



Friedman revisited - Philanthropy, ESG and the purpose of business

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- The roots of the concept of philanthropy reach back thousands of years, and Switzerland and Geneva, in particular, have played a notable role in developing the concept of private foundations.
- Amadeus has actively contributed to the scene through its long-standing relationship with the L'Association Suisse pour la Recherche sur l'Alzheimer (APRA).
- This publication elaborates on the history of philanthropy, the controversial question of the purpose of private business activity, and the ESG movement's role in this context.

March 15, 2022

Sometimes it is good to take a break from monitoring stock prices and economic news to take a step back and assess what is truly driving us. Therefore, we decided to dedicate this publication to a reflection of our quest to effectively integrate ESG into our investment process as well as our long-term charitable activities related to the Swiss Association for Alzheimer's Research.

1 Philanthropy and private corporations

The notion of philanthropy first appeared in the 5th century BC, in the heart of ancient Greece, in Aeschylus' tragedy Prometheus in Chains[2]. This titan - undeniably a friend (philos) of mankind (ánthrôpos) - enters Olympus and steals fire, the master of all arts, to give it to mortals so that the human race can face the fatal power of the gods. Through this selfless act, which earned him the wrath of Zeus, Prometheus probably laid the philosophical and moral foundations that still govern philanthropy today.

While it has no religious dimension in its Greek origin, over centuries philanthropy has become synonymous with charity and benevolence, two areas usually reserved for religious organisations. It was in the 19th century that philanthropy became secularised and acted as a complement to charity, with the emerging idea that it would address the roots of evil while charity would alleviate its consequences. This approach was perfected a few years later by the large American foundations, giving rise to a new era for philanthropy. From then on, philanthropy became more professional

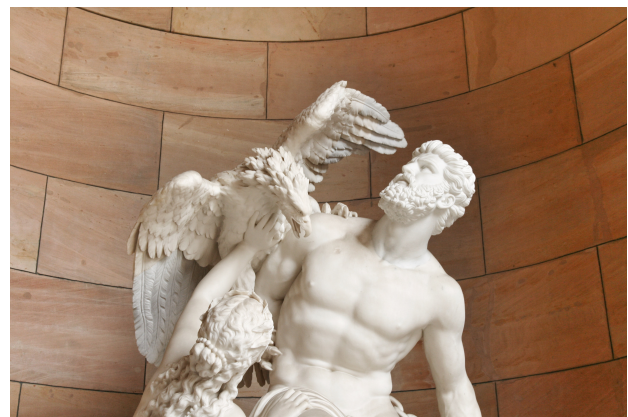


Figure 1: In ancient Greek mythology, the titan, Prometheus, was punished harshly for defying the gods by stealing the fire giving it to humanity. This empowerment was considered the origin of civilization.

by setting up an administrative arsenal and calling on experts. It adopted the methods of management, objectives, results and communication of classic companies run by great industrialists such as G. Peabody, A. Carnegie or JD. Rockefeller, to name but a few, who all set up their own foundations at the beginning of the 20th century.

Third and last founding act: the collapse of the welfare state, which resulted in its increased disengagement from certain areas (health, education, heritage, culture, etc.). Out of necessity or to compensate, the State sets up an attractive tax system dedicated to philanthropy for donors and recipients: acting becomes fiscally interesting, beyond the impulse of solidarity.

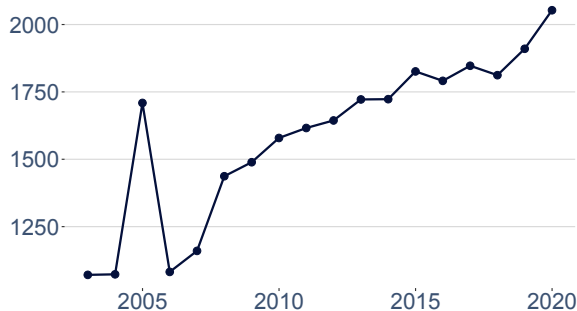
2 Philanthropy in Switzerland

Switzerland has a long tradition of foundations and very liberal legislation in this area. More than 60% of public benefit foundations have been created in the last 30 years, demonstrating the dynamism of the sector. The country has more than 13,000 public benefit foundations with a total asset base of some CHF 100 billion, i.e. six times as many public benefit foundations per capita as the USA or Germany.[3].

The Foundation Report 2021 confirms that the establishment of foundations in Switzerland remains very attractive.[1] However, the sector is increasingly feeling the effects of increased regulation and changes in the financial markets. Many foundations are being wound up and, increasingly, foundations are no longer set up for eternity, but are intended to continue their purpose for only a few years.

Geneva can also boast a long tradition of philanthropic action: the Théâtre de Neuve in 1783, the Musée Rath in 1825 and the Conservatoire de Musique in 1858 were born of the generosity of citizens who contributed financially to the city's development. Thus, between the end of the 19th and the beginning of the 20th century, as the city grew denser with the ensuing nuisances, several Geneva notables donated their property to the municipality. The latter contained vast gardens that have since become public parks, such as the La Grange Park, the Bois de la Bâtie or the Bertrand Park. This humanist and philanthropic imprint has enabled the realisation of ideas, the most emblematic of which is the creation of the International Committee of the Red Cross (ICRC) by the Genevan Henri Dunant in 1864.

Value of donations in Switzerland 2003-2020
Extrapolation in millions of Swiss francs



Source: Fondation Zewo, statistiques sur les dons, Amadeus Capital SA 2022-03-15

Figure 2: Donations have been on the rise in Switzerland.

3 Charity or Business

The question of what purpose private businesses should ultimately serve is most likely as old as the concept of private property itself and has been sparking fierce, and often polarized, debates up until today. Religions, in

particular, have traditionally viewed the accumulation of private wealth with suspicion. It starts with Jesus' famous quote that "it is easier for a camel to go through the eye of a needle than for a rich man to enter the kingdom of God" and certainly does not end with the ban on interest in Sharia law. In Europe, the history of private economic activity has been particularly volatile, with private enterprises often flourishing not far from feudal systems.

“The first man who, having enclosed a piece of ground, bethought himself of saying "This is mine", and found people simple enough to believe him, was the real founder of civil society. From how many crimes, wars and murders, from how many horrors and misfortunes might not any one have saved mankind, by pulling up the stakes, or filling up the ditch, and crying to his fellows, "Beware of listening to this impostor; you are undone if you once forget that the fruits of the earth belong to us all, and the earth itself to nobody.”

(Jean Jacques Rousseau)

Eventually, the rise of the bourgeois society in the 19th century and the industrial revolution culminated in the publication of the communist manifesto, leading to a systemic divide more or less spanning around the whole world. However, of the extremes, there is room for more nuanced debates. Liberal free-market economies acknowledge the necessity and legitimacy of private business activity but not without caveats.

3.1 The purpose of business

In front of this background, we recently revisited one of the most controversial, liberal articles written about business-purpose in the last century. We asked ourselves how it goes with our charitable activities and our efforts in aligning our investments with Environmental, Social and Governance targets. Milton Friedman won the Nobel prize in economics for his groundbreaking empirical work on monetary policy, including extensive studies on lags in all types of economic policy that suddenly seem very topical again. Unfortunately, however, in the collective memory, his name is often associated with promoting a particular type of purely shareholder focused capitalism. Among other things, Friedman laid out his thoughts in an influential article in the New York Times in 1970[4] that strongly criticizes the idea of corporate social responsibility, proclaiming that a company's "responsibility is to conduct the business in accordance with their [the shareholder's] desires, which generally will be to make as much money as possible while conforming to the basic rules of the society, both those embodied in law and those embodied in ethical custom".

The statement is often considered to mark the birth of shareholder first capitalism and markedly contrasts

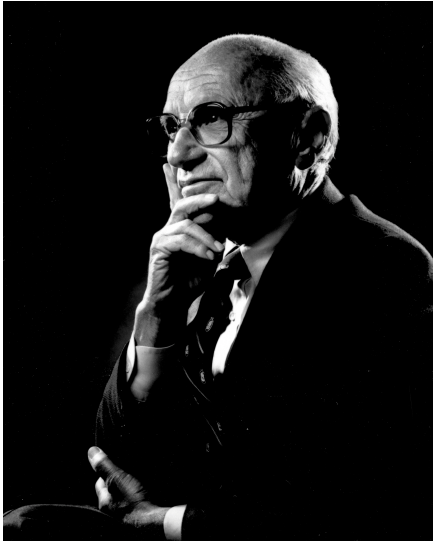


Figure 3: Nobel laureate Milton Friedman became popularly known for his criticism of Corporate Social Responsibility (CSR) culminating in the statement the only "responsibility [of an executive] is to conduct the business in accordance with their [the shareholder's] desires, which generally will be to make as much money as possible while conforming to the basic rules of the society, both those embodied in law and those embodied in ethical custom".

with the more recent idea of stakeholder capitalism that considers the interests of employees, communities etc. However, the article was also published only two years after the crushing of the Prague Spring. Socialism was not a historical artefact but considered a real threat, and Friedman rejected the concept of businesses' social responsibility not out of despising charity but based on the finding that it is usually vague drivel, which however, if "taken seriously would extend the scope of the political mechanism to every human activity".

Beyond that, it is often forgotten that Friedman never opposed owner-managed businesses (such as Amadeus) supporting non-monetary goals if desired by the principal. Instead, his article focuses on the role of employed executives and the vast range of principal/agent problems the idea of a social business purpose introduces. Last but not least, the famous sentence quoted above contains two caveats: the obligation to "conform to the basic rules of society, both those embodied in law and those embodied in ethical custom".

3.2 ESG in the context of Friedman's doctrine

This leads us to the ESG movement that we are part of as investment managers who apply Environment, Social and Governance criteria on various levels during our investment process. We find that the two caveats (laws and ethics) mentioned in Friedman's article require closer attention in the globalized market economy of the 21st century for several reasons.

- International chains of economic value-added de-

mand tighter monitoring as they are governed by various laws enacted by governments of different effectiveness and legitimacy. A corporation may comply with anti-exploitation laws in the U.S., but its foreign supplier may violate it severely. This problem was certainly less prevalent during Friedman's times when supply chains were shorter and the influence of powerful U.S. labor unions significantly higher. It is the merit of the ESG movement to have slowly created better reporting capabilities and increased transparency related to non-financial issues.

- Many examples show that short-term and long-term profit maximization are not always aligned. Beyond that, incentive structures tend to reward corporate executives for short-term successes even if they result in long-term liabilities, a problem not clearly considered by the Friedman doctrine. Contemporary governance frameworks address this by tying executive compensation to ESG oriented goals and longer-term performance targets.
- Laws and regulations in developed countries are the results of compromises. In addition, elected bodies as non-experts often have to decide on technical and complex matters where external guidance is needed. This is where lobbying comes into play. Special interest groups have frequently shown the limitations of the legislative process as they tilt the balance in favor of the profit-seeking corporation and their managers. In other words, a corporation may maximize profits while conforming to the law, but the law itself may be unfair. ESG oriented investing can consider this and voluntarily apply stricter rules, especially in cases where it is clear that intense lobbying has influenced law-making.
- Over the past years, humanity has come to the realization that it has caused the greatest mass extinction since the end of the dinosaurs. Climate change, plastic pollution, forest destruction and poisonous air in many large urban centres pose an existential threat to human civilization. In this context, it has also become clear that private businesses' environmental and social footprint is much larger than previously assumed. A lot of profit has been generated due to external effects – businesses exploiting resources such as clean air, water and commodities without paying an appropriate price for it. Sticking with Friedman's framework, this is clearly an ethical problem but only very slowly becoming a legal risk. ESG investing emphasizes ethics and demands businesses to go beyond what is currently required by law to protect shareholders from future liabilities and compensate for ineffective law-making. These initiatives, however, are not a call for charity but merely an attempt to hold businesses accountable for the damages they create. Viewed through this lens, it also becomes clear that the request for ESG compliant behaviour

is not baseless and unlimited as Friedman's call for "social" purpose. ESG investors don't expect corporations to "save the world" but merely not destroy it.

In other words, we don't need to scrape economic liberalism as proclaimed by Friedman, but we need to continuously develop the framework within which business is conducted. This comprises open discussions about the appropriateness and effectiveness of governing laws on a global scale (anti-trust, carbon emissions, plastic waste etc.), the scope of ethics (animal testing, foreign production facilities etc.) and the adequacy of the reporting and databases investors rely on. Eventually, the assessment of ESG related items should become as natural as analyzing financial statements, not to turn corporations into charities but to preserve them in the long run.

4 Amadeus Capital SA and the Swiss Association for Alzheimer's Research (SAARC)

The genesis of the association is linked to the personal story of Uwe Brockmann - a founding member of Amadeus - who fell victim to Alzheimer's disease. Affected by this experience, his wife and children wanted to get involved in order to help medical research on brain degeneration. If there was no hope for their husband and father, they wanted the fight to serve other families. This is how their vision of philanthropic involvement was shaped. Like other philanthropists, they want to accompany their project and not just be a donor. "They want to do good in the world and use their wealth to make a real impact," says Peter Vogel (Debiopharm Chair for Family Philanthropy at the IMD Business School in Lausanne). Thus, creating one's own foundation or association allows the founder to personally accompany its support actions, to influence the strategy put in place, to analyse and correct the key stages of the project and to supervise the organisational part. But beyond these tangible aspects, philanthropy allows family members and employees to unite around common values. Amadeus is therefore actively assisting the association in its quest for funding. The involvement of a large number of us in the association allows us to meet outside the limits of our professional activities in the strict sense. We take part on a voluntary basis in the events organised by the APRA action committee. These events attempt to raise awareness and inform the public about the latest advances in research - such as the Geneva Alzheimer's Days - and, seek to raise funds for research - for instance on the occasion of the "Stars for Research" gala evening. We also take part in other more sporting but equally convivial events, such as the Christmas Cup. Composed of our children, our husbands and wives,

Amadeus employees and friends, the Cerveaux Givrés team has been swimming for four years for research during this famous swim in the cold waters of Lake Geneva. In 2021, it raised CHF 18K for the Immersion project. During this period of Covid, when our common life has been severely damaged, we realise all the more how precious every moment spent together in support of science is. Beyond the financial aspect, there is a need to give... of one's time, competence or empathy. This is part of good corporate governance because through these actions we are trying to reinforce our social responsibility and affirm Amadeus' citizenship, in the sense of solidarity as defined by Plato. It is this solidarity, which is not born of necessity, that drives us to become more human. Human not in its uniqueness, its individuality, but in its attachment to a group of which the family is the most common unit. By working for the specific cause of Alzheimer's disease research, Amadeus, as an economic player, but above all through its members, is trying to make its contribution to the collective effort led by public and private players. In doing so, the group's members not only affirm their active role in the community, but also show their affection for the family, its history and respect for what has been. They are demonstrating their commitment to values that are dear to our business and which we believe resonate with our customers. This mutual respect, which feeds off each other, creates links that strengthen the cohesion of the group and enables it to overcome with serenity the trials and tribulations that are always part of the life of a company. The virtuous circle is thus amplified.

5 Some information about the Swiss Association for Alzheimer's Research (SAARC)

Since its creation in 2009 and on the recommendation of the University Hospitals of Geneva (HUG), APRA has financed various equipment, conferences and research projects to the tune of CHF 994K, understanding at the time that it was necessary to think in a more global and structured way. This reflection resulted in the HUG Memory Centre, which was inaugurated in February 2018. This centre of excellence entirely dedicated to Alzheimer's disease and related neurodegenerative diseases is the result of in-depth reflection by APRA, the Fondation Privée des HUG and the HUG. These three entities have combined their vision, expertise and determination to offer a clinical and academic reference centre to the population, carrying out advanced and systematic cognitive assessments of Alzheimer's disease and other forms of associated dementia, and proposing, thanks to research, innovative and specific therapeutic programs at the heart of a European network. In addition, this multidisciplinary centre provides access to the latest diagnostic techniques. Some patients can thus be

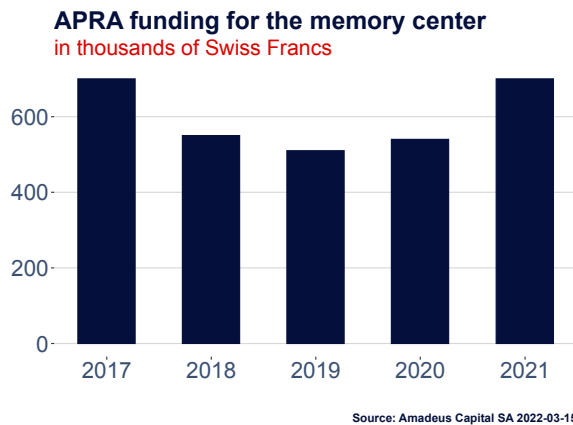


Figure 4: APRA organized CHF 3m in funding for the Memory Center between 2017 and 2021.

included in research protocols and test new drugs. The internationally renowned Centre also provides continuous and post-graduate training for general practitioners and specialists, as well as for staff working in homecare and EMS network, in order to facilitate, improve and professionalise the management of diseases. Finally, it formulates public health recommendations. When the tripartite agreement was signed in 2017 between the three entities mentioned above, APRA committed to co-finance the Memory Centre until 2021 for a total amount of CHF 3 million. On the other hand, following the selection by its Scientific Committee of the GHOST AD project (Graft of human stools as a novel disease-modifying therapy for Alzheimer's disease), APRA is supporting a research project with the ambition of validating the hypothesis of a link between specific bacteria of the microbiota and Alzheimer's disease.

It was the team from the HUG Memory Centre, together with their Italian colleagues from Brescia and Naples, who confirmed that a correlation exists between an imbalance in the intestinal microbiota and the development of amyloid plaques in the human brain. The latter are at the origin of the neurodegenerative disorders characteristic of Alzheimer's disease. This discovery thus opens the way to potentially very innovative protective strategies.

[Read APRA's activity reports](#)

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