How the funds voted
At the Sanderson Farms annual meeting, the Vanguard funds voted to support an advisory shareholder proposal that asked that the board prepare a report on the company’s human rights due-diligence process.

Vanguard’s principles and policies
Boards are responsible for overseeing a company’s long-term strategy and any material risks. As part of our Investment Stewardship team’s activities, we regularly assess how well a board of directors understands the company’s strategy and the board’s own role in identifying, mitigating, and disclosing material risks.

This is the second consecutive year that Sanderson Farms, a large U.S. poultry processor, has received this proposal. The company has faced scrutiny about labor rights violations, including injuries, exposure to toxins, and discrimination within its processing plants. The COVID-19 pandemic exacerbated concerns about the working conditions in Sanderson Farms’ facilities.

If a company’s business practices or products put people’s health or safety at risk, they may present long-term financial risks to investors, too. We seek assurance that boards oversee and own these risks and that they take appropriate measures to mitigate them and disclose them to the market.

Analysis and voting rationale
In analyzing this proposal, we engaged with members of Sanderson Farms’ board and management team as well as with the proponent who submitted the proposal.

In our discussions, we found the Sanderson Farms team to be engaged and candid. They explained the company’s approach to human rights and acknowledged that disclosures about employee health and safety, and about the board’s oversight process, could be improved. In the past, Sanderson Farms has demonstrated responsiveness to shareholder feedback. For example, last year the company agreed to incorporate Sustainability Accounting Standards Board standards into its future reporting, and it has since followed through on that commitment in response to a shareholder proposal requesting a report on water resource risk.

The proponent of the due-diligence proposal said Sanderson Farms had been receptive to their feedback. However, the proponent expressed concern about the limited public information describing the company’s due-diligence process to assess, identify, and mitigate human rights matters. The proponent also highlighted potential legal and regulatory risks facing the company and the broader meat-processing industry.

The COVID-19 pandemic has spurred greater scrutiny of the material risks associated with the working conditions in Sanderson Farms’ plants. Although Sanderson Farms has a human rights process in place and its existing disclosures are at minimum on par with peers, our analysis still identified gaps in those disclosures. In this industry, workplace health and safety matters could lead to legal, regulatory, and reputational risks.

Therefore, as we saw it, the proposal was appropriate and gave the company sufficient flexibility to address the enhanced disclosures as it sees fit.
What we expect from companies on this matter

In general, poor board oversight, as well as a lack of adequate public disclosure, may lead to financial, legal, and reputational risks. Vanguard expects boards to be fully engaged in the oversight of both strategy and risk and to provide clear, decision-useful disclosure of its material risks and related practices. In the case of Sanderson Farms, we believe the company can better communicate in future disclosures how its board identifies and mitigates risks related to human rights matters.