

Moral Money ESG investing**Moral Money Special: Klaus Schwab on the WEF's future**

Your guide to the investment and business revolution you can't afford to ignore

Gillian Tett in New York 7 HOURS AGO

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- “My dream for Davos is to get the big investors and hedge funds . . . to finance only investments which are environmentally not damaging.”
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Last month, on the eve of its 50th birthday, the World Economic Forum took a novel step: it paid for advertisements in two dozen global publications that proclaimed a new WEF “manifesto”. This calls for business to embrace a stakeholder perspective, with a five-point plan updated from a founding manifesto that **Klaus Schwab**, head of the WEF, wrote in 1973.

A cynic might argue that the [WEF](#) has been upstaged in this respect: America's Business Roundtable also recently called for stakeholder capitalism. And these appeals for inclusive capitalism clash with the usual stereotype of the WEF annual general meeting in Davos, which is [in]famously exclusive and elite.

So how is Mr Schwab grappling with these challenges? And what does the WEF really plan to do when Davos 2020 starts next Monday? He sat down for an interview with Moral Money's **Gillian Tett** to tell us (which has been lightly edited for space).

Moral Money: Why have you decided to focus on stakeholders this year?

Klaus Schwab: Because for me it is the narrative that has determined my work over the last 50 years. Davos was always conceived as a platform for stakeholders.

MM: But when you started in the 1970s wasn't there a drive to put shareholder primacy at the centre of the company structure, through the work of people such as Milton Friedman?

KS: Then [the 1970s] an extreme form of shareholder capitalism was not yet so apparent — we still had an old guard of business leader that practised a stakeholder approach, without having defined it. Shareholder value started actually in the 80s. What was for me always disturbing was that [Milton Friedman](#) gave a moral reasoning to shareholder capitalism — [he argued] the role of business was to make business earn as much as possible and then the money would flow back from the company to the government in the form of taxes. I had to fight against the wave.

But now finally we see the US Business Roundtable statement and I feel vindicated in my own efforts. When you compare the Business Roundtable statement with the statement that was [our] manifesto in 1973, it's practically identical.

MM: So what are you going to do next? How do you turn this into action now?

KS: Two things: first, conceptually, that is not always understood, when you speak about the stakeholder concern, you say that business has to serve its stakeholders, which [includes] its employees. Second, when a company today engages in something that is addressing the general public, let's say, provides its resources to clean up the ocean or whatever it is, I call it corporate global citizenship — the company does not serve its stakeholders but is itself a stakeholder of our global future. I say in the manifesto that a corporation, particularly a multinational, has a responsibility to work together with governments and civil society to address the big global challenges. The underlying assumption is that those big challenges — environmental, whatever it is, poverty — cannot be solved by governments alone or by business alone or by civil society. You need co-operation. What we are doing now is to put much more emphasis on this, creating platforms where a business can co-operate with governments and civil society. We have today already about 60 such platforms. One example is the Tropical Forest Alliance, where we work together with some governments, particularly Indonesia, and business, particularly the palm oil consumers, Nestlé, Unilever and so on.

MM: That creates a question: how do you measure stakeholder performance?

KS: We have a task for us that is led by [Brian Moynihan](#) of Bank of America. It comprises the [four audit companies](#). We want to bring everybody to the table. In Davos, what we will do is get the mandate of the International Business Council. I remember in the 80s, 90s, and even in the beginning of this century we did not [yet] have unified financial measurement systems. So it will take some time, but the direction is clear.

MM: Will you be trying to back a unified taxonomy as well, such as the EU taxonomy coming from Brussels?

KS: If you want to measure something, you have to define what you measure. What concept we will choose I cannot say yet. One of the big issues that we see now is to measure [environmental, social and governance] [ESG](#), particularly E. For example, to measure CO2 emissions, the importance of CO2 emissions for an oil company may be different compared with a bank. So that's what we are figuring out.

MM: Are there other areas where you think you have an important convening role or where you expect this year's meeting to push forward the stakeholder agenda?

KS: I had a number of discussions [recently] in New York with [Larry Fink](#) for example, with [Steve Schwarzman](#). They have a very important role to play in the financial sector if, say, you want to convince the financial sector that green bonds and impact investment should not be a sideshow. At the moment it is a relatively small percentage. My dream for Davos is to get the big investors and hedge funds and so on together and to say, we are committing ourselves to finance only investments that are environmentally not damaging.

MM: Is that possible with the size of the passive investment sector?

KS: Yes. I simply have to start step by step again. If we get the active ones engaged, it's a first step. One person who is supportive is [Mark Carney](#). As a member of our board he will take the lead in this, but what the end result is I don't know yet.

MM: Are you worried that the issue of high executive pay is going to undermine the credibility of the ESG debate?

KS: If you take it from an academic, theoretical point of view, then of course this is undermining. [The issue of executive pay] was in our statement. A lot of our members said "be careful".

MM: Will you have an open debate about that in Davos?

KS: I don't know yet. In the long run, we have to have this debate, but I think you have to also go step by step. If we go too fast there could be a counter reaction.

MM: Some people would say that it is a bit ironic for you to be talking about executive pay and governance when your members sometimes complain that the structure of the WEF is not transparent and appears to be generating a lot of profits.

KS: My salary was published. It's tied to the head of the Swiss National Bank. So it's SFr1m, which is in line [with the norm] because I have to pay 50 per cent taxes. We are very transparent. You see our income. You see the different cost outcomes. So it's published in our annual report.

MM: But every year people go to Davos and see the cost of hotel rooms — everyone is saying this year the accommodation has gone up dramatically — and the perception

is that the WEF is making a huge amount of money from the event, so it's not really the right platform to be talking about governance.

KS: We have a good cash flow . . . but it's not even 10 per cent free cash flow and we reinvest everything into new activities. For example, we invest at the moment a lot of capital into building a digital platform to allow everybody to engage in saving the oceans. A UN high-level panel of digital co-operation that was chaired by Jack Ma and Melinda Gates last year has said what we absolutely need behind each of the SDGs [Sustainable Development Goals] is a platform that allows everyone to engage. So we are building such a platform and those are the investments we afford out of our, let's say, cash flows.

MM: Do you see yourself in competition with the UN or OECD, say, or complementary? There's an awful lot of overlap sometimes between what you're doing.

KS: No. We keep away from everything that would be labelled as [the work of] a decision-making organisation. We can prepare decisions, but the decisions have to be made by the legitimate organisation.

MM: What about succession planning? Is it your assumption that the organisation continues beyond you?

KS: Of course. I have a responsibility for 800 people [and] an idea that has proven to be useful. What is important is not a definitive succession plan [but] what I would call a contingency plan. Even if something would happen to me, the board will take care of things.

MM: Do you think that the fact that more people are talking about stakeholder issues and the environment is going to give you more of a voice and role than you've had before?

KS: The voice [today] is different than before. The business community feels just now [they are living in] such a fractured world. So it's even more important for them to have a platform to interact — we never had such a good American business participation.

MM: Are there changes in the composition?

KS: The big technology companies will all be present this year as number one — there's a big interest, particularly of the digital companies. There's a lot at stake for some of them. The whole tax discussion at the moment, the decoupling discussion, cryptocurrencies. We will create a consortium of the business community and the regulatory community, mainly represented by the BIS [Bank for International Settlements], to have a discussion on how to create the necessary framework for cryptocurrencies.

MM: Any other changes?

KS: People are not asking necessarily any more for politicians [to lead on these projects] — interest there is limited. That is interesting.

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