Our approach to engagement on board quality and effectiveness

Investment Stewardship

BlackRock

At BlackRock, investment stewardship serves as a link between our clients and the companies they invest in and is one of the ways we fulfill our fiduciary responsibilities as an asset manager on their behalf. BlackRock Investment Stewardship (BIS) is responsible for stewardship activities in relation to clients' assets invested in index equity strategies. BIS takes a long-term approach in our stewardship efforts, reflecting the investment horizons of the majority of our clients. BIS engages with the boards and management of companies in which clients are invested to deepen our understanding of a company's business model, including how they are overseeing material business risks and opportunities over time, and to help inform our voting on behalf of clients.[1] Our sole focus when conducting our stewardship program under our Benchmark Policies is to advance our clients' long-term financial interests.[2]

Our investment stewardship efforts focus on the effectiveness of the board of directors. In our experience, there are certain globally applicable elements of corporate governance that contribute to a company's ability to create long-term financial value for shareholders. One of these is a high caliber, effective board responsible for overseeing and advising management.

Board quality and effectiveness as an investment issue

As we explain in the BIS Global Principles, companies whose boards are comprised of appropriately qualified and engaged directors, with professional characteristics relevant to a company's business, enhance the board's ability to add long-term financial value and serve as the voice of shareholders in board discussions. In our view, a strong board gives a company a competitive advantage, providing valuable oversight and contributing to the most important management decisions that support long-term financial performance.

The election of directors to the board is a right of shareholders and an important signal of support for, or concern about, the performance of the board in overseeing and advising management.

An effective board has multiple responsibilities, including but not limited to the following:

- Establishing an appropriate corporate governance structure.
- Supporting and overseeing management in setting long-term strategic goals and applicable measures of financial value creation and milestones that will demonstrate progress, and taking steps to address anticipated or actual obstacles to success.
- Providing oversight of the identification and management of material risks and opportunities within a company's business model.
- Overseeing the financial resilience of the company, the integrity of the company's financial statements, and the robustness of the company's Enterprise Risk Management framework.[3]
- Making decisions on matters that require independent evaluation, which may include mergers and other significant financial transactions.
- Having a formal plan for both anticipated and unplanned leadership succession, including key board roles.
- Establishing and overseeing executive compensation structures that reward the successful delivery of strategic, operational, and/or financial goals, encourage an appropriate risk appetite, and align the interests of shareholders and executives through equity ownership.

Clear definitions of the respective roles of the board, the board committees, and senior management contribute to our understanding of board effectiveness. These responsibilities and structures may differ by company, sector, and geography, as each board tailors its approach to its company's context in light of local regulations and corporate governance norms.[4]

Given the dynamic nature of business, it is beneficial for new directors to be brought onto the board periodically to refresh the group's thinking, while supporting both continuity and appropriate succession planning. In our view, this refreshment should include the assessment of factors such as any gaps in skills, experience, and independence.

In assessing board composition, we take into account a company's board size, business model, strategy, market capitalization, and ownership structure, as well as the market in which the company operates. We find it helpful when companies explain how their approach to board composition supports the company's governance practices.

When nominating directors to the board, we look to companies to provide sufficient information on the individual candidates so that shareholders can assess the capabilities and suitability of each individual nominee and their fit within overall board composition. These disclosures should explain how the collective experience and expertise of the board, as well as the particular skillsets of individual directors, aligns with the company's long-term strategy. Highly qualified, engaged directors with professional characteristics relevant to a company's business and strategy enhance the ability of the board to add value and be the voice of shareholders in board discussions. It is in this context that we are interested in a variety of experiences, perspectives, and skillsets in the boardroom. We see it as a means of avoiding "group think" in the board's exercise of its responsibilities to advise and oversee management.

We note that in many markets, policymakers have set board gender diversity goals which we may discuss with companies, particularly if there is a risk their board composition may be misaligned.

Our approach to engagement on board quality and effectiveness

We take a multifaceted approach to evaluating board quality and effectiveness. In assessing sound governance, we take into consideration the sector, market, and business environment within which a company is operating, and how that influences the responsibilities and composition of the board and how it functions.[5]

Our assessment of the board's effectiveness as a group can include the relevance of individual directors' qualifications and skillsets, as well as directors' capacity and other time commitments, and how these factors may contribute to the company's financial performance. We look to boards to establish a formal and transparent process for nominating directors that reflects the company's long-term strategy and business model. Regular director elections give boards the opportunity to adjust their composition in an orderly way to reflect developments in the company's strategy and the market environment.

We engage, as necessary, with members of the board's nominating and/or governance committee to assess whether governance practices and board composition are effective given a company's business model. In our engagements, we may 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 nomination and evaluation processes.

We look to understand the board's views on topics that, in our experience, can demonstrate a robust approach to board quality and effectiveness, including, where appropriate:

- How the board's composition reflects the company's stated strategy, trends impacting the business, the breadth of the company's key stakeholders and succession expectations, and how the board oversees management's strategy and approach to risk management.
- How the board integrates the variety of experiences, perspectives, and skillsets directors bring to facilitate robust and constructive discussions that result in sound decisions, and whether the board has committees responsible for oversight of key governance matters, e.g., audit oversight or director nominations.
- How the board approaches periodically bringing in new directors, including whether external advisors or search firms are used to identify candidates, the extent to which independence, skillsets, and tenure are considerations, and whether the board uses mechanisms such as a mandatory retirement age or term limit to manage board refreshment.
- How the board considers regional best practices as they relate to governance structure, board composition, and the periodic introduction of new directors to the board.
- How the board evaluates and gains comfort with each director's and executive's outside commitments, particularly those to other public company boards.

- How the board assesses independent directors' ability to act in the interests of all shareholders. Generally, this would include directors being free of close affiliations with management, other directors or commercial entities that may impair their independent judgement, significant share ownership, and tenure (including the board's view of the independence of any long-tenured members).
- The board's performance evaluation process, including how it may inform director nominations and management and director succession processes, and how the board develops independent board leadership (including whether committee assignments are rotated on a staggered basis to foster a variety of experiences, perspectives, and skillsets and enable directors to develop a breadth of knowledge within the board).

Endnotes

1. On February 11, 2025, the U.S. Securities and Exchange Commission (SEC) staff issued updated guidance for shareholders to maintain their eligibility to report their beneficial ownership under Schedule 13G of the Exchange Act. We comply fully with these requirements and do not engage with portfolio companies for the purpose, or with the effect, of changing or influencing control of any company.
2. The BIS Global Principles, regional voting guidelines, and Engagement Priorities (collectively, the BIS Benchmark Policies) set out the core elements of corporate governance that guide our investment stewardship program. The Benchmark Policies apply to clients' assets invested through index equity strategies, take a financial materiality-based approach, and are focused solely on advancing clients' long-term financial interests.
3. 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. Please see: The Committee of Sponsoring Organizations of the Treadway Commission (COSO), "Enterprise Risk Management," 2023, accessed in December 2025.
4. For example, in APAC, where concentrated ownership structures are common, it is often the case that controlling shareholders dominate the board even if they have less than majority ownership of the company. We look to companies, through a robust selection process, to nominate non-executive directors who can bring an independent view to and influence on board discussions to help protect minority shareholder interests and the long-term financial value of the company.
5. We recognize that some companies operate across multiple geographies and regulatory regimes, which can result in differing governance and voting polices being applied by their investors. For instance, impediments to director independence may vary, as may thresholds for perceived long-tenure. Additionally, different board structures and responsibilities may influence the demands on directors. We explain in our regional voting guidelines how we assess key board issues such as director independence, tenure limits, election cycles, diversity, and time commitments in the context of local market norms and regulations.

Want to know more?

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