Our approach to engagement on corporate human rights risks

Investment Stewardship

BlackRock

BlackRock Investment Stewardship (BIS) encourages companies to have sound corporate governance and business practices that support the durable, long-term financial value creation that our clients depend on to achieve their investment goals. As part of our fiduciary responsibilities as an asset manager to act in our clients' financial interests, we assess a range of risks and opportunities that can affect the long-term performance of the companies in which we invest on their behalf. We engage companies to understand their approach to the material drivers of risk and financial value in their business models, provide feedback, and raise any concerns. We may signal continuing concerns through our voting, where clients have authorized us to vote on their behalf. In all cases, our voting is intended to advance the long-term financial interests of our clients as shareholders.[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, 3] 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.[4, 5] Governments, corporations, and other stakeholders increasingly consider these frameworks as a basis for managing human rights issues related to corporate activities.

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 that may damage a company's standing with business partners, customers, and communities. We have observed several common impacts including fines and litigation, customers severing contracts as a result of human rights-related regulatory requirements on them, and workforce and supply chain disruptions.

We note that regulation and regulatory action on human rights is increasing. 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 operations.

NM0124U-3363724-1/3

- **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 adhere to applicable privacy[7] laws, 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.

How we engage 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 shareholders, and typically a minority one, BlackRock does not tell companies how to identify, manage and mitigate human rights-related risks. We recognize that most companies' business models, including their supply chains, are multi-tiered and complex and, thus, not easily assessed by shareholders. As minority investors, we must rely 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.

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 appreciate 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 (e.g., the UNGPs, OECD Guidelines, UN Global Compact, UN Sustainable Development Goals, the EU Corporate Sustainability Reporting Directive and relevant Modern Slavery Acts, among others).[8, 9, 10, 11]

- 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** 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. This commentary should be read in conjunction with BIS' Global Principles and regional voting guidelines. Other materials on the BIS website might also provide useful context.
2. United Nations, "Universal Declaration of Human Rights (UDHR)".
3. 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)".
4. United Nations, "Guiding Principles on Business and Human Rights", 2011.
5. Originally adopted in 1976, in June 2023, the OECD published updated guidance, "OECD Guidelines for Multinational Enterprises on Responsible Business Conduct."
6. For example, please see rules to prevent modern slavery in the UK and Australia (Legislation.gov.uk, and "Modern Slavery Act 2015", March 26, 2015, and Australian Government, "Modern Slavery Act 2018", December 10, 2018), as well as regulation to prevent human trafficking in the U.S. (U.S. Department of Justice, "Human Trafficking, Key Legislation", last updated on September 28, 2022). In addition, in 2022 the European Commission released a proposal for a Directive on Corporate Sustainability Due Diligence.
7. To learn more, please refer to BIS' commentary on "Our approach to data privacy and security", July 2022.
8. The UN Global Compact, "The Ten Principles of the UN Global Compact".
9. The UN Global Compact, "The SDGs explained for Business".
10. European Commission, "Corporate Sustainability Reporting", 2023.
11. Examples include the UK Modern Slavery Act of 2015, the Australian Modern Slavery Act of 2018, and the California Transparency in Supply Chains Act.

Want to know more?

blackrock.com/stewardship | contactstewardship@blackrock.com

BlackRock.