SUSTAINABILITY IN THE BOARDROOM

A Long-Term Approach

Interview by Aarti Maharaj

Michelle Edkins is a Managing Director at BlackRock and Global Head of its Investment Stewardship team of 22 specialists based in five regions. Edkins, who spoke to Ethisphere's Aarti Maharaj, is responsible for the team's engagement and proxy voting activities in relation to the companies in which BlackRock invests on behalf of clients. She also serves on the firm's Human Capital and Government Relations Steering Committees.

Based on your experience, why does good stewardship matter to investors?

ME The primary reason is that many investors are trying to achieve long-term financial goals. Many factors that contribute to meeting these are addressed through dialogue. Increasingly, the issues on which shareholders are engaging companies are more complex and nuanced, and dialogue is an important part of mutual understanding. For many years, the focus was purely on proxy voting, which is an important accountability mechanism, but not always a clear signal of what investors want. Stewardship-focused engagement helps companies understand investors' concerns and expectations.

Is there a way where sustainability could be used as a form of risk management?

ME Sustainability with companies can be misunderstood as a sideline rather than as a central business issue. Many organizations consider sustainability activities as philanthropy and CSR, putting the function in a bit of a silo. Yet sound business practices where companies are addressing all facets of the risk and opportunity in their business will lead to sustainable financial returns.

When we engage companies on the relevant social and environmental factors in their business models, we are trying to assess how well the company is managed. We look at which appropriate risk assessments have been done, the controls put in place and the way the company is adapting its business model to minimize and mitigating those risks. Engagement on these factors allows us to both share our perspective on the importance of long-term financial returns and understand the company's approach to governance structures and management processes that support operational excellence and thus sustainable financial performance.

Companies with high standards of business conduct and a well-articulated, widely understood code of ethics and organizational values tend to achieve superior results over time. The culture of the company can influence the practices of those with whom they do business. For example, through ensuring robust supply chain management, a company can encourage better employment practices by the firms they retain. It also reinforces operational excellence when employees know how to make the right decision for the right reasons and know not to break the rules.

The main risk of having sustainability in a silo is that even a great sustainability officer can't do it alone. The company's leaders—from the board through the CEO and other senior executives—must reinforce the culture and demonstrate it is the responsibility of all employees. Good practices on all dimensions of the business then become a strategic and operational narrative rather than one about sustainability and marketing.

How would you define a good board, and what skill set would be involved?

ME The leadership and decision making responsibilities of the board can only be met if directors have the requisite skills and expertise the company needs, if the board culture allows for free and frank debate and if management has an open, trusting, and constructive relationship with the board members both individually and as a group. A great board should be a competitive advantage for the company.

Diversity is important across all dimensions, particularly visible diversity—gender and ethnicity. There are two reasons. As a decision-

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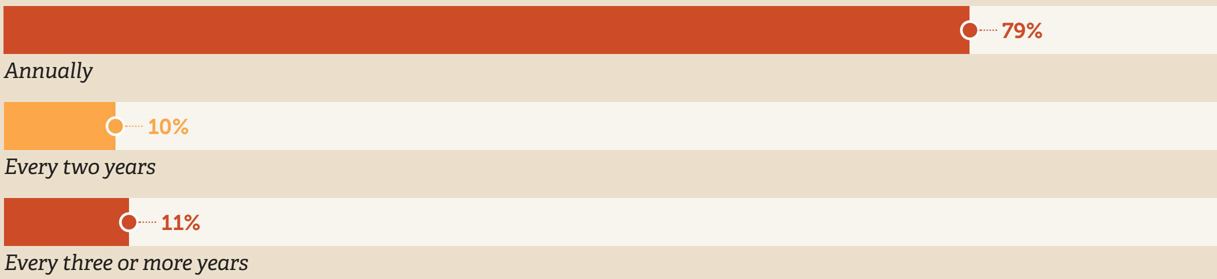
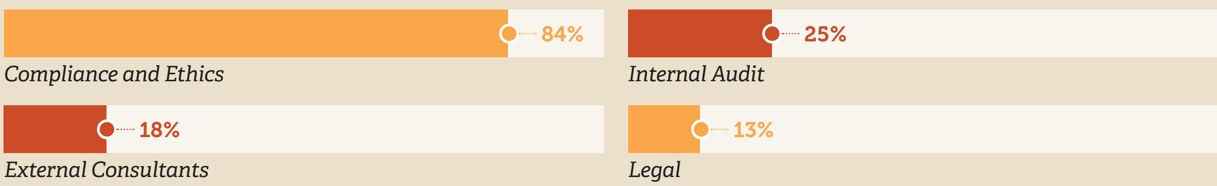
MEASUREMENT AND STEWARDSHIP GO HAND IN HAND

A key component for a rigorous compliance program is one that is regularly reviewed and improved upon. A majority of The 2016 World's Most Ethical Companies evaluate or benchmark their programs on an annual basis led by the compliance and ethics team:

How often does your company conduct the aforementioned evaluation or benchmarking of its compliance and ethics program?



Which function(s) are primarily responsible for your company's evaluation and/or benchmarking of its compliance and ethics program?



***Source:** The 2016 World's Most Ethical Companies Data Set, provided by Douglas Allen*

making body, a board needs to explore all available options and determine the best outcome. More diverse groups take longer to reach decisions and face a more challenging process due to many perspectives, but these decisions better stand the test of time than those made by homogenous groups making quick determinations. Second, all companies are in a war for talent. And most of that talent is more diverse than ever before. If they are going to invest their time at a company, those workers need to envision a career there. But if all the leaders in an organization are from the dominant culture, the talented people in which the company has invested training and development will soon become another company's asset. The challenge for boards and management in the near term is to be deliberate about recruiting more women and minorities to the boards—they are out there if you go looking—and developing a diverse pipeline for the future.

Directors must be fully engaged in the business of the board and maintain a sound understanding of the company, its business and sector and the geopolitical context in which it operates. They must be sufficiently informed and credible in the eyes of their fellow directors and management to challenge constructively through their questions and viewpoint. Finally, they must instill confidence they will act appropriately and effectively to serve the company and its investors.

Can you share any best practices ideas around how to foster robust board-shareholder communication?

ME The most important thing is focus. When there is clarity of purpose, the right people will attend the meeting, each party will come prepared and it will be productive. Even if you agree to disagree on the issue under discussion, each party will understand why.

A few years ago, BlackRock worked with a number of other practitioners to develop the Shareholder-Director (SDX) protocol to promote more director involvement in shareholder engagement. SDX provides a framework for engagement between shareholders and directors of US companies, suggesting boards consider adopting and clearly articulating a policy to foster this dialogue.

Engaging with a purpose or outcome in mind is valuable, but meeting just to be able to say you've met your top twenty shareholders this year is not.

Expert Biography

***Michelle Edkins**, a Managing Director at BlackRock, is Global Head of its Investment Stewardship team of 22 specialists based in five key regions. She is responsible for the team's engagement and proxy voting activities related to the companies in which BlackRock invests. Michelle is an active participant in the public corporate governance debate, and regularly speaks and writes about good stewardship for company performance and how a strong ethics and compliance program creates value for shareholders and contributes to the longevity of an organization.*

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