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Disintermediating the Proxy Advisory Firms:
BlackRock Takes the Lead

We have long eschewed the one-size-fits-all model of corporate governance advanced by many of the proxy advisory firms (see, for example, our memo of October 19, 2010). The formulaic voting policies sold by many of these proxy advisory firms represent a low-cost means by which many institutional shareholders seek to discharge their proxy voting responsibilities. Unfortunately the voting policies of the proxy advisory firms are usually derived from unsupported notions of what constitutes “good governance” and are often applied in ways that do not account for the specific circumstances at many companies. Accordingly, this approach often fails to advance the real interests of long-term investors. The Department of Labor and the Securities and Exchange Commission have raised questions regarding fiduciary responsibility in the context of the outsourcing of proxy voting decisions to proxy advisory firms, but no regulatory changes to address this issue have yet been adopted.

For this reason we view as significant the announced effort by BlackRock Inc., which invests over $3.345 trillion of client assets, to take a direct interest in the governance of the companies in which they invest. BlackRock CEO Larry Fink recently sent a letter to 600 companies which constitute some of the largest holdings in BlackRock portfolios. In the letter, BlackRock advises these companies to engage with BlackRock to address potential governance issues prior to engaging with proxy advisory firms. BlackRock encouragingly offers a “fair, respectful and in particular, open minded airing of views” in which it is “willing to support unconventional approaches as long as they can be expected to serve the interests of long-term shareholders.” In his letter, Fink specifically states that BlackRock reaches its proxy voting decisions independently of proxy advisory firms on the basis of internal guidelines that are “pragmatically” applied.

It remains to be seen how BlackRock executes on this approach, and whether other investors will follow BlackRock’s lead, but it is a helpful sign that a major institutional investor is willing to take a direct and pragmatic role in governance issues rather than outsourcing this responsibility to a proxy advisory firm or agitating for short-term results. The disintermediation of advisory firms holds out the possibility that long-term investors, and the companies in which they invest, can constructively resolve governance issues on a case-by-case basis that reflects the specific context in which the issues arise.

We commend BlackRock’s leadership in recognizing the importance of a long-term investment perspective in corporate governance. This perspective is critical to generating sustainable value not only for those who entrust BlackRock to invest their savings, but also for corporate America and our economy as a whole.

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