Our approach to engagement on corporate strategy, purpose, and financial resilience

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]

Strategy, purpose, and financial resilience as an investment issue

In our experience, a clear purpose supports a clear sense of direction in corporate leadership, and helps companies to compete, navigate short-term challenges and achieve long-term growth.[2] This in turn helps companies to attract and retain a high caliber workforce, build stronger customer loyalty, and maintain investor confidence. These factors are important to building financial and business resilience, attracting long-term capital, and delivering durable profitability.

Establishing and aligning strategy and purpose to effectively drive a company's long-term financial performance is the responsibility of executive leadership and the board of directors. As one of many minority investors, BlackRock Investment Stewardship (BIS) cannot – and does not try to – direct a company's strategy or its implementation. Setting, executing and overseeing strategy are the responsibility of management and the board.

As a long-term investor on behalf of our clients, we find it helpful when companies publish disclosures that clearly state their purpose and set out a long-term strategy consistent with it, including milestones against which shareholders can measure performance. We also look for the board to have a clearly defined role in advising on, and overseeing executive leadership's approach to, the company's strategy, purpose and culture, and in overseeing the company's financial resilience.

Our approach to engagement on corporate strategy, purpose, and financial resilience

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 manage risks and opportunities within 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.

When engaging on long-term corporate strategy, purpose, and financial resilience, we seek to understand a company's strategic framework, the board's process for oversight, how the strategy incorporates key stakeholders' interests, and how strategy evolves over time in response to changing consumer preferences, technology advancements and broader economic, regulatory, and sectoral factors. We are also interested in the board's role in supporting executive leadership assess the company's purpose and culture.

We find it helpful when companies disclose their long-term strategic goals, the milestones against which performance can be assessed, and any obstacles encountered or anticipated. Disclosures can provide context for critical strategic, capital allocation, and operational decisions that a company may have to make to respond to business challenges and/or opportunities.[3]

We recognize that most companies adapt their short- and medium-term implementation plans to reflect fast-changing operational, economic, regulatory, and societal conditions. In these situations, it is helpful to investors for corporate leadership to explain the changes made and how they better align the company's long-term purpose and strategic framework with delivering durable financial performance.

We are interested in how boards assess management's effectiveness at integrating the company's strategic goals and purpose into day-to-day operations and ensuring that corporate culture is experienced as intended across the workforce and key stakeholders. To this end, culture is consistently a key component of our engagements on strategy because we believe that how a company conducts business and the operating environment it creates for its workforce has a strong influence on employee engagement, productivity and execution of the corporate strategy and thus, the company's financial performance.

BIS seeks to understand how companies are building financial resilience through sound governance, operational, and risk management practices. This includes how effectively a company's board oversees balance sheet risks and contingent liabilities, as well as whether and how companies are approaching material business relevant risks and opportunities. We appreciate when companies demonstrate a comprehensive, yet flexible, approach to how they will maintain financial resilience over time. This may include, but is not limited to, companies' approach to financial gearing, hedging policies, and management of foreign exchange risk. In our view, greater transparency on questions of operational resilience will also be an important component of many companies' ability to attract capital over time.

We consider the integrity of a company's financial accounts critical to investors' ability to assess financial resilience. As noted in our Global Principles, the accuracy of financial statements is of paramount importance to provide a true and fair picture of a company's financial condition.

We look for boards to engage with executive leadership as strategy and capital plans are developed, implemented, and adapted to help inform their oversight of the company's financial statements. The board – through an audit committee, or the equivalent – has a responsibility to oversee the integrity of a company's financial statements, the scope of the audit, and the qualifications and independence of the external auditor. The board is also responsible for overseeing the robustness of a company's Enterprise Risk Management framework.[4]

In our engagement to understand a company's strategy, purpose, and ability to build financial resilience, we may discuss, as appropriate:

- How the board oversees corporate strategy, purpose, and financial resilience, as well as management's implementation of plans and policies to support financial resilience, and the strategic milestones against which shareholders should assess performance.
- How financial resilience is defined within the context of the company's long-term strategy and capital management practices.
- How the company defines "long-term" and why that time frame is most appropriate given the company's sector and business model.
- How the company's strategic framework has evolved and what has driven the evolution (e.g., changing customer needs, resources/input constraints, industry dynamics, and global mega-forces).[5]
- The financial metrics company management considers most relevant for measuring financial value creation.
- Employee and/or other key stakeholder involvement in shaping corporate strategy, purpose (and culture), and approach to financial resilience – e.g., the feedback mechanisms for key parties in a company's value chain to provide their perspectives and to hear from management on matters important to them.
- How the short-term dynamics in the business and industry feed into the long-term strategy, and the short-term pressures on the company, what drives those pressures, how management deals with them, and how the board incentivizes management to maintain a long-term focus.
- How the board oversees Enterprise Risk Management practices.
- Measures to build and support ongoing financial resilience, including, where relevant, policies related to financial gearing, foreign exchange, contingent liabilities, and other financial risks as well as related hedging policies.
- Responsibilities and composition of the audit committee, with independent directors having financial expertise, and how the audit committee oversees the audit process and resolves audit matters reported by the external auditors.

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. 63% of respondents to the 2024 Edelman Trust Barometer view business as the most and only trusted institution, January 2024.
3. The International Sustainability Standards Board (ISSB) standards, IFRS S1 and S2, provide companies with a useful guide to preparing this disclosure. The standards build on the Task Force on Climate-related Financial Disclosures (TCFD) recommendations and the standards and metrics developed by the Sustainability Accounting Standards Board (SASB), which have converged under the ISSB. We recognize that companies may phase in reporting aligned with the ISSB over several years. We also recognize that some companies may report using different standards, which may be required by regulation, or one of a number of voluntary standards. In such cases, we ask that companies highlight the metrics that are industry- or company-specific.
4. 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. Source: Committee of Sponsoring Organizations of the Treadway Commission (COSO). Enterprise Risk Management, 2023. Please see: https://www.coso.org/guidance-erm.
5. BlackRock Investment Institute, "Mega forces: An investment opportunity", 2023.

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