BlackRock Investment Stewardship (BIS) advocates for sound corporate governance and business practices that support the long-term value creation that our clients depend on to achieve their financial goals. As part of our fiduciary duty, BIS assesses a range of factors that can affect the sustainable financial performance of the companies in which we invest on behalf of our clients.

Our Global Principles underscore our belief that in order to deliver value for shareholders, companies should also consider their other key stakeholders. In our experience, companies that build strong relationships with their stakeholders are more likely to meet their own strategic objectives, while poor relationships may create adverse impacts that expose a company to legal, regulatory, operational, and reputational risks and jeopardize their social license to operate. We recognize that exposure to human rights-related risks will vary by company and by industry. **This is why we ask companies to implement processes to identify, manage, and prevent adverse human rights impacts that are material to their business, and provide robust disclosures on these practices.**

As defined by the United Nations,\(^1\) human rights are inherent to all human beings and include the right to life, health and well-being, privacy, fair wages, and decent working conditions; freedom from discrimination, slavery, and torture; and freedom of association.\(^2\) Considerations regarding the role of business in upholding human rights have been an important topic for decades, culminating in the establishment of the UN Guiding Principles on Business and Human Rights (UNGPs)\(^3\) and the Organization for Economic Cooperation and Development’s (OECD)\(^4\) global standards for promoting responsible business conduct.\(^4\) While not legally binding, governments, corporations, and other stakeholders increasingly consider them as a basis for managing human rights issues related to corporate activities.

In a highly interconnected global economy facing challenges such as climate change, demographic and technological shifts, and growing social inequality, companies face increasing scrutiny regarding how they address human rights issues that may arise from their business practices. **We are committed to engaging with companies on how they manage the human rights issues that are inherent in their businesses and monitor human rights practices on a best-efforts basis.** As minority investors, we must rely on public information and can’t be aware of every issue. While we engage with companies, and where appropriate vote against management, we lack authority to direct companies to address weaknesses in their business practices. Rather, the responsibility for managing human rights issues – and all business practices – lies with boards and management of companies and the governments that regulate them. Governments and other public policy makers are responsible for implementing and enforcing relevant laws and regulations in their respective markets. BIS does not engage with governments on these issues. Yet we believe that, over time, the approach that we and other investors take to evaluating and engaging with companies on their human rights impacts can encourage them to integrate sound business practices that benefit relevant stakeholders over the long-term.

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**UN SDGs alignment**

We believe that there is significant intersection between many of the topics that we discuss with companies and aspects of these eight Sustainable Development Goals (SDGs).
Human Rights as an Investment Issue

It is our conviction that our clients, as long-term shareholders, benefit when companies operate their businesses responsibly. Unmanaged potential or actual adverse human rights issues can not only harm the people directly affected, but also expose companies to significant legal, regulatory, operational, and reputational risks. These risks can materialize in a variety of ways, from fines and litigation to workforce and supply chain disruptions that may damage a company’s standing with business partners, customers, and communities. Furthermore, these risks may call into question a company’s social license to operate – the ability to maintain operations in a certain location and benefit from the labor, raw material, or regulatory structures in place – particularly if they significantly undermine its corporate reputation and purpose.

Human rights-related risks can materialize for companies in a range of ways, for example:

- **Poor working conditions, substandard wages, and use of forced labor or child labor** – by the company or its key suppliers – can expose a company to supply chain stoppages, strikes, and reputational damage;
- **Community harm or displacement, particularly using contested land or infringing on indigenous peoples’ rights**, can damage community support and jeopardize access to resources vital to operations;
- **A hostile or discriminatory workplace** can result in legal ramifications and inhibit a company’s ability to attract and retain talent, overcome business challenges, and drive innovation and competitive differentiation; or
- **Failure to manage content or applicable privacy laws, standards, or expectations** can lead to regulatory penalties and erode stakeholder trust.

Conversely, a company that addresses human rights issues in a proactive and effective manner can, in addition to mitigating against such risks, also create opportunities for improved stakeholder relations, increased productivity, higher quality products, better positioning for its corporate reputation, and a stronger purpose-driven culture. These factors have been shown to have a positive effect on a company’s long-term value and may position it to attract lower cost capital.5

Our Expectations of Boards and Management Teams

BIS expects companies to provide robust disclosures on their approach to governance, strategy, and management of material business risks and opportunities. This information can help investors better understand how companies are managing their material risks and planning for the long-term. Recognizing that exposure to human rights-related risks will vary by company and by industry, we ask that companies report on how they integrate human rights considerations into their operations and risk management processes, and demonstrate the steps they are taking to address these issues.

Through our analysis of company disclosures and engagement with management, we have found the following to be helpful to our understanding of how companies manage human rights-related risks and impacts inherent in their businesses:

- **Whether a company prioritizes human rights** across its value chain – its products and services, operations, and suppliers – and whether it adheres to applicable voluntary or mandatory disclosure frameworks (e.g. the UNGPs, OECD Guidelines, UN Global Compact,6 UN Sustainable Development Goals,7 the EU Non-Financial Reporting Directive,8 and relevant Modern Slavery Acts,9 among others)
- **How the board oversees** human rights, including whether the full board or a specific committee has responsibility to oversee related policies and processes, and the type and frequency of information reviewed
How We Engage with Companies on their Human Rights Impacts

BIS identifies companies for engagement based on our Engagement Priorities, our prior history of voting and engagement with the company, and our assessment of a company’s financial and governance performance relative to its peers. We also consider events that have impacted or may impact long-term shareholder value, including breaches of international standards that may result in adverse human rights impacts and create material business risks.

We may vote against directors if, in our assessment, a company is not effectively addressing or disclosing material human rights-related risks or impacts. Our assessment is based on information in the public domain, including third party research. In our direct dialogue with company leadership, we explore the topics outlined above, amongst others, to understand the company’s approach, provide feedback, and communicate our expectations.

We recognize that no single governance model or approach is universally appropriate for how companies address human rights issues, given variations in regional market practices. We leverage our regional presence and local expertise to inform our engagement on human rights, considering both international and local market standards, regulations, and context.

Conclusion

Failure to address human rights-related risks can reverberate across a company’s entire value chain, which may affect critical relationships with key stakeholders and impact shareholder value. As a long-term investor, we believe that having a better understanding of how companies manage these risks and advocating for the adoption of responsible business practices is an important component of our ability to steward our clients’ assets.
Endnotes


2. The Universal Declaration of Human Rights was adopted by the UN General Assembly in 1948. Since then, the core principles have been reiterated in various international human rights conventions and treaties. Today, all UN member states have ratified at least one of the nine core international human rights treaties on behalf of their governments, and 80% have ratified four or more. More information is available at https://www.un.org/en/sections/universal-declaration/human-rights-law/index.html.


4. Originally adopted in 1976, the OECD Guidelines for Multinational Enterprises were most recently updated in 2011. In 2017, the OECD published guidance for institutional investors on how they can monitor companies’ business practices, which are available at https://mneguidelines.oecd.org/RBC-for-Institutional-Investors.pdf.


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