Commentary

Investment Stewardship's approach to engagement on board diversity

BlackRock has an extensive program to promote leading corporate governance practices at the companies in which we invest as part of fulfilling our fiduciary duty to protect and enhance the long-term value of our clients’ assets. The BlackRock Investment Stewardship (BIS) team considers board diversity in the context of evaluating a board’s composition and effectiveness.

BlackRock has had a focus on board diversity for several years. Larry Fink, BlackRock’s Chairman and CEO, is a founding member of the US 30% Club - a group committed to increasing gender representation on boards and in senior management.¹

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

Why board diversity is an investment issue

Diversity – and the inclusion of different perspectives – is a globally relevant feature of board quality and effectiveness, although pertinent diversity characteristics may differ across markets based on the available labor pool. BIS combines 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, BlackRock recognizes that diversity has multiple dimensions, including personal factors such as gender, ethnicity, and age, as well as professional characteristics, such as a director’s industry, area of expertise, and geographic location.

Companies succeed (or fail) over time because of their people, and people in leadership positions have an outsized impact on long-term corporate performance. For example, academic research has demonstrated that diverse groups deliver better decisions.² Such groups are able to make better decisions given that participants are likely more aware of multiple alternatives amid complex and at times difficult decision-making processes. It isn’t surprising that considering a problem from different angles, with different perspectives on risk, and from different sets of presumptions, will lead to a well-considered solution.

BIS focuses on board quality and effectiveness because high performing boards ensure strong management, which in turn supports sustainable financial performance. Studies also show that visible diversity has a considerable positive impact on group performance.³ When we intrinsically know that someone is not the same as us, we tend to think more carefully about their arguments and assessments, and better prepare our own. We are less likely to presume we understand their perspective, mimic their behaviors, or defer to them, and thus are more likely to flush out differences and weaknesses in positions. Diversity in this way not only leads to more robust discussions, it also leads to more resilient decisions, particularly in complex and fast-moving circumstances.

In addition to decision-making that impacts the long-term performance of companies, the other important role that boards play is setting the tone from the top. A diverse board is a visible commitment to leadership best practice for employees, customers, and other external partners. Most companies today describe themselves as being in a war for talent, and in most markets the talent pool is not homogenous. Diverse employees who see leaders who are not of the dominant culture within the company can see an aspirational career path for themselves. In a talent-constrained labor market where the highest caliber professionals are diverse, it is essential for companies to have a demonstrable commitment to recruiting, retaining, and developing top diverse talent. Visible diversity in leadership embodies that message, giving a company a competitive advantage.
**BlackRock’s engagement on board diversity**

BlackRock believes that diversity is an important factor in quality leadership and financial performance. We are not aiming to direct the nominating process or tell companies what to do. In addition to sharing our views, we seek to understand the company’s philosophy, policies, and performance on diversity at the board level, and by extension, within senior management and the “talent pipeline”. Where it is absent, we encourage disclosure by the board of its thinking, actions, and progress (backed by relevant data). This includes the diversity profile of the incumbent board. Investors and others can then assess whether they believe the approach taken by a company is appropriate given its business, and the broader context in which the company operates.

We expect boards to include a diverse array of individuals who bring their personal and professional experiences to bear, in order to foster constructive dialogue on boardroom matters. In identifying potential candidates, boards should consider the full breadth of diversity including personal factors such as gender, ethnicity, and age, as well as professional characteristics, such as a director’s industry, area of expertise, and geographic location. BIS considers factors such as a company’s commitment to increase board diversity within the next 12-18 months, the addition of a diverse director within the previous year, board tenure, and public statements that focus on diverse recruiting efforts.

In our engagements, we ask probing questions about board composition and the appointment process. We expect boards to have credible responses to a range of questions that, in our experience, can demonstrate a robust approach to board diversity. The topics we may cover include:

- Current board composition and how it reflects the company’s stated strategy, trends impacting the business, and succession expectations
- How the company’s position on diversity has evolved over time
- Board evaluation process, including how it influences succession planning and the director appointment process
- The board’s approach to phasing director tenures
- Potential to have a slate of only diverse candidates
- Deliberate steps the nominating committee (or equivalent) is taking to enhance board diversity
- Director appointment process and how those involved countered unconscious biases
- How directors cultivate a diverse network of professional peers. The common practice of incumbent directors identifying candidates for the board from their networks is not necessarily an impediment to a diverse board if those networks are diverse
- If recruitment consultants are used to identify candidates, how the nominating committee assessed the consultant’s networks and expertise in finding and placing diverse directors, especially first-time directors

BlackRock’s corporate governance work has always focused on the quality of the board. We will continue to promote and encourage commitment to 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 no progress on enhancing diversity at the board level within a reasonable time frame, we may hold nominating and/or governance committees accountable for an apparent lack of commitment to board effectiveness. Deliberate action needs to be taken by boards with a lack of diversity. A new mindset may also be necessary in some companies, particularly to accept that board diversity is a performance imperative in today’s dynamic corporate boardroom and workforce.

**Contact BlackRock Investment Stewardship at contactstewardship@blackrock.com**

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1. BlackRock actively participates in 30% Club chapters in the UK, Australia, and China, including at the steering committee level in Australia and China. The 30% Club runs a number of specific and targeted initiatives that seek to increase the number of women at all levels of organizations.