

From Good Governance to Purpose and Profit

GlobeScan Analysis of Larry
Fink's Annual Letters to CEOs

**“Purpose is a company’s
fundamental reason
for being – what it does
every day to create value
for its stakeholders.”**

– Larry Fink
BlackRock Chairman and CEO

Letters as Barometers of Business and Society

BlackRock is the world's largest asset management company, overseeing \$6.3 trillion worth of investments. Since 2012, Larry Fink, Chairman and CEO of BlackRock, has sent out an annual letter to CEOs of the companies that BlackRock invests in on behalf of its clients.

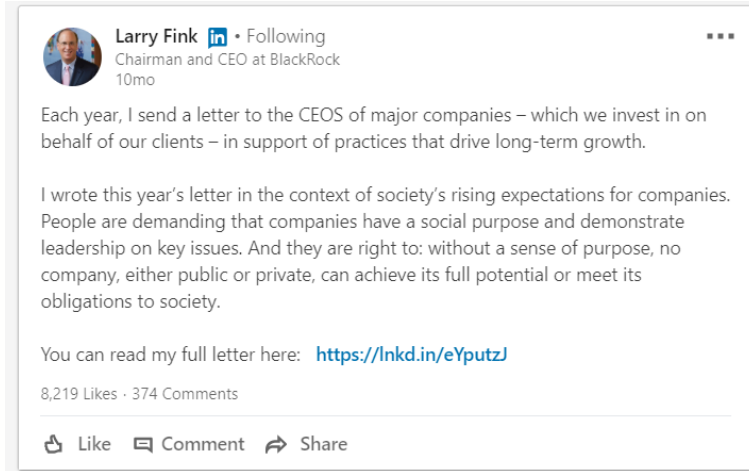
In early 2018, the sixth of these letters was published, entitled *A Sense of Purpose*. This letter generated significantly more reaction than those before it, was liked over 8,000 times on LinkedIn and was the subject of countless news articles.

In 2019, the most recent and highly anticipated letter again focused on purpose, now highlighting “the inextricable link between purpose and profits” and serving as a call to action for companies to lead on societal issues.

BlackRock's annual CEO letters have become a rallying cry for responsible long-term business strategy. This makes them useful as a proxy for monitoring the overall discourse of the private sector on its role in society.

This analysis of the content and impact of these letters over the past seven years helps us better understand the shifting expectations for business and the extent to which purpose, sustainability, and stakeholder engagement are becoming more mainstream aspects of management.

In the analysis presented here, GlobeScan traces the emergence and evolution of central themes in the letters from 2012 to 2019. We present thematic and content analysis of the letters across each year. Our analysis tracks the changing outlook on corporate social responsibility from a fiduciary imperative for clients to a societal obligation.



My 2019 Letter to CEOs: The Inextricable Link Between Purpose and Profits

Published on January 17, 2019



Evolution of Content



The positioning, content, and language of Larry Fink's annual letters to CEOs has evolved significantly between 2012 and 2019.

The first letter sent out in early 2012 was cautious in its approach. The letter did not attempt to instruct or influence companies on how to act, but instead asked for more engagement with investors on governance mechanisms. The letter stated the importance of good governance in achieving "superior long-term business performance." This request for long-term value and a strategy to deliver for the future was strongly emphasised in subsequent letters in 2014 and 2015.

In 2016, Fink's letter first mentioned the need for companies to look outside their own four walls and to take into consideration environmental and social factors. This need to look outward amplified in 2017, in the context of a rise in negative populism (e.g., Brexit, Donald Trump, etc.).

By 2018, Larry Fink's letter is titled "A Sense of Purpose." While reiterating the need for long-termism and restating the demands of previous letters for a long-term strategy signed off by the board, the letter goes much further than in previous years. It explicitly highlights the need for businesses to meet the interests of external stakeholders and to have a broader purpose in society.

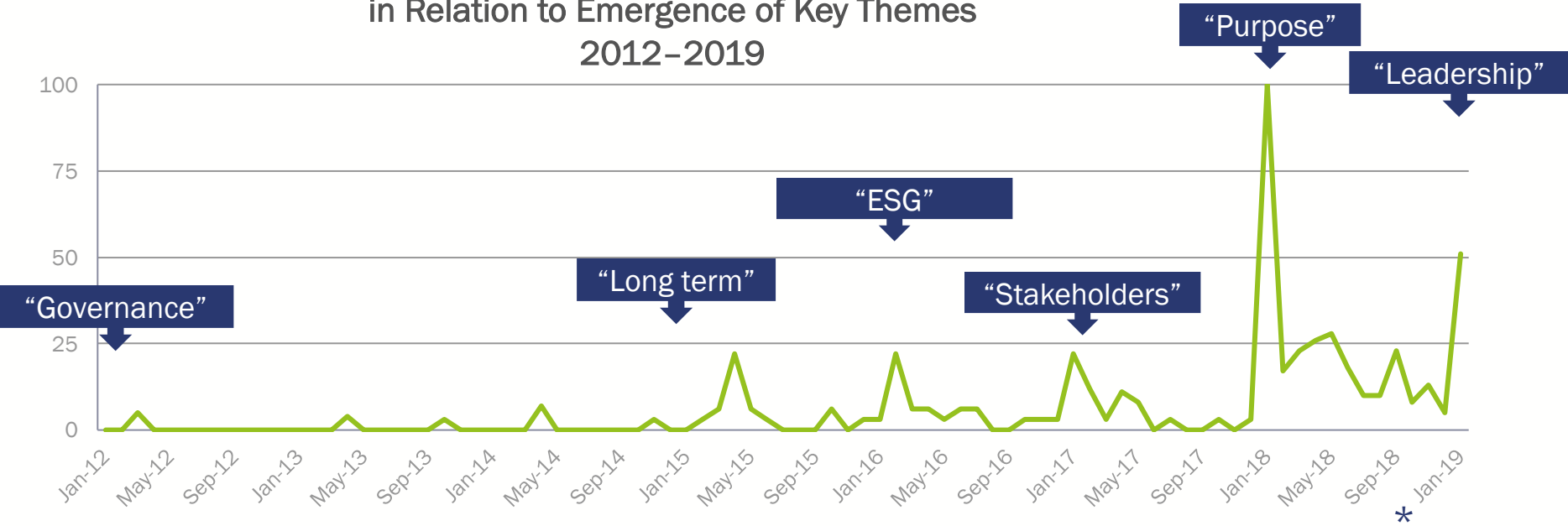
The call to action for companies to lead on resolving social and environmental issues is furthered in the 2019 letter. It makes the case that putting purpose at the centre of business drives profitability and long-term growth.

The shift in tone, content, and language in the 2018 and 2019 letters, as well as the significant reaction from both the business and political world, reflect the increasing urgency for businesses to be more responsible and purposeful than ever before.

Larry Fink Letters: Key Themes and Levels of Interest Over Time



Google Trends Relative Interest Over Time
in Relation to Emergence of Key Themes
2012–2019



Source: Google Trends, search term “Larry Fink letter” dates Jan. 1, 2012 – Jan. 30, 2019

*Data for January, 2019 are incomplete and only include data from Jan 1, 2019 – Jan 30, 2019.

Interest Over Time: Numbers represent search interest relative to the highest point on the chart for the given region and time. A value of 100 is the peak popularity for the term. A value of 50 means that the term is half as popular. A score of 0 means there was not enough data for this term. Note: ESG stands for environmental, social and governance.


News Coverage of 2018 and 2019 Letters

FINANCIAL TIMES

FTfm BlackRock Inc + Add to myFT

BlackRock chief Larry Fink issues companies with code of conduct


Businesses told to contribute to society and perform well or risk losing support

 **BlackRock** @blackrock · Jan 25

"We're in a new age of doing business – you need to give back. You need to be part of the solution." - @CanadianPM @JustinTrudeau discussing Larry Fink's letter to CEOs #WEF18



Larry Fink is not God, but he is an Apostle of Purpose

 **David Miliband** @DMiliband

Follow

"High returns and high anxiety". This important letter from Larry Fink is needed. Capital needs to work for people.

THE WALL STREET JOURNAL

BlackRock CEO to Companies: Pay Attention To ‘Societal Impact’

Laurence Fink called on CEOs of companies in which BlackRock invests to articulate long-term plans and how their organizations contribute to society

The New York Times

DEALBOOK

World’s Biggest Investor Tells C.E.O.s Purpose Is the ‘Animating Force’ for Profits

A year after his annual letter to chief executives urged them to run their companies with the social good in mind, the BlackRock chief Larry Fink said they must step into a leadership vacuum.

FINANCIAL TIMES

BlackRock’s Fink urges CEOs to tackle social issues

Annual letter says companies should step up as ‘political dysfunction’ rises

BUSINESS INSIDER

BlackRock chief Larry Fink tells CEOs to fix society's problems in an increasingly divided world

Content of Fink's Recent Letters Reflects a Shift Away from Original Focus on Governance; Fink Now Asks CEOs to Lead on Societal Issues

| Year | Summary of Content | Quotes Show the Evolution |
|---------------|---|---|
| 2012 | Larry Fink's first letter is focussed on good governance and engaging with companies to start a conversation about this topic. | <i>"BlackRock's approach to corporate governance can be described as value-focussed engagement."</i> |
| 2014/ 2015 | The next two letters include a clear focus on strong corporate governance for long-term growth and returns. | <i>"We believe the companies we invest in should similarly be focused on achieving sustainable returns over the longer term. Good corporate governance is critical."</i> |
| 2016 | Long-term focus remains, but the first mentions of context and looking outside of the company, particularly in the form of environmental and social issues (ESGs). | <i>"Generating sustainable returns over time requires a sharper focus not only on governance, but also on environmental and social factors facing companies today."</i> |
| 2017 | Globalisation is a focus of the 2017 letter, due to the uncertainty created as a result of Brexit and Trump. The need for long-term vision is reiterated, despite the turbulence. | <i>"As you build your strategy, it is essential that you consider the underlying dynamics that drive change around the world. The success of your company and global growth depend on it."</i> |
| 2018 | The content of the 2018 letter focussed on the purpose of a company and its role in society. The emphasis on long-termism continued, but is developed further this year with numerous explicit mentions of external stakeholders and the need for business leadership on a wide range of issues. | <i>"To prosper over time, every company must not only deliver financial performance, but also show how it makes a positive contribution to society. Companies must benefit all of their stakeholders, including shareholders, employees, customers, and the communities in which they operate."</i> |
| 2019 | In the 2019 letter the purpose imperative is driven home, not just as necessary for a license to operate but as central to long-term profitability. Stakeholders' expectations are no longer about just making a contribution to societal issues, but that companies will provide leadership on these issues. | <i>"One thing, however, is certain: the world needs your leadership. As divisions continue to deepen, companies must demonstrate their commitment to the countries, regions, and communities where they operate, particularly on issues central to the world's future prosperity."</i> |

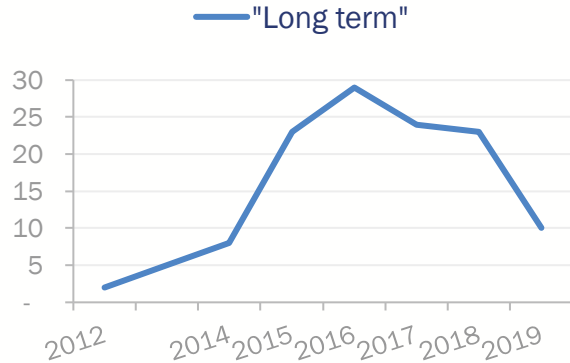
100%

The figure consists of two word clouds side-by-side, comparing ESG themes from letters to the CEO. The left cloud represents the combined letters from 2014 and 2015, while the right cloud represents the combined letters from 2018 and 2019. Both clouds use blue text on a white background. In the 2014-2015 cloud, the words 'capital', 'long-term', and 'sustainable' are circled in blue. In the 2018-2019 cloud, the words 'purpose', 'long-term', 'strategy', and 'stakeholders' are circled in blue. The 2018-2019 cloud also includes the company name 'BlackRock' and other terms like 'company's', 'engagement', 'retirement', and 'investors'.

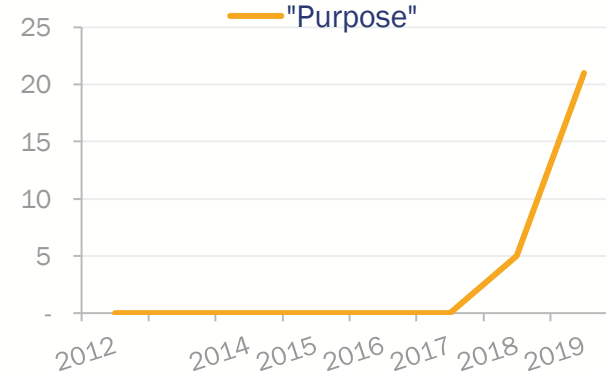
**2018 and 2019
letters combined**



...While Other Language Used has Shifted – “Purpose” and “Stakeholder” Feature More Prominently in 2018 and 2019



Long term (and long-termism) are frequent terms used in all letters since 2014. Mentioned a massive 29 times in the 2016 letter, this is a consistent theme, though it takes a dip to ten mentions in the 2019 letter.



Purpose is a term not used until the 2018 letter. Its use skyrockets to 21 mentions in the 2019 letter.



References to stakeholders (beyond just investors) are first included in 2016 and the focus increases in 2018 and 2019 with five and six mentions, respectively.



Governance is still referred to, but is not such a focus of later letters in comparison to the first one in 2012.

The 2019 Letter Makes the Strongest Case Yet for Corporate Purpose to Achieve Long-Term Goals for All Stakeholders.



“Purpose unifies management, employees, and communities. It drives ethical behavior and creates an essential check on actions that go against the best interests of stakeholders.”

“Purpose guides culture, provides a framework for consistent decision-making, and, ultimately, helps sustain long-term financial returns for the shareholders of your company.”

“Clarity of purpose helps companies more effectively make these strategic pivots in the service of long-run goals.”

“Companies that fulfill their purpose and responsibilities to stakeholders reap rewards over the long term. Companies that ignore them stumble and fail.”

BlackRock's Own Purpose is Reflected in All Letters through Demand for Long-Termism and References to Importance of Retirement

BlackRock's purpose is to help more and more people achieve well-being through wealth. And as a fiduciary to our clients, we dedicate ourselves to protecting and growing the value of our clients' assets.

"...earn the trust of our clients by helping them meet their long-term investment goals..."

"...long-term growth remains an issue of paramount importance for BlackRock's clients, most of whom are saving for retirement and other long-term goals, as well as for the entire global economy..."

"...long-term goals like retirement or a child's education..."

"As a fiduciary to these clients, who are the owners of your company, we advocate for practices that we believe will drive sustainable, long-term growth and profitability."

How Far Will Influential Rhetoric Go to Inspire Meaningful Change?

As Fink states in the 2019 letter, “Stakeholders are pushing companies to wade into sensitive social and political issues – especially as they see governments failing to do so effectively.”

In 2019, the popularity and influence of Fink’s letters was highlighted by an environmental campaign’s attempt to co-opt the publicity that now surrounds its release.

The hoax was intended to draw attention to the need for a more dramatic move toward green investments. Critics noted that “climate change” does not appear in the 2019 letter. It is explicitly mentioned in the 2016 and 2018 letters.

Following the release of the 2019 letter, BlackRock announced its intention to take concrete action with the launch of the BlackRock Liquid Environmentally Aware Fund (LEAF).

Hoaxsters sent out a fake annual letter pretending to be from BlackRock’s influential CEO Larry Fink

PUBLISHED WED, JAN 16 2019 • 12:49 PM EST | UPDATED WED, JAN 16 2019 • 1:39 PM EST

BlackRock targeted by fake CEO letter

Hoaxers sent media detailed fake letter pledging radical action on green investments and climate change

Someone wrote a fake letter pretending to be BlackRock CEO Larry Fink and some reporters got duped



Sierra Club @SierraClub · Jan 17

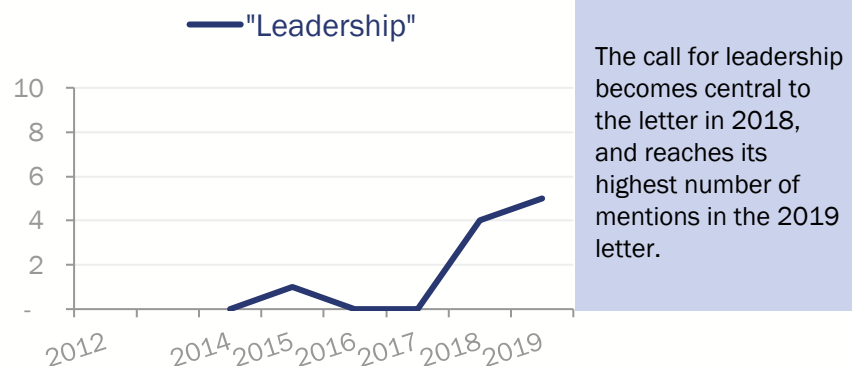
CEO **Larry Fink**'s annual **letter** fails to mention climate as @BlackRock remains the world's largest investor in climate destruction sc.org/2VYwoVQ #BLKBigProblem

Expectations of Corporate Leadership and Stakeholder-Centered Strategies Moving Forward

The BlackRock letters have come to provide a signal to businesses on the changing standards of practice by bringing the trends of business sustainability leaders to the fore for a mainstream audience.

The most recent letter shows the growing expectation of a **stakeholder-centric** and **purpose-driven**, long-term business strategy. As expectations and challenges continue to grow, there is a business imperative to make these standard practice to attain long-term growth.

The pressure for the private sector to lead on societal issues will only increase.



“At a time of great political and economic disruption, your leadership is indispensable.”

Appendix: Links to Fink’s Letters

| Year | Links to Letters |
|------|---|
| 2012 | https://www.blackrock.com/corporate/literature/whitepaper/corporate-governance-engagement.pdf |
| 2014 | https://www.blackrock.com/corporate/literature/publication/letter-to-corporates-fink-032114.pdf |
| 2015 | https://www.blackrock.com/corporate/literature/publication/long-term-value-letter-041415.pdf |
| 2016 | https://www.blackrock.com/corporate/literature/press-release/2016-larry-fink-ceo-letter.pdf |
| 2017 | https://www.blackrock.com/corporate/literature/press-release/2017-ldf-ceo-letter.pdf |
| 2018 | https://www.blackrock.com/corporate/investor-relations/2018-larry-fink-ceo-letter |
| 2019 | https://www.blackrock.com/corporate/investor-relations/larry-fink-ceo-letter |



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Established in 1987, GlobeScan has offices in Cape Town, Hong Kong, London, Paris, San Francisco, São Paulo and Toronto, and is a signatory to the UN Global Compact and a Certified B Corporation.

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