Our approach to engagement on corporate human rights risks

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 to our clients. We do this through engaging with companies to improve our understanding of their business models and material risks and opportunities. We also engage to inform our voting decisions for clients who authorize us to vote on their behalf. Our sole focus when conducting our stewardship program under our Benchmark Policies is to advance our clients' long-term financial interests.[1]

Human Rights as an investment issue

As defined by the United Nations (UN), human rights are inherent to all human beings and include the right to life, health and well-being, privacy, fair wages, and decent working conditions; freedom from discrimination, slavery, and torture; and freedom of association.[2] Considerations regarding the role of business in upholding human rights have been an important topic for decades, culminating in the establishment of the UN Guiding Principles on Business and Human Rights (UNGPs) and the Organization for Economic Cooperation and Development's (OECD) global standards for promoting responsible business conduct.[3, 4] Governments, corporations, and other stakeholders increasingly consider these frameworks as a basis for managing human rights issues related to corporate activities.

From an investor's perspective, unmanaged potential or actual adverse human rights issues can expose companies to significant legal, regulatory, operational, and reputational risks. These risks can materialize in a variety of ways and may damage a company's standing with business partners, customers, and communities. BlackRock Investment Stewardship (BIS) has observed several common impacts, including fines and litigation and customers severing contracts as a result of human rights-related regulatory requirements, as well as workforce and supply chain disruptions.

We note that at the national level, regulation and regulatory action on human rights is increasing.[5] Consequently, companies face increasing scrutiny regarding how they address human rights issues that may arise from their business practices. Furthermore, these risks may call into question a company's ability to maintain operations in a certain location and benefit from the labor, raw materials, community support, or regulatory structures in place, particularly if they significantly undermine their corporate reputation and purpose.

This is why, in our view, long-term investors can benefit when companies implement processes to identify, manage, and prevent adverse human rights impacts that could expose them to material business risks, and provide robust disclosures on these processes.

We recognize that companies' exposure to human rights-related risks will vary by company, industry, and geographic location. As a result, no single governance model or approach can be applied to how all companies address human rights issues in their business models. In general, human rights-related risks can include:

- **Poor working conditions, substandard wages, and use of forced labor or child labor** – by the company or their key suppliers – can expose a company to supply chain stoppages, health and safety incidents, strikes, international trade disruption, and reputational damage.
- **Community harm or displacement, particularly using contested land or infringing on Indigenous Peoples' rights**, can damage community support and jeopardize access to resources vital to a company's operations.
- **A hostile or discriminatory workplace** can result in legal ramifications and inhibit a company's ability to attract and retain talent, overcome business challenges, and drive innovation and competitive differentiation.
- **Failure to manage content that encourages human rights violations or does not adhere to applicable privacy laws,[6] standards, or expectations** can lead to regulatory penalties and erode stakeholder trust.

Conversely, a company that addresses human rights-related risks in a proactive and effective manner can, in addition to mitigating against such risks, 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 more engaged employee base.

Our approach to engagement with companies on corporate human rights risks

On behalf of our clients as long-term investors, 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. We are focused on the governance of this business risk, where appropriate. As one of many minority shareholders in public companies, BlackRock does not tell companies how to identify, manage and mitigate material human rights-related risks. We recognize that most companies' business models, including their supply chains, are multi-tiered and complex and, thus, not always easily assessed by shareholders.

BIS relies on public information, which may not capture every issue that could be relevant. In our view, the responsibility for managing human rights issues – and all business practices – lies with the boards and management of companies and the governments that regulate them. Governments and other public policy makers are responsible for implementing and enforcing relevant laws and regulations in their respective markets. BIS does not engage with governments on these issues as it pertains to the companies that we invest in on behalf of our clients.

BIS finds it helpful when corporate leadership provides robust disclosures on their approach to governance, strategy, and management of material business risks and opportunities. This information can help investors better understand how companies are managing their material risks and planning for the long-term. Recognizing that exposure to human rights-related risks will vary by company, by industry, and by geographic location, we find it helpful when companies disclose whether and how they integrate human rights considerations into their operations and risk management processes and identify the steps they are taking to address these issues, if any.

Through our analysis of company disclosures and engagement with corporate leadership, we have found the following to be helpful to our understanding of how companies manage human rights-related risks and impacts inherent in their businesses:

- Whether a company **considers human rights across its value chain**, as appropriate in the context of its products and services, operations, and suppliers – and whether it adheres to applicable mandatory and voluntary frameworks and reporting requirements.[7]
- How **the board oversees human rights-related risks** including, as appropriate, whether the full board or a specific committee has responsibility to oversee related policies and processes, and the type and frequency of information reviewed.
- How **a company identifies, mitigates, and prevents** any potential human rights impacts and determines the appropriate due diligence processes to minimize risk across its value chain (e.g., human rights risk assessments, supply chain tracing, recruitment procedures, and auditing and grievance mechanisms). This includes whether companies sourcing from high-risk jurisdictions have mechanisms in place to ensure suppliers are adhering to their own human rights-related policies and processes.
- How **a company measures and assesses the effectiveness** of its human rights management and mitigation strategy, including due diligence processes, relevant metrics and targets, and the use of any third-party assurance providers. This encompasses steps being taken in locations where there are no credible third-party assurance providers.
- How **a company navigates ambiguities or inconsistencies** between local human rights laws or regulations and international standards as they affect its operations or supply chain, and how the board and management team balances matters important to key stakeholders and maintains trust (e.g., how health and safety is considered across operations in different geographic locations, where local regulations vary).
- Whether **a company engages with affected stakeholders** in a regular and timely manner and provides access to remedy to address actual human rights impacts, e.g., whether companies obtain (and maintain) the free, prior, and informed consent of Indigenous Peoples for business decisions that affect their rights, protect cultural heritage sites, and provide access to resources and/or compensation in the event of displacement or destruction.
- Whether **a company collaborates with industry peers and other stakeholders** on initiatives to advance practices and address pervasive issues related to human rights (e.g., the Responsible Business Alliance or Roundtable on Sustainable Palm Oil).

Endnotes

1. BIS' Benchmark Policies, and the vote decisions made consistent with these policies, take a financial materiality-based approach and are focused solely on advancing clients' financial interests. BIS' Benchmark Policies– comprised of the BIS Global Principles, regional voting guidelines, and engagement priorities – provide clients, companies, and others, guidance on our position on common corporate governance matters. We take a globally consistent approach, while recognizing the unique markets and sectors in which companies operate. Other materials on the BIS website might also provide useful context.
2. The UDHR was adopted by the UN General Assembly in 1948. Since then, the core principles have been reiterated in various international human rights conventions and treaties. Today, all UN member states have ratified at least one of the nine core international human rights treaties on behalf of their governments, and 80% have ratified four or more. Source: United Nations, "Universal Declaration of Human Rights (UDHR)".
3. United Nations, "Guiding Principles on Business and Human Rights", 2011.
4. Originally adopted in 1976, in June 2023, the OECD published updated guidance, "OECD Guidelines for Multinational Enterprises on Responsible Business Conduct."
5. Institutional Shareholder Services. "The Rapidly Changing World of Human Rights Regulation: A Resource for Investors", July 18, 2022.
6. To learn more, please refer to BIS' commentary on "Our approach to data privacy and security", July 2022.
7. For example, the UNGPs, OECD Guidelines, UN Global Compact, UN Sustainable Development Goals, the EU Corporate Sustainability Reporting Directive (CSRD), and Corporate Sustainability Due Diligence Directive (CSDDD), EU Forced Labor Regulation, and relevant Modern Slavery Acts, among others. Examples of Modern Slavery Acts include; the UK Modern Slavery Act of 2015, the Australian Modern Slavery Act of 2018, and the California Transparency in Supply Chains Act. Also, we note that companies subject to the CSRD have to report according to European Sustainability Reporting Standards (ESRS). "A broader set of large companies, as well as listed SMEs, will now be required to report on sustainability. Some non-EU companies will also have to report if they generate over EUR 150 million on the EU market." These companies will have to apply the new rules for the first time in fiscal year 2024, for reports published in 2025. Source: European Commission, "Corporate sustainability reporting".

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