

Why Alan Schwartz thinks stakeholder primacy misses the point

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Sep 2, 2019 – 5.00am

Two years ago, Alan Schwartz says he was best described as happy, but cantankerous. Presenting to the Harvard Club in Sydney, the investor and philanthropist vented his frustration, questioning why profit and value weren't aligned.

"I attributed many of the problems in our economy to the fact that profit and value are no aligned, so that it is possible to make a profit while destroying the environment or social cohesion and equally it is possible to create value – for example reducing carbon emissions or homelessness - but make a loss" he says.

The issue of profit and value turned out to be far more complex than he expected and took him on a "wild two-year journey of discovery". And last week it prompted him to question big business' latest philosophy: a move to replace shareholder primacy with so-called stakeholder primacy.



Businessman and philanthropist Alan Schwartz says when we ask business to fix environmental problems and pursue profit we "water down the power and magic of our market economy". **Eamon Gallagher**

"It makes no sense for business to say we're not going to focus on profit. Business is not really qualified to do anything else, and it's not their role.

"The role of business is to pursue profit making opportunities within the rules, and the role of society is to set the rules so that business can only make a profit when profit and value are aligned," he says.

Chief executives including JPMorgan's Jamie Dimon, News Corp's Lachlan Murdoch and Morgan Stanley's James Gorman signed a statement [dumping shareholder primacy](https://www.afr.com/world/north-america/murdoch-gorman-join-push-to-abandon-shareholder-first-capitalism-20190820-p52ipm) [https://www.afr.com/world/north-america/murdoch-gorman-join-push-to-abandon-shareholder-first-capitalism-20190820-p52ipm] last month at the influential US Business Roundtable.

Schwartz says the statement misses the mark. "Business is as much a captive of the economic system as anyone else. When the system allows business to make a profit while harming the environment or society, the problem is with rules of the economic system, not of business," Schwartz says.

"For example, if carbon emissions are free, as they are today, a business that invests in reducing carbon emissions is at a commercial disadvantage to one that does not. However, if society changed the rules so there is a price on carbon there would be plenty of profit making opportunities for those who invest in technologies and strategies that reduce emissions.

"We have not reached this point yet, but I can see it approaching and I am looking forward to the day when the rules are such that companies can start investing in profitable carbon reducing business strategies."

"This is a nice example of how we can change the rules so that business can continue focussing on profit while creating value. My point is that changing the rules is better than asking business to take into account the interests of a broad range of stakeholders, including the environment."

Schwartz, who recently retired as the Philanthropy Australia chairman, says his views are somewhat unconventional because he believes that business should focus on profit - which places him in the conservative camp - but he also believes that markets are not and should not be free, which places him in the progressive camp.

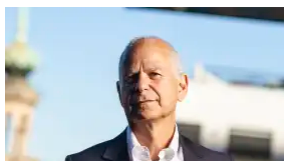
"What I am saying is not new. We've always been balancing private incentives and social good. In a large complex society, we can achieve this balance through a regulated market system. When business can make profits while they harm the environment or society, we have the balance wrong and we need new rules."

"When we ask business to fix social and environmental problems alongside profit considerations, we are watering down the power and magic of our market economy."

Schwartz runs Trawalla Group, a family office where his wife Carol, a Reserve Bank director, also sits on the board.

The group has three divisions: Trawalla Property, whose assets include The Tasman Hotel in Hobart and Rydges Hotel at Mount Panorama near Bathurst; the philanthropic Trawalla Foundation, a fund that invests in the arts, ideas and innovation; and the Trawalla Capital Group.

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