

# Our approach to engagement on board diversity

BlackRock®

Investment Stewardship

**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, we assess a range of factors that can affect the financial performance of the companies in which we invest on behalf of our clients.**

Our Global Principles underscore our belief that boards assess their effectiveness and performance, and adjust their composition in an orderly way to reflect the evolution of the company's strategy and market environment. **This is why we expect companies to disclose how the collective experience and expertise of the board aligns with the company's long-term strategy and business model and demonstrate how diversity is accounted for within the proposed board's composition.**

This commentary presents our thinking on board diversity and explains our engagement approach on the topic.

## Board Diversity as an Investment Issue

Diversity, and the inclusion of different perspectives for board discussions and decision-making, is a globally relevant feature of board quality and effectiveness. We recognize that pertinent diversity characteristics may differ across markets. Therefore, we combine a global view on diversity with a local lens, which enables us to engage on board diversity in a manner appropriate to each market. In addition, we recognize that diversity has multiple dimensions, including personal factors such as gender, race, ethnicity, and age, as well as professional characteristics such as a director's industry, area of expertise, and geographic location.

BIS focuses on board quality and effectiveness because high-performing boards play an important role in developing strong management teams. Companies succeed (or fail) over time because of their people, and people in leadership positions can impact how companies perform over the long term.

While the dynamics of diversity and decision-making remains an area of ongoing academic study, research already reveals correlations between specific dimensions of diversity and effects on decision-making processes and outcomes<sup>1</sup>. Approaching a problem from different angles, with different perspectives on risk and from different sets of presumptions, will lead to a well-considered solution. Additionally, when people know someone is unlike them, they tend to think more carefully about the other person's arguments and assessments, and better prepare their own. People are less likely to presume that they understand the other person's perspective, or to defer to their point of view. Diversity in this way not only contributes to more robust discussions, it also is likely to lead to more innovative and resilient decisions, particularly in complex and fast-moving circumstances.

In addition to decision-making, the other important role that boards play is setting the tone from the top. As companies aim to stay competitive by developing businesses that more closely reflect and resonate with the customers and communities they serve, an appropriately diverse board represents a clear commitment to achieving this goal. Furthermore, companies seeking to recruit and retain the highest caliber employees recognize that in most markets the talent pool is not homogenous. In a talent-constrained labor market where the highest caliber professionals are multifarious, it is essential for companies to invest in recruiting, retaining, and developing diverse talent. As many



## UN SDGs alignment

*We believe that there is significant intersection between many of the topics that we discuss with companies and aspects of these three Sustainable Development Goals (SDGs).*

companies have themselves acknowledged,<sup>2</sup> there is still significant work required to demonstrate that companies are diverse, equitable, and inclusive across their businesses, including the workforce, supply chain, and their approach to customers. We believe that a diverse board is more likely to serve as a catalyst for making the necessary changes in business practice.

## Board Diversity in Context

Significant strides have been made in the last five years towards advancing gender diversity in the boardroom, following voluntary initiatives and mandatory quotas in markets such as the US, Canada, Australia, the UK, and the European Union.<sup>3</sup> But progress has been mixed amongst smaller companies in these regions,<sup>4</sup> and voluntary market efforts have been more nascent in regions such as Asia and Latin America.

On the other hand, there has been much less momentum towards advancing ethnic and racial board diversity. In the UK, 37% of FTSE 100 companies surveyed by the Parker Review<sup>5</sup> do not have any ethnic minority representation on their boards. In the US – where underrepresented racial and ethnic groups make up approximately 40% of the population<sup>6</sup> – only 22% of board directors at companies in the S&P 500 are minorities.<sup>7</sup> This past year, the disproportionate health and economic impact of the COVID-19 pandemic on racial and ethnic minorities drew a spotlight on social inequalities, particularly in the US and to a lesser extent in the UK. As companies increasingly prioritize and accelerate efforts to promote diversity, equity, and inclusion, we believe there is no more visible sign of progress than in the boardroom.





## How We Engage on Board Diversity

BIS believes that diversity is an important factor in enabling quality leadership and financial performance. For several years, we have taken a multifaceted approach towards evaluating board diversity, regularly engaging with members of the nominating and/or governance committee to understand the director recruitment process and efforts to facilitate a diverse and thoughtfully vetted pool of qualified candidates. A company's position on diversity also plays a role in its human capital management strategy and employer brand, which are important for the recruiting, retention, and engagement of its employees.

We expect boards to disclose their approach, actions, and progress towards achieving diverse representation, including the demographic profile of the incumbent board. Investors and other stakeholders can then assess whether they consider the approach taken by a company to be appropriate given the business and broader context in which the company operates.

We also expect boards include a diverse array of individuals who bring their personal and professional experiences to bear in order to cultivate constructive dialogue and make better decisions. In identifying potential candidates, boards should consider the full breadth of diversity, including but not limited to the personal and professional factors described above. When considering a company's commitment to diversity, BIS looks at factors such as alignment with market-level expectations, the addition of a diverse director within the previous year, the existence of time-bound targets for increasing board diversity, average board tenure, and public statements that focus on efforts to advance diversity, equity, and inclusion in the boardroom. In the US and Canada, as well as in Latin American and European markets, we encourage companies to have at least two women on their boards.<sup>8</sup>

In our engagements, we discuss board composition, succession planning, and the appointment or nomination process. We expect boards to have credible responses to a range of questions on these topics that, in our experience, can demonstrate a robust approach to board diversity, including:

-  How the board's composition reflects the diversity of the company's key stakeholders, the company's stated strategy, trends impacting the business and succession expectations
-  The board's evaluation process, including how it impacts board succession planning and the director appointment or nomination process
-  The board's approach to refreshment and the extent to which diversity is a consideration
-  Steps the nominating committee (or equivalent) is taking to enhance board diversity; for example, having a slate that includes diverse candidates

- ✔ The director appointment or nomination process and how unconscious biases may be addressed
- ✔ If search firms or recruitment consultants are used to identify candidates, whether the nominating committee (or equivalent) assessed the consultant's networks and expertise in finding and placing diverse directors, especially first-time directors
- ✔ How the board integrates the variety of perspectives its members bring to facilitate inclusive leadership

## Conclusion

BlackRock's corporate governance approach focuses on the quality of the board. We will continue to promote diversity in leadership more generally through our dialogue with company directors and management, share best practices, and contribute to the public debate, as appropriate. If there is insufficient progress on enhancing diversity at the board level within a reasonable time frame, and in the context of regional norms, we may vote against directors on the nominating committee (or equivalent) for an apparent lack of commitment to fostering board effectiveness. We believe that a proactive approach to managing diversity needs to be taken by all boards. A shift in mindset may be necessary in some companies, particularly for those that have yet to view board diversity as a performance imperative in today's dynamic corporate boardroom and work environment.

## Endnotes

1. For example, the role of gender diversity on team cohesion and participative communication is explored by: Post, C., 2015, When is female leadership an advantage? Coordination requirements, team cohesion, and team interaction norms. Journal of Organizational Behavior, 36, 1153–1175. <http://dx.doi.org/10.1002/job.2031>.
2. According to a survey of approximately 200 companies conducted by Deloitte and the Society for Corporate Governance, most companies have taken – or intend to take – actions in response to recent events surrounding racial inequality and inequity. The full report is available at: <https://www2.deloitte.com/us/en/pages/center-for-board-effectiveness/articles/diversity-equity-and-inclusion.html>.
3. Examples of voluntary initiatives include [the 30% Club](#), which runs a number of specific and targeted initiatives that seek to increase gender representation on boards and in senior management. Examples of mandatory quotas include [France](#) (which requires 40% female directors on French company boards) and [the State of California](#) (which requires at least one female director on California company boards).
4. According to research from the Conference Board, the number of female directors at companies the Russell 3000 has only increased by 4% since 2016. Available at: <https://conferenceboard.esgauge.org/boardpractices>
5. The Parker Review Committee. Ethnic Diversity Enriching Business Leadership: An update report from The Parker Review (2020). Available at: [https://assets.ey.com/content/dam/ey-sites/ey-com/en\\_uk/news/2020/02/ey-parker-review-2020-report-final.pdf](https://assets.ey.com/content/dam/ey-sites/ey-com/en_uk/news/2020/02/ey-parker-review-2020-report-final.pdf).
6. United States Census Bureau, available at: <https://www.census.gov/quickfacts/fact/table/US/PST045219>.
7. The 2020 US Spencer Stuart Board Index examines the latest board composition trends among S&P 500 companies. More information is available at [https://www.spencerstuart.com/-/media/2020/december/ssbi2020/2020\\_us\\_spencer\\_stuart\\_board\\_index.pdf](https://www.spencerstuart.com/-/media/2020/december/ssbi2020/2020_us_spencer_stuart_board_index.pdf)
8. BlackRock is also a founding member of the 30% Club and actively participates in 30% Club chapters in the US, UK, Brazil, Japan, Australia, and Hong Kong.

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