

# Compensation and Talent Governance Network

May 2023

CTGN

SUMMARY OF THEMES

## Dialogue with Michelle Edkins, BlackRock

In today's environment of evolving expectations for businesses, market volatility, and macroeconomic challenges, effective engagement between public company boards and their largest shareholders is critical. BlackRock, as the world's largest asset manager (\$8.6 trillion in assets under management at the end of 2022)<sup>1</sup>, is particularly important among them. On May 17, 2023, members of the Compensation and Talent Governance Network (CTGN) met virtually with Michelle Edkins, a managing director in the investment stewardship team at BlackRock, to discuss BlackRock's approach to investment stewardship and its current priorities.

*For a full list of meeting participants, please see the appendix on page 5.*

### BlackRock's approach to investment stewardship

BlackRock Investment Stewardship (BIS) works to advance the financial interests of BlackRock's clients, the majority of whom are invested in index strategies, meaning that those clients are long-term investors in public companies. The stewardship team promotes clients' financial interests both through company engagement that encourages robust corporate governance and business practices, and through proxy voting.

- **A globally integrated, but regionally specific approach.** Blackrock's investment stewardship team recognizes that good governance practices are not homogenous and assesses companies' governance practices within the context of the environment in which they do business. Offices and leaders tailor their engagement and voting to geographic specifics. *"The teams voting on companies in the Asia-Pacific are based in Tokyo, Hong Kong, Singapore, and Sydney,"* Ms. Edkins said. *"And this is really important, because while we have global principles around things like board quality and independence, what that looks like at a Japanese company is very different from what that looks like at a US company."*<sup>2</sup>
- **A focus on engagement.** Last year, BlackRock engaged with well over 2,500 companies on a range of issues, Ms. Edkins noted. *"The focus of the team is to take this very long-term view on issues, so even when we have concerns about something that a company is doing, we will engage first and then reflect any continuing concerns in our voting."* She pointed out that voting is a blunt instrument: *"The issues that you vote on are relatively limited, and the vote is binary: you either support or you don't support. It doesn't necessarily provide a lot of context. So that bilateral engagement dialogue is helpful to fully understand the risks and opportunities a company is facing."* Ms. Edkins noted that

there has been a significant increase in the number of companies making directors available to meet with investors over the last decade; board members find value in hearing directly from their investors, while BIS benefits from direct access to the board's perspective, especially on issues that require direct board approval, such as CEO succession or compensation.

- **Stewardship and active management.** Directors pointed out that even within the same asset manager, stewardship teams and the active portfolio managers sometimes bring different perspectives into their conversations. Ms. Edkins acknowledged that this can sometimes be the case, due to varying strategies in the funds they manage. She described the process: *"If stewardship plans to vote against management, we will share our recommendation for our voting intention with the active portfolio manager/s. They can vote their holdings differently if they consider that to be more aligned with the financial interests of the clients invested in their strategies."* But in actuality, the voting rarely differs: *"Of the 13,000 companies where we voted at meetings last year, we voted differently from the active portfolio at 18 meetings. And that's because we are approaching these issues on both the active and the index side through that long-term investor lens."*
- **BlackRock's current engagement priorities.** Ms. Edkins highlighted several points of focus for engagement: company strategy, purpose, and financial resilience; executive incentives that align with value creation; climate and natural capital; and company impacts on people. Within these priorities, effective governance is a perennial focus: *"governance is always material, and the quality of governance is always a major factor in a company's success."* This leads to a consistent emphasis on board quality, board independence, and diverse board perspectives. Ms. Edkins said that for that reason, when BlackRock looks at board composition, *"we're looking for directors who are clearly independent of management and any other conflicts of interest."*

## The shifting ESG landscape

The politicization of environmental, social, and governance (ESG) issues, particularly in the United States, has created a challenging environment for issuers and investors, who have faced public criticism and a flurry of both pro-and anti-ESG shareholder proposals—one member described receiving two diametrically opposed ESG-related proposals this proxy season. BlackRock must navigate this environment while continuing to address environmental and social issues that are material to its clients' investment objectives. Members face a similar challenge in overseeing their companies' strategy, risks, and operations.

- **Avoiding polarizing language.** Ms. Edkins noted that BlackRock has stopped using the term "ESG" because *"ESG has almost come to mean nothing or everything to everyone."* With political actors lumping a range of disparate issues under the rubric of ESG and using the term as a way to attack companies and investors, Ms. Edkins noted the need to be

more precise in language and to provide clarity on the specific environmental and social issues that *“drive risk and value.”* Framing issues not as environmental or social priorities but as material risks and opportunities can help companies avoid unnecessary controversy. Ms. Edkins cited a company that has *“had a net zero water impact strategy for over two decades. They don’t call it an environmental issue but rather an operational risk mitigation issue because if they can’t access clean water or get permission to build factories in locations that are water stressed, they go out of business.”* One member said, *“The main thing is to continually come back to what’s the value and why are we doing it? Because if we have clarity to say we’re addressing ESG issues, then the company is going to be more sustainable long term and can address critical risk, and then you can hold your head high”* in the face of political opposition.

- **Continuing to focus on sustainability-related risks.** Despite avoiding the term, BlackRock continues to prioritize material sustainability-related business issues as drivers of long-term value creation in the context of a given company’s strategic objectives. Ms. Edkins said, *“We are laser focused on issues where the company has itself said that they are material to its risk profile and opportunity set. So, we want to understand how the company is assessing that risk, mitigating the risk, and harnessing the opportunities because that’s how they’re going to create value over time.”* Ms. Edkins added that BlackRock *“does not vote on issues; we vote on risks.”* This means BlackRock might support different approaches to the same environmental or social issue at different companies. For example, Ms. Edkins noted, *“There were 14 proposals for racial equity audits that BlackRock voted on last year. We opposed eight of those and supported six.”* Ms. Edkins explained that in the case of those six, BlackRock felt the risks of litigation or regulatory action meant those audits would protect shareholder value.
- **Linking ESG to executive pay.** BlackRock does not support the integration of environmental and social criteria into executive compensation unless *“the metric used is truly part of the company’s strategic objectives,”* Ms. Edkins said. She noted that such metrics sometimes lack the rigor or clear connection to long-term strategy or value creation found in other performance objectives. Members described the challenge of establishing environmental and social criteria that are meaningful, measurable, and objective. One director said, *“You don’t want it to be a freebie metric and a fuzzy measurement.”* Virginia Rhodes of Meridian Compensation Partners noted that integrating ESG into compensation will vary across companies: *“For certain companies, it makes perfect sense because it aligns to the core values and the strategy of the overall organization. But for others, they’ve discussed it, assessed pros and cons, begun tracking and reporting certain metrics to the committee or the board, but ultimately decided it does not need to be incorporated into the incentive plan.”*

## Compensation and human capital

Human capital strategy remains a priority for BlackRock in assessing companies. The stewardship team sees effective leadership development and succession planning, incentive compensation, and corporate culture as key drivers of value creation.

- **CEO succession.** Despite the attention paid to executive compensation and the need to align incentives with value creation, Ms. Edkins pointed out that a smooth CEO succession process is far more important to protect and enhance shareholder value: *“We spend way too much time on executive pay. Poor pay practices have destroyed way less value than poor succession management, planning, and implementation.”* From BlackRock’s perspective, effective succession planning requires a long-term view, planning two or three CEO transitions ahead as part of a larger leadership development strategy. For boards, that means getting to know the talent below the c-suite, and ensuring management is building succession pipelines and developing talent internally. *“Building the pipeline and growing the talent is key,”* Ms. Edkins said.
- **Corporate culture.** BlackRock believes a central role of the board is to assess culture and management’s culture-oriented policies and practices. The goal is a healthy culture that supports the company’s strategy. However, Ms. Edkins and members agreed that culture is difficult to assess, particularly in a hybrid work environment. Members discussed their efforts to gain insight into culture and to ensure that stated values are truly in play throughout the organization. Directors also agreed that there’s no substitute in culture assessment for the interaction you get with employees in an informal setting. A director shared, *“I do try to carve out time to make sure I can be with middle-level employees and lower-level employees as much as possible, just to try to get the finger on the pulse.”* Another director described efforts to bring more simplicity to board reporting on culture: *“We pushed the company to develop a culture dashboard because there’s so many inputs into culture. Some of the elements get at core issues of ethics, integrity, and conduct, foundational things we can track over time.”*

## Appendix: Meeting attendance



**Marjorie Rodgers**  
Cheshire  
Exelon



**Stephanie Coyles**  
Sun Life Financial



**Michelle Edkins**  
Managing Director,  
BlackRock Investment  
Stewardship



**Lloyd W. Howell,  
Jr.**  
Moody's



**Aylwin Lewis**  
Marriott International



**Karen E.  
Maidment**  
TD Bank Group



**Cheryl Miller**  
Tyson Foods



**Darren Moskovitz**  
Meridian Compensation  
Partners



**Virginia Rhodes**  
Meridian Compensation  
Partners



**Joyce Russell**  
Celsius Holdings



**John Thompson**  
Norfolk Southern

## Tapestry Networks



**Noni Abdur-  
Razzaq**  
Associate, Tapestry  
Networks



**Eric Baldwin**  
Principal, Tapestry  
Networks



**Jonathan Day**  
Chief Executive,  
Tapestry Networks



**Marsha Ershaghi  
Hames**  
Partner, Tapestry  
Networks



**Laura Koski**  
Project and Event  
Manager, Tapestry  
Networks

## Endnote

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<sup>1</sup> "BlackRock Inc.," Fitch Ratings, accessed May 26, 2023.

<sup>2</sup> Summary of Themes reflects the network's use of a modified version of the Chatham House Rule whereby names of members and their company affiliations are a matter of public record, but comments are not attributed to individuals or corporations. Quotations in italics are drawn from conversations with network members and guests in connection with the meeting.