*CORPORATE GOVERNANCE: WHAT ABOUT THE WORKERS?

by

Prem Sikka
University of Essex

Address for correspondence:

Prem Sikka
Centre for Global Accountability
University of Essex
Colchester
Essex CO4 3SQ
UK

E-mail: prems@essex.ac.uk

CORPORATE GOVERNANCE: WHAT ABOUT THE WORKERS?

Abstract

Purpose: To stimulate debates about the creation of corporate governance mechanisms and processes which would help to secure an equitable distribution of income and wealth for workers.

Methodology/Approach: The paper builds on a political economy of income and wealth inequalities. It argues that corporate governance mechanisms and processes are rooted in particular politics and histories. The state is a key actor. It provides a brief history of the UK corporate governance debates relating to income distribution, industrial democracy and disclosures. It provides social data about the extent of income inequalities.

Findings: The paper shows that the UK lacks institutional structures and processes and mechanisms to enable workers to secure a higher share of the firm's income.

Research limitations/implications (if applicable): The study primarily focuses on some aspects of the corporate governance structures, practices and income/wealth inequalities in the UK. Its implications could also be relevant to market-oriented liberal states with 'consensus' or 'majoritarian' electoral systems.

Practical implications (if applicable): To encourage debates, the paper puts forward a number of suggestions for changing electoral and corporate governance practices together with disclosures that could give visibility to income and wealth inequalities.

Originality/value of paper: The paper links corporate governance debates to broader political choices.

Article Type: A research article that uses a variety of government and institutional data sources to highlight shortcomings of corporate governance practices.

Keywords: Governance, Income and Wealth Inequalities, Workers, the state.

CORPORATE GOVERNANCE: WHAT ABOUT THE WORKERS?

Introduction

In recent years, a large volume of literature associated with operations, control, accountability and responsibilities of corporations has emerged (for example, Blair, 1995; Erturk et al., 2004; Monks and Minow, 2004; Solomon and Solomon, 2004; Demirag, 2005; Wearing, 2005; Solomon, 2007). It primarily focuses on policies, practices, institutional structures, laws, norms and informal arrangements associated with the governance of corporations. A large part of this literature privileges the rights of shareholders. It pays attention to the relationships between shareholders and executive directors, auditors, chairman, chief executives and the board of directors, the mix between executive and non-executive directors, executive remuneration and the informational needs of capital markets. The literature recognises that in addition to shareholders, corporations also have obligations to a variety of stakeholders such as employees and suggests a variety of participation and profit sharing schemes to extract high economic surpluses (Blair, 1995). However, it rarely requires corporations to specifically create structures and processes that would result in equitable distribution of wealth even though the investment of human capital is crucial to any generation of wealth.

Corporate governance processes matter to workers because they shape "the creation of wealth and its distribution into different pockets … the portfolios of pensioners and retirees, … the claims of the rich and the poor ... rewards to entrepreneurial initiative … the incentives firms have to invest in their labor force … social welfare, health, and retirement plans ..." (Gourevitch and Shinn, 2005, p. 3). Employees, it is argued, are entitled to an equitable return on the investment of their human capital because they "have made a much greater investment in the enterprise by their years of service, may have much less ability to withdraw, and may have a greater stake in the future of the enterprise than many of the shareholders" (Clyde Summers cited in Wedderburn, 2004, p. 44). Despite advances in corporate governance and social responsibility, income inequalities in the UK, a comparatively rich country, are increasing (Giddens, 1998; Darton and Strelitz, 2003; Brewer et al., 2006). Some of the inequalities may be explained by supply and demand in labour markets, technological substitution, demise of the manufacturing sector, expansion of the services sector and globalisation (for example see Galbraith and Liu, 2001; Sutcliffe, 2004; Wade, 2005). However, the impact of such developments has to be filtered and translated by the politics of corporate governance, institutional structures, workers' rights and policies of the state (Fligstein, 2001) and is thus closely connected to national developments.

This paper seeks to encourage debates about the development of corporate governance structures and practices that might "ensure that wealth generated is distributed equitably" (Mitchell and Sikka, 1996, p. 32; also see Mitchell and Sikka, 2005, 2006). Its main focus is the distribution of income and wealth in the UK. It is organised into three further sections. The next section argues that income and wealth inequalities are deeply embedded into market economies. The persistence of inequalities is rooted in the UK's political system which provides inadequate incentives for governments to address income inequalities. Under the weight of corporate power, governments have failed to develop appropriate corporate governance mechanisms or workers' rights to check rising inequalities. The second section shows that in the absence of appropriate corporate governance frameworks, distribution of income and wealth is highly skewed and has consequences not only for workers, but also for their families. The third and final section summarises and discusses the paper. To stimulate debates, it also sketches out some proposals for reforms of corporate governance, which would help to give greater visibility to inequalities and possibly pave the way for equitable distribution of income and wealth.

Wage Inequalities and Corporate Governance

Corporate governance processes and policies are the outcome of politics that take account of particular histories, institutional structures and power relations. Due to power asymmetries, inequalities in the distribution and income of wealth are an inherent feature of capitalism. Inequalities in the level of wages flow directly from the capitalist mode of production (Marx, 1976). Labour, which cannot be stored, is treated as a disposable means of production and has to be exploited to increase profits. To maximise economic surpluses business enterprises seek to cheapen labour through deskilling, substitution by technologies, product innovations, exploiting gender, ethnicity and age inequalities and global mobility of capital. Accounting technologies aid such processes because they regard payment to labour as a 'cost' whilst payments to capital (e.g. dividends) are considered to be a reward. In the prevailing ideology 'cost' is a considered to be a burden which must be reduced or even eliminated. Thus considerable attention is paid to reducing labour's share of the firm's income. Such processes are aided not only by managers, but also by an extended middle class of opinion formers, business advisers and consultants who frequently disseminate discourses suggesting that a higher financial reward for labour is somehow a threat to the stability and wellbeing of societies. Corporate managers and advisers are highly rewarded for developing and implementing strategies that increase corporate profits and lower labour costs.

Such strategies may help to increase return on capital, but they have also locked capitalist economies into a constant state of crisis (O'Connor, 1987). A higher level of wages has a capacity to reduce profits and the rate of return enjoyed by capitalist entrepreneurs. It can also have a bearing on the levels of production, investment, competition and executive rewards which are often linked to reported profits. However, workers are also consumers of goods and services produced by corporations. A lower level of wages saps the strength of workers to purchase goods and services and thus not enable capitalists to accumulate adequate profits. In this context, wages are not determined by supply and demand, as some neo-classical economists argue, but by the power of labour. The systemic inequalities in power inevitably produce inequalities in wages and incomes.

The systemic forces have to be translated as corporate governance practices and policies. This translation is likely to be uneven as it is the subject of intense contestation by a variety of stakeholders (Hall and Soskice, 2001). Capitalist economies, such as the UK, function as liberal democracies and have a capacity to check income and wealth inequalities. In such societies, the political system seeks to build legitimacy by integrating diverse demands into public policies (Habermas, 1976). The liberal state frequently claims that its policies are geared to reducing poverty, checking inequalities and building a just and fair society (Offe et al., 1996). Gourevitch and Shinn (2005) argue that in democratic societies workers bring two forms of power to bear on the governance issues: “market power” and “political power”. Market power is associated with workers’ rights. Trade unions can bring pressures upon employers through co-operation and conflict to increase their members’ share of the firm’s income (Burniaux et al., 2006). Workers can withhold work through industrial action (strikes and slow downs) to increase labour’s share of the firm’s income, pension and welfare rights, possibly at the expense of shareholders and capital generally. Such actions may also result in lower labour market participation rates. “Market power” is shaped by inherent conflicts and mobilisation of political resources or “political power”. Such a model assumes that corporate governance outcomes are shaped by electoral outcomes. Assuming that employees’ interests are generally aligned with the political left, an electoral tilt to the left creates possibilities that workers may be able to claim a higher share of the firm’s income, employment and welfare rights. Similarly, a tilt to the right reduces possibilities of employee influence on corporate governance systems and an improved share of income. However, labour rarely wins any election on its own and the political parties have to seek cross-class support from workers, farmers, religious groups, shareholders, environmentalists, feminists, ethnic minorities, pensioners and others whose interests and policy preferences may conflict. Thus the possibilities of equitable distribution of income and wealth are subject to continuous conflicts, negotiations and bargaining

In democratic societies, electoral votes need to be converted to parliamentary majorities to form governments and secure control of the levers of public policymaking. The UK parliamentary system can be characterised as a ‘majoritarian’ system rather than a ‘consensus’ system (Lijphart, 1999). In a ‘consensus’ system (for example in Scandanavian countries), the seats in parliament closely reflect the proportion of the popular vote and it is rare for a single political party to claim parliamentary majority. As a result, government building has to accommodate a wide range of opinions and demands to engineer power sharing. Such governments are more likely to be susceptible to employees’ demands for rights and equitable distribution of income and wealth. In contrast, the Westminster model operated in the UK is a ‘majoritarian’ system where a minority share of the popular vote is always translated into a majority of the seats in parliament. Due to class politics it can produce wide ranging swings in public policies. In a ‘majoritarian’ system, governments rarely build coalitions and a large block of public opinion can often be overridden by the parliamentarian majority. Thus ‘majoritarian’ governments lack strong incentives to build consensus policies and institutional structures to advance workers rights and influence on corporate governance mechanisms. Governments could accommodate demands from trade unions for a higher share of the employer’s income, but such policies have to compete with demands from employers. To secure a stable environment, employers could also acquiesce to demands from workers for a better share of the firm’s income, but these have to compete with demands from shareholders and capital markets. Workers themselves may be unable to present a unified front as, for example, some may be keen to maintain wage differentials. The ultimate outcomes depend on politics and mobilisation of the state.

As the state’s reliance on private capital has increased to finance its own expenditures, welfare of capital has become central to state policymaking. Corporations also have considerable resources to shape public policies through lobbying, sponsored research, think-tanks, control of the media, sponsorship of political parties, individual politicians and jobs for former and potential ministers. Such resources enable corporate interests to secure a particular kind of social order and stability. Unsurprisingly, corporations are now considered to be the “most powerful political forces of our time [and] ….. the ruling political bodies of our era” (Klein, 2001, p. 339-340) and their interests inform policies about corporate governance and equitable distribution of income and wealth.

The above forms a background to the UK debates about corporate governance processes relating to workers’ rights, wage disclosures and related institutional structures.

After the Second World War, as the UK sought to rebuild its economy, employment rates rose and unemployment virtually disappeared (Hobsbawm, 1969). The unprecedented economic boom stabilised income inequalities. The establishment of wages was left primarily to market mechanisms and the state showed no interest in fixing any minimum wage or controlling wages at the higher end. The post-war economic affluence soon began to be accompanied by anxieties about low economic growth rates, rising levels of inflation, unemployment, international competitiveness and the erosion of the value of currency (Armstrong, Glyn and Harrison, 1984). In

1964, the Labour Party secured a parliamentary majority with 44% of the popular vote. This was followed up in 1967 with 48% of the popular vote and a 96 majority in the House of Commons. The Labour manifesto pledged to control the cost of living by introducing statutory controls on the levels of increases in wages and prices of goods and services (Dorey, 2002). This raised questions about how the regulation of wages increases was to be observed, or at least give the impression that it was capable of being monitored. In this context, the government introduced the Companies Act of 1967, which for the first time required companies to publish information about the remuneration of employees and directors in their audited annual reports (see Hansard, House of Lords Debates, cols. 123-230; House of Commons Debates, 21 February 1966, col. 36; 14 February 1967, cols. 364-370; 13 June 1967, cols. 328-350). Throughout the parliamentary debates, ministers argued that the level of disclosures in the company accounts would enable the government to monitor compliance with the 'prices and incomes' controls and judge whether its policy had been breached. Disclosures in annual reports could also give visibility to wage differentials, gender and race discrimination and inequalities, but there was little concern about such matters, or even a minimal wage for workers, though the 1967 Act required directors to ‘have regard to the interests of employees’ in making decisions. Such duties were, however, subordinated to the pursuits of shareholder interests. The 1967 legislation was subsequently revised and Section 172(1) of the Companies Act 2006 now states that “A director of a company must act in the way he considers, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole, and in doing so have regard (amongst other matters) to ..… the interests of the company’s employees”.

The Companies Act 1967 (subsequently consolidated into the Companies Act 1985 and revised by the Companies Act 2006) required that the audited annual financial reports of UK-based companies (there are some exemptions for small and medium-size companies) need to show selected details of the directors' remuneration[1] and identify the 'highest paid director', if s/he is not the chairman of the company. The company must disclose the total amount of wages and salaries paid in a financial year (The Companies Act 1985, Schedule 4, paragraph 56(4) and the average number of persons employed under contracts of services in the financial year[2]. Disclosures about the mean, mode or median wage and wage distribution by gender, age and ethnicity could raise public awareness of institutionalised discrimination and inequalities, but such disclosures were not considered. The Companies Act 1967 also required summary disclosures of the ‘higher paid employees’ categorised into financial brackets mentioned by the Act.

The above disclosures remained in place even though the Labour administration was replaced by the Conservative Party from 1970 to February 1974. The Labour Party, with closer affiliation to trade unions, returned to office in 1974 with a manifesto promise to “bring about a fundamental and irreversible shift in the balance of power and wealth in favour of working people and their families … Eliminate poverty wherever it exists in Britain … Make power in industry genuinely accountable to the workers and the community at large. … Achieve far greater economic equality - in income, wealth and living standards …[3]”. To combat gender and racial discrimination in employment and other spheres it introduced the Sex Discrimination Act 1975 and the Race Relations Act 1976. These Acts required employers to keep extensive records but companies were not required to give public visibility to their practices by publishing any information about the level of wage payments to women or workers from ethnic minorities.

In 1975, a Green Paper from the European Economic Community (EEC) recommended that to enhance ‘industrial democracy’ employees should have direct representation on company boards (EEC, 1975). In response, a report commissioned by the UK government suggested that workers of large companies should elect representatives on company boards, equal in number to those of the shareholders’ representatives (Bullock, 1977). Such proposals had the potential to advance employee interests and possibly influence their share of a firm’s income, but under the weight of opposition from corporate interests and a resurgence of the new-right they were abandoned (Wedderburn, 2004). For most of its term in office (1974 to 1979), the Labour administration was enmeshed in managing a deepening economic crisis indicated by rising unemployment, inflation rates, budgetary deficits and balance of payments crisis and did not return to the issue of ‘industrial democracy’.

There were also possibilities of reforming financial reporting practices (Accounting Standards Steering Committee, 1975). The proposals gave some recognition to the rights of employees as stakeholders and encouraged experimentation. Some attempts were made to supplement the traditional financial statements with reports directed at employees and showing how the firm's wealth was being shared by shareholders and employees (Gray and Maunders, 1980). Some considered such reforms to be an attempt to manage workers' perceptions rather than a serious attempt to transform capitalist social relations and increase workers' share of the firm's income (Burchell et al., 1985). However, with the worsening economic crisis and the rise of the new-right the support for reforms weakened and they were abandoned.

In 1979, under the leadership of Margaret Thatcher, the Conservative Party won the UK general election with 43.9% of the popular vote, which was translated into 53.4% of the parliamentary seats and a majority of 43 seats in the House of Commons. The government had a strong ideological agenda which marked a "decisive break with the postwar consensus" (Hall, 1988, p. 2). It blamed the excessive powers of trade unions[4] for UK's economic decline and made 'free markets' a priority. To restore corporate profits, it engaged, sometimes violently, with trade unions and abolished the 'closed shop', made prior balloting compulsory for all strike actions (previously strikes could be agreed by a show of hands at union meetings), diluted secondary picketing (not secondary production or relocation of production facilities) and under certain circumstances trade unions could be sued for damages caused by industrial action. It also privatised many state owned industries and thus reduced the job security available to workers (Letwin, 1992). The Thatcherite reforms, accompanied by a decline of the unionised manufacturing sector, drastically reduced the "market power" of many employees. In 1979, UK trade unions had nearly 13 million (or 55.4% of the workforce) members[5], but by 1996 it shrank to less than 6 million before rising to 6.68 million (out of a workforce of 29 million) in 2005 (UK Department of Trade and Industry, 2005). Commentators noted that during "the 1980s, whilst median income rose by 28 per cent in real terms, that of the bottom quarter rose by only 15 per cent, and that of the bottom 10 per cent by only 6 per cent. ….. Many millions of people are unable to afford goods and services that the majority deem necessary" (Darton and Strelitz 2003, p.7). The Conservative administration did not introduce a minimum wage or curb salaries at the higher end. During the 1980s, the Low Pay Unit, an organisation representing poorly paid workers, used the 'higher paid employees' disclosures required by the Companies Act 1967 (see above) to highlight the increase in wage inequalities. The government responded by repealing the disclosure requirements[6] (Cousins and Sikka, 1993).

In 1990, Margaret Thatcher was replaced as Prime Minister by John Major (1990-1997), but there were no policy changes to alleviate growing income inequalities. Following the 1990s high profile financial scandals at Maxwell, Bank of Credit and Commerce International (BCCI), Polly Peck and others, public attention focused on excessive financial rewards for company executives, especially at poorly performing companies. Such concerns drew attention to the ineffectiveness of corporate governance mechanisms. The government did not introduce legislation or invite any parliamentary committee to investigate matters. Instead, it was content for ‘private interests’ to formulate a response. In May 1991, a committee under the chairmanship of Sir Adrian Cadbury (known as “Cadbury Committee”) was formed to draft a voluntary code on corporate governance. Its December 1992 report (Committee on the Financial aspects of Corporate Governance, 1992) sought to legitimise executive rewards by emphasising that “shareholders are entitled to a full and clear statement of directors’ present and future benefits and how they have been determined” (p. 31). It recommended the creation of remuneration committees, essentially a sub-committee of the main executive board, mainly staffed by non-executive directors, to make recommendations on executive pay. The Committee showed no interest in equitable distribution of income/wealth or reducing inequalities and did not recommend any public disclosures about low pay, gender and ethnicity wage differentials or changes to board structures to consider the equitable distribution of wealth[7].

In 1994, the European Works Council (EWC) Directive issued by the European Union (EU) recommended that all companies operating across the EU and employing more than 1,000 workers in at least two countries, irrespective of their home base, should form a works council for information and consultation with employee representatives. The UK exercised its opt-out and did not legislate to implement the directive. The continuing media exposure about excessive financial rewards to directors of major companies (Solomon and Solomon, 2004; Solomon, 2007) led to the formation of another Committee in 1995, under the chairmanship of Marks & Spencer chairman Sir Richard Greenbury (Greenbury Committee, 1995). The Greenbury Committee again emphasised the shareholders right to know and the obligations of directors of listed companies to be accountable to shareholders. It recommended that information should be provided on each element of directors' remuneration. Companies were asked to provide separate aggregate figures relating to basic pay, share options, long term incentive schemes and money purchase pension schemes with the recommendation that a report should be sent to shareholders each year explaining the company's approach to executive remuneration and providing full disclosure of all elements in the remuneration of individual directors[8].

Nevertheless, public concern with excessive financial rewards for company directors continued and led to the formation of another Committee, in 1996, under the chairmanship of ICI chairman Sir Ronald Hampel (Solomon, 2007). In common with earlier private sector committees, it did not have any representatives from workers or trade unions. Its 1998 report (Committee on Corporate Governance, 1998) reiterated the earlier recommendations of the Cadbury and Greenbury Committees and was sceptical about the usefulness of executive remuneration disclosures with claims that "ful1 disclosure of individual directors' total emoluments has led to an upward pressure on remuneration in a competitive field" (para 4.5). It was content to see remuneration committees fix executive financial rewards, but did not believe that directors' remuneration should be subjected to a specific shareholder vote at the annual general meeting. However, such a requirement subsequently became part of The Directors' Remuneration Report Regulations in 2002 and is now included in the Companies Act 2006.

In 1997, the Conservative party lost the general election. With 43.2% of the popular vote, the incoming Labour administration secured 63.6% of the parliamentary seats. It could have pursued a radical agenda, especially as the "median income of the richest tenth of the population increased by over 60 per cent in real terms between 1979 and 1996/97 whereas that of the poorest tenth rose by only 11 per cent … even fell by 13 per cent if income is measured by after housing costs" (cited in Butler and Watt, 2007, p.1; also see Elliott and Atkinson, 1998; Bradshaw and Wallace, 1996). Commentators noted that the "gap between the highest-paid and the lowest-paid workers is greater than it has been for at least fifty years" (Giddens, 1998, p. 105) and that the "share of the GDP going to workers in the form of wages and salaries reduced from its peak of 65.1% in 1975 to 52.6% in 1996" (Compass, 2007, p. 21). However, the government did not reverse the Thatcherite trade union reforms and did not have any proposals for industrial democracy. The Prime Minister indicated his satisfaction that “British law is the most restrictive on trade unions in the western world” (cited in Compass, 2007, p. 22). The government was content for private interests, particularly the Hampel Committee established in 1996, to make the running on corporate governance issues. Upon coming to office, the Labour administration immediately appointed British Petroleum’s chairman and Hampel Committee member Sir David Simon (later Lord Simon of Highbury) as Trade Minister with a key role in corporate governance matters. There were no equivalent elevations for any worker representatives. The subsequent private sector controlled corporate governance Committees (Turnbull Report, 1999; Higgs Review, 2003; Smith Report, 2003) were content with the status-quo and did not advance the debate on executive pay disclosures or “market power” of workers. Despite concerns for ‘principles’ of corporate governance none of the ‘private’ sector reports required companies to undertake equitable distribution of income/wealth. Nevertheless, despite opposition from corporate interests (Thornley and Coffey, 1999), the Labour administration introduced the National Minimum Wage Act 1998, which set the minimum wage for workers[9]. The government did not compel employers to pay what some commentators call a ‘living wage[10]’ to workers as that was considered to interfere with the market mechanisms and might possibly have a negative effect on UK’s competitiveness (Abrams, 2002; Toynbee, 2003). Instead it sought to manage poverty through a variety of means-tested tax credits and social security benefits to boost the income of low-paid households (Hills, 2005).

Periodically, the government ministers and opinion formers refer to the high executive salaries and widening income inequalities as “grotesque” and “distasteful” (Financial Times, 13 November 2006; The Independent, 24 November 2006; The Observer, 17 December 2006), but corporate interests urge the “government not to legislate against ‘fat cat’ pay” and claim that “transparency and shareholder activism are the way to police directors' pay, not legislation[11]". Ministers state that "we are not in the business of controlling the level of directors' pay" (Accountancy Age, 21 October 1999, p. 25) and that “we have no problems with big rewards for big success ….[12], but continue to urge workers to accept below the rate of inflation wage increases.

Overall, under the weight of corporate power, successive UK governments have shown little interest in developing any links between corporate governance and equitable distribution of income and wealth. Such issues do not form part of the Companies Acts[13], or a variety of 'private' corporate governance initiatives encouraged by the state (Committee on the Financial aspects of Corporate Governance, 1992; Greenbury Committee, 1995; Committee on Corporate Governance, 1998; Turnbull Report, 1999; Higgs Review, 2003; Smith Report, 2003). In the absence of appropriate institutional structures and workers' rights, the space for the development of corporate governance mechanisms appropriate for equitable distribution of income and wealth has been squeezed and inequalities are now institutionalised.

Patterns of Income and Wealth Inequality and Their Consequences

The growing income inequalities in the UK and their consequences have been noted by commentators (for example, Giddens, 1998; Hill, 2005; Brewer et al., 2006). Successive governments had hoped that remuneration committees would check excessive executive remuneration, but they seem to be unable or unwilling to do so. At UK's 100 biggest quoted companies, executive pay increased 17 times faster than the average pay. For every £100 earned by a top company director in 2000 they earned £205 (after allowing for inflation) in 2006, while ordinary employees received an average increase of £6 (after allowing for inflation) in every £100 for the same period[14] (The Times, 28 December 2006). In 2005, FTSE100 directors pay rose by 28% compared to an average earnings rise of 3.7% (The Guardian, 3 October 2006). One survey[15] estimated that in 2005 the median total remuneration of a FTSE100 chief executive was £2.329 million whilst the chief executives of FTSE250 companies recorded a median total remuneration of £878,000. The same survey also reported that "Too many companies are paying executives for achievements against targets with marginal relevance to the corporate strategy and the value proposition it puts to shareholders" (KPMG, 2006; The Guardian, 18 September 2006). Another survey reported that the remuneration of FTSE100 chief executives increased by 40 per cent in the past year, whilst the FTSE100 share price index climbed by just 7.5 per cent over the same period. In 2001 the average chief executive's total remuneration stood at £1.7 million, equivalent to the annual average earnings of 90 workers. By late 2006, it had risen to £2,864,282[16], equivalent to the average wage of about 127 workers (The Daily Telegraph, 24 September 2006). The directors of UK's 10 biggest companies had an average remuneration package of £5.8 million, an increase of 12 per cent more in 2006 than in the previous year (The Observer, 15 April 2007). Finance directors at UK’s biggest 100 companies chalked up an annual rise of 22% to take their median annual salary to £1.7 million. Non-executive directors, policing executive remuneration and staffing corporate remuneration committees, received an average annual increase of 13% (The Times, 16 October 2006), with some getting 18%. Those at FTSE 350 companies received £40,000, whilst those at FTSE 100 companies received an average £48,800. Some picked up £95,000 for just 25 days a year work, over four times the UK annual median salary. At Goldman Sachs, one of its directors received an annual bonus of £51 million (The Guardian, 20 December 2006), 25 of the company's senior bankers received bonuses of more than £25 million (The Daily Telegraph, 13 December 2006) and its dealing staff is estimated to have received average payment in the region of £300,000 (The Observer, 17 December 2006). The company refused to increase the wages of its London office contract cleaners from £6.70 an hour to £7.05 an hour, equivalent to about £14,500 a year (The Observer, 17 December 2006). In 2006, the number of lawyers earning over £1 million rose to 200 (The Times, 10 May 2007). Managers of the richest 100 hedge funds earned over £25 million each though some received as much as £250 million (The Observer, 29 April 2007). For 2006, the average wage in the City of London, a square mile that is home to much of the finance industry, hit £51,159 (London Evening Standard, 25 May 2007) and the average annual salary of a UK chartered accountant was around £80,000[17].

The remuneration of ordinary workers remains on an entirely different scale. The Annual Survey of Hours and Earnings published by the UK government[18] in October 2006 showed that the median gross annual earnings (i.e. before tax) for full-time male workers is £25,800 (£25,100 in 2005) and £20,100 (£19,400 in 2005) for full-time female workers. Official statistics show that median earnings for all employees were £23,600 per annum (compared to £22,900 in 2005). 75% of all workers had a gross annual wage of less than £29,000. The top 10% had earnings of over £886 per week (around £46,000 a year), while the bottom 10% earned less than £244 per week (or £12,700 per annum). Around 5.3 million workers, including home, migrant and temporary workers, earn below one-third of the median hourly wage[19]. Full-time female workers on average earned 17% less than men in comparable jobs (Women and Work Commission, 2006). Anyone striving for median income, but earning the 2006 national minimum wage of £5.35, would need to work for about 85 hours each week. Many households have to rely on two incomes and employees have to work overtime, or even take on additional part-time work to make ends meet, leaving precious little time for family life. Nearly 25% of all UK workers work for more than 48 hours per week, higher than the EU recommended norm, the highest proportion in any western country (Servais et al., 2007). Due to low pay in their early working life and struggles to raise families, 21% of 30 to 39-year-olds are estimated to work 60 hours or more each week[20].

The above statistics mask sectoral practices. An earlier study showed that young and mature workers and those working in retail, supermarkets, and restaurants received low wages (Sikka et al., 1999). Despite highly profitable businesses, some company directors resent paying even the minimum wage (Appendix 1 lists some of excuses). Due to government legislation some 336,000 employees (i.e. below the age of 22) earn less than the minimum wage[21]. Trade unions estimate that in 2006, some 150,000 UK workers[22] were still being paid less than their entitlement of the minimum wage[23]. By using its network of 120 enforcement officers (for the entire country), the government recovered £3 million[24] for those who had been illegally denied the minimum wage[25]. Only one employer has ever been prosecuted for violating the minimum wage laws (Toynbee, 2007).

In 2005/06, nearly 12.6 million Britons (out of nearly 59 million) lived below the poverty line (Institute for Fiscal Studies, 2007). The poverty rate for minority ethnic groups stands at 40%, approximately double the 20% found amongst white British people. Despite corporate pledges of equal opportunities, 65% of Bangladeshis, 55% of Pakistanis, 45% of Black Africans and 30% of Indians and Black Caribbeans live below the poverty line (Platt, 2007). In 2004/05, 86 per cent of children in Pakistani/Bangladeshi households in the UK were in the bottom 40 per cent of households ranked by disposable income compared with 49 per cent of all children[26].

The poor cannot dip into some reservoir of savings as inequalities in income inevitably have cumulative effects. The official statistics (Table 1) show that the wealthiest 1% owned approximately 21% of the UK's total marketable wealth in 2003. The top 10% owned 53% of the wealth and half of the population has only 7% of total wealth.

INSERT TABLE 1 HERE

If the value of the dwelling is taken out of the above table, institutionalised inequalities become even starker and have worsened since 1976. Table 2 shows that since 1976, the top 1% of the population has got richer. In 2003, it owned 34% of the wealth. The top 50% have got richer still and owned 99% of the wealth. The share of the poorest 50% has declined to just 1% of wealth. 23% of the adult population has wealth of less than £5,000[27].

INSERT TABLE 2 HERE

In the absence of appropriate corporate governance practices, income and wealth inequalities have been translated into low pensions and retirement insecurity for millions. Directors of FTSE100 companies receive pensions worth up to 40 times more than those of their staff. A typical director of a FTSE100 company can look forward to a pension of £168,000 a year, equivalent to more than £3,200 a week (Trades Union Congress, 2006). This compares to an average of £7,124 a year for their staff. In September 2006, an investigation of the accounts of the FTSE100 company directors by *Labour Research* revealed that at retirement, on average they will receive 71 times the basic state pension for a married couple. A total of 112 FTSE 100 company directors were entitled to a pension worth at least £200,000 a year (Labour Research, 2006). Twenty-seven of them can expect a pension of at least £500,000 a year - the equivalent of £9,615 a week. A sample of such pensions is shown in Table 3.

INSERT TABLE 3 HERE

Table 3 shows that the annual pension entitlement of some directors exceeds the lifetime earnings of many employees. Labour Research (2006) also found that directors at pharmaceutical giant AstraZeneca can retire at 50. Directors of financial services provider Friends Provident and energy group BG can retire at 55 with no reduction in their pension. While the average retirement age is 65 for men and 60 for women, nearly 8 out of 10 bosses of major UK companies retire at 60 (The Guardian, 24 November 2005). Over three-quarters (77) of the companies that make up the FTSE 100 index still have "final salary" pension schemes for their directors.

Yet even the modicum of retirement security available to workers is being eroded as companies chase ever higher profits and despite numerous claims of ‘corporate social responsibility’ show little regard for the welfare of their employees. Major corporations, including Abbey National, Clydesdale and Yorkshire Bank, GlaxoSmithKline, Barclays, BBC, Friends Provident, HBOS, IBM, ICI, Iceland, Legal & General, Lloyds TSB, Marks & Spencer, Nationwide, Rolls Royce, Thomas Cook, Royal Bank of Scotland and Whitbread have closed final salary pension schemes to new employees or abandoned them altogether, or require employees to pay more for lower pension benefits. According to surveys published by the National Association of Pension Funds, some 67% of all final salary schemes in the private sector are closed to new staff and the closures are accelerating (The Guardian, 21 February 2007). This rapid rate of pension scheme closures means that only 40 per cent of today’s workers (11.3 million) are members of an occupational scheme, and the proportion in the final salary scheme is declining. The new norm may be lower pensions linked to average lifetime earnings, effectively resulting in lower pensions in return for higher pension contributions and longer working lives. Companies are reducing their contribution to occupational pension schemes and forcing employees to pay more, effectively a wage cut for most employees. One study[28] estimates that for a final salary scheme employers might have contributed 15%-16% of the employee salary, whilst for an average salary scheme it is 7%-8%, improving corporate profits by £4.15 billion a year, though this figure would increase as degradation of pension schemes accelerates. Another study[29] estimated that in 2005, employees of the pension schemes in the largest 100 companies contributed on average 4.6% of their salary. In 2006, this rose to 5.2% and will continue to rise. In many cases, employers are paying an average of 7% of staff’s pay into a money purchase scheme, which is about half the average paid into a final salary scheme[30].

In the face of inequalities, only 35% of women are able to save for a pension of their own. The percentage of UK population saving adequately for retirement has fallen from 55% in 2005 to 46% in 2006, while the number unable to save for pensions rose from 17% in 2005 to 28% in 2006 (Scottish Widows, 2006). The government statistics show that in 2007 the UK savings ratio, the amount of money people are saving, has fallen to its lowest for the last 50 years (The Guardian, 30 June 2007). Around 37% of the population as a whole does not have any material amount of money that it could readily access to meet emergencies. The UK state manages poverty by offering a variety of means-tested tax credits and social security benefits to top up the income of the poorest households. Social security cash benefits, funded through taxation, make up 60 per cent of gross income for the poorest fifth of households and 36 per cent for the next group (Mitchell and Sikka, 2006). Whilst it helps many to survive, it has done little to enhance their quality of life, or reduce institutionalised inequalities in the distribution of wealth and with it access to social and material goods and services. Even before the erosion of recent pension rights (see above) nearly 3.03 million pensioners (2.5 million households), including over 2 million women, rely on social security benefits (or pension credits) to support them[31]. In 2003/4, single women pensioners had a median income of £141 per week whilst men had £164 per week. Following huge government support for pensioners, the median net income before housing costs of pensioner households headed by someone from a white ethnic group reached £204 per week in 2004/5 compared with £185 and £151 respectively for those headed by black and Asian pensioners. Black and ethnic minority pensioners are more likely to be poor, with 29 per cent in households with incomes below 60 per cent of the median, compared with 19 per cent of older white people. Despite the biggest social security support offered to pensioners during the last 40 years, around 2.5 million pensioners still live below the poverty line (60% of median population income before housing costs) equivalent to £128 a week per pensioner in 2006 (National Pensioners Convention, 2006). Around 1.4 million pensioners (14% of total) survive on £5,000 or less a year, which averages to just £3,000 per year or £8.49 a day after local taxes, water and electricity bills[32]. This struggle to live on £8.49 a day, could affect some people for another 25 years of their lives. People make ends meet by searching for cheap food and second hand clothes, reducing heating costs and medication bills and not using telephone or transport to keep in touch with family and friends. 38% of UK pensioners have an annual income of £10,000 or less and more than 50% live on £15,000 or less (see Mitchell and Sikka, 2006 for some details).

The inequitable distribution of wealth has serious personal and social consequences. At the beginning of 2007, the average cost of a home in the UK stood at around £200,000, and even higher in some regions. This is beyond the reach of the average worker, requiring borrowings of around eight times the average earnings just to get on the housing ladder. For the first time in fifty years, home ownership is in decline (The Times, 26 March 2007). First time house buyers with an annual income of £34,000 could be spending an average 51% of their take-home pay on mortgage repayments (The Observer, 9 September 2007). Since 2002/03, after taking account of mortgage payments, local taxes and rising costs of water, gas, electricity and transport, a typical family with two children has seen its disposable income shrink by £82 a month (The Guardian, 30 June 2006). Due to low income, many people are having children later in life and also getting on the housing ladder later. They continue to pay loans and debts until later in life. People in the age group 40 to 59 owe an average of around £34,456[33]. Around 27% of people aged over 50 have virtually no liquid savings. 37% of the population as a whole does not have any money that it could readily access (Mitchell and Sikka, 2006)

Income inequalities and the related lack of access to good food, healthcare, education and quality of life have deadly effects. It is widely acknowledged that "gap in health between those at the top and bottom of the social scale has widened" (Acheson, 1998, p. 5). Research published by the Chartered Society of Physiotherapy noted "that the poorer die younger"[34]. Those from the poorest areas of the UK can expect to live nearly 12 years less than those in the affluent parts. British children are four times more likely to die from accidents, have twice the rate of long-standing illnesses and are smaller at birth and shorter in height compared to their European Union counterparts. In the UK around 40,000 underweight babies (5lb 8 oz or 2.5 kg) are born every year, almost the worst rate in the western world (Daily Telegraph, 27 March 2007). About two-thirds of all stillbirths and 70 per cent of deaths within a week of birth were among babies in this group. In 1989, 67 of every 1,000 babies fell into that category but the proportion rose to 76 by 1999 and 78 by 2006. Infant death rates for the poorest social groups are 19 per cent higher than for the total population.

In 2001-2003, six infant deaths per 1,000 live births were recorded among the least affluent, compared with 3.5 per 1,000 in professional and managerial groups (UK Department of Health, 2005). Despite record government support to alleviate child poverty, in 2005/2006, 2.8 million children lived in households with incomes below 60% of the national median income. This figure rose to 3.8 million after housing costs were factored in (UK Department of Work and Pensions, 2007). In a league table assessing the well-being of children in 21 industrialised nations, UK came last (UNICEF, 2007).

Due to inadequate income some 4 million UK households cannot adequately heat their homes (UK House of Commons Trade and Industry Committee, 2002). Each winter, nearly 25,000 elderly people die of cold because they cannot afford to heat their homes[35]. Four out of 10 older people admitted to hospital are suffering from malnutrition on arrival (Age Concern, 2006). Due to poor housing and living conditions unlike any other EU country, Tuberculosis (abbreviated as TB) is on the increase in the UK. In 2006, there were 8,171 cases compared to 5,798 in 1992[36]. Poorer people cannot expect help from banks as they are not considered to be profitable business opportunities. Indeed, 11% of UK adults do not have a bank account and in some poorer areas this rises to 35%[37]. The poor find it difficult to get credit and pay more for goods and services. Energy prices have soared, but the poor pay even more because they need to prepay. They use prepaid meters and pay £173 a year more for gas and £113 more for electricity than customers who are billed quarterly (The Guardian, 4 September 2006). With rampant income inequalities, the UK has become the debt capital of the world and its citizens are responsible for a third of all unsecured debt in Europe. The UK lending on credit cards, loans and overdrafts was £215 billion in 2005 compared to a total of £600 billion for the rest of Europe (The Guardian, 27 September 2006). On average Britons owe £3,175 compared to £1,558 for European counterparts. Yet the corporate governance literature rarely connects with income inequality or its consequences.

Summary and Discussion

This paper began by arguing that workers are major stakeholders in business organisations. They help to generate wealth by investment of their blood, sweat, brain, brawn and skills. Though a number of scholars have used globalisation, trade, technology, education and other factors to explain income inequalities, they rarely examine the presence or absence of corporate governance mechanisms to achieve equitable distribution of wealth. A central claim of this paper is that corporate governance mechanisms and processes are shaped by particular histories, conflicts and politics. Thus the structural forces shaping corporate governance mechanisms and sharing of a firm's income are translated unevenly. In that context, the state is a major site. It was argued that the UK's 'majoritorian' electoral system translates a minority share of the popular votes into a parliamentary majority and thus reduces incentives for governments to take account of a large block of public opinion. Workers may seek improved rights and a more equitable share of the firm's wealth, but the political system is not necessarily responsive as it seems to be relatively less concerned about enhancing the 'market power' of workers. The interests of capital are also deeply embedded in state policymaking and since the late 1970s the state has pursued policies to improve corporate profits, possibly to attract more investment to the UK. The corporate elites (Committee on the Financial aspects of Corporate Governance, 1992; Committee on Corporate Governance, 1998; Greenbury Committee, 1995) accommodated by the state have primarily been concerned with legitimising rewards at the higher end of the pay scale and have eschewed concerns about equitable distribution of income. Despite allusions to 'principles' based corporate governance there are no corporate structures, policies or processes to achieve an equitable distribution of income and wealth. Such politics have not enabled the UK to develop suitable corporate governance structures and processes for the equitable distribution of income and wealth. Weakened trade unions have not been able to mobilise pressures for improved distribution of income. The UK laws do not require companies to have worker representatives on company boards, or works councils to consult workers on matters relating to how the firm's wealth might be shared. Companies are not required to give visibility to inequitable sharing of income by publishing the mean or median wages paid to women or workers from ethnic minorities. The minimum wage no doubt helped some workers, but many employers do not comply with the legal requirements and the enforcement is poor.

In the relative absence of suitable corporate governance processes and structures, the workers' share of the GDP has been reduced. As noted earlier, the share of the GDP going to workers in the form of wages and salaries declined from its peak of 65.1% in 1975 to 52.6% in 1996" (Compass, 2007, p. 21). This period coincided with considerable restructuring of the state and society. The state actively pursued policies to weaken trade unions' power and workers' rights, effectively diluting their "market power". Since 1997, the Labour administration has continued with many of the previous policies with one notable exception. It introduced the national minimum wage which may have lifted the incomes of many. By 2006, possibly this helped to raise the workers' share of GDP from 52.6% in 1996 to 55.6% in 2006[38], still nearly 10% less than in 1975. However, this reduced share is then divided unevenly among company executives, financial dealers, accountants, lawyers, white-collar, blue-collar, ethnic minority and other workers.

In the UK, a comparatively rich country, the income inequalities are increasing. These are not due to some squeeze on company profits. For 2006, the average profitability of the non-financial UK sector is estimated to be at a record 15.2 per cent, with the services sector achieving 19.3% and the oil and gas sector making 42.9% (UK Office for National Statistics, 2007). Between 2003 and 2006, the top 100 companies doubled their profits (The Daily Telegraph, 7 January 2007). UK workers have one of the longest working hours in Europe and boost corporate profits by £23 billion a year through unpaid overtime[39], but they cannot look forward to an equitable distribution of income and wealth. At the top end of the wage and salaries scale commentators frequently rationalise higher financial rewards by appeals to market mechanisms and claim that to attract good executives high salaries need to be paid. Such explanations pay little attention to politics of governance or power of elite networks. Education and skills are considered to be paths to higher rewards but the proportion of women graduates working in low-paid jobs has nearly trebled in the past 10 years (The Observer, 5 February 2007). Such outcomes are not due to some invisible hand of fate or some iron law of economics, but are the outcomes of politics of corporate governance that pay little attention to equitable distribution of income that the workers themselves have helped to generate.

Income inequalities cause poverty and have negative effects on access to education, housing, food, healthcare, pensions and life expectancy. Inequalities skew political processes since the wealthy are able to advance their interests through sponsorship of political parties, lobbying and funding of think-tanks. Lack of resources for education and training also reduce labour market mobility. The deepening divide between the rich and the poor undermines social solidarity, creates disillusionment with democracy and obstructs the development of a just and fair society that enables citizens to live fulfilling lives.

Rather than creating suitable corporate governance processes, the UK state has sought to manage poverty a variety of social security benefits to improve the total income of the low income households. However, such a policy has severe limits as corporations and wealthy elites resent paying taxes and are increasingly opting out of their obligations through a variety of tax avoidance schemes and the tax burden is being shifted on to labour and consumption (Sikka and Hampton, 2005; Christensen and Murphy, 2004; Mitchell and Sikka, 2006). An effective reform of corporate governance to achieve equitable distribution remains the only viable long-term policy option. Whilst good voluntary governance practices can be encouraged, it is doubtful that the private sector corporate governance codes will do much to improve the workers' share of the firm's income. Ultimately, the lawmaking powers of the state would need to be mobilised to create the appropriate corporate governance mechanisms and policies. The state's need to secure legitimacy through mass public support can open spaces for politics, alliances and advancement of discourses that appeal to democracy, citizens' rights, justice, fairness, accountability, ethics and equity to mobilise changes to the overall structure and operations of businesses (Gallhofer and Haslam, 2003).

The nature of reforms is difficult to predict, but the evidence cited in this paper would suggest that changes would need to be made to the UK electoral system so that political parties cannot continue to marginalise a large block of public opinion. Workers' "market power" would need to be strengthened so that they have more options for securing a higher share of the firm's income. Since worker rights and trade unions are considered to be a positive influence on equitable distribution of a firm's income (Burniaux et al., 2006), debates about 'industrial democracy' (Bullock Report, 1977) and worker representation at company boards would need to be developed. In common with shareholders, workers too should vote on executive remuneration, attend general meetings, table resolutions and ask questions. At Semco in Brazil, teams of employees interview the candidates vying to become their boss (Shah and Goss, 2007). Since the UK state defines the ‘poverty line’ as equivalent to 60% of the median wage, it follows that appropriate structures should be created so that no company pays a wage below that. The concept of the minimum wage could be supplemented by the concept of a ‘maximum wage’. For example, it could be argued that company directors should not receive total remuneration of (say) more than ten times the average wage in the same company, thus ensuring that extra rewards for directors also lead to better rewards for employees (Mitchell and Sikka, 2005, 2006). The details of such processes can be developed and scrutinised by works councils, remuneration committees or other representative structures.

To inform debates about income inequalities, the total wages and salaries costs disclosures already made by companies should be supplemented. Since specific disclosures in annual reports have a capacity to give visibility to some aspects of corporate life companies should be required to publish the highest and the lowest wage, together with an analysis of the average wage differentials by gender, ethnicity and age of workers. Companies should be required to show that they are actively pursuing policies to strengthen equal opportunities, close gaps in gender and age pay and to end racial discrimination (Mitchell and Sikka, 2006). Such suggestions are also receiving support from institutional investors (The Observer, 17 June 2007). The proposals sketched here provide broad ideas for thinking about corporate governance and its links with developing a just and fair society. It may be argued that the above suggestions do not change the exploitative nature of capitalism. However, it is hoped that the politics of the proposed reforms will stimulate reflections upon the nature of the state, institutional structures, democracy, taxation, work and capitalism itself though these are beyond the scope of the present paper.

As corporate governance processes shape the distribution of wealth, any proposals to change the status-quo are bound to be contested. Those persuaded by stakeholder theories may argue that businesses should “behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large” (World Business Council for Sustainable Development, 2000). In the opposite corner, neoliberals may be more relaxed about inequalities because of the belief that “a mobile society is better than an equal one: disparities are tolerable if combined with meritocracy and general economic advance" (The Economist, 18 January 2007). Nevertheless, even neoliberals know that income and wealth inequalities lead to economic inefficiencies as poor people are priced out of many markets and thus limit economic growth and potentialities for profits. The multiplier effect of equitable distribution of wealth is much greater than that achieved by concentration of wealth in relatively few hands and goes a long way towards reducing poverty and social exclusion (Prahalad, 2004). A debate is long overdue and the outcomes would inevitably depend on how each group mobilises its political resources.

TABLE 1
SHARE OF THE UK WEALTH
TOTAL MARKETABLE WEALTH

% of wealth owned by	1976	1986	1996	1999	2000	2001	2002	2003
Most wealthy 1%	21	18	20	23	23	22	24	21
Most wealthy 5%	38	36	40	43	44	42	45	40
Most wealthy 10%	50	50	52	55	56	54	57	53
Most wealthy 25%	71	73	74	75	75	72	75	72
Most wealthy 50%	92	90	93	94	95	94	94	93

Source: UK Office for National Statistics, (2006).

TABLE 2
SHARE OF THE UK WEALTH
MARKETABLE WEALTH LESS VALUE OF DWELLINGS

% of wealth owned by	1976	1986	1996	1999	2000	2001	2002	2003
Most wealthy 1%	29	25	26	34	33	34	37	34
Most wealthy 5%	47	46	49	59	58	58	62	58
Most wealthy 10%	57	58	63	72	73	72	74	71
Most wealthy 25%	73	75	81	87	89	88	87	85
Most wealthy 50%	88	89	94	97	98	98	98	99

Source: UK Office for National Statistics, (2006).

TABLE 3
SOME UK COMPANY DIRECTOR PENSIONS

Director	Company (Year End)	Annual Pension £000s
Lord Browne	BP (12.05)	991
Sir Francis Mackay	Compass (12.05)	830
Howard S Frank	Carnival (11.05)	795
John Sunderland (1)	Cadbury Schweppes (12.05)	762
Antony Burgmans	Unilever (12.05)	762
Lawrence Fish	Royal Bank of Scotland (12.05)	761
John Walsh (2)	BOC (9.05)	714
Michael Bailey	Compass (12.05)	648
Jeroen van der Veer	Royal Dutch Shell (12.05)	647
Sir Tom Mckillop	AstraZeneca (12.05)	639
Patrick Cescau	Unilever (12.05)	638
Todd Stitzer	Cadbury Schweppes (12.05)	623
Sir Julian Horn-Smith	Vodafone (3.06)	605
Dr Jean-Pierre Garnier	GlaxoSmithKline (12.05)	601
Michael Geoghegan	HSBC	557
Paul Walsh	Diageo (6.05)	556
James Crosby	HBOS (12.05)	553
Sir John Bond	HSBC (12.05)	546
Sir Terry Leahy	Tesco (2.06)	546
Keki Dadiseth (1)	Unilever (12.05)	542
Sir David Prosser	Legal & General (12.05)	537
Richard Harvey	Aviva (12.05)	527
Mike Turner	BAE Systems (12.05)	523
Dr John McAdam	ICI (12.05)	521
Ken Hydon	Vodafone (3.06)	517
Roger Urwin (1)	National Grid (3.06)	516
Rudy Markham	Unilever (12.05)	514

(1) Retired 2005
(2) Resigned 2005.

Source: Labour Research (2006).

APPENDIX 1

TOP TEN EXCUSES FOR NOT PAYING THE NATIONAL MINIMUM WAGE (NMW)

10. I only took him on as a favour
9. The workers can't speak English
8. He's over 65, so the national minimum wage doesn't apply
7. She's on benefits - if you add those to her pay, it totals the NMW
6. They can't cope on their own and it's more than they would get in their own country
5. He's disabled
4. I didn't think it applied to small employers
3. I didn't think the workers were worth NMW
2. But she only wanted £3 an hour
1. He doesn't deserve it - he's a total waste of space

Source: HM Revenue and Customs press release, dated 22 August 2006 (http://www.gnn.gov.uk/Content/Detail.asp?ReleaseID=222124&NewsAreaID=2)

Bibliography

Abrams, F. (2002), *Below the Breadline: Living on the Minimum Wage*, Profile Books, London.

Accounting Standards Board, (2003), *Statement of Recommended Practice: Accounting for Further and Higher Education*, ASB, London.

Accounting Standards Steering Committee (1975), *The Corporate Report*, Accounting Standards Steering Committee, London.

Acheson, D. (1998). *Independent Inquiry into Inequalities in Health*, The Stationery Office, London.

Age Concern, (2006), *Hungry to be Heard: The scandal of malnourished older people in hospitals*, Age Concern, London.

Armstrong, P., Glyn, A. and Harrison, J. (1984), *Capitalism since World War II*, Fontana, London.

Blair, M. (1995), *Ownership and Control: Rethinking Corporate Governance for the Twenty-First Century*, Brookings Institution, Washington DC.

Bradshaw, Y.W. and Wallace, M. (1996), *Global Inequalities*, Sage, London,

Brewer, M., Goodman, A., Shaw, J. and Sibieta, L. (2006), *Poverty and Inequality in Britain: 2006*, Institute for Fiscal Studies, London.

Bullock Report, (1977), *Report of the Commission on Industrial Democracy*, HMSO, London.

Burchell, S., Clubb, C. and Hopwood, A.G. (1985), "Accounting in its Social Context: Towards a history of value added in the United Kingdom", *Accounting, Organizations and Society*, Vol.10 No. 4, pp. 381-413.

Burniaux, J.M., Padrini, F. and Brandt, N. (2006), *Labour Market Performance, Income Inequality and Poverty in OECD Countries* (Working Paper No. 500), OECD, Paris.

Butler, T. and Watt, P. (2007), *Understanding Social Inequality*, Sage, London.

Christensen, J. and Murphy, R. (2004), "The Social Responsibility of Corporate Tax Avoidance: Taking CSR to the Bottom Line", *Development*, Vol. 47 No. 3, pp. 37-44.

Committee on the Financial aspects of Corporate Governance (1992), *The Financial Aspects of Corporate Governance*, Gee, London (Cadbury Report).

Committee on Corporate Governance (1998), *Committee on Corporate Governance: Final Report*, Gee, London (Hampel Report).

Compass, (2007), *Closer to equality? Assessing New Labour's record on equality after 10 years in government*, Compass, London.

Cousins, J. and Sikka, P. (1993), "Accounting for Change: Facilitating Power and Accountability", *Critical Perspectives on Accounting*, Vol. 4 No. 1, pp. 53-72.

Darton, D. and Strelitz, J. (2003), *Tackling UK poverty and disadvantage in the twenty-first century*, Joseph Rowntree Foundation, York.

Demirag, I. (2005), *Corporate Social Responsibility, Accountability and Governance*, Greenleaf, Sheffield.

Dorey, P. (2002), *Wage Politics in Britain: The Rise and Fall of Incomes Policies Since 1945*, Sussex Academic Press, Eastbourne.

Elliott, L. and Atkinson, D. (1998) *The Age of Insecurity*, Verso, London.

Erturk, I., Froud, J., Sukhdev, J. and Williams, K. (2004), "Corporate Governance and Disappointment", *Review of International Political Economy*, Vol. 11 No. 4, ,pp. 677-713.

European Economic Community (1975), Employee Participation in Company Structures in the E European Community, COM (75) 570 final, 12 November, *Bulletin of the European Communities*, Supplement 8/75.

Fligstein, N. (2001), *The architecture of markets: An economic sociology of twenty-first-century capitalist societies*, Princeton University Press, Princeton.

Galbraith, J. and Liu, J. (2001), "Measuring the evolution of inequality in the global economy", in Galbraith, J. and Berner, M. (eds.), *Inequality and Industrial Change: A Global View*, Cambridge University Press, New York.

Gallhofer, S. and Haslam, J. (2003), *Accounting and Emancipation: Some Critical Interventions*, Routledge, London.

Giddens, A. (1998), *The Third Way: The Renewal of Social Democracy*, Polity Press, London.

Gourevitch, P. and Shinn, J. (2005), *Political Power and Corporate Control: The New Global Politics of Corporate Governance*, Princeton University Press, Princeton.

Gray, S.J. and Maunders, K.T. (1980), *Value Added Reporting: Uses and Measurement*, The Association of Certified Accountants, London.

Greenbury Committee (1995), *Study Group on Directors' Remuneration (Final Report*, Gee, London.

Habermas, J., (1976). *Legitimation Crisis*, Heinemann, London.

Hall, S. (1988), *The Hard to Renewal: Thatcherism and the Crisis of the Left*, Verso, London.

Hall, P.A. and Soskice, D. (2001), *Varieties of Capitalism: The Institutional Foundations of Comparative Advantage,* Oxford University Press, Oxford.

Higgs Review, (2003). *Review of the Role and Effectiveness of Non-Executive Directors*, UK Department of Trade and Industry, London.

Hills, J. (2005), *Inequality and the State*, Oxford University Press, Oxford.

Hobsbawm, E.J. (1969), *Industry and Empire*, Penguin, Harmondsworth.

Institute for Fiscal Studies, (2007), *Poverty and Inequality in the UK: 2007*, Institute for Fiscal Studies, London.

KPMG, (2006), *Executive remuneration schemes face radical overhaul*, London, KPMG, 18 September, (http://www.kpmg.co.uk/news/detail.cfm?pr=2620).

Klein, N. (2001), *No Logo*, Flamingo, London.

Labour Research, (2006), Why some piggy banks overflow, *Labour Research*, September, pp. 19-21.

Letwin, S.R. (1992), *The Anatomy of Thatcherism*, Fontana, London.

Lijphart, A. (1999), *Patterns of Democracy: Government Forms and Performance in Thirty-Six Countries*, Yale University Press, New Haven.

London Stock Exchange, (1998), T*he Combined Code: Principles of Good Governance and Code of Best Practice*, London Stock Exchange, London.
Marx, K. (1976), *Capital: Vol. 1*, Penguin, Harmondsworth.

Mitchell, A. and Sikka, P. (1996), *Discussion Paper 24: Corporate Governance Matters*, Fabian Society, London.

Mitchell, A. and Sikka, P. (2005), *Taming the Corporations*, Association for Accountancy & Business Affairs, Basildon.

Mitchell, A. and Sikka, P. (2006), P*ensions Crisis: A Failure of Public Policymaking*, Association for Accountancy & Business Affairs, Basildon.

Monks, R.A.G., and Minow, N. (2004), Corporate governance (Third edition), Blackwell, Malden: Mass.

National Pensioners Convention, (2006), *Real Security in Retirement: An Alternative Pensions System*, NPC, London.

O’Connor, J. (1987), *The Meaning of Crisis: A Theoretical Introduction*, Basil Blackwell, Oxford.

Offe, C., Muckenberger, U. and Ostner, I. (1996), "A Basic Income Guaranteed by the State: A Need of the Moment in Social Policy", in Offe, C., (Ed.), *Modernity and the State: East, West*, Polity Press, Cambridge.

Pension Analysis Directorate, (2006), *The Pensioners' Income Series 2004/2005*, UK Department of Work and Pensions, London.

Platt, L., (2007), *Poverty and Ethnicity in the UK*, Joseph Rowntree Foundation, Bristol.

Prahalad, C.K. (2004). *The Fortune at the Bottom of the Pyramid: Eradicating Poverty through Profits*, FT Prentice-Hall, Harlow.

Scottish Widows, (2006), *Scottish Widows UK Pension Report: A major assessment of pension saving behaviour*, Scottish Widows, Edinburgh.

Servais, J.M., Bollé, P., Lansky, M., and Smith, C.L. (2007), *Working for better times. Rethinking work for the 21st century*, International Labour Organisation, Geneva.

Shah, H., and Goss, S., (2007), *Democracy and the Public Realm*, Compass/Lawrence Wishart, London.

Sikka, P. and Hampton, M.P. (2005), "The Role of Accountancy Firms in Tax Avoidance: Some Evidence and Issues", *Accounting Forum*, Vol. 29 No. 3, pp. 325-343.

Sikka, P., Wearing, B., and Nayak, A. (1999), *No Accounting for Exploitation*, Association for Accountancy & Business Affairs.

Smith Report, (2003), *Audit Committees: Combined Code Guidance*, Financial Reporting Council, London.

Solomon, J., and Solomon, A. (2004), *Corporate Governance and Accountability*, John Wiley, Chichester.

Solomon, J. (2007), Corporate *Governance and Accountability*, John Wiley, Chichester.

Sutcliffe, B. (2004), "World Inequality and Globalization", *Oxford Review of Economic Policy*, Vol. 20 No. 1, pp. 15-37.

Thornley, C. and Coffey, D. (1999), "The Low Pay Commission in Context", *Work, Employment and Society*, Vol. 13 No. 3, pp. 525-538.

Toynbee, P. (2003), *Hard Work: Life in Low-pay Britain*, Bloomsbury, London.

Toynbee, P. (2007), McJobs are giving Britain a reputation as Europe's offshore banana republic, The Guardian, 25 May (http://business.guardian.co.uk/story/0,,2087862,00.html)

Trades Union Congress, (2006), *Pensionswatch 2006*, TUC, London (http://www.tuc.org.uk/pensions/tuc-12339-f0.cfm).

Turnbull Report, (1999), *Internal Control: Guidance for Directors on the Combined Code*, Institute of Chartered Accountants in England and Wales, London.

UK Department of Trade and Industry, (2005a), *Trade Union Membership 2005*, The Stationery Office, London.

UK Department of Health, (2005b), *Health Inequalities: status report on the programme for action*, Department of Health, London.

UK Office for National Statistics, (2006), *Share of the Wealth*, ONS, London (http://www.statistics.gov.uk/cci/nugget.asp?id=2).

UK Office for National Statistics, (2007), *Profitability of UK companies -3rd quarter 2006*, ONS, London (http://www.statistics.gov.uk/pdfdir/prof0107.pdf).

UK Department of Work and Pensions, (2007), *Households Below Average Income (HBAI) 1994/95-2004/05*, Department of Work and Pensions, London.

UK House of Commons Trade and Industry Committee, (2002), *Fuel Poverty*, The Stationery Office, London.

UNICEF, (2007), *Child Poverty in Perspective: An overview of child well-being in rich countries*, UNICEF, Florence.

Wade, R.H. (2005), “Globalization, Poverty and Inequality”, in Ravenhill, J., (ed.), *Global Political Economy*, Oxford University Press, Oxford.

Wearing, R. (2005), *Cases in Corporate Governance*, Sage, London.

Wedderburn, B. (2004). *The Future of Company Law: Fat Cats: Corporate Governance and Workers*, Institute of Employment Rights, London.

Women and Work Commission, (2006), *Shaping a Fairer Future*, Women and Work Commission, London.

World Business Council for Sustainable Development, (2000), *Meeting Changing Expectations*, WBCSD, Geneva.

NOTES

[1] The Companies Act 1985, Schedule 6 requires the following details to be published: (a) Directors' emoluments, including salary fees and bonuses; (b) Gains made by directors on the sale of share options; (c) Amounts paid to directors under long-term incentive schemes; (d) Number of directors to whom retirement benefits are accruing in respect of qualifying services in respect of money purchase schemes and defined benefit schemes; (e) Pensions in excess of the pensions to which they were entitled (this includes past as well as present directors) and; (f) Compensation to past or present directors for loss of office. The Act (as amended by various statutory instruments) requires that the remuneration of the directors should be disclosed where the aggregate directors' remuneration is effectively £200,000 or greater during the accounting period. The amount of £200,000 is based on (a)+(b)+(c) mentioned above.

[2] These disclosures are now governed by Section 411 of the Companies Act 2006.

[3] http://www.labour-party.org.uk/manifestos/1974/Feb/1974-feb-labour-manifesto.shtml; accessed 31 May 2007.

[4] http://www.conservative-party.net/manifestos/1979/1979-conservative-manifesto.shtml

[5] As per http://www.unionhistory.info/timeline/1960_2000.php; accessed 4 Jun 2007.

[6] The disclosures were retained for the public sector where a "higher paid employee" is someone earning more than £70,000 a year (Accounting Standards Board, 2003).

[7] The Cadbury Code was supported by the London Stock Exchange and eventually became part of the listing requirements (London Stock Exchange, 1998).

[8] The recommendations became part of the London Stock Exchange Listing Rules and the Company Accounts (Disclosure of Directors' Emoluments) Regulations 1997.

[9] In October 2006, the rate was raised to £5.35 an hour for workers aged 22 and over, £4.45 per hour for 18-21 year olds and £3.30 an hour for 16-17 year old workers, considerably less than the rates advocated by trades unions

[10] 'Living wage' is taken to mean a wage above the national minimum wage so that the recipients can enjoy a certain standard of living.

[11] http://news.bbc.co.uk/1/hi/business/2958208.stm; accessed 30 June 2006.

[12] http://news.bbc.co.uk/1/hi/business/2958208.stm; accessed 30 June 2006.

[13] A variety of other laws (e.g. the Insolvency Act 1986, the Financial Services Act 1986, Company Directors Disqualification Act 1986, the Enterprise Act 2002) also shape corporate governance processes. However, they are silent on equitable distribution of wealth.

[14] Trades Union Congress press releases, 28 December 2006 (http://www.tuc.org.uk/economy/tuc-12807-f0.cfm; accessed 28 December 2006).

[15] KPMG's Survey of Directors' Compensation 2006 (http://www.kpmg.co.uk/news/detail.cfm?pr=2620#; accessed on 18 September 2006).

[16] The figure includes salary, bonuses, share options and incentives, but exclude their pension pot. If included this would take their rewards to well over £3 million.

[17] http://www.accountancymagazine.com/main.asp?storyid=9374; accessed on 22 June 2007.

[18] Available at http://www.statistics.gov.uk/pdfdir/ashe1006.pdf; accessed on 28 December 2006.
[19] TUC press release, 9 September 2006.
[20] http://news.bbc.co.uk/1/hi/business/2223653.stm; accessed on 15 September 2006.
[21] http://www.statistics.gov.uk/pdfdir/pay1006.pdf; accessed 15 December 2006.
[22] TUC press release, 10 September 2006.
[23] For example, it was reported that 300 workers at a restaurant chain were paid £3.75 per hour, 30 per cent below the national minimum wage of £5.35, and tips made up the rest of their pay packet (The Independent, 20 May 2007).
[24] http://www.tuc.org.uk/economy/tuc-12357-f0.cfm; accessed 15 December 2006.
[25] The National Minimum Wage Act 1998 requires all employers to keep sufficient records to establish that they are paying their workers at least the minimum wage. Government appointed compliance officers can inspect the employer's minimum wage records.
[26] http://www.statistics.gov.uk/cci/nugget.asp?id=1751; accessed 25 June 2007.
[27] http://www.hmrc.gov.uk/stats/personal_wealth/table13_5.xls
[28] Brewin Dolphin Securities press release, 11 July 2005.
[29] http://news.bbc.co.uk/1/hi/business/5059242.stm; accessed 8 June 2006.
[30] http://news.bbc.co.uk/1/hi/business/5047716.stm; accessed 6 June 2006
[31] Department of Work and Pensions press release, 7 June 2004.
[32] Pension Age newsline, 17 June 2006; http://www.pensionsage.com/June%202006/June%20news/news170606.htm
[33] http://news.bbc.co.uk/1/hi/business/5104716.stm; accessed 22 June 2006.
[34]http://www.csp.org.uk/director/newsandevents/news.cfm?item_id=ECD760F7B81C8A42A543F572E3EBDF8F; accessed on 21 June 2006.
[35]http://www.helptheaged.org.uk/engb/Campaigns/WinterDeaths/?&MSHiC=65001&L=10&W=died%20&Pre=%3CFONT%20STYLE%3D%22color%3A%20%23000000%3B%20background-color%3A%20%23FFFF00%22%3E&Post=%3C/FONT%3E; accessed 30 April 2007.
[36] http://www.hpa.org.uk/hpa/news/articles/press_releases/2007/070322_tb.htm; also see The Guardian, 3 August 2004
[37] New Economics Foundation press release (http://www.neweconomics.org/gen/HSBCprofits_nefcallsforbankinguniversalserviceobligation060306.aspx; accessed 6 March 2006).
[38] As per Table D in UK quarterly national accounts published on 28 March 2007; available on http://www.statistics.gov.uk/pdfdir/qna0307.pdf .
[39] Trades Union Congress press release, 4 January 2007.