

# Investors See Expanded Role for Boards of Directors in Overseeing Corporate Culture

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*State Street and BlackRock are urging boards to do more in overseeing corporate culture; this vision would greatly expand the traditional role of boards and continue to elevate ESG issues.*

As part of its annual engagement process, State Street Global Advisors has written letters to the independent chairs or lead directors of more than 1,100 large companies in the United States, Europe and Japan. While large investors often send letters to boards, it's what State Street is asking boards to do that is unusual. The firm is requesting directors take more action to oversee their companies' corporate cultures and explain how the culture aligns with their company's business strategy.

The letter (a full copy can be found [here](#)) outlines State Street's vision for how directors can assess, influence and report on their culture. "Our focus in recent years has been on good governance and other practices that affect a company's ability to generate positive returns for investors over the long run," the letter reads. "Those issues span a variety of environmental, social and governance (ESG) topics material to sustainable performance. We approach these issues from the perspective of long-term investment value, not from a political or social agenda."

The letter cites research from EY that found intangible assets, such as culture, average 52% of an organization's market value.

State Street has created the following framework for boards to assess (not manage) corporate culture:

1. Conduct an analysis to determine whether culture and strategy are aligned.
2. Identify and implement mechanisms to influence and assess progress.
3. Improve reporting that can help directors influence and monitor corporate culture.

The firm says its portfolio companies should expect to discuss this issue with them during their engagements this year, addressing questions such as:

- Can the director(s) articulate the current corporate culture?
- What does the board value about the current culture? What does it see as strengths? How can the corporate culture improve?

- How is senior management influencing or affecting change in the corporate culture?
- How is the board monitoring the progress?

State Street isn't the only global advisor promoting a focus on ESG issues. BlackRock has conveyed similar messages to its portfolio companies. BlackRock CEO Larry Fink's [2019 shareholder letter](#) says the asset manager will be engaged with companies on corporate purpose and how it aligns with culture and corporate strategy.

"As wealth shifts and investing preferences change, environmental, social, and governance issues will be increasingly material to corporate valuations... BlackRock devotes considerable resources to improving the data and analytics for measuring these factors, integrates them across our entire investment platform, and engages with the companies in which we invest on behalf of our clients to better understand your approach to them," the letter states.

Specifically, BlackRock says it will engage with companies on the following issues:

- Governance, including a company's approach to board diversity
- Corporate strategy and capital allocation
- Compensation that promotes long-termism
- Environmental risks and opportunities
- Human capital management

## Next Steps

Momentum is gathering for boards to work with management in overseeing corporate culture. The latest calls from large asset managers for a more structured, better articulated approach should be taken as evidence that the shareholder focus on corporate culture and ESG issues is likely to increase. In shareholder outreach as well as published disclosure, companies should discuss their efforts towards establishing and overseeing effective corporate culture.

We advise our clients on the latest corporate governance trends and work with them to develop proactive measures and responses to all types of shareholder requests. We can assist in determining appropriate next steps that align with your company's business strategy, disclosure, and ESG initiatives.

If you have any questions about this topic or other investor engagement priorities and want to speak with a member of our governance consulting team, please write to [consulting@radford.com](mailto:consulting@radford.com).

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