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Giving is a must for successful founders



By Luke Johnson

Why the wealthy donate is irrelevant. What matters is that they put their cash to work

The most insightful words about having a great fortune were written by industrialist Andrew Carnegie, one of the most generous philanthropists of all time, in *The Gospel of Wealth*. He asserted that rich men who hoard their money “pass away unwept, unhonoured, unsung . . . Of such as these the public verdict will then be ‘The man who dies thus rich dies disgraced’.”

It is not only for moral reasons that those who accumulate substantial assets should give them away. Philanthropy is an important economic factor that plays an especially prominent role in the area of innovation. This function is elegantly outlined in *Why Philanthropy Matters* by the academic Zoltan Acs, easily the best work on the subject I have read.

Prof Acs explains how the giant industrial research facilities of the past, such as Bell Labs and Xerox Parc, no longer play such a big part in invention. Instead, major university research centres at institutions such as Harvard, Stanford and Massachusetts Institute of Technology are the sources of most breakthroughs that lead to new products and services.

Giant corporations used to dominate industries and could afford huge R&D budgets: in the 1960s IBM invested half its net income in developing innovations – and spent more on computing research than the US government. Such prodigious expenditure was a luxury affordable only to organisations commanding virtual monopolies. The world has become much more competitive.

Hence innovation has relied much more on philanthropic giving. The very founding of Stanford was the action of railway tycoon Leland Stanford. The university itself helped spur the creation of Silicon Valley, and its graduates have started companies ranging from Hewlett-Packard to Cisco Systems to Google. No educational establishment has enjoyed a greater economic impact in this century than Stanford. Much of this stems from its huge resources, including an endowment of \$17bn, enabling annual research spending of more than \$800m.

The rise of start-ups in the 1980s combined with the growing power of university laboratories to stimulate an era of US innovation. Biotechnology, mobile telephony, computing and the internet all emanated in part from academic research in higher-education institutions – much of it funded by gifts from donors. Of course, this flow becomes self-reinforcing: alumni get rich thanks to their technical education and then donate to their alma mater, further fuelling its capabilities for

innovation.

I am about to experience this cycle first-hand. In August I become the chairman of the Institute of Cancer Research, an influential academic centre. It is one of the world's leading drug discovery institutions, and both a charity and a college of the University of London. Most of its funding comes from charities such as Cancer Research UK.

I hope we will obtain even more donations from wealthy individuals. Not only do organisations such as ours make the discoveries that help defeat cancer, they also underpin the British pharmaceutical industry, a huge employer and a driver of exports.

Margaret Thatcher understood that lowering taxes, reducing government bureaucracy and encouraging enterprise would trigger wealth creation, which is never distributed evenly. She hoped that those who were lucky and clever enough to amass riches would feel a powerful obligation to give back. Buying paintings and yachts is for the unimaginative.

Whether the wealthy donate for vanity, to gain recognition or for altruistic reasons is irrelevant. What matters is that the rich put their cash to work in areas such as education and medicine. Not only do such donations deliver public goods, in the form of better-qualified and healthier citizens, but they also provide a crucial means of financing innovation, in addition to the money supplied by government and industry. For example, the Wellcome Trust, the creation of a US immigrant, is possibly the world's largest medical endowment, and an amazing British asset.

It is no coincidence that Americans are probably the world's biggest philanthropists, best innovators and have the most highly rated universities. Entrepreneurs and researchers there operate in a symbiotic relationship that delivers prosperity like no other nation.

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