

EDITORS' PICK | Jan 26, 2021, 03:48pm EST | 284 views

Larry Fink Turns Up Climate Change Pressure On Boards



Michael Peregrine Senior Contributor ⓘ ⊕

Leadership Strategy



Listen to this article now

05:53



Powered by **Trinity Audio**



At Larry Fink's continued urging, climate change and racial justice must find a place on the board's ...

[+] AFP VIA GETTY IMAGES

The 2021 version of BlackRock Chair Larry Fink's [influential letter to CEOs](#) increases the pressure on boards to position climate change for front-and-center strategic consideration. He similarly encourages companies to

emphasize matters of race and ethnicity in their talent development and retention strategies.

BETA

Mr. Fink's ultimate goal is to encourage companies to commit to policies and initiatives that are essential to creating what he perceives as durable value, including climate change and social justice. In both cases, he emphasizes the role socially progressive initiatives can have in business development.

This is consistent with the views expressed in his prior letters to CEOs, which stress the relationship between long-term profitability and the embrace of corporate purpose, and turn the company's focus away from only shareholders towards a broad range of stakeholders. Mr. Fink has long warned of the risk that corporate actions which damage society will ultimately boomerang and destroy shareholder value. He continues to advocate for a strong sense of corporate purpose and a commitment to stakeholders as an effective way for companies to link more closely to its consumers and adjust to society's evolving demands.

In his 2021 letter, Mr. Fink makes the following key points:

- 1. *The Impact of Climate Change.*** The global pandemic has served to forcefully underscore the global threat of climate change; how it will affect peoples' lives, and why it demands a global and ambitious response. Mr. Fink offers several examples of how climate change is having a financial impact on companies (e.g. energy companies taking billions in climate change-prompted write downs from stranded assets; new regulatory focus on climate risk in the global financial system). He also identifies the opportunities that arise from a "just and fair" energy transition.
- 2. *The Tectonic Shift Acceleration.*** The reallocation of capital into sustainable strategies has accelerated even faster than Mr. Fink anticipated, pandemic notwithstanding. This has been facilitated by the increasing availability and affordability of sustainable investment options. Such

“tectonic shift” in investor behavior will accelerate as asset managers are able to offer customized index portfolios to a broader group of investors, and as governments adopt meaningful policy responses to climate change.

BETA

MORE FOR YOU

The Third Critical Step In Problem Solving That Einstein Missed

New Vaccine Supply And Distribution Problems Slow Fight Against Covid — And Provide More Crisis Management Lessons

Unlocking Productivity For The Next Decade

3. ***The Net Zero Transition.*** “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...”. Mr. Fink predicts that companies pursuing a well-defined long term plan to transition to ‘net zero’ will “distinguish themselves” with the full scope of their stakeholders by demonstrating confidence in their ability to navigate the transition. Those who are unable to deliver such a plan will suffer financially.

4. ***Key Data and Disclosure.*** In support of energy transition efforts, BlackRock will ask its portfolio companies to disclose their plans for how their business model will be compatible with a net zero economy, how such plan is incorporated into its long term strategy, and the extent to which the plan has been reviewed by the board of directors.

5. ***Race and Ethnicity.*** BlackRock expects its portfolio companies to have a talent strategy that positions them to draw on the broadest possible set of talent. Its perspective is that companies that fail to do so will find it harder to attract customers and talent, especially given the expectations of young people that companies reflect their values. As a result, BlackRock will ask its portfolio companies to include in their talent strategy disclosures their long term plans to improve diversity, equity and inclusion.

Mr. Fink's recommendations on climate change and racial justice come at a particularly unique time, as stakeholders of all stripes (including the non-traditional) are increasingly prompting business to become more involved in sensitive social and political issues, and the new Biden Administration promotes concepts of corporate citizenship.

BETA

This is especially relevant when surveys indicate that government is increasingly perceived as unable to address social issues effectively without the partnership of business. Employees are becoming more vocal in their response to board decisions and strategies. Corporate sponsors are pursuing a direct role in influencing governance actions. Vendors, suppliers and advertisers are reconsidering business relationships based on a partner's response to issues of public importance. Social activists and public interest law firms are using derivative litigation to drive corporate social change.

BlackRock's position as the world's largest asset manager assures that Mr. Fink's messages on climate risk and racial justice will be heard not only by the governance of its portfolio companies, but also by that of many other companies world-wide.

All of these issues come at a time when boards may have less bandwidth than ever to address them, as directors struggle to guide the company through the immediate issues of pandemic response, economic downturn, political uncertainty and business resilience. Their willingness—and even their basic capacity—to pivot attention to matters of corporate social responsibility is understandably limited by the extreme pressures and emergencies of the day.

But boards must be prepared to adapt, and management must be encouraged to adjust. Indeed, the National Association of Corporate Directors has, in its Blue Ribbon Commission Report on “Fit for the Future”, identified climate change as an existential threat. In the Report, NACD recommends that boards bolster their capacity to navigate this concern.

Matters of social responsibility are likely to claim an increasing portion of the board's agenda in the future. The perspectives of Mr. Fink and others will help confirm climate change, and an inclusive talent strategy, as legitimate governance concerns.

BETA

Get Essential CEO Briefings

Sign up for biweekly briefings with creative strategies and market-shaping moves for the CEO of the future.

[Sign up](#)

You may opt out any time. [Terms and Conditions](#) and [Privacy Policy](#)

Follow me on [LinkedIn](#). Check out my [website](#).



Michael Peregrine

I am a partner in the Chicago office of international law firm McDermott Will & Emery and earned my law degree at Northwestern University. I represent corporations (and...

Read More

Reprints & Permissions

ADVERTISEMENT
