

## Investment Stewardship Group

# Vote Bulletin: Top Glove Corporation Bhd.

As part of our fiduciary duty, BlackRock’s Investment Stewardship team (BIS) advocates for sound corporate governance and business practices that are aligned with long-term sustainable financial performance. This objective underpins all our engagements and votes at company meetings.

We engage company leadership on key topics emphasizing governance practices including management of environmental and social factors that potentially have material economic, operational or reputational ramifications for the company.

We determine our [engagement priorities](#) based on our observation of market developments and emerging governance themes and evolve them year over year as necessary. The BIS team’s key engagement priorities include:

1. Board quality
2. Environmental risks and opportunities
3. Corporate strategy and capital allocation
4. Compensation that promotes long-termism
5. Human capital management

Our approach to investment stewardship is grounded in an expectation that the board will oversee and advise management, influencing management’s approach to key business issues. When effective corporate governance is lacking, we believe that voting against the responsible director(s) is often the most impactful action a shareholder can take.

We are committed to enhancing the transparency of our stewardship practices. Where we believe it will help to understand our voting decisions on key votes at shareholder meetings, we will publish a Vote Bulletin explaining the rationale for how we have voted, and (where relevant) provide information around our engagement with the issuer.

Company	<b>Top Glove Corporation Bhd.</b>
Market	Malaysia
Meeting Date	6 <sup>th</sup> January 2021
Key Resolutions <sup>1</sup>	<b>Item 1.</b> Elect Lim Han Boon as Director <b>Item 2.</b> Elect Rainer Althoff as Director <b>Item 3.</b> Elect Noripah Kamso as Director

<sup>1</sup> More information can be accessed at: [https://www.topglove.com/App\\_ClientFile/7ff8cb3f-fbf6-42e7-81da-6db6a0ab2ef4/Assets/AGM22/4.%20Notice%20of%2022nd%20AGM.pdf](https://www.topglove.com/App_ClientFile/7ff8cb3f-fbf6-42e7-81da-6db6a0ab2ef4/Assets/AGM22/4.%20Notice%20of%2022nd%20AGM.pdf)

	<p><b>Item 4.</b> Elect Norma Mansor as Director</p> <p><b>Item 5.</b> Elect Sharmila Sekarajasekaran as Director</p> <p><b>Item 6.</b> Elect Lim Andy as Director</p> <p><b>Item 11.</b> Approve Lim Han Boon to Continue Office as Independent Non-Executive Director</p>
Board Recommendation	The board recommended voting in favor of these proposals
BlackRock Vote	BlackRock voted AGAINST these proposals

## Overview

Top Glove Corporation Bhd. (Top Glove) engages in the manufacture and trade of various types of rubber gloves, including latex, nitrile, vinyl, surgical, household, cleanroom, cast polyethylene, industrial high risks, and thermoplastic elastomer. It is the world's largest manufacturer of rubber gloves, with 26% of global market share.

BIS has conducted multiple engagements with Top Glove's management and board of directors since the company was placed on the United Nations Global Compact (UNGC)<sup>2</sup> Watchlist in 2018 for an investigation into its alleged use of forced labor and subjecting its workers to excessive working hours, amongst other issues. BIS had several engagements with the company in 2020 after two of its subsidiaries received a Work Release Order (WRO) on its disposable gloves from the U.S. Customs and Border Protection (CBP) in July following the US CBP's determination that there was reasonable evidence of forced labor at Top Glove's manufacturing facilities.

Through engagement and public statements issued by the company,<sup>3</sup> we note several actions taken to address the issue of debt bondage and the amelioration of workers' conditions. This includes the return of workers' identification documents for their personal safekeeping as opposed to the utilization of lockers, the introduction of a 'Zero Recruitment Fee Policy' in January 2019, as well as the hiring of an independent consultant in August 2020 to recommend and verify the company's remediation payments to its migrant workers.

However, we are concerned that Top Glove is the subject of 19 investigations by Malaysia's Ministry of Human Resources (MoHR) for non-compliance to the Workers' Minimum Standards of Housing and Amenities Act 1990 (Act 446) – which includes the provision of a minimum area of living space per worker, amongst other requirements. Regrettably, its workers' dormitories became the site of Malaysia's largest COVID-19 cluster in November 2020, with more than 5,000 workers (a quarter of the company's workforce) infected and one reported fatality. The outbreak resulted in the 28-day closure of 28 of its 41 factories by the Malaysian government to contain the spread. The company also was subjected to further public scrutiny in December 2020 after it was revealed that it dismissed an employee in October for sharing pictures of overcrowding and a lack of social distancing amongst workers to an organization focused on Nepali workers' rights. Notably, after hiring an independent consultant, Top Glove's management has since improved its whistleblowing processes and has committed not to terminate whistleblowers in the future.

Moreover, we understand from the company that its independent consultant did not find any violations of the International Labor Organisation (ILO)'s 11 forced labor indicators; it is also in the midst of implementing corrective measures towards improving workers' living quarters to ensure compliance to Act 446 by 2021.

<sup>2</sup> See <https://www.unglobalcompact.org/>

<sup>3</sup> See [https://www.topglove.com/App\\_ClientFile/7ff8cb3f-fbf6-42e7-81da-6db6a0ab2ef4/WebEvent/UploadItem/EventDocument/c0e356be-1145-493b-81a7-4f717e321b9d\\_en.pdf](https://www.topglove.com/App_ClientFile/7ff8cb3f-fbf6-42e7-81da-6db6a0ab2ef4/WebEvent/UploadItem/EventDocument/c0e356be-1145-493b-81a7-4f717e321b9d_en.pdf)

However, at the time BIS voted, we remain concerned about the company's approach to worker protections. The company is still on the UNGC Watchlist and faces pending investigations by both the US CBP and the Malaysian government.

## **Rationale for BlackRock's Vote**

The company has been the subject of intense scrutiny over various labor-related and human rights issues in its supply chain since 2018. Whilst we acknowledge the board and management's willingness to engage with the BIS team, as well as the steps the company has taken in response to some of the controversies, the COVID-19 pandemic has exposed severe shortcomings in management and oversight of worker health and safety-related issues.

Despite the board and management's reassurance that COVID-19 preventive measures have been implemented since the start of the pandemic, a quarter of its workers have since been infected with the virus, with one associated death. The investigations conducted by MoHR and US CBP, together with the whistleblower's account and other media reports, have shown that Top Glove's workers live in dense, unsuitable accommodations with a lack of proper ventilation and physical distancing – a stark contrast to what the board has conveyed to shareholders.

Given Top Glove's role as a leading Personal Protective Equipment (PPE) manufacturer, we view the board's ineffectiveness in COVID-19 mitigation and inadequate oversight of worker health and safety issues as especially egregious with potentially serious implications for its reputation as a supplier of such equipment to hospitals around the world.

As the COVID-19 pandemic ravaged the region, the board failed in a key aspect of its oversight responsibility given that it did not identify and set policies to manage risks including the health and safety of workers living in its dormitories. This is particularly surprising given the enhanced awareness and attention to the company's worker safety issues since 2018. As such, BIS voted against the re-election of six Independent Non-Executive Directors (INEDs) and a separate proposal for Senior Independent Director Lim Han Boon to continue in office as an INED:

- (i) Item 1: Elect Lim Han Boon as Director
- (ii) Item 2: Elect Rainer Althoff as Director
- (iii) Item 3: Elect Noripah Kamsu as Director
- (iv) Item 4: Elect Norma Mansor as Director
- (v) Item 5: Elect Sharmila Sekarajasekaran as Director
- (vi) Item 6: Elect Lim Andy as Director
- (vii) Item 11: Approve Lim Han Boon to Continue Office as Independent Non-Executive Director.

Given the gravity of the situation and the material failure in oversight by the board, BIS voted against the re-election of the current members of the Board of Directors. We also intend to hold other incumbent directors not on ballot at this AGM accountable by voting against their re-election at future shareholder meetings. We will continue to engage with the company to assess the measures that are taken towards the resolution of the US CBP and MoHR investigations, how it is meeting its various commitments to improve labor rights and workers' accommodation, and how it is addressing health and safety-related issues.