol Arrowsmith remarked on the changing mood:

> *"You see it in the big tent conversation hosted by the stock exchange. You see it in the Investment Association's letter to RemCo Chairs. You've got the simplification of things by the FCA. There is a recognition that they had pressured companies, in all sorts of ways, into overzealous compliance, which was actually starting to impinge on the competitiveness of UK business."*

As we discuss in the next section, a rising impatience with the increasing complexity of corporate governance and stewardship regulation coincided with its politicisation and opposition to environmental and diversity measures first in the US and later elsewhere. These factors would combine to bring about yet another rapid shift in the governance landscape.

"I believe we are on the edge of a fundamental reshaping of finance. The importance of serving stakeholders and embracing purpose is becoming increasingly central to the way that companies understand their role in society. A company cannot achieve long-term profits without embracing purpose and considering the needs of a broad range of stakeholders."

LARRY FINK, CEO, **BLACKROCK**

4.0

DIVERGENCE AND THE NEW CORPORATE GOVERNANCE LANDSCAPE

There has been something of a shift in the governance mood music in the early part of the 2020s. It has occurred quite rapidly yet went largely unremarked until the prospect of a second Trump presidency started to look more likely. Viewed from the perspective of 2025, it looks as though the immediate post-pandemic period was the high water mark of ESG. How much of this is due to political pressure or how much the politics simply caught a wave of opinion is difficult to say. As we discussed in the previous section, some business academics and commentators were staring to ask whether the demands of corporate governance had gone too far.

4.1

SHIFTING MOOD IN THE EARLY 2020S

Coming as it did at the start of a new decade, the Covid pandemic acts as a sharp dividing line between the 2010s and 2020s. In the field of corporate governance (and of corporate behaviour more generally) the early assumptions were that the trends of the previous decade would gather momentum, fuelled by the desire for a new social contract. In the wake of the pandemic and of the Black Lives Matter and MeToo movements, the FT launched its Moral Money Forum, reporting on *"a deluge of ESG announcements"* and remarked:

> *"Today's corporate zeitgeist looks notably different versus two years ago, never mind a decade back.*
>
> *Covid-19 has not derailed ESG talk, or not among companies that seem able to survive. Even more startling is that 86% of HSBC clients expect sustainability to boost their profits next year. They view doing good as a revenue-enhancing strategy to a degree that might make Milton Friedman, the economist who promoted the shareholder-first mantra, spin in his grave."*

In the early part of the 2020s, it looked as though the direction of travel would be similar to that of the 2010s. The term 'building back better' was taken by many to mean building a better form of capitalism. The World Economic Forum, former Bank of England Governor Mark Carney, and the 181 American CEOs of the Business Roundtable made statements suggesting the end of shareholder primacy. BlackRock CEO Larry Fink made headlines with his announcement:

> *"I believe we are on the edge of a fundamental reshaping of finance. The importance of serving stakeholders and embracing purpose is becoming increasingly central to the way that companies understand their role in society. A company cannot achieve long-term profits without embracing purpose and considering the needs of a broad range of stakeholders."*

The consensus of opinion seemed to be that the trend towards 'purposeful corporations', ESG and stakeholder capitalism would continue. The extreme weather events of the early 2020s shocked the world and governments, the media and public opinion were highly critical of corporations for the lack of progress on cutting emissions. As Stefan Stern (and a number of other commentators) remarked in 2022, *"ESG is Everywhere."*

Yet a number of data points show that there was a shift in sentiment even before the election of Donald Trump began to look like a distinct possibility. Mention of ESG keywords in S&P earnings calls show a sharp rise from 2019, a peak in 2022 then a sharp fall thereafter, almost back to where it started from. Similar trajectories can be seen for mentions of Diversity and Inclusion. It's almost as if the corporate interest in these factors in the early 2020s had never happened!

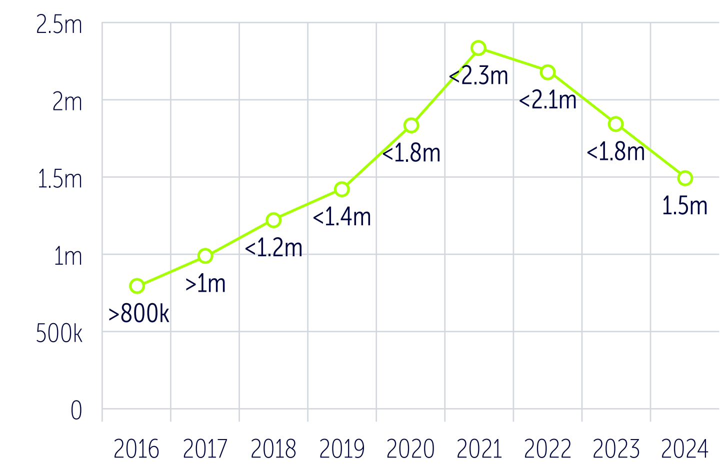
In the PARC Net Zero report in April 2024, we noted a divergence between the US and the rest of the G7 in the reporting of Net Zero targets and the withdrawal of prominent US firms, including BlackRock, from the Climate Action 100+ group.

A recent report by GlobalData suggests that companies are even discussing corporate governance less than they used to:

> *"Despite a proliferation of corporate governance scandals playing out in public, GlobalData analysis suggests falling interest in the area among businesses. Mentions of governance in company filings globally rose continuously from 2016 before peaking in 2021 and beginning to fall. The declining trend suggests companies are paying governance decreasing attention at a time when it is increasingly important."*

As the 2024 US election approached, the change in the political weather began to have an impact on the rhetoric and behaviour of businesses. In March 2024 the Securities and Exchange Commission dropped Scope 3 emissions from its new rules requiring listed companies to report their emissions. At the end of 2024, the FT reported that a transatlantic divide was opening between European and US business schools, with European courses expanding the scope of their sustainability content and those in the US *"wary of the political blowback that could result from pushing too hard on ESG issues"*.

NUMBER OF MENTIONS OF GOVERNANCE IN COMPANY FILLINGS



Source: GlobalData, 2025

In February 2025, the FT reported on a similar schism on ESG investor resolutions, citing research by ShareAction showing that, out of 279 shareholder proposals, only four got majority support:

> *"This is a far cry from the heady days of 2021, when more than a fifth of such proposals were successful. Back then, US asset managers' average support rate for these proposals was 40%. That dropped to just 19% last year.*
>
> *There's now a dramatic divide between voting behaviour on either side of the Atlantic, according to the new research, which focused on 70 major asset managers mainly in the US and Europe. Among the Europeans, average voting support for these proposals rose from 68% in 2021 to 82% last year. But this was more than counterbalanced by the US decline, which was driven largely by the biggest asset managers – especially the leading duo of BlackRock and Vanguard."*

Political pressure and threats of legal action from Republican-controlled states played a part in this movement but there were signs that this shift was under way some time before the election of Donald Trump. Corporate opinion started swinging away from ESG and other related areas such as Diversity, Equality and Inclusion (DEI). Acronyms that had been seen as symbols of a new style of capitalism only two years earlier were being dropped from corporate discussions and reports.

The portrayal of the backlash against ESG as a US v Europe (or v Rest of World) phenomenon may be over-stating the case though. There is evidence of a pushback against ESG on both sides of the Atlantic, even though the political pressure outside the US has been largely absent. This cooling of attitudes can be seen in data from the UK. Analysis of FTSE 100 annual reports by the Observer shows a decline in mentions of ESG from 2022 and DEI from 2023.

Some have quipped that these charts show 'the rise and fall of woke capitalism'. Whatever the reasons behind these trends, there has certainly been a shift in the mood. In our report earlier this year, [Is Your Organisation Built to Adapt and Survive?]() we noted an awareness among PARC members of *"the increasing risk profile of DEI and ESG initiatives"*. From the perspective of late 2025, it is tempting to see the talk of the end of shareholder primacy, purposeful corporations and the *"reshaping of finance"* either as a hangover from the previous decade or a brief period of post-pandemic euphoria.

To an extent, this seems to have been reflected in a change of mood among regulators. Early in 2025, the EU significantly reduced the size and scope of its Corporate Sustainability Reporting Directive (CSRD) and its Corporate Sustainability Due Diligence Directive CSDDD. Further simplifications look likely.

The final version of the UK's 2025 Corporate Governance Code, published in 2024, ended up being less onerous than initially expected. The FT reported that only one of the eighteen proposals from the FRC's 2023 consultation had been implemented and ESG and diversity measures were dropped:

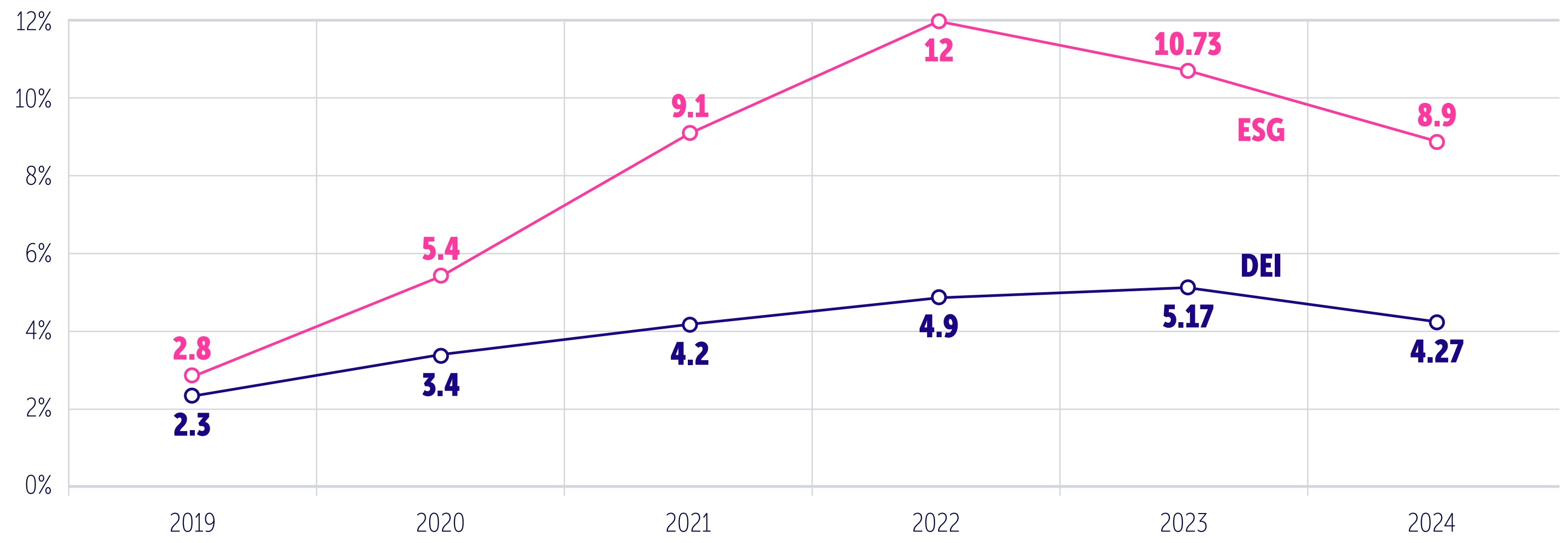
> *"Plans to impose extra diversity reporting requirements and give audit committees new responsibilities for environmental, social and governance issues have been dropped, along with proposals on how boards should engage with shareholders."*

The paper quoted FRC chief executive Richard Moriarty:

> *"We have got to keep an eye on the stock and the overall level of the burdens that we're requiring on businesses, and that does require us to have a bit of a self-denying ordinance sometimes."*

ANNUAL REPORT PAGES

Average share of pages on which FTSE 100 companies mentioned each subject



Source: The Observer, The Great Scrape: FTSE firms erase 'DEI' from annual reports, 2025
Includes data from 85 of FTSE 100 members

The UK Stewardship Code 2026, published in June 2025, was preceded by an extensive consultation.

Professor Katelouzou argued for a replacement of the 2020 definition with one that, she argued, better aligned the fiduciary duties of investors while still keeping ESG and wider sustainability considerations firmly in view. This would replace the 2020 definition with a modified version:

The 2020 definition:

> *"The responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society."*

Professor Katelouzou's modified version:

> *"Stewardship is the responsible allocation, management, and oversight of capital to create long-term value for clients and beneficiaries, and in doing so having regard to sustainable benefits for broader stakeholders, including end investors, investable assets, the economy, the environment, and society".*

As she explained:

> *"The proposed revision provides greater clarity on the primary purpose of stewardship. It explicitly states that the core objective is to deliver long-term returns for clients and beneficiaries, rather than always serving the interests of broader stakeholders – the unseen others. For some institutional investors, delivering sustainable benefits for broader stakeholders may align with the interests of their immediate clients and/or beneficiaries and can therefore be incorporated into their investment objectives. However, stewardship should not be assumed to always equate to delivering broader benefits.*
>
> *This definition better balances primary fiduciary duties with broader responsibilities. It provides flexibility while strengthening the Stewardship Code's 'crowding-in' function – encouraging, but not mandating, sustainable investment practices beyond legal obligations. Rather than limiting stewardship to direct client obligations, the revised Code should reinforce this dual role, ensuring investors protect client interests while also accounting for systemic risks and sustainability where relevant to long-term value creation.*

In the event, the FRC simply removed the words *"leading to sustainable benefits for the economy, the environment and society"* from the definition of stewardship. The shorter code was welcomed by some for its streamlined, more flexible and less burdensome requirements. Others expressed disappointment and accused the FRC of *"pandering to political influences"*.

For the first time, the Code made specific reference to proxy advisors, winning faint praise from the Quoted Companies Alliance, wrapped around a stinging rebuke for the proxy firms:

> *"In terms of proxy advisers, the impetus for asset managers to hold their service providers to account is a good one but the emphasis on communication with clients underplays how essential the companies are in this process.*
>
> *Our members find proxy advisers to be inconsistent in their approach and very often unresponsive when challenged. I dearly hope the new Code improves behaviours to alleviate these ingrained problems and unclog this bottleneck to growth."*

This move by the FRC no doubt arises from its research finding a significant gulf in understanding and *"frustrations on all sides"* between companies, investors and proxy advisors which we discussed this in our Remuneration Committee Effectiveness report in September 2024. The subsequent publication of a revised *Principles of Remuneration* by the UK's Investment Association at the end of 2024 also followed the general trend towards more flexibility and simplification.

The extent to which these movements are politically driven or part of a swing of the pendulum back towards lighter touch regulation is not clear. The backlash against ESG has occurred with remarkable speed, given where we were in 2020, and it is difficult to imagine it happening quite so quickly if it were not driven by republican campaigners in the US. Companies that in 2021 were espousing purposeful corporations and stakeholder capitalism, had dumped these commitments by early 2025. The swiftness of these turnarounds led many to conclude that they didn't really mean it in the first place.

Given the likelihood of increasingly severe climate events, it is unlikely that public pressure for companies to take more action on climate change will ease up. As Professor Ioannis Ioannou of London Business School points out, the factors that led to the rise of ESG haven't disappeared:

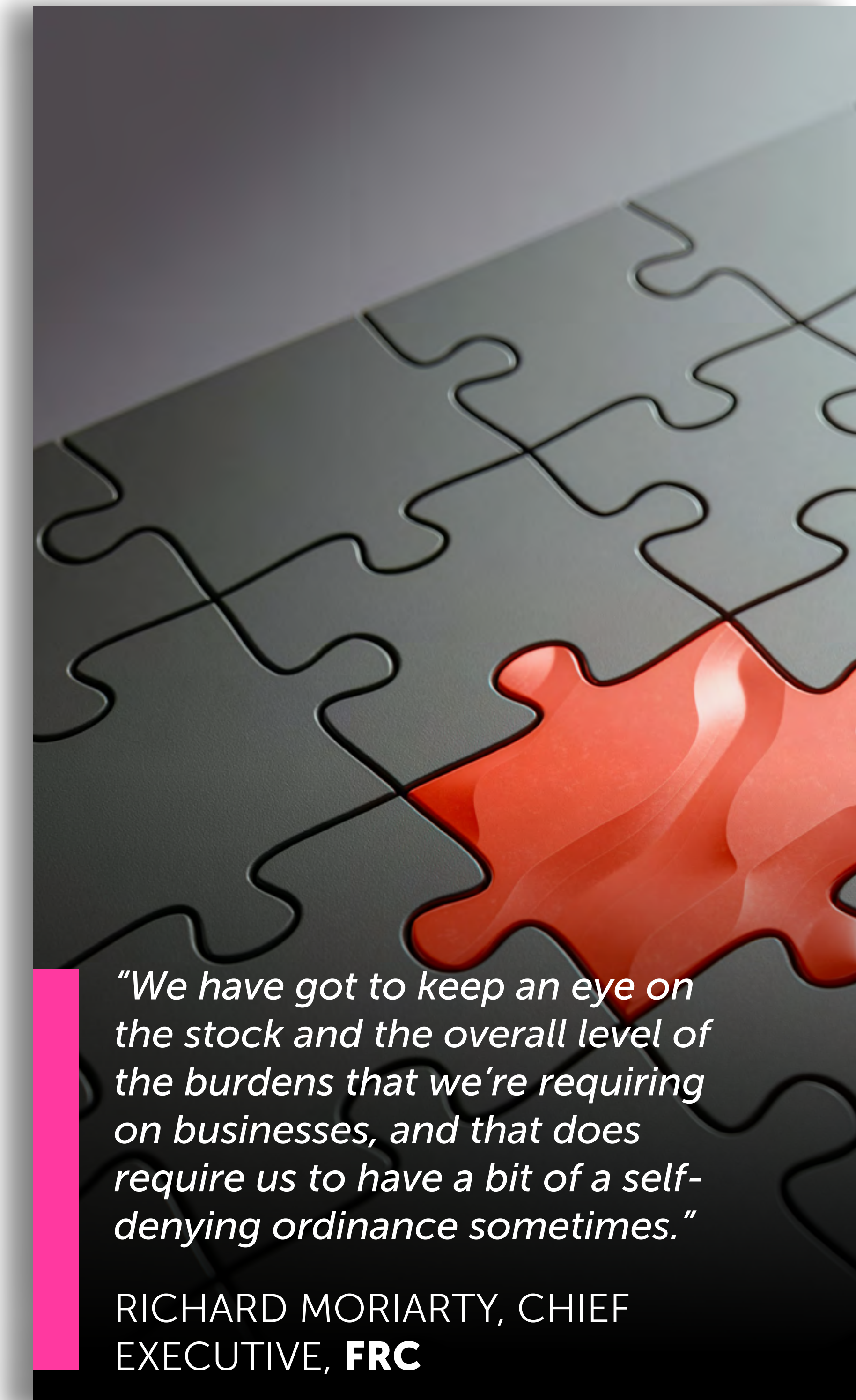
> *"Dropping the term 'ESG' doesn't change the underlying pressures. Regulation may be in flux but the material risks haven't disappeared. Investors are still asking pointed questions about transition exposure and long-term viability. Consumers remain attentive and climate events – from floods to wildfires – are only accelerating. The pressures are still there. They've just become harder to talk about.*
>
> *This environment creates a strange kind of corporate dissonance. Internally, many companies are still investing in sustainability capabilities. The teams haven't disappeared. The work hasn't stopped. But externally, the narrative is quieter. The enthusiasm is muted. And the political risk of speaking too forcefully has, in some places, become too high. The result is a widening gap between what companies do and what they are willing to say."*

Similar suggestions have been made about DEI – that companies are not actually stopping it, they are simply carrying on with it quietly and doing it 'under the radar'.

The implication is that companies will become less transparent about what they are doing. As Renée Adams, Professor of Finance at Saïd Business School, points out:

> *"If people say they are eliminating DEI but still doing it in the background, are we pushing the work of the board into a space where people can't actually observe what they are doing? How does the board operate in a in a situation where part of their work is essentially being censored?"*

If the senior executives and directors of companies really are making their operations more opaque to avoid political scrutiny, this surely goes against the whole ethos of corporate governance.



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4.2

TRUMP 2 AND THE ATTACK ON SHAREHOLDER POWER

If anybody thought that these developments were a victory for shareholder power against other stakeholders, they may soon have cause to revise that opinion. Donald Trump's second term has seen the scope of the anti-ESG pushback widen into an attack on investors and on some large companies.

The Securities and Exchange Commission is trying to make it easier for boards to block investor resolutions. In August 2025, the FT reported that a record number of shareholder votes were denied in this year's annual meetings. Harvard Law School's review of the Proxy Season noted a decrease in voted proposals and the high volume and success of SEC-granted no-action requests from companies. It commented:

> *"The 2025 proxy season unfurled against a rapidly shifting political and regulatory backdrop. The dizzying pace of developments from courts, as well as lawmakers, regulators, and other political actors, resulted in an unpredictable and volatile proxy season for companies, investors, proxy advisors and other stakeholders."*

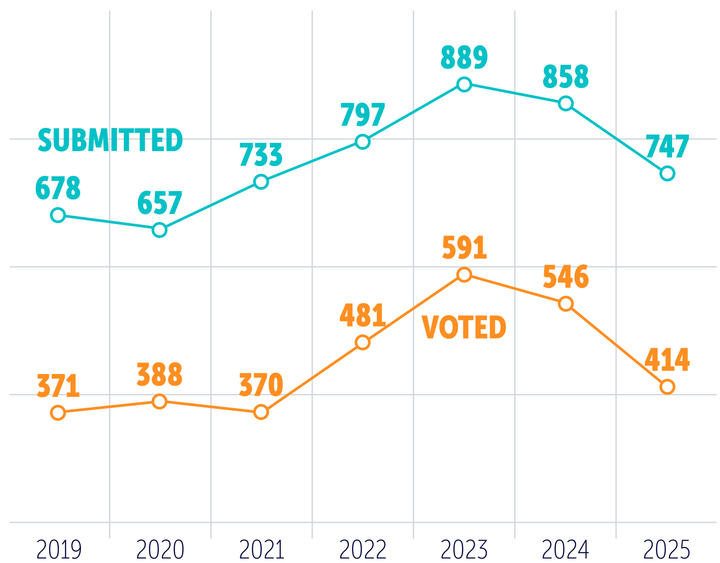
FT Alphaville, in a piece entitled *RIP American Shareholder Capitalism* remarked:

> *"The mechanisms that enabled the rise of the institutional investor as a counterweight to insider control may be, if not completely unravelled, then at least significantly frayed."*

The administration has also turned its fire on the proxy advisers. The SEC's attempt to 'rein in' the advisory firms has failed but will doubtless be revived in the near future. Its sudden ousting of the head of the audit regulator was seen by some as the start of a process of deregulation.

However, any deregulation in some areas is happening in parallel with increased government intervention in others. Some commentators have suggested that 'MAGA is going Marxist' with an assault on free-market capitalism. President Trump's call for the removal of Intel's CEO, for the government to take a 10% stake in the company and for Nvidia and AMD to pay commission to the US government for sales of chips to China mark an unprecedented level of state intervention.

SUBMISSION / VOTING TRENDS



Source: Harvard Law School 2025 Proxy Season Review

As Ryan Bourne, an economist at the free-market Cato Institute remarked:

> *"That isn't really free markets as Americans have understood it. It's almost political fee markets. It doesn't surprise me that businesses are going down this route of trying to make deals with the president. But in the longer term, this type of thing fundamentally corrupts the purpose of business, which should be about creating value for customers and ultimately shareholders."*

The President's call for the dismissal of Goldman Sachs's Chief Economist has prompted fears that banks might start self-censoring thereby reducing the quality of information available to investors.

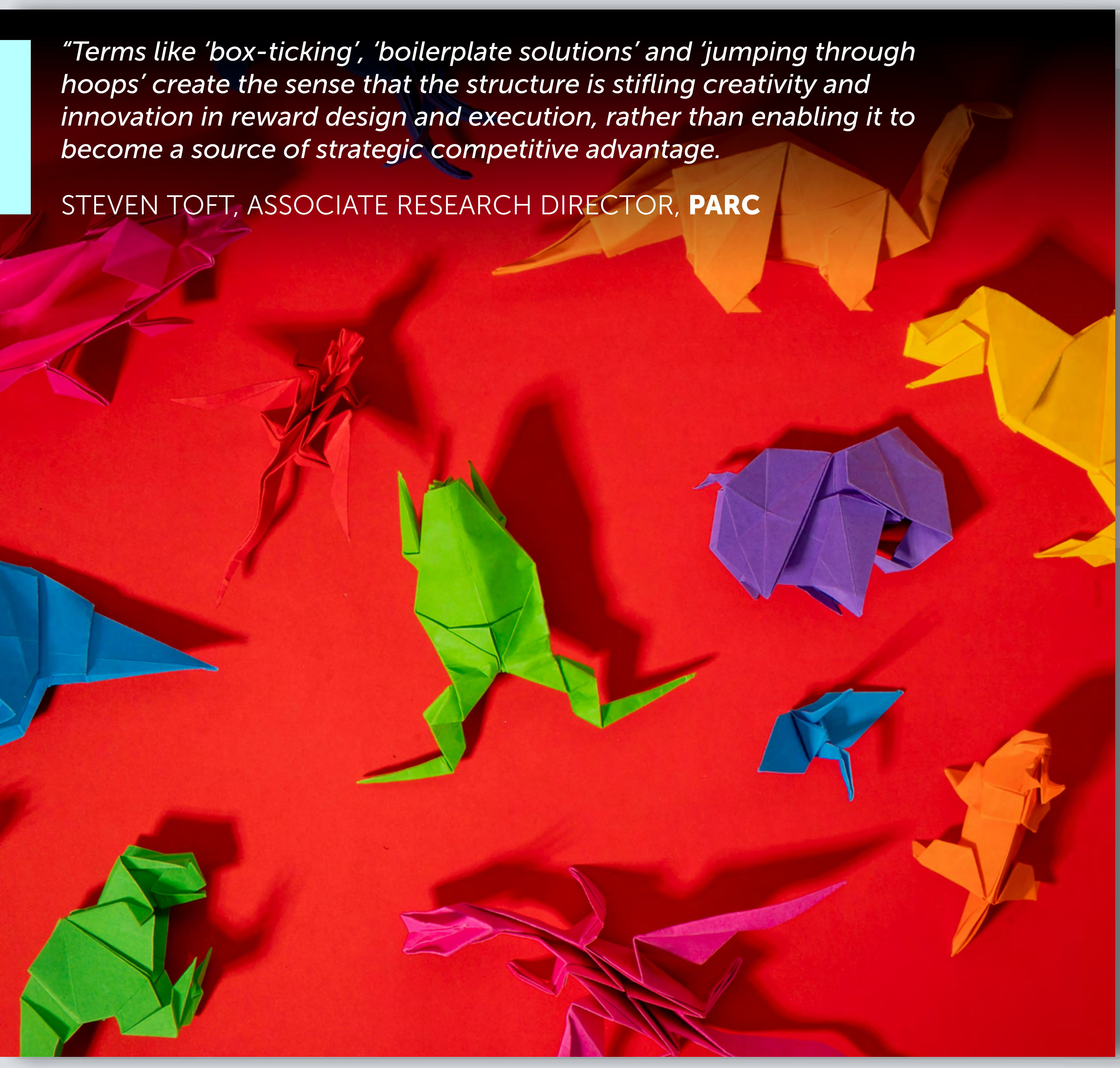
As the rapid spread of the backlash against ESG and DEI has shown, where the US leads, the rest of the world seems to follow, even when, on paper, it doesn't have to. To make extra sure, though, the Trump administration has been using its economic leverage to bring European companies into line. European suppliers to the US government, including those supplying its embassies, are being asked to certify that they do not promote DEI.

Despite these moves, there are indications that, in Europe at least, companies expect the ESG requirements to remain in place and, accordingly, are increasing spending on specialist advisers. A push by conservative MEPs to reduce the scope of the EU Net Zero CSRD even further has been opposed by large European multinationals, including Nestlé, Unilever and Primark.

The prospect of a divergence between the US and Europe, or between the US and the rest of the western world, is a cause for concern, especially among those companies operating internationally. Attempting to meet Net Zero and other ESG and DEI targets in some jurisdictions while being actively punished for doing so in another is something most companies have not had to deal with before. As a recent article by a US law firm remarked:

> *"The apparent and increasing divergence between the U.S. and Europe on these issues makes managing the legal and reputational risks for companies with a global footprint increasingly challenging."*

It is also leading many in Europe to question whether the continent is on the right path. Business groups in France, Germany and Italy have raised concerns that continuing with initiatives like the CSDR, while the US deregulates, runs the risk of making Europe uncompetitive. Politicians on Europe's right are understandably keen to talk up and exploit those concerns. With the rise of political parties in Europe supporting the Trump agenda it would be reckless to assume that the reach of the administration's re-ordering of decades of corporate governance consensus will not continue to have an impact across the Atlantic.



"Terms like 'box-ticking', 'boilerplate solutions' and 'jumping through hoops' create the sense that the structure is stifling creativity and innovation in reward design and execution, rather than enabling it to become a source of strategic competitive advantage.

STEVEN TOFT, ASSOCIATE RESEARCH DIRECTOR, **PARC**

5.0 RECOMMENDATIONS FOR REWARD LEADERS

The *"dizzying pace of developments"* described by Harvard Law School may leave many Reward professionals, RemCo members and their colleagues in other parts of the business wondering where all this will go next.

5.1 KEEPING UP WITH THE CHANGING LANDSCAPE

Corporate governance is a product of constantly shifting political, economic, and social forces and that the landscape is constantly shifting. Anticipating will be especially important for international companies, which may face conflicting regulatory regimes.

One of the key questions over the next few years will be the extent to which Europe and the rest of the world follow the US, stick to their previous path or develop in a new direction. Whatever else happens, it looks unlikely that governments outside the US will row back on Net Zero, so the gulf in environmental criteria between the US and the rest of the advanced economies may increase.

Some of the social movements which led to the rise of ESG measures also look likely to continue albeit alongside other movements now pushing in the opposite direction. As some PARC members have reported, the perceived backlash against DEI has emboldened some employees to push back against such measures in the workplace in a way they might not have done two or three years ago. To suggest that there is a 'woke war in the workplace' may be over-stating the case but companies are likely to come under conflicting pressures from employees as well as from investors and politicians.

Scanning the horizon and keeping a watching brief on these developments will be an essential part of the Reward Leader's role. Developments over the past decade have taken Reward into a more politicised and more public arena. As 2025 has shown us so far, events can shift rapidly and, with a historically non-interventionist party in the US now intervening in unpredictable ways, keeping up-to-date with the latest movements is becoming something of a survival skill.

Joe Perfetti came up with the acronym SUDD – Scan, Understand, Discern, and Decide – to describe a way of dealing with rapid and complex change. Reward leaders need to develop the capacity, in themselves and in their teams, to process and evaluate information quickly. Creating a shared 'team competence' in these areas will enable Reward functions to synthesise the information and apply it at pace to their businesses.

5.2

COMMUNICATING WITH INVESTORS

Even if, as looks likely, we are seeing a de-complication of some aspects of corporate governance, and a rowing back on the importance of ESG, any change in direction or stepping outside the constraints of existing models will still require strong engagement with shareholders.

Investors are facing the similar challenges as corporations in anticipating and managing a rapidly shifting regulatory scene. In many cases, their positions on ESG appear may be more nuanced than some statements suggest. As one asset manager put it:

> *"We are entering an era of 'quiet progress'. Companies are moving away from publicising their climate pledges to mitigate the risk of political backlash – but they remain very focused on climate risk."*

Consultation with shareholders also means understanding the composition of the shareholder base and prioritising those with whom it is most important to engage.

5.3

KEEP FOCUSED ON WHAT IS IMPORTANT FOR THE BUSINESS

Materiality is the test of whether performance measures, such ESG criteria, are material to the company's business model and strategy. There is little point in 'ticking boxes' that have little relevance to the business or those over which the company can have very little influence. Part of the criticism levelled against ESG is that it has encouraged some companies to invest in activities that might look good but which are not material to the enterprise.

As London Business School's Professor Alex Edmans pointed out, there is research on over 2,000 companies showing that those scoring highly on multiple ESG stakeholder dimensions did not outperform other companies over a ten year period. However, those companies that scored highly on factors that were material to their business performed significantly better than the market.

5.4

CLOSING THOUGHTS

Corporate Governance is at a critical juncture. Throughout its history it has developed in line with the social, economic and political imperatives of the moment. Initially a question of protecting shareholders its scope expanded to stopping corporate failure, reining in excessive executive pay, encouraging longer-term investment and eventually to restoring faith in capitalism and stopping the planet from burning.

The period since the end of the Covid pandemic has seen a fragmenting of what had hitherto been a broad global consensus on the direction of travel. There have always been regulatory differences around the world but they appeared to be narrowing. The near certainty in 2020 that ESG, sustainability, diversity and Net Zero would continue to be the watch words of corporate governance, now looks misplaced. There is now a real possibility of governments creating regulatory regimes that are not just different but contradictory. Companies and investors may find themselves pursuing goals in one jurisdiction that are in opposition to those in another.

It is too early to say whether the developments of the last two to three years represent a significant break with the recent past. Political, social and economic trends are almost as volatile and unpredictable as changes in the climate. It is wise to guard against recency bias when attempting to make a call on what will happen next.

What we can say, though, is that for the rest of this decade, the corporate governance and stewardship landscape is likely to be more unpredictable than it was when we last covered the subject five years ago. That will continue to present a challenge to Reward functions and RemCos. For Reward leaders, remaining watchful and developing the skills in their teams to anticipate and navigate this turbulence will be critical.

6.0 APPENDIX

APPENDIX 1

CORPORATE GOVERNANCE SUCCESS CRITERIA

WHAT IS IT – AND WHY DO WE CARE?

- **Corporate governance is a system of rules, responsibilities, policies and processes – by which a company is directed, controlled, and held to account:**
  - It is more than just remuneration.
  - It also includes the composition and accountabilities of the Board, risk management, legal and regulatory compliance and reporting, and engaging with shareholders/stakeholders.
- **In listed companies, corporate governance is set in the context of:**
  - Local country laws and listing requirements (must do).
  - Local shareholder best practices (choose to do) – but is often centred around similar core principles.
- **In private companies:**
  - Some mirror corporate governance best practice in listed companies – but some just select bits .
  - May be more centred around the expectations of the owners (and may blur lines with day-to-day management).
- **Good corporate governance provides stakeholders (and broader society) with confidence and trust that a company is pursuing its purpose, and achieving its longer-term goals in a responsible and sustainable way.**

SUCCESS CRITERIA

1. **Clarity of Business Model / Business Strategy / Performance Model**
   - Clear strategic direction and priorities from the Board – (and regularly updated)
2. **Approach to financing / funding the business**
   - Leverage / gearing / debt vs equity
   - Variation in capital structure, including use of share buy-backs
   - Financial ratios: including dividend cover, interest cover, etc.
3. **Clarity of Organisation Structure**
   - Clarity and quality of interaction between Board / ExCo / Board Committees
   - Clear purpose and terms of reference for Board Committees – (and subject to review)
   - Clear definition and shared understanding of organisational roles and responsibilities
4. **Quality and transparency of Annual Reporting**
   - Clarity of annual financial reporting
   - Narrative reporting
   - Definition of key performance indicators
5. **Compliance with the spirit of statutory Codes of Practice in your jurisdiction**
   - Corporate Governance Codes
   - Stewardship Codes

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