

A photograph of a BlackRock sign mounted on a grey stone wall. The sign is a dark rectangular plaque with the word "BLACKROCK" in large, silver, sans-serif capital letters. To the left of the wall is a tree trunk, and to the right is a blurred street scene with cars and buildings.

BLACKROCK

Accelerating the Tectonic Shift to Net Zero

GlobeScan Analysis 2021: Larry Fink's 9th Annual Letter to CEOs and Trends Since 2012

BlackRock 9th Annual Letter to CEOs: A Bellwether of Expectations of Business



Larry Fink, CEO and Chairman of BlackRock, the world's largest investment management firm, has sent out an annual letter to CEOs of the companies that BlackRock invests in on behalf of its clients since 2012. The letters are seen as a bellwether of the expectations that the finance industry – and wider society – has on business and its role in society.

Over the last decade we have seen a dramatic evolution in both the topics and the tone of these letters. Nine years ago, the first letter to CEOs focussed heavily on the importance of strong corporate governance and in the years following the letters build on this by highlighting the importance of external stakeholders and a long-term perspective. Jump forward to 2018 and Fink makes a bold and high-profile call for more purposeful business. Since then, the call to action has grown stronger and more specifically focussed on climate action. This shift reflects both the maturation and mainstreaming of corporate sustainability and the increasingly active and vocal role of the finance sector on this topic.

When Fink wrote to CEOs in January 2020 that “we are on the edge of a fundamental reshaping of finance,” none of us could have imagined how significantly the coming year would reshape all of our lives. In his 2021 letter, Fink describes how the turmoil of the past year adds to the ever more compelling case for a seismic transition toward a net zero economy. He also lays out in an accompanying letter to BlackRock clients what his firm is doing to play its part in the transition.

Central themes of Fink's 2021 letter include the need for a “tectonic shift” toward net zero, the interconnectedness of social and environmental issues, the importance of solid data, and the maturing link between sustainability and corporate performance.

In this analysis, GlobeScan traces the development of themes in the letters from 2012 to 2021 and places these in the context of growing climate concern among both expert stakeholders and the global public. This helps us to better understand the shifting expectations for business and the extent to which stakeholder engagement, purpose, sustainability, and particularly climate change have become critical aspects of strong and resilient management.

“ I have *great confidence* in the ability of businesses to help move us out of this crisis and build a more *inclusive capitalism*. ”

Deep Dive Into Larry Fink's 2021 Letter



Key Themes of the 2021 Letter

There are four central themes in Fink's 2021 Letter to CEOs:

1. The start of a “tectonic shift” toward net zero. Where in 2020 Fink discussed climate risk and a reshaping of finance, this year he is more specific and ambitious about the need to transition to a net zero economy, “one that emits no more carbon dioxide than it removes from the atmosphere by 2050.” He notes that the reallocation of capital is already happening faster than he predicted in previous letters and the pace is rapidly accelerating. Companies that do not strive toward net zero will be left behind as they fail to meet the needs of their stakeholders.

As the transition accelerates, companies with a well-articulated long-term strategy and a clear plan to address the transition to net zero will distinguish themselves with their stakeholders – with customers, policymakers, employees, and shareholders – by inspiring confidence that they can navigate this global transformation.

2. The inseparability of social and environmental issues. Larry Fink starts his letter by acknowledging that the COVID-19 pandemic, far from resulting in a pause to the climate agenda, has reminded us of our fragility and triggered more climate action from business, investors, and policymakers as we collectively aim to rebuild a greener as well as a healthier society. Racial injustice too was a topic of huge importance in 2020 and Fink acknowledges that social issues cannot be separated from environmental issues. Leadership from companies will be crucial to achieving racial justice, just as it will in the transition toward net zero.

Questions of racial justice, economic inequality, or community engagement are often classed as an S issue in E.S.G. conversations. But it is misguided to draw such stark lines between these categories. For example, climate change is already having a disproportionate impact on low-income communities around the world – is that an E or an S issue? What matters is less the category we place these questions in, but the information we have to understand them and how they interact with each other.

Key Themes of the 2021 Letter (Continued)

3. The critical importance of data and disclosure. Fink is clear that in order to assess and act on sustainability risk and opportunities, investors require companies to report high-quality data on their current performance and their plans to ultimately achieve net zero. He repeats his 2020 call specifically for companies to report using the recommendations laid out by the Task Force on Climate-related Financial Disclosures (TCFD) and the Sustainability Accounting Standards Board (SASB), both of which have seen significant increases in uptake in the past year since his 2020 letter. Despite his support for the TCFD and SASB frameworks, he calls for a move toward one universal global standard to ensure comparability and reduce confusion.

Assessing sustainability risks requires that investors have access to consistent, high-quality, and material public information... Given how central the energy transition will be to every company's growth prospects, we are asking companies to disclose a plan for how their business model will be compatible with a net zero economy.

4. The maturing connection between sustainability and financial performance. Fink cites a number of data points to support the increasingly recognised fact that purposeful companies outperform their peers financially. Sustainable and/or ESG indexes are outperforming parent benchmarks while sustainability leaders are gaining competitive advantage within their industries.

During 2020, 81 percent of a globally representative selection of sustainable indexes outperformed their parent benchmarks. This outperformance was even more pronounced during the first quarter downturn, another instance of sustainable funds' resilience that we have seen in prior downturns.** And the broader array of sustainable investment options will continue to drive investor interest in these funds, as we have seen in 2020.*

*Source: BlackRock. As of December 2020. This is a set of 32 globally representative, widely analysed sustainable indices and their non-sustainable counterparts. Indices are used for illustrative purposes only and are not intended to be indicative of any fund's performance. It is not possible to invest directly in an index.

**Source: BlackRock. 94% of the sustainable indexes referenced above outperformed their parent benchmarks during COVID-19 crisis Q1 2020.

<https://www.blackrock.com/corporate/about-us/sustainability-resilience-research>

Implications of Larry Fink's 2021 Letter for Business

Net Zero commitments now a requirement

Fink makes clear that investors are increasingly looking for long-term strategies from business that lay out how it plans to emit no more carbon dioxide than it removes from the atmosphere by 2050. He is clear that this is the only way that stakeholders – including investors – can have confidence that a business is equipped to navigate the accelerating transition to net zero.

Diversity is now a business-critical issue

Fink is explicit in his request to companies that their talent strategy should include plans to improve in the areas of diversity, equity and inclusion. Without a diverse talent pool, a business cannot reflect the needs of its customers and communities and is “less likely to outperform” as a result.

Understanding stakeholder perspectives is a crucial starting point

As Fink deftly summarises “I cannot recall a time where it has been more important for companies to respond to the needs of their stakeholders.” In order to respond to these needs and to create and sustain the trust that is so crucial to business, companies need to consult and understand stakeholder perspectives and expectations and ensure these are used to inform corporate planning. Context from GlobeScan's own stakeholder and consumer research can be found in the final section of this report.

An integrated, company-wide approach to sustainability will unlock progress

In the context of increasing interconnectedness of issues, efforts need to be made to break down internal siloes and to understand where environmental, social and governance (ESG) issues intersect. Gone are the days of separate strategies for sustainability, marketing, HR, corporate affairs, R&D, brand and communications – the path ahead requires collective ownership of sustainability and a holistic, joined-up approach.

Transparency remains the thread underpinning all of Fink's requests

For investors, data and disclosure remain the foundation for effective evaluation of company value and performance on non-financial criteria. Businesses will be left behind if they fail to provide this data in an accessible format (currently SASB and TCFD are the favoured frameworks).

“ It is clear that being connected to stakeholders – *establishing trust* with them and *acting with purpose* – enables a company to understand and respond to the changes happening in the world. *Companies ignore stakeholders at their peril* – companies that do not earn this trust will find it harder and harder to attract customers and talent, especially as young people increasingly expect companies to *reflect their values*. The more your company can show its purpose in delivering value to its customers, its employees, and its communities, the better able you will be to compete and deliver *long-term, durable profits for shareholders*. ”

Trends Since 2012



Evolution of Content

The positioning, content, and language of Larry Fink's annual letters to CEOs has evolved significantly between 2012 and 2021 with four themes emerging over time:

2012–2015

GOOD GOVERNANCE

The first letter sent out in early 2012 was cautious in its approach and did not attempt to instruct or influence companies on how to act. Instead the request was 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.

2016–2017

OUTWARD FOCUS

In 2016, Fink's letter first mentioned the need for companies to look outside their own four walls and to take environmental and social factors into consideration in their decision making. This built on the request for companies to consider long-term business impacts. The need to look outward was amplified in 2017, in the context of a rise in negative populism, resulting in the UK Brexit vote and Donald Trump's election victory.

2018–2019

PURPOSE LEADERSHIP

Larry Fink's 2018 letter is titled *A Sense of Purpose*. While reiterating the need for long-termism and restating previous demands, the letter goes further by explicitly highlighting the need for business 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 heart of business drives profitability and long-term growth.

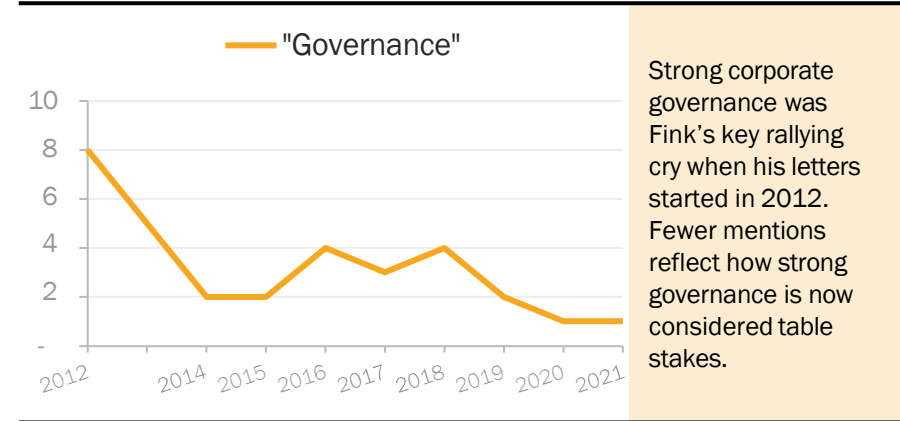
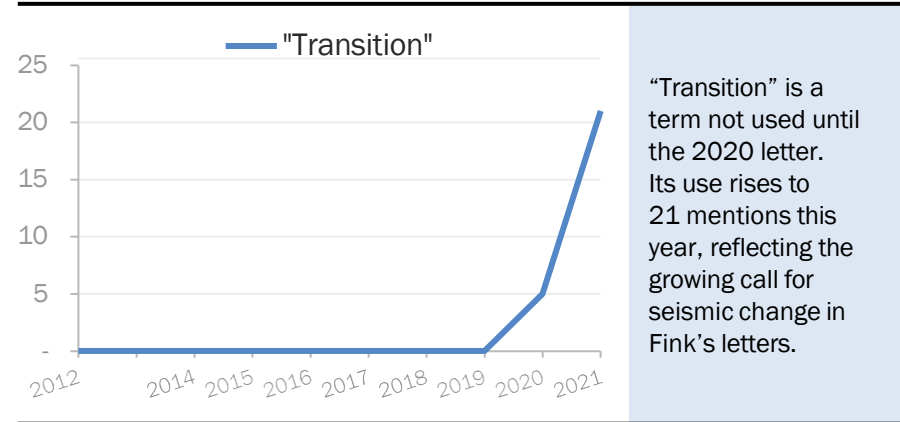
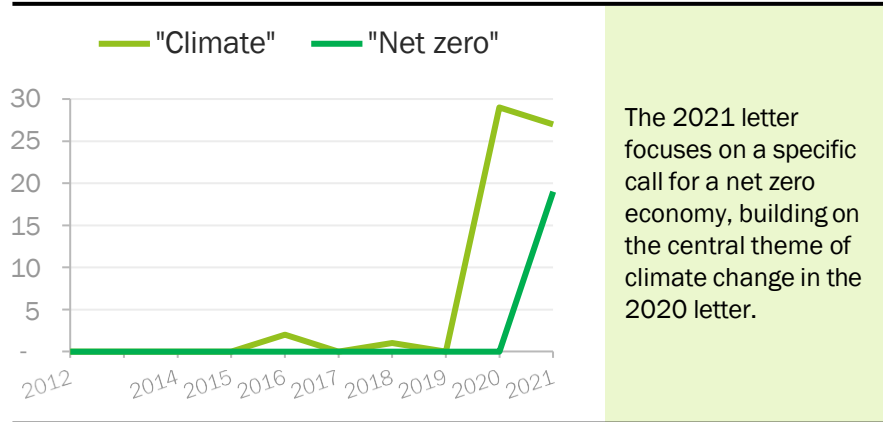
2020–2021

CLIMATE ACTION →
NET ZERO TRANSITION

The 2020 and 2021 letters are much more action-oriented. Fink requests action, disclosure, and data from businesses on their climate change impact and, in the 2021 letter particularly, clear plans toward achieving net zero emissions. He also repeats his call from 2020 for improved disclosure and transparency through the use of frameworks such as the Sustainability accounting Standards Board (SASB) and the Task Force on Climate-related Financial Disclosures (TCFD).

Text Analysis of Key Themes

Text analysis shows that climate change and deep stakeholder connections remain central themes for 2021, alongside a stronger call for accelerated transition to a net zero economy specifically.



Language Has Shifted from Long-Termism to Net Zero Transition

There has been a very clear and dramatic change in language used between 2018 and 2021. In 2018, Fink’s call for “a sense of purpose” was backed up by the need for a long-term perspective at the heart of company strategy. In 2021, the explicit call for climate action and the transition to net zero emissions stands out.

2018 letter

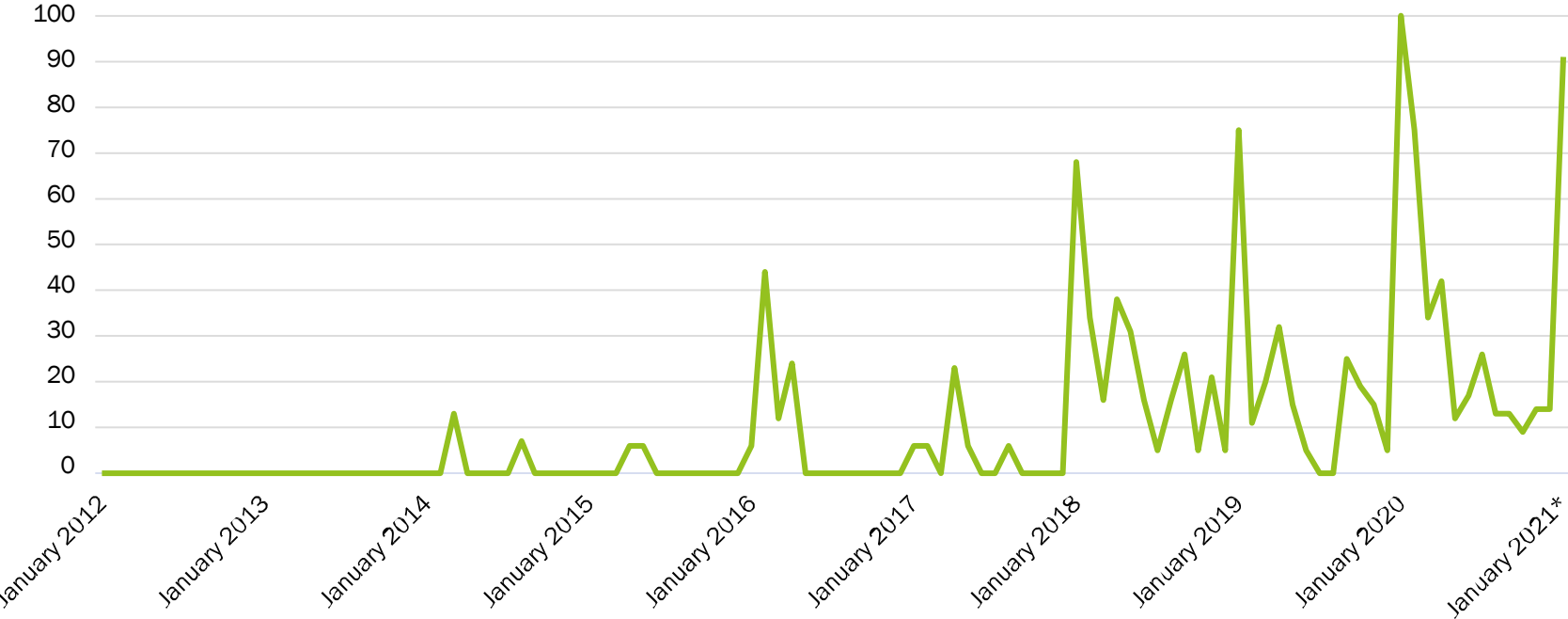


2021 letter



Relative Level of Interest in CEO Letters over Time

Google Trends data shows that Fink’s letter was searched for more times in 2020 than in previous years – this was the first year to focus on climate change.



Source: Google Trends, worldwide, search term “Larry Fink letter” from January 1, 2012 – February 1, 2021

*Data for January 2021 are incomplete and correct as of February 2, 2021

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.

“ *Momentum continues to build, and in 2021 it will accelerate – with dramatic implications for the global economy... There is no company whose business model won't be profoundly affected by the transition to a net zero economy – one that emits no more carbon dioxide than it removes from the atmosphere by 2050, the scientifically established threshold necessary to keep global warming well below 2°C.* ”

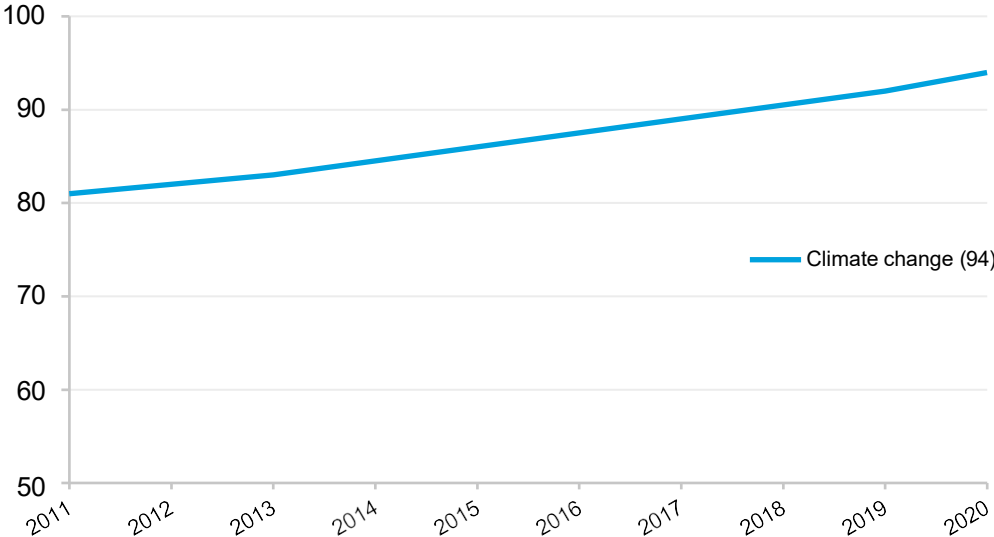
Global Context from GlobeScan Research



Fink’s call for net zero reflects the increasing urgency of climate change as an issue according to experts

% of Experts, “Urgent” (4+5), 2011–2020

Question: Considering society’s numerous sustainable development challenges, please rate the urgency of each of the following: Please use a scale of 1 to 5 where 1 means “not urgent at all” and 5 means “very urgent.”



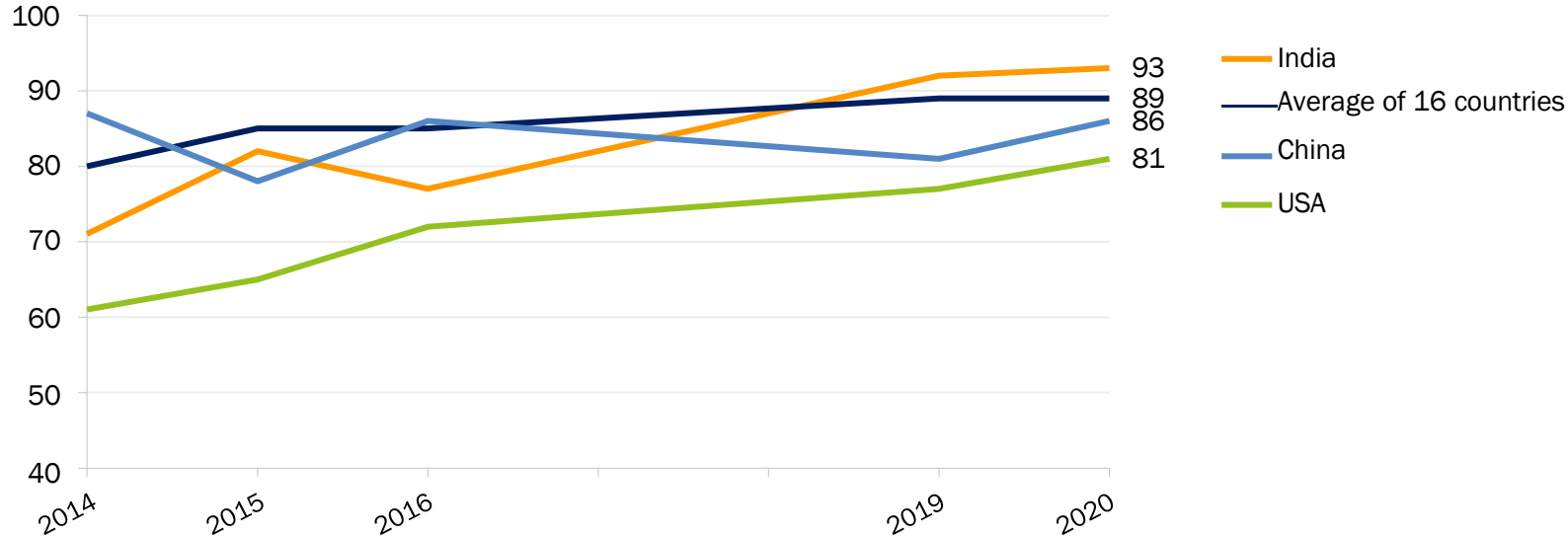
According to the GlobeScan/SustainAbility 2020 survey of sustainability experts, climate change has been steadily increasing in urgency over the last decade, with 94 percent of respondents now saying that it is a “very urgent” challenge.

Expert perspective on the urgency of climate change is in line with consumer concern globally



“Very Serious” and “Somewhat Serious,” Increased Concern, Average of 16 Countries* vs Selected Countries, 2014–2020

Question. For each of the following possible global problems, please indicate if you see it as a very serious, somewhat serious, not very serious, or not at all serious problem.
- Climate change and global warming



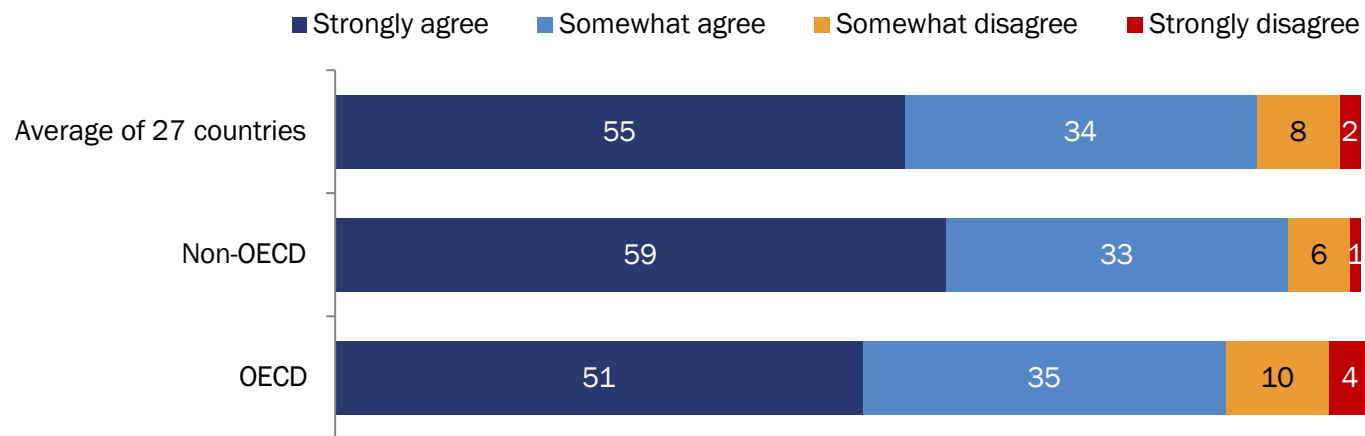
*Includes Australia, Brazil, Canada, China, France, Germany, India, Indonesia, Kenya, Mexico, Nigeria, Russia, Spain, Turkey, UK, and USA
Not asked in all countries in all years. Before 2019 this question was asked using an in-person and telephone methodology.

High level of agreement that society should respond to climate change with same urgency as response to 2020 pandemic



Society Should Respond to Climate Change with Same Urgency as COVID-19, “Strongly Agree” and “Somewhat Agree,” Average of 27 Countries and by Economic Development,* 2020

Question. For each of the following statements, please indicate if you strongly agree, somewhat agree, somewhat disagree, or strongly disagree. – We as a society should respond to climate change with the same urgency as we have responded to the coronavirus/COVID-19 pandemic.



*Includes Australia, Brazil, Canada, China, France, Germany, India, Indonesia, Kenya, Mexico, Nigeria, Russia, Spain, Turkey, UK, and USA
Not asked in all countries in all years. Before 2019 this question was asked using an in-person and telephone methodology.

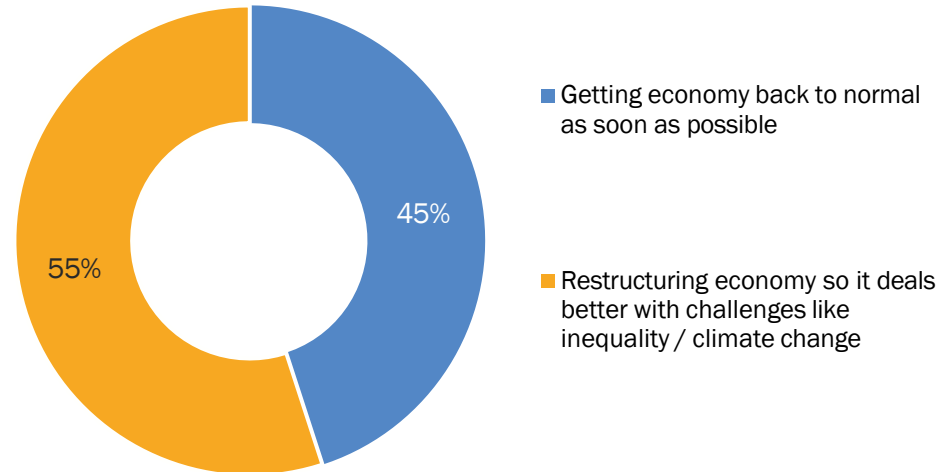
*OECD countries include Australia, Canada, France, Germany, Italy, Japan, Mexico, South Korea, Spain, Sweden, Turkey, UK, USA; Non-OECD countries include Argentina, Brazil, China, Hong Kong, India, Indonesia, Kenya, Nigeria, Russia, Saudi Arabia, Singapore, South Africa, Thailand, Vietnam

Majorities in most countries want to see a restructuring of the economy post-pandemic, in line with Fink's predicted transition



Priority for Post-COVID-19 Economic Recovery, Average of 27 Countries, 2020

Question. In building the post-COVID-19 economic recovery, do you think the priority should be:



“ I cannot recall a time where it has been more *important* for companies to respond to the *needs of their stakeholders*. ”

Appendix: Links to Relevant GlobeScan Context



Healthy & Sustainable Living
– A Global Consumer Insights Project
[Report](#) [Webinar](#)



The 2020 GlobeScan / SustainAbility Leaders Survey
[Report](#) [Webinar](#)



Corporate Sustainability & COVID-19: Poll of
Sustainability Functions in collaboration with BSR
[Summary Findings Report](#)



Oxford-GlobeScan Corporate Affairs Survey 2020
in collaboration with Oxford University
[Report & Webinar](#)

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/2019-larry-fink-ceo-letter
2020	https://www.blackrock.com/corporate/investor-relations/2020-larry-fink-ceo-letter
2021	https://www.blackrock.com/corporate/investor-relations/larry-fink-ceo-letter

GlobeScan is an insights and strategy consultancy, focused on helping our clients build long-term trusting relationships with their stakeholders. Offering a suite of specialist research and advisory services, we partner with business, NGOs and governmental organizations to meet strategic objectives across reputation, sustainability and purpose.

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

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