

Investment Stewardship

Vote Bulletin: J Sainsbury plc

Company	J Sainsbury plc (LSE: SBRY)
Market and Sector	United Kingdom, Consumer Staples
Meeting Date	July 7 2022
Key Resolutions ¹	Item 21: Shareholder Resolution on Living Wage Accreditation
Key Topics	Company impacts on people, human capital management
Board Recommendation	The board recommends shareholders vote AGAINST this shareholder proposal
BlackRockVote	BlackRockvoted AGAINST this shareholder proposal

Key takeaways

- **BlackRock Investment Stewardship (BIS) supports companies paying their workers² a wage equal to or above current real living wage rates, and we engage with boards and management on their approach to ensuring their company is best placed to recruit and retain the workers on which they depend for their success.**
- **However, we did not support the shareholder proposal. In our view, worker pay policies and rates should be determined by company management, with reference to relevant regulations and board oversight. We do not believe it is consistent with our clients' long-term interests to legally bind J Sainsbury plc (Sainsbury's) to peg their pay levels to those set by the Living Wage Foundation,³ as the passing of the shareholder proposal would require. This decision reflects our view is that it is not the role of shareholders to direct company management to cede control of a key decision, core to the company's ability to deliver their strategy and balance the interests of all stakeholders, to a third-party.**

¹ J Sainsbury plc, "[Chairman's Letter to Shareholders and 2022 Notice of Annual General Meeting](#)", 9 May 2022.

² Our use of the word "workers" refers to a company's direct employees and contract workers.

³ Being an accredited Living Wage Employer would involve meeting the following key requirements; All direct employees are paid at least the "real Living Wage"³ now and in the future; An analysis is conducted by July 2023 of indirectly employed staff (i.e. contract workers) to identify who earns below the real Living Wage; A timetable is agreed for contract worker hourly rates to be uplifted to the real Living Wage, to be finalised by July 2026; All contract workers continue being paid the real Living Wage on an ongoing basis.

- **Further, Sainsbury's have demonstrated over time their willingness to respond to changing stakeholder expectations. On this issue, they have a strong track record of offering above-market employee benefits. They engaged constructively with the parties who submitted the shareholder proposal, and with other investors, including BlackRock. They recently enhanced their pay policies so all direct employees receive the real living wage appropriate to the region in which they live. We encourage Sainsbury's to continue to engage with their supplier partners to also pay the real living wage to contract workers'.**
- **Given the importance of frontline workers to the company's success, we will continue to engage with Sainsbury's on their approach to human capital management.**

Overview

Sainsbury's is a groceries retailer with the second highest market share in the United Kingdom (around 15%). Sainsbury's also sells general merchandise, clothing, and has a financial services business through Sainsbury's Bank (which offers insurance, loans and credit card services). The company employs over 170,000 people.

BIS has engaged with Sainsbury's on a range of corporate governance and sustainable business matters that we believe contribute to the company's ability to deliver the durable, long-term shareholder returns on which our clients depend to meet their financial goals, including executive compensation, human capital management, and climate risks and opportunities.

The meeting agenda at Sainsbury's 2022 annual general meeting (AGM) included a shareholder proposal for consideration, in addition to proposals put forth by management on items such as the election of directors and executive compensation. Consistent with our fiduciary approach, BIS takes a case-by-case approach to assessing shareholder proposals, evaluating each proposal on its merit and with a singular focus on its implications for long-term shareholder value creation. We consider the business and economic relevance of the issue raised, as well as its materiality and the urgency with which we believe it should be addressed. While we may not agree with all aspects of a shareholder proponent's views or all facets of the proponent's supporting statement, we may still support proposals if we believe it would be useful for shareholders to have more detailed information on how the material risks addressed in the proposal are identified, monitored and managed. We are not likely to support those that, in our assessment, implicitly are intended to micromanage companies. This includes those that are unduly prescriptive and constraining on the decision-making of the board or management.⁴

Rationale for BlackRock's vote

Item 21: Shareholder Resolution on Living Wage Accreditation (AGAINST)

BIS recognizes the importance of frontline workers to Sainsbury's long-term success, and we see pay and benefits more broadly as a critical issue for companies to be managing effectively. However, BIS did not support the proposal given Sainsbury's strong positive track record on offering above-market employee benefits and because we believe the legally binding proposal is unduly constraining on management decision-making on a critical operational and financial issue given that it would require management to cede control of worker pay to a third-party entity.

⁴ BIS has observed a shift in shareholder proposals in 2022 to be more prescriptive and constraining on company management's normal business decision-making. We discussed this development in our [2022 Voting Spotlight](#). BIS is not supportive of shareholder proposals that do not promote long-term shareholder value and/or are unduly prescriptive. Without exception, our decisions are guided by our role as a fiduciary to act in our clients' long-term economic interests.

The legally binding shareholder proposal requested that Sainsbury's "become an accredited Living Wage Employer."⁵ The company recommends that shareholders do not support this shareholder proposal, in large part because accreditation as a "Living Wage Employer" would restrict Sainsbury's ability to manage the level of pay provided to workers given the conditions required by the Living Wage Foundation.⁷ Proxy advisors ISS and Glass Lewis both recommended that shareholders vote against the proposal.

As we explain in our [Global Principles](#), we consider workers to be a key stakeholder group for companies. We look to companies to "...disclose how they have identified their key stakeholders and considered their interests in business decision-making, demonstrating the applicable governance, strategy, risk management, and metrics and targets. This approach should be overseen by the board, which is well positioned to ensure that the approach taken is informed by and aligns with the company's strategy and purpose." BIS considers it the responsibility of corporate management, overseen and advised by the board of directors, to determine the appropriate benefits to offer their workers, including competitive compensation that enables companies to attract, retain and motivate the people on whom their success depends. Moreover, we believe that in order to attract and retain the best workers, companies' compensation practices should address the needs and expectations of their workforce.

In our assessment, the shareholder proposal is unduly constraining on the normal business decision-making of Sainsbury's management and board. BIS is supportive of companies, including Sainsbury's, paying their workers a wage equal to or above current real living wage rates and we engage with boards and management on this topic, whenever relevant. However, in this instance, BIS' vote against the proposal reflects our disagreement with its requirement that the management of Sainsbury's cede control of its payroll – a very significant portion of its fixed cost base – to an external third-party. We consider proposals such as this to be overly prescriptive and unduly constraining upon management teams.

Further, in our view, the company's existing policies, employee benefits plans, and disclosures substantively address the issues raised in the proposal regarding the company's employee pay rate. For example, Sainsbury's has paid direct employees above the government-mandated UK National Minimum Wage for many years, and currently pays at or above the prevailing "real Living Wage."⁸ In this respect, they are a leader in the UK supermarket sector, paying higher hourly UK-wide and London rates than competitors. Moreover, Sainsbury's disclosed that as a result of their engagement with the shareholders who submitted the proposal, they have addressed the legacy differential in hourly rates between employees in inner and outer London. Outer London employees have now been moved to the higher inner London rate (which matches the London-wide "real Living Wage").⁹

⁵ J Sainsbury plc, "[Chairman's Letter to Shareholders and 2022 Notice of Annual General Meeting](#)", 9 May 2022. According to the proponents' supporting statement, "Living Wage accreditation is a public commitment that all staff who work for a company, directly and indirectly, will earn a wage sufficient to live on. There are already more than 9,500 accredited Living Wage Employers across the UK, including 50 FTSE 100 companies and the large retailer IKEA."

⁶ Being an accredited Living Wage Employer would involve meeting the following key requirements; All direct employees are paid at least the "real Living Wage"⁶ now and in the future; An analysis is conducted by July 2023 of indirectly employed staff (i.e. contract workers) to identify who earns below the real Living Wage; A timetable is agreed for contract worker hourly rates to be uplifted to the real Living Wage, to be finalised by July 2026; All contract workers continue being paid the real Living Wage on an ongoing basis.

⁷ See previous footnote. Notably, based on the Living Wage Foundation's disclosures, the majority of accredited retail firms are privately-owned small to medium sized businesses. Additionally, those listed entities of a similar scale to Sainsbury's that are accredited by the Living Wage Foundation operate in materially different and higher-margin sectors. See the Living Wage Foundation, "[Accredited Living Wage Employers](#)".

⁸ J Sainsbury plc, "[Chairman's Letter to Shareholders and 2022 Notice of Annual General Meeting](#)", 9 May 2022.

⁹ See previous footnote.

For these reasons, we did not believe it was in our clients' long-term financial interests to support this proposal. Given the importance of frontline workers to the company's success, we will continue to engage with Sainsbury's on their approach to human capital management.

About BlackRock Investment Stewardship (BIS)

Our clients depend on BlackRock to help them achieve their investment goals. These clients include public and private pension plans, governments, insurance companies, endowments, universities, charities and ultimately individual investors, among others. Consistent with BlackRock's fiduciary duty as an asset manager, BIS' purpose is to support companies which we invest for our clients in their efforts to create long term durable financial performance.

BIS serves as an important link between our clients and the companies they invest in – and the trust our clients place in us gives us a great responsibility to advocate on their behalf. That is why we are interested in hearing from companies about their strategies for navigating the challenges and capturing the opportunities they face. As we are long-term investors on behalf of our clients, the business and governance decisions that companies make will have a direct impact on our clients' investment outcomes and financial well-being.

We look to boards and executive management to demonstrate that they are taking into consideration the interests of long-term shareholders and other stakeholders. Our, often multi-year, dialogue with the leaders of these companies provides us the opportunity to improve our understanding of, and provide feedback on, the governance and sustainability (ESG) risks and opportunities that are material to their businesses and thus to their ability to generate long-term returns for our clients. For those clients who have given us authority, we vote proxies in their best long-term financial interests, in line with our public [voting guidelines](#) and informed by our analysis of company disclosures and, where relevant, our engagements.¹⁰

To support investors' assessment, it is helpful when companies provide timely, accurate, and comprehensive disclosure on all material governance and business matters, including sustainability-related issues. This transparency allows shareholders to better understand and assess how relevant risks and opportunities are being effectively identified and managed. Where company reporting and disclosure is inadequate or we believe the approach taken may be inconsistent with sustainable, long-term value creation, we will engage with a company and/or vote in a manner that signals our concerns.

We are committed to transparency in the stewardship work we do on behalf of clients. We inform clients about our engagement and voting policies and activities through direct communication and through disclosure on our [website](#). For shareholder meetings where a vote might be of particular interest to clients, we may publish a vote bulletin after the meeting, disclosing and explaining how we voted on key proposals.

Want to know more? blackrock.com/stewardship

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¹⁰ As detailed in our [Global Principles](#), proxy voting involves logistical issues which can affect BlackRock's ability to vote such proxies, as well as the desirability of voting such proxies. As a consequence, BlackRock votes proxies on a "best-efforts" basis.