

Why do we put up with the myth of shareholder virtue?

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I posted a couple of entries in the glossary over the weekend. One was on shareholders and the other on stakeholders. I offer them here in contrast and then provided an observation.

Shareholders

The owner of a share or [shares](#) in a company or corporation.

In many instances, the registered shareholders of companies are nominees which prevents identification of the real-life beneficial owners.

Registers of beneficial ownership are meant to address this issue, but none do so effectively as yet, not least because only the holders of stakes of more than 25% are usually required to be disclosed and this rule is easy to arbitrage or evade.

Shareholders do not own the assets of the company in which they own a share and have no claim over those assets unless the company is liquidation when in most instances companies are insolvent with few if any funds then being available for distribution to shareholders.

Shareholders are entirely dependent upon the decision of the directors of the company in which they invest for the payment of dividends: they cannot enforce a claim to be paid, even by passing a resolution in an annual general meeting. They would have to replace the directors instead, which in most quoted companies almost never happens as a result of a [shareholder](#) resolution.

As such the idea that a company is run in the interest of shareholders makes little sense, and nor do the ideas behind the concept of [shareholder](#) value have any substance to them.

This fact also makes a mockery of the idea that an [auditor](#) should address

their audit report to the shareholders of a company when those shareholders have one of the weakest relationships with a company amongst all its stakeholders.

Stakeholders

A [stakeholder](#) is a person impacted by or with an interest in or concern about the activities of another person or entity.

The stakeholders of companies, corporations and other reporting entities are likely to be:

- * *The owners of its capital***
- * *Other suppliers of capital to the reporting entity***
- * *Trading partners of the reporting entity***
- * *Employees of the reporting entity***
- * *Regulators***
- * *Tax authorities***
- * *Civil society in all its forms including local authorities, journalists, academics, civil society groups and individuals.***

In the case of most companies, corporations or reporting entities many stakeholders are likely to have more interest in the activities of a company because of its potential impact on their well-being than the owners of its capital.

Despite that, the International Financial Reporting Standards Foundation has ruled through its International Accounting Standards Board that its accounting standards need only meet the needs of shareholders and other owners or suppliers of capital to a company and that the needs of other stakeholders need not be considered in the course of preparing accounts of financial statements.

Commentary

One of the many myths perpetuated by neoliberal economists and commentators is that there is something incredibly important within society that is called a company or corporation and that shareholders reign supreme within those organisations.

It is their implicit suggestion that this status of shareholders somehow means that these massively powerful organisations are benign, even benevolent, and wholly accountable. The promotion of the idea that shareholding is universal (coupled with the

legally backed idea that all employees must now be required to invest in pension funds that hold shares) is an essential part of this myth, even though this form of saving is almost wholly inappropriate for most pension funds.

So what is the reality?

The truth is that shareholders have the weakest and most easily severable relationship with a company of any of its stakeholders. If we concentrate on issues relating to large companies, which are of greatest concern, then there are three things to note.

The first is that very few shareholders in large companies have any idea that they own shares in that entity. They will hold their shares via pensions funds, life assurance funds and other savings institutions acting on their behalf, none of whom will give them any real indication of where they have placed funds for them. In other words, the shareholder and the company in which they invest are almost wholly unknown to each other. There can be no relationship between them in that case.

Second, and as a matter of fact, the shareholder in such entities can break their relationship with that company with no notice being given to the company, and without any impact on it. That is because the shares in the company are traded on a stock exchange. The nature of such exchanges is that they permit purchases and sales without notice to the company being given. And as far as that company is concerned the fact that its share might now be owned by another person is a matter of absolute indifference to it. Not only does it gain nothing from the sale, it also has no bearing on its behaviour unless part of a takeover bid, which are now never staged by ordinary shareholders. This necessarily means that the relationship is, once again, totally tenuous.

And, as I note with regard to shareholders, the power that they actually have over the company in whose share capital they have saved is remarkably small. That is because they have not saved in the company. They have instead bought a financial instrument it issued, whereafter their claim is not on the company itself, over whom they have almost no practical legal powers at all, and which it can anyway ignore (as is the normal practice with shareholder resolution at company annual general meetings). That share gives them no claim over the assets of the company in any situation that a shareholder will want to be in and no entitlement to an income if the company decides not to provide one. Again, then, the relationship is so remote as to be virtually meaningless.

So why does neoliberalism still pretend in the power of shareholders and the need to run an economy for them when this ceased to have much meaning at least a century ago? And I am well aware that things are different for small businesses, but there the supposed power of shareholders usually comes through other means, such as holding directorships, or because of family relationships or something else altogether.

Is it just that this myth allows them to create power for a privileged few who get to run

the behemoths that quoted companies really are, who then fund the neoliberal myth that they are brave and glorious entrepreneurs who have taken the risk to earn the many millions paid to them for doing nothing more than positioning themselves in the right place at the right time to exploit the company for all they can lay their hands on whilst sponsoring universities to spread a completely different story about how businesses work?

My answer is, of course, that this is a known myth that delivers exploitation.

What to do about it?

The answer, most obviously, is that we need to have accounting for stakeholders. That is an issue I will be discussing with colleagues in the Corporate Accountability Network this afternoon.