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Larry Fink's Annual 2022 Letter to CEOs | BlackRock

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8–10 minutes

Putting your company's purpose at the foundation of your relationships with your stakeholders is critical to long-term success. Employees need to understand and connect with your purpose; and when they do, they can be your staunchest advocates. Customers want to see and hear what you stand for as they increasingly look to do business with companies that share their values. And shareholders need to understand the guiding principle driving your vision and mission. They will be more likely to support you in difficult moments if they have a clear understanding of your strategy and what is behind it.

A new world of work

No relationship has been changed more by the pandemic than the one between employers and employees. The quit rate in the US and the UK is at historic highs. And in the US, we are seeing some of the highest wage growth in decades. Workers seizing new opportunities is a good thing: It demonstrates their confidence in a growing economy.

While turnover and rising pay are not a feature of every region or sector, employees across the globe are looking for more from their employer – including more flexibility and more meaningful work. As companies rebuild themselves coming out of the pandemic, CEOs face a profoundly different paradigm than we are used to. Companies expected workers to come to the office five days a week. Mental health was rarely discussed in the workplace. And wages for those on low and middle incomes barely grew.

That world is gone.

Workers demanding more from their employers is an essential feature of effective capitalism. It drives prosperity and creates a more competitive landscape for talent, pushing companies to create better, more innovative environments for their employees – actions that will help them achieve greater profits for their shareholders. Companies that deliver are reaping the rewards. Our research shows that companies who forged strong bonds with their employees have seen lower levels of turnover and higher returns through the pandemic.[1]

Companies not adjusting to this new reality and responding to their workers do so at their own peril. Turnover drives up expenses, drives down productivity, and erodes culture and corporate memory. CEOs need to be asking themselves whether they are creating an environment that helps them compete for talent. At BlackRock we are doing the same: working with our own employees to navigate this new world of work.

Creating that environment is more complex than ever and reaches beyond issues of pay and flexibility. In addition to upending our relationship with where we physically work, the pandemic also shone a light on issues like racial equity, childcare, and mental health – and revealed the gap between generational expectations at work. These themes are now center stage for CEOs, who must be thoughtful about how they use their voice and connect on social issues important to their employees. Those who show humility and stay grounded in their purpose are more likely to build the kind of bond that endures the span of someone's career.

At BlackRock, we want to understand how this trend is impacting your industry and your company. What are you doing to deepen the bond with your employees? How are you ensuring that employees of all backgrounds feel safe enough to maximize their creativity, innovation, and productivity? How are you ensuring your board has the right oversight of these critical issues? Where and how we work will never be the same as it was. How is your company's culture adapting to this new world?

New sources of capital fueling market disruption

Over the past four decades, we have seen an explosion in the availability of capital. Today, global financial assets total $400 trillion.[2] This exponential growth brings with it risks and opportunities for investors and companies alike, and it means that banks alone are no longer the gatekeepers to funding.

Young, innovative companies have never had easier access to capital. **Never has there been more money available for new ideas to become reality. This is fueling a dynamic landscape of innovation.** It means that virtually every sector has an abundance of disruptive startups trying to topple market leaders. CEOs of established companies need to understand this changing landscape and the diversity of available capital if they want to stay competitive in the face of smaller, more nimble businesses.

BlackRock wants to see the companies we invest in for our clients evolve and grow so that they generate attractive returns for decades to come. As long-term investors, we are committed to working with companies from all industries. But we too must be nimble and ensure our clients' assets are invested, consistent with their goals, in the most dynamic companies – whether startups or established players – with the best chances at succeeding over time. As capitalists and as stewards, that's our job.

I believe in capitalism's ability to help individuals achieve better futures, to drive innovation, to build resilient economies, and to solve some of our most intractable challenges. **Capital markets have allowed companies and countries to flourish. But access to capital is not a right. It is a privilege. And the duty to attract that capital in a responsible and sustainable way lies with you.**

Capitalism and sustainability

Most stakeholders – from shareholders, to employees, to customers, to communities, and regulators – now expect companies to play a role in decarbonizing the global economy. Few things will impact capital allocation decisions – and thereby the long-term value of your company – more than how effectively you navigate the global energy transition in the years ahead.

It's been two years since I wrote that climate risk is investment risk. And in that short period, we have seen a tectonic shift of capital.[3] Sustainable investments have now reached $4 trillion.[4] Actions and ambitions towards decarbonization have also increased. This is just the beginning – the tectonic shift towards sustainable investing is still accelerating. Whether it is capital being deployed into new ventures focused on energy innovation, or capital transferring from traditional indexes into more customized portfolios and products, we will see more money in motion.

Every company and every industry will be transformed by the transition to a net zero world. The question is, will you lead, or will you be led?

In a few short years, we have all watched innovators reimagine the auto industry. And today, every car manufacturer is racing toward an electric future. The auto industry, however, is merely on the leading edge – every sector will be transformed by new, sustainable technology.

Engineers and scientists are working around the clock on how to decarbonize cement, steel, and plastics; shipping, trucking, and aviation; agriculture, energy, and construction. I believe the decarbonizing of the global economy is going to create the greatest investment opportunity of our lifetime. It will also leave behind the companies that don't adapt, regardless of what industry they are in. And just as some companies risk being left behind, so do cities and countries that don't plan for the future. They risk losing jobs, even as other places gain them. The decarbonization of the economy will be accompanied by enormous job creation for those that engage in the necessary long-term planning.

The next 1,000 unicorns won't be search engines or social media companies, they'll be sustainable, scalable innovators – startups that help the world decarbonize and make the energy transition affordable for all consumers. We need to be honest about the fact that green products often come at a higher cost today. Bringing down this green premium will be essential for an orderly and just transition. With the unprecedented amount of capital looking for new ideas, incumbents need to be clear about their pathway succeeding in a net zero economy. And it's not just startups that can and will disrupt industries. Bold incumbents can and must do it too. Indeed, many incumbents have an advantage in capital, market knowledge, and technical expertise on the global scale required for the disruption ahead.

Our question to these companies is: what are you doing to disrupt your business? How are you preparing for and participating in the net zero transition? As your industry gets transformed by the energy transition, will you go the way of the dodo, or will you be a phoenix?