

Institute for Philanthropy

An Accidental Philanthropist

A lecture given by Sir Tom Hunter on the 29th June 2005 at Temple Place, London.

INTRODUCTION

I'm going to start with a few observational challenges, or questions if you like, for you to ponder, then I'm going to offer you my own personal viewpoints on them. There are no right or wrong answers, no searing insights, no fabulously straightforward answers to these challenges.

I merely make the point that we are all, in some way or another, guided by our own personal compass on the journey that is life. We make decisions and answer questions in the manner we choose.

So here are three observational challenges:

- **Firstly**
What do you do when at the age of 37 you receive a cheque for £260million pounds?
- **Secondly**
If we know that a child at the age of three in the UK can be identified as being highly likely at the age of sixteen to not be in education, employment or training (a state for which the acronym NEET has been coined) – what do you do about it?
- **Thirdly**
If you had to choose one of your four children to die before reaching the age of five, which one would you choose?

Please do think about those questions and, seriously, if you do have any answers please let me know because we are forever searching for more informed answers.

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INITIAL FACTS

Here are some initial facts to help us all out in pondering these issues:

- Firstly, I got the cheque for £260 million and I can tell you that initially you smile an awful lot!
- Secondly, 35,000 young people in Scotland, between the ages of 16 and 19 are in the NEET group – that is one in seven of our young people who have no hope. Combine that lack of hope with a net annual cost to the tax payer per individual of almost £100 000 and you have a major financial, economic and human drain on society that is hideous and morally outrageous.
- And thirdly, mothers in the third world face that stark choice every day – which of my four children should I let go, to drift off hopefully to a better place, where they suffer not the bloated stomach of poverty, the shrill pain of disease, the constant hand to mouth suffering endemic in that world we almost choose to ignore.

So I guess the net position is this: if anyone was hoping for a rich bloke in a suit to say a few interesting things about philanthropy some of you may be slightly disappointed; I'm here to call it like it is. Or at least as I see it ...

When the big cheque pops through the door you immediately – after a few drinks obviously – consult your tax adviser. Monaco is the obvious answer he or she gives but I'm afraid that was not for me. In fact Marion, my wife, kept my feet firmly on the ground on that one. She said, “No Tom, you didn't work all that time to leave Scotland just to save a few quid”. And how right she was. I am a proud Scot and want to live and bring my kids up there. So then it's about maximising the financial gain and minimising the tax burden and thus Marion and I stumbled into setting up a charitable foundation.

Now don't get me wrong. We'd always done our bit but sticking an initial £10million into the Hunter Foundation in 1998 all seemed a bit odd when, only a few weeks previously I still owned Sports Division and regularly scrutinised every expense and argued over £20 invoices. At first getting involved in philanthropy seemed great – paying for a wheelchair there, some books here, a bit of this and a bit of that. But the post bag got bigger and the feeling of hollowness seemed to envelop us every day, we felt emptier and emptier as we were simply reacting to our post bag. We increasingly wondered, was our money making any difference? Was it being spent wisely? Was it maximising the use of money that, to be honest, I'd worked my guts out to earn over a sixteen year period?

I kept asking myself those questions and kept hearing, in my head at least, my dad answer it, “it's just like a business son”. It was then that I started to get serious about philanthropy. We toured the world looking at best practice and a very good friend gave me an original copy of the godfather of philanthropy, Andrew Carnegie's book, *The Gospel of Wealth*. I met Vartan Gregorian, perhaps one of the world's foremost thinkers on philanthropy, who I'm proud to say is now one of the trustees of The Hunter Foundation. And for the first time ever I felt informed about how best to apply, what was then, a relatively big sum of money.

But I also concluded that the traditional model of endowing a trust to pay out its interest in grants ad infinitum was not what I was going to do. Why on earth give other people the fun of investing your money?! And believe me it is fun, the best fun you'll ever have.

So here are a few of the answers we came up with, to go back to the first of my observations.

That, as Carnegie said, "*he who dies thus rich dies disgraced*". We decided that Marion and I would leave this world as we came into it, with nothing. My family and kids would be well looked after but would not be burdened by the challenge of managing phenomenal wealth.

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Secondly that my wealth creation ambitions would be redoubled. We would get harder in business, more focussed; in fact pretty bloody aggressive. Why? Because we had causes we needed to fund and West Coast Capital – my private equity business – would be our bank. All of The Hunter Foundation money is retained in West Coast Capital, not parked in a safe banking house. That's risky, but here's a perspective. In 2004 The Hunter Foundation committed c.£20 million to good causes. Meanwhile the £100 million I put into the Foundation grew in value to £135m in West Coast Capital, so now we have c.£115 million to spend even taking into account those £20m of commitments!

That our sole focus would be in absolutely funding solutions to tackling the root causes of issues affecting children and not in the sticking plaster approach to easing the pain stemming from those causes. Black holes in our view are best avoided.

And lastly, that we would apply more or less every principle we had learnt from business to our philanthropy model.

What does this final principle mean? In simple terms it means this:

- We hired a CEO not from the charitable sector but from business. For every investment we make (in the UK at least), we define the following: quarterly key performance indicators (KPIs), independent research and evaluation, leverage for our funds – normally for every pound we spend others spend c.£7 or more – and we drip-feed our funds in on the back of the KPI's. And to be very, very clear we will withdraw our funding if, after continued support, we see these targets not being met.

Lastly, and perhaps most importantly, exit strategies predominate. We are no substitute for government. Hence the majority of our investments in the UK are joint pilot programmes with the Scottish Executive. If, via the independent evaluation, we prove a high value cost-benefit, then the Executive will take the pilot on within a policy framework, at which point our money then comes out.

Before turning to my second question let me pose a few further questions around the charitable sector. Is it efficient? Does it maximise its impacts whilst minimising its costs? And lastly if that sector were an industrial sector would it and should it be consolidated? In my view, these are interesting points worthy of some thought.

Now to my second question or observation, which was: if we know that a child at the age of three in the UK can be identified as being highly likely to be thirteen years on – in the 'NEET' group; that is not in education, employment or training – what do you do about it? To put that into perspective, 35 000 young lives in Scotland are heading towards often third or fourth generation unemployment. Or put another way, 35 000 young people are staring down the barrel of an entire life of despair, deprivation and ill health and, often as not crime. These kids were not born bad, they did not premeditatedly determine, "today I'm going to wake up and ignore school, disrupt my class and end up on the scrap heap come the age of 16". They didn't think what a merry jape it would be to cost the taxpayer £100,000 a year for them to do nothing. Moreover this is a vicious cycle that can only take us ever downwards. These numbers are not new, they don't change despite the enormity of the drain on public services. We've known about this for years but simply have not found a solution.

And here, in my view, is the rub. Generally a washing of hands by those that can save these children who say, "it's not my fault, it's the parent or parents, it's not school it's social work, it's not the local authority it's the national government, it's not health it's housing...". Well it's simply not good enough. It is not good enough to say, in Scottish parlance, *it wisnae me*.

Last week in Scotland Jack McConnell offered cash to all 32 local authorities to bid for funds to support pilot programmes in this area – more or less half of them didn't even bother bidding! What does that tell us about our society?

The stock answer is 'well not enough money is available'. Well let's explore that for an instance. Say I give any one of you a £100,000 cheque today and you, by applying a new model of support for those kids who really need it, save ten of them from the NEET group. Well in my book not only have you put £900k back in the Local Authorities' budget this year, what about the ongoing and incredibly positive impact having an economically and socially engaged young person will have? Even disregarding the ongoing economic saving year after year of not forking out £100,000 per NEET individual it is just appalling that we cannot possibly think differently about these kids.

James Heckman, the Nobel prize winning economist, did a piece of work for us under the Allander series on measuring the impact of investment on, if you will, children with challenges. Unsurprisingly the law of diminishing returns was front and centre of that study – the younger you intervene, the lesser the cost and the bigger the impact, until at a relatively young age it becomes pointless intervening at all.

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So going back to basics and again to conclude on my second point I'll leave you with a few questions:

- Is an education system borne out of the Victorian times still right for the 21st century?
- Why do we need, want or desire and indeed pressurise more than 50% of our young people to go to university? Should vocational education not sit alongside the University as an equal in every respect?
- How much more can be done to integrate services around education, health, housing and social work to provide a single point of support to all our people, not just those most in need like the NEET youngsters?
- When will we take a radical approach to supporting these young kids? We may well offend a few sensitivities but we cannot let this wasteful human tragedy continue its cycle. It is not only a scourge on our modern society it is the biggest self-perpetuating drain we have on our economy.
- Should we not double or treble the investment in early years because the economic return in later years will provide the best yield you could ever want for?

And so to my last observation, now I did tell you I was going to be a little challenging.

If you had to choose one of your four children that had to die before reaching the age of five, which one would you choose? This is, grotesquely, the involuntary choice that faces an African family every day. Some 30,000 children die from preventable causes daily in the third world. I'm not going to dwell on this subject; we do need more and better aid, the debt position relinquished and, fundamentally, trade laws that enable self-sustaining economies to generate and of course an end to corruption. But corruption is not something we can hide behind – well he's a corrupt dictator so we won't do anything as another family keels over and dies because we didn't care or didn't do something about the corruption. Of course we tackle the corruption but that doesn't mean turning a blind eye to the appalling man-made holocaust facing millions of people around the globe today.

If 30,000 children died in London today, in Birmingham tomorrow and in Glasgow the day after we would sure as hell find the solution. The G8 would have it sorted out on their way from the car park before they got to reception at Gleneagles if it was happening here.

Where is our humanity, our decency, our kindred love of our fellow mankind? Earlier this year I visited Kenya and Mozambique. Let me give you a few highlights:

- The people are wonderful, caring and bizarrely happy. They want self-determination not hand-outs. They want to feed and clothe their families as we do ours. They simply want us to give them a chance to get on the first rung out of hell.
- We saw empty chicken factories because it's cheaper to buy subsidised imported chicken from Europe.
- We saw perfectly excellent paddy fields empty because American imported rice is cheaper.

- We saw, heartbreakingly, a 40 year old woman dying of AIDS as she watched her own children dying too of the same vile disease.
- We saw abandoned street children, feral with neglect, hungry – not just for food – but for love. It was uplifting and devastating, the biggest paradox I have ever encountered in my life.

If the G8, meeting in Scotland in July 2005, fails to act and if we fail to meet the Millennium Development Goals (as we are well on our way to doing so), then:

- 45 million more children will die needlessly
- 247 million more people in sub-Saharan Africa will live on less than \$1 a day
- 97 million children will go without any schooling.

That is why I am supporting the Make Poverty History Campaign.

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About the Speaker

Tom Hunter founded West Coast Capital (West Coast), the private equity partnership, in March 2001 and subsequently has concluded in excess of £ 4 billion of West Coast led deals.

Principally investing in retail, property and leisure the private equity firm takes a proactive role in the identification, investment and management of its target deals, classically known as adventure capitalism. As a guiding principal West Coast seeks to target investment in businesses with strong management teams capable of major and sustainable growth.

Within the West Coast investment portfolio, Tom oversees a number of retail and property boards providing strategic and corporate direction to the management teams.

Prior to establishing West Coast, Tom built Sports Division from nothing into one of the UK's premier sports retailers over an eighteen-year period employing 7500 people across over 250 stores. He sold the business in 1998 for £290 million; his stake in the business was valued at £260 million.

Tom is an ardent supporter of fellow entrepreneurs and passionate about making Scotland a more enterprising nation. He continues to devote considerable time, money and energy in his efforts to work with educational establishments and fellow entrepreneurs to further this cause. He is past Chairman of the Entrepreneurial Exchange and personally bequeathed £5m to support the Hunter Centre for Entrepreneurship at Strathclyde University.

Tom and his wife Marion established The Hunter Foundation (THF) in 1998, a venture philanthropy targeting investment in education and enterprise across Scotland. Since inception it has invested, or committed to invest in excess of £ 35m in national programmes aimed at engendering a more enterprising spirit within Scotland, particularly within its young people. In turn THF is investing in Africa to support the development of self-sustaining communities with education a key pillar of these investments.

He is a director of the Princes Scottish Business Youth Trust (PSYBT), Schools Enterprise Scotland – where he led the £ 5m fundraising campaign to deliver enterprise education for all of Scotland's primary school children. He is also a Trustee of the Carnegie Trust for the Universities of Scotland and Chairman of the Make a Wish Foundation in Scotland. Tom was awarded a doctorate by Strathclyde University in late 2001 where he is a visiting alumni. In June 2005 he was awarded a knighthood for services to philanthropy and enterprise.

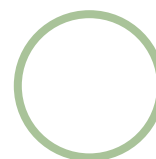
About the Institute for Philanthropy

The Institute for Philanthropy is a non-profit making organisation. It was set up in 2000 to develop a greater understanding of philanthropy and its place in modern society, and ultimately to allow philanthropy to thrive by:

- promoting research into the incentives and barriers to giving
- devising improved methods for increasing giving
- ensuring that the maximum benefit reaches the ultimate cause.

The unique contribution of the Institute is to promote the profile and practice of all types and levels of philanthropy; it is independent of any particular cause.

Our vision is of a flourishing civil society where all good causes are adequately funded and where there is energy, enjoyment and achievement in co-operative philanthropic endeavour.



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