Our approach to engagement on corporate strategy, purpose, and financial resilience

Investment Stewardship

BlackRock Investment Stewardship (BIS) encourages companies to have sound corporate governance and business practices that support the long-term, durable value creation that our clients depend on to achieve their financial goals. As part of our fiduciary responsibilities as an asset manager to act in our clients’ best interests, we assess a range of risks and opportunities that can affect the financial performance of the companies in which we invest on their behalf. We engage companies to understand their approach to the material drivers of risk and value in their business models, provide feedback and raise any concerns. We may signal continuing concerns through our voting, where clients have authorized us to vote on their behalf. We vote to advance the long-term financial interests of our clients as shareholders.

**Strategy, purpose and financial resilience as investment issues**

Capital management, long-term strategy, purpose, and culture can be determining factors in companies’ long-term performance. To meet their long-term financial goals, our clients depend on the success of the companies in which they are invested.

Establishing and aligning strategy and purpose to effectively drive a company’s long-term performance is the responsibility of executive leadership and the board of directors. As one of many minority shareholders, BlackRock’s role is not to direct a company’s strategy or its implementation. Our role as a long-term shareholder on behalf of our clients is to better understand how company leadership is managing risks and capitalizing on opportunities to protect and enhance the financial interests of their shareholders. To aid our understanding, we appreciate when companies set out their purpose and strategy and provide milestones against which shareholders can measure performance through clear and comprehensive disclosure. We also look for the board to have a clearly defined role in advising on and overseeing executive leadership’s approach to the company’s strategy, purpose and culture, and in overseeing the company’s financial resilience.

Companies with a well-defined purpose – the reason a company exists and the role they play in society and across their value chain – are more likely to have a strong sense of direction that will better position them to compete, navigate short-term challenges and achieve long-term growth. We have observed that companies that effectively embed a purpose into their strategy and operations have been better able to maintain investor confidence, attract and retain a high caliber workforce and build stronger customer loyalty. We believe that these are factors important to building financial and business resilience, attracting long-term capital, and delivering durable profitability.

Events of the past several years have underscored rising interest from investors in seeing companies’ strategies address material, business-relevant factors that play out over the long-term, and we have observed a global reallocation of capital towards companies with more resilient business models. Financial resilience – the ability to endure immediate economic shocks and long-term challenges resulting from local or global market events – is especially important in dynamic and sometimes unpredictable market environments. We expect this trend to continue over the coming years as enhanced disclosures and companies’ assessments of these factors further highlight the link between business models, financial resilience and long-term shareholder value creation.

**Our Approach to Engagement on Corporate Strategy, Purpose, and Financial Resilience**

We engage on long-term corporate strategy, purpose and financial resilience to understand how boards and management are aligning their business decision-making with the company’s purpose and adjusting strategy and/or capital allocation plans as necessary as business dynamics change. We also seek to understand how companies address the risks and opportunities of their operations to deliver long-term financial value for shareholders. These discussions also allow us to communicate any concerns about a company’s approach to governance and material risks and opportunities that, in our assessment, have the potential to affect their performance, and in turn, our clients’ long-term financial interests.
When engaging on long-term corporate strategy, purpose, and financial resilience, we seek to understand a company’s strategic framework, the board’s process for oversight and review, how the strategy incorporates key stakeholders’ interests, and how strategy evolves over time in response to changing economic, regulatory, and societal conditions. We are also interested in the board’s role in helping executive leadership assess the company’s purpose and culture.

We look to companies to disclose their long-term strategic goals, the milestones against which performance can be assessed, and any obstacles encountered or anticipated. Disclosures can provide context for critical strategic, capital allocation and operational decisions that a company may have to make to respond to business challenges and/or opportunities including material sustainability-related considerations.5 Such considerations may include investments in manufacturing plants, workforce (re)training, research and development, proposed acquisitions or divestments, and plans to return capital to shareholders, among others.

We recognize that most companies adapt their short- and medium-term implementation plans to reflect fast-changing operational, economic, and societal conditions. In these situations, it is helpful to shareholders for company leadership to explain the changes made and how they help better align the company’s long-term purpose and strategic framework to support durable financial performance.

We depend on boards to have a clear understanding of how executive leadership integrates the company’s strategy and purpose into day-to-day operations and seeks to ensure that corporate culture is experienced as intended across the workforce and key stakeholders. To this end, culture is consistently a key component of our engagements on strategy because we believe that how a company operates and the environment they create for their workforce has a strong influence on employee engagement and productivity and thus, the company’s financial performance.

BIS seeks to understand how companies are building financial resilience through sound governance, operational and risk management practices. This includes how a company’s board ensures effective oversight of balance sheet risks and contingent liabilities, as well as whether and how companies are approaching material or business relevant risks and opportunities. We appreciate when companies demonstrate a comprehensive, yet flexible, approach to how they will maintain financial resilience over time in the context of such accelerating trends. This may include, but is not limited to, companies’ approach to financial gearing, hedging policies and management of foreign exchange risk. We believe greater transparency on questions of operational resilience will also be an important component of many companies’ ability to attract capital over time.

We consider the integrity of a company’s financial accounts critical to investors’ ability to assess financial resilience. As noted in our Global Principles, the accuracy of financial statements is of paramount importance to provide a true and fair picture of a company’s financial condition.

We look for boards to engage with executive leadership as strategy and capital plans are developed, implemented and adapted to help inform their oversight of the company’s financial statements. The board – through an audit committee, or the equivalent – has a responsibility to oversee the integrity of a company’s financial statements, the scope of the audit, and the qualifications and independence of the external auditor. The board is also responsible for overseeing the robustness of a company’s Enterprise Risk Management framework.6

In our engagement to understand a company’s strategy, purpose and ability to build financial resilience, we may discuss, as appropriate:

- How the company’s strategic framework has evolved and what has driven the evolution (e.g., changing customer needs, resources/input constraints, industry dynamics, and global mega trends)
- How the company defines “long-term” and why that time frame is most appropriate given the company’s sector and business model
- What are the financial metrics management uses to measure financial value-creation
- How the board oversees corporate strategy, purpose, and financial resilience, as well as management’s implementation of plans and policies to support financial resilience, and the strategic milestones against which shareholders should assess performance
- Employee and/or other key stakeholder involvement in shaping corporate strategy, purpose (and culture), and approach to financial resilience – e.g., the feedback mechanisms for key parties in a company’s value chain to provide their perspectives and to hear from management on matters important to them
How the short-term dynamics in the business and industry feed into the long-term strategy, and the short-term pressures on the company, what drives those pressures, how management deals with them, and how the board incentivizes management to maintain a long-term focus

How financial resilience is defined within the context of the company’s long-term strategy and capital management practices

How the board oversees enterprise risk management practices

Measures to build and support ongoing financial resilience, including, where relevant, policies related to financial gearing, foreign exchange, contingent liabilities and other financial risks as well as related hedging policies

Responsibilities and composition of the audit committee, with independent directors having financial expertise, and how the audit committee oversees the audit process and resolves audit matters reported by the external auditors
Endnotes

1. This commentary should be read in conjunction with BIS’ Global Principles and market-specific voting guidelines. Other materials on the BlackRock website might also provide useful context.

2. In August 2019, the Business Roundtable (BRT) published an updated Statement on the Purpose of a Corporation. 181 CEOs signed the Statement and committed to leading their companies for the benefit of all stakeholders — customers, employees, suppliers, communities and shareholders. The Statement letter has not been updated.

3. 66% of respondents to the 2021 Edelman Trust Barometer survey agree that CEOs should take the lead on change rather than waiting for government to impose it; 65% agree that CEOs should hold themselves accountable to the public and not just to the board of directors or shareholders. January 13, 2021.

4. In “A Guide to Building a More Resilient Business” Martin Reeves and Kevin Whitaker explain that “resilience is a property of systems,” meaning that an individual company’s resilience means little if its supply and customer base, or the social systems upon which it depends, are disrupted. Reeves and Whitaker consider companies should take a “collaborative, systems view” as one of six key actions to build resilience. According to the authors, resilience “requires systems thinking and systemic solutions, which in turn depend on collaboration among employees, customers, and other stakeholders.” July 2, 2020.

5. We anticipate that the forthcoming standards developed by the International Sustainability Standards Board (ISSB) as part of a comprehensive global baseline for sustainability-related disclosure will be a useful tool for companies to meet investors’ needs for information on sustainability-related risks and opportunities. ISSB is building on the framework developed by the Task Force on Climate-related Financial Disclosure (TCFD) and the industry-specific metrics identified by the Sustainability Accounting Standards Board (SASB). We recognize that some companies may report using different standards, which may be required by regulation, or one of a number of private standards. In such cases, we ask that companies highlight the metrics that are industry- or company-specific.

6. Enterprise risk management is a process, effected by the entity’s board of directors, management, and other personnel, applied in strategy setting and across the enterprise, designed to identify potential events that may affect the entity, and manage risk to be within the risk appetite, to provide reasonable assurance regarding the achievement of objectives. (Committee of Sponsoring Organizations of the Treadway Commission (COSO), Enterprise Risk Management — Integrated Framework, September 2004, New York, NY).

Want to know more?
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