Is shareholder empowerment a clever idea or a disastrous notion?

Demetra Arsalidou
Cardiff University, School of Law and Politics, United Kingdom

Key Words
Shareholders, participation, stewardship, company, scrutiny

Abstract

The UK represents the most detailed initiative to date to develop a Code which puts new responsibilities on the investor and investee communities. The UK Stewardship Code is an important attempt to redress the balance in the corporate governance matrix and although similar efforts have taken place in other markets, such as France and the Netherlands, it is the first of its type in the world. Not only of relevance to the UK, this is an important development for other countries too. The Code is said to offer a ground-breaking way forward against a background of shareholder apathy and indifference in matters of governance. By and large, it intends to advance the surveillance of companies by their shareholders, viewed by some as the missing link in the financial crisis. However, modern investment management practices make it particularly difficult for a committed, long-term ownership mindset to exist. This purpose of this paper is to critically evaluate the initiatives to increase shareholder power as a new approach to corporate governance. Looking at recent empirical data in the UK and elsewhere, it raises the question of whether a more systematic and continuous relationship between institutional shareholders and management is about to evolve through the Code and discusses the market failures and structural limitations that prevent investors from becoming effective stewards. Whilst the market failures and structural impediments of the Code can cause concern, there are possible remedies that can help to provide a more favourable setting for stewardship. Consequent to this analysis, the paper argues that there are more logical alternatives to company democracy and investor engagement than the generalist duties of the UK Stewardship Code.