BlackRock Investment Stewardship’s (BIS) Engagement Priorities reflect the five themes on which we most frequently engage companies, where they are relevant, as these can be a source of material business risk or opportunity. As such, they may impact companies’ ability to deliver the long-term financial returns on which our clients depend to meet their investing goals. The vast majority of BIS’ work is focused on corporate governance. In our experience, sound governance is critical to the success of a company, the protection of investors’ interests, and long-term financial value creation.

BIS’ work aligns with BlackRock’s fiduciary responsibilities as an asset manager to always act in our clients’ best financial interests. BIS takes a constructive, long-term approach to our engagement with companies and focuses on the drivers of risk and financial value creation in their business models. Engagement is core to our stewardship efforts as it provides us with the opportunity to improve our understanding of a company’s business model and the risks and opportunities that are material to how they create financial value, including business relevant sustainability-related risks and opportunities. Engagement may also inform our voting decisions for those clients who have given us authority to vote on their behalf.

As one of many, and typically a minority shareholder, BIS does not tell companies what to do. Our role, on behalf of our clients as long-term shareholders, is to better understand how company leadership is managing risks and capitalizing on opportunities to help protect and enhance the financial interests of their investors.

**BIS’ Engagement Priorities**

1. Board quality and effectiveness
2. Strategy, purpose, and financial resilience
3. Incentives aligned with financial value creation
4. Climate and natural capital
5. Company impacts on people

Alongside the publication of our Global Principles and market-specific proxy voting guidelines in December 2022, we summarized our five Engagement Priorities for 2023 in our Investment Stewardship 2023 Policies Summary. As in previous years, we now providing the more detailed thematic commentaries that support our Engagement Priorities. We explain why we consider these to be investment issues and set out how we discuss them with companies.

**BIS’ Engagement Priorities for 2023 are consistent with those from prior years. There are no material changes in our approach to these themes, and our engagement with companies will continue the dialogue on material risks and opportunities relevant to their business models and sectors that we had in 2022.**

For 2023, we refined some of the language in our Engagement Priorities and Commentaries to clarify our meaning and incorporate insights gained from company engagements, client feedback, regulatory developments, and BlackRock and third-party research. We also streamlined the commentaries to improve readability with the goal of making our publications as concise as possible for our clients.

**Summary of BIS’ Engagement Priorities**

**Board quality and effectiveness**

Commentary available [here](#)

Our investment stewardship efforts have always started with the board and executive leadership. We recognize that accepted standards and norms of corporate governance can differ between markets. However, we believe there are certain fundamental elements of governance practice that are intrinsic globally to a company’s ability to create long-term financial value. One of these is a high caliber, effective board responsible for overseeing and advising management and being accountable to shareholders. We believe that the performance of the board is critical to the financial success of a company and the protection of shareholders’ interests over the long-term.

We engage, as necessary, with members of the board’s nominating and/or governance committee to assess whether governance practices and board composition are appropriate given the business and the broader context in which the company operates. In our engagements, we discuss various governance topics including board composition and independent leadership, board oversight of management’s strategy and approach to risk management, succession
planning for key board and management roles, and the board’s own nomination and evaluation processes. We look to boards to have credible responses to a range of questions on these topics that, in our experience, can demonstrate a robust approach to board quality and effectiveness.

**Strategy, purpose, and financial resilience**

*Commentary available here*

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. In our experience, purpose-driven companies that effectively balance key stakeholder considerations while delivering financial value for their shareholders have been better able to attract long-term capital and build financial and business resilience to help navigate volatility.

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 cannot — and does not try to — direct a company’s strategy or its implementation. 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.

**Incentives aligned with financial value creation**

*Commentary available here*

Executive compensation is an important tool used by companies to drive long-term financial value creation by incentivizing and rewarding the successful delivery of strategic goals and financial outperformance against peers. However, when compensation policies are not well-structured, and when outcomes are misaligned with performance, companies may face business and/or reputational risks. BIS looks to a company’s board of directors — typically a relevant committee — to put in place a compensation policy that incentivizes and rewards executives against appropriate and stretching goals tied to relevant strategic metrics, especially those measuring operational and financial performance.

Where BIS identifies apparent misalignments between executive pay and company performance, or has other concerns about a company’s compensation policies, we may engage to better understand the company’s approach. We prefer to engage with directors with the relevant oversight, most likely a member of the compensation committee, where we have concerns about or feedback on compensation policies or outcomes. In our engagement, we are keen to understand how the board determines that executive pay policies and outcomes are aligned with the financial interests of long-term investors, like our clients.

**Climate and natural capital**

*Climate-related risk commentary available here, natural capital commentary available here*

**Climate-related risk**

As an asset manager, BlackRock’s approach to climate-related risk, and the opportunities presented by the energy transition, is based on our fundamental role as a fiduciary to our clients. Our role is to help our clients navigate investment risks and opportunities; it is not our role to engineer a specific decarbonization outcome in the real economy. We look to boards and management teams to develop and implement the climate action strategies they deem most appropriate for the long-term financial success of their company. We engage to understand how companies’ plans to navigate the material climate-related risks and opportunities presented by the energy transition may impact our clients’ investment outcomes.

While companies in various sectors and geographies may be affected differently by climate change, the energy transition is an investment factor that we expect will be material for many companies and economies around the globe. Within this context, and as stewards of our clients’ assets, we engage companies and encourage them to publish disclosures that help their investors understand how they identify and manage the material risks and opportunities related to climate change and the energy transition.
We encourage disclosures aligned with the reporting framework developed by the Task Force on Climate-related Financial Disclosures (TCFD). We welcome efforts by the International Sustainability Standards Board (ISSB) to develop a global baseline of sustainability reporting standards. Consistent with the TCFD, investors have greater clarity — and ability to assess risk — when companies detail how their business model aligns to a range of climate-related scenarios, including a scenario in which global warming is limited to well below 2°C, and considering global ambitions to achieve a limit of 1.5°C. We are better able to assess preparedness when companies disclose short-, medium-, and long-term targets, ideally science-based where these are available for their sector, for scope 1 and 2 greenhouse gas emissions (GHG) reductions and to demonstrate how their targets are consistent with the long-term financial interests of their shareholders.

As investors, it is also helpful to be able to evaluate companies’ assessments of their emissions across their value chain, or scope 3 emissions, where appropriate, and efforts to reduce them over time. However, we fully recognize that the methodology, accounting, assurance, and regulatory landscape for scope 3 emissions is complex, varied, and still evolving—double counting is also a legitimate concern. Accordingly, we understand that the scope 3 disclosures that companies are able to make will necessarily be on a good faith and best-efforts basis.

**Natural capital**

The management of nature-related risks and opportunities is a component of the ability to generate long-term financial returns for companies whose strategies or supply chains are materially reliant on natural capital. For these companies, we look for disclosures to assess risk oversight and to understand how nature-related impacts and dependencies are considered within the company’s strategy.

While natural capital is a broad term, we focus on three key components — land use, water, and biodiversity — which we believe can affect the long-term financial returns of companies with material exposure to nature-related impacts and dependencies. Where natural capital is material to the long-term strategy of companies, we look to them to make disclosures that help investors assess risk management and oversight in relation to material nature-related factors and understand how company impacts and dependencies are managed.

While nature-related disclosures have historically been limited and difficult to compare across companies, private-sector initiatives, such as the Taskforce on Nature-related Financial Disclosures (TNFD), are working on frameworks to guide disclosure on material, nature-related impacts and dependencies, alongside associated risks and opportunities. We recognize that some companies may report using different standards, which may be required by regulation. In addition, some industry groups have developed their own nature-related disclosure standards, which may be useful for certain sectors.

**Company impacts on people**

*Commentary on human capital management available here, commentary on companies’ human rights impacts available here*

In our experience, companies that invest in the relationships that are critical to their ability to meet their strategic objectives are more likely to deliver durable, long-term financial performance. By contrast, poor relationships may create adverse impacts that could expose companies to legal, regulatory, operational, and reputational risks. This is particularly the case with regard to a company’s workforce, as a significant number of companies acknowledge the importance of their workers in creating long-term financial value.

**Human capital management**

Companies need to be able to attract, retain, and develop workers with the skills and expertise necessary to execute their long-term strategy, meet the needs of their customers and others in their value chain, and deliver financial returns for shareholders. In our engagements, BIS focuses on understanding the effectiveness of boards and management in ensuring a company has the workforce necessary for delivering long-term financial performance.

**Companies’ human rights impacts**

Long-term investors can benefit when companies implement processes to identify, manage, and prevent adverse human rights impacts that could expose them to material risks, and provide robust disclosures on these processes. A company that addresses human rights-related risks in a proactive and effective manner, in addition to mitigating against such risks, can also create opportunities for improved relationships across their value chain (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 culture. BIS engages with companies on how they manage the human rights issues that are material to their businesses and monitor the effectiveness of their human rights practices on a best-efforts basis.
Engagement in practice

As long-term investors on behalf of clients, we seek to have regular and continuing dialogue with management and directors to advance sound governance and business practices aligned with long-term financial value creation, as well as to understand the effectiveness of the company’s management and oversight of material issues. Engagement provides us an opportunity to hear directly from directors and management about how their approach is aligned with durable, long-term financial value creation and to share our perspectives.

The BIS team of about 70 dedicated professionals across the world takes a local approach with companies while benefiting from global insights. BIS works with BlackRock’s active investment teams to share views and insights. In our experience board oversight, management quality and resilient business models are core tenets of good governance.

In our view, companies benefit when they provide timely, comparable, and comprehensive reporting – on all material governance and business matters – as that serves as a broad-based platform to inform investors so that direct dialogue is less likely to be necessary to gain their continuing support.

BIS’ work is undertaken solely to advance the long-term financial interests of our clients, many of whom are saving for long-term goals like retirement. We aim to be a constructive, supportive investor on behalf of our clients, bringing a long-term perspective to our work with companies as they manage governance and/or other material risks and opportunities, in the context of their business model and sector and that, when addressed, support long-term financial value creation.
Endnotes

1. These Engagement Priorities should be read alongside our Global Principles and market-specific proxy voting guidelines, which are collectively the foundation of our stewardship work.

2. BlackRock is a leading asset manager with a broadly diversified business across clients, products, and geographies. BIS primarily engages public companies on behalf of BlackRock’s index funds and accounts and makes its company analysis and meeting notes available to BlackRock active portfolio managers. Other teams across BlackRock may engage with companies to help inform their work on a broad spectrum of risk and value drivers in their investible universe. While we have specialized teams focused on specific asset classes and investment styles, we employ a “One BlackRock” approach to our fiduciary responsibility as an asset manager, integrating expertise from across our investment functions. Our work on behalf of clients is supported by our proprietary, in-house Aladdin® technology.

3. By material sustainability-related risks and opportunities, we mean the drivers of risk and long-term financial value creation in a company’s business model that have an environmental or social dependency or impact. Examples of environmental issues include, but are not limited to, water use, land use, waste management and climate risk. Examples of social issues include, but are not limited to, human capital management, impacts on the communities in which a company operates, customer loyalty and relationships with regulators. It is our view that well-managed companies will effectively evaluate and manage material sustainability-related risks and opportunities relevant to their businesses. Governance is the core means by which boards can oversee the creation of durable, long-term financial value. Appropriate risk oversight of business-relevant and material sustainability-related considerations is a component of a sound governance framework.

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. The term “compensation” is used as an equivalent to the words “remuneration” or “pay.”

6. A compensation outcome generally relates to the payout of a performance-conditioned pay component, and reflects both the construction of the pay program as well as the performance of the company and executives against defined performance objectives.

7. In this paper, we make frequent reference to terminology pertaining to the transition to a low-carbon economy. The Intergovernmental Panel on Climate Change provides a helpful glossary for this terminology.

8. The International Financial Reporting Standards (IFRS) Foundation announced in November 2021 the formation of an International Sustainability Standards Board (ISSB) to develop a comprehensive global baseline of high-quality sustainability disclosure standards to meet investors’ information needs. SASB standards will over time be adapted to ISSB standards but are the reference reporting tool in the meantime.

Want to know more?
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