

Our approach to engagement with companies on their human rights impacts

Investment Stewardship

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BlackRock Investment Stewardship (BIS) promotes sound corporate governance and business practices to help maximize long-term shareholder value for clients. As part of our fiduciary duty, BIS assesses a range of factors that can affect the long-term financial performance of the companies in which we invest on behalf of clients.

Our [Global Principles](#) underscore our belief that companies are best placed to deliver value for shareholders when they also consider the interests of 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 long-term success. We recognize that exposure to human rights-related risks will vary by company, industry, and geographic location. **This is why we appreciate when companies to implement processes to identify, manage, and prevent adverse human rights impacts that could expose them to material risks, and provide robust disclosures on these practices.**

As defined by the United Nations, 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.^{1,2} 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) and the Organization for Economic Cooperation and Development's (OECD) global standards for promoting responsible business conduct.^{3,4} Governments, corporations, and other stakeholders increasingly consider these frameworks as a basis for managing human rights issues related to corporate activities.

In a highly interconnected global economy, 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 which may not capture every issue that could be relevant. While we engage with companies, and where appropriate withhold support from 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.

Human Rights as an Investment Issue

It is our conviction that 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,



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 \(SDGs\)](#).

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 ability to maintain operations in a certain location and benefit from the labor, raw material, community support, or regulatory structures in place—particularly if they significantly undermine their 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 their key suppliers – can expose a company to supply chain stoppages, health and safety incidents, strikes, international trade disruption, 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 (e.g., through access to education, employment, and other economic and social benefits), increased productivity, higher quality products, better positioning for their 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 them to attract lower cost capital.⁵

The Role of Boards and Management Teams

BIS depends on corporate leadership 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, by industry, and by geographic location, we appreciate when companies disclose how they integrate human rights considerations into their operations and risk management processes, and identify 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 their value chain – their products and services, operations, and suppliers – and whether they adhere to applicable voluntary or mandatory frameworks (e.g., the UNGPs, OECD Guidelines, UN Global Compact, UN Sustainable Development Goals, the EU Non-Financial Reporting Directive and relevant Modern Slavery Acts, among others)^{6,7,8,9}
- ✔ 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 a company **identifies, mitigates, and prevents** human rights impacts and determines the appropriate due diligence processes to minimize risk across their value chain (e.g., human rights risk assessments, supply chain tracing, recruitment procedures, and auditing and grievance mechanisms). This includes whether companies sourcing from high-risk jurisdictions have mechanisms in place to ensure suppliers are adhering to their human rights-related policies and processes
- ✔ How a company **measures and assesses the effectiveness** of their human rights management and mitigation strategy, including due diligence processes, relevant metrics and targets, and the use of any third-party assurance providers. This encompasses steps being taken in locations where there are no credible third-party assurance providers

- ✔ How a company **reconciles ambiguities or contradictions** between local human rights laws or regulations and international standards as they affect their operations or their supply chain, and how the board and management team balances stakeholder considerations and maintains trust (e.g., how health and safety is considered across operations in different geographic locations, where local regulations vary)
- ✔ Whether a company **engages with affected stakeholders** and provides access to remedy to address actual human rights impacts. This includes whether companies obtain (and maintain) the free, prior, and informed consent of indigenous peoples for business decisions that affect their rights; protect cultural heritage sites; and provide access to resources and/or compensation in the event of displacement or destruction
- ✔ Whether a company **collaborates with industry peers and other stakeholders** on initiatives to advance practices and address pervasive issues related to human rights (e.g., the Responsible Business Alliance or Roundtable on Sustainable Palm Oil)

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 governance performance relative to their 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 withhold support for the re-election of directors if, in our assessment, a company is not effectively addressing or disclosing material human rights-related risks or impacts. Our initial 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 perspectives.

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

We believe that companies that build strong relationships with their stakeholders are more likely to meet their own strategic objectives and deliver durable profits. 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 encouraging the adoption of responsible business practices is an important component of our fiduciary duty to act in our clients' economic interests and to deliver to our clients durable, long-term financial returns.

Endnotes

1. United Nations. "Universal Declaration of Human Rights (UDHR)". Available at https://www.ohchr.org/EN/UDHR/Documents/UDHR_Translations/eng.pdf.
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.ilo.org/declaration/thedeclaration/textdeclaration/lang--en/index.htm>.
3. United Nations. "Guiding Principles on Business and Human Rights". Available at: https://www.ohchr.org/Documents/Publications/GuidingPrinciplesBusinessHR_EN.pdf.
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>.
5. For more information, refer to the BlackRock Investment Institute's "Sustainable Investing: A 'Why Not' Moment". Available at <https://www.blackrock.com/corporate/literature/whitepaper/bii-sustainable-investing-may-2018-us.pdf>.
6. The UN Global Compact. "The Ten Principles of the UN Global Compact". Available at: <https://www.unglobalcompact.org/what-is-gc/mission/principles>.
7. The UN Global Compact. "The SDGs explained for Business". Available at <https://www.unglobalcompact.org/sdgs/about>.
8. European Commission. "Non-Financial Reporting". Available at: https://ec.europa.eu/info/business-economy-euro/company-reporting-and-auditing/company-reporting/non-financial-reporting_en.
9. Examples include the [UK Modern Slavery Act 2015](#), [the Australian Modern Slavery Act 2018](#), and [the California Transparency in Supply Chains Act](#).

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