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Boardroom imperative: Youthful impatience

The challenge for corporate boardrooms is not to find younger directors, per se, but directors who are highly motivated to challenge conventional wisdom and practice.

By Kenneth Giuriceo and George Jaquette

Private equity, done correctly, involves the investment of new capital *and* new ideas. There is a tendency among many corporations to be grateful for the former and resist the latter.

We have a deal-screening rule at Clayton, Dubilier & Rice: We won't invest in a company unless we believe it can be improved by fresh ideas and the operational insights of our partners. This requires that the company's leadership be open to working not only with our financial capital but with our firm's human capital day in and day out. We also contribute perspective at the board level where members of the team are always active participants.

Although we, like many in private equity, are relatively young to have served on major corporate boards, we hope that our most noticeable differentiator is not youth, but youthful impatience. We want to be known for instigating constructive change. The challenge for corporate boardrooms is not to find younger directors, per se, but directors who are highly motivated to challenge conventional wisdom and practice. If one were to grossly generalize that older people tend to cling doggedly to comfortable strategies, while younger people tend to challenge hidebound group thinking, then we can confirm that all CD&R-appointed board members strive to be audaciously youthful.

Transformative impact

There are several powerful reasons why directors from private equity sponsors, often in their 30s or 40s (as we are), can have a positively transformative impact on the company:

Alignment — Private equity-appointed board members typically have substantial personal wealth at stake in the company, and they also are very aware that they are acting as stewards for their own investors. These board members are therefore themselves major shareholders, neutralizing the agency risk that too often plagues public company boardrooms.

Insight — Private equity directors often have spent years specializing in the relevant industry, and their experience observing trends across companies in the same space can be brought to bear

Kenneth Giuriceo (left) and **George Jaquette** are partners at private equity investment firm Clayton, Dubilier & Rice (www.cdr-inc.com). Giuriceo serves as a director of Sally Beauty Holdings Inc. and The ServiceMaster Company. Jaquette serves on the boards of Diversey Inc., Univar Inc., and HGI Holding Inc.

Dick Parsons on being a younger director

Ed. Note: Richard D. Parsons, chairman of Citigroup and former chairman and CEO of Time Warner Inc., was a 37-year-old lawyer when he joined his first public company board in the 1980s. He was a still youthful (for directorships) 43 when he was named to the Time Warner board in 1991. He was then chairman and CEO of Dime Bancorp. Shortly after transitioning from the board to the president's post of Time Warner in 1994, he sat for an interview with DIRECTORS & BOARDS. One of the topics we talked to him about was being a young director on a corporate board. The interview, published in the Summer 1995 edition, was jointly conducted by Spencer Stuart recruiter James Citrin. A few selected passages follow.

If we asked you to guess what percentage of outside directors of major Fortune 100 corporations are 45 years old or younger, what would you answer?

I would say less than 2%.

Right. The exact answer is 1%. And only 6% of directors in this group are 50 or younger. Does that surprise you?

No, it doesn't. With the exception of the Dime Bancorp board, I am probably the youngest director on all of the other boards on which I serve.

Why do you think that boards are comprised of executives generally in their 60s?

First and foremost, the way things work at this level is on the basis of personal relationships — who you know and who you are comfortable with. Or, who is known to people you know and feel comfortable with. It is not as rigid an old boys' network, to use that term, as in the days when people knew each other from the same country club and that sort of thing. But it is still fairly rigid when people ask about directors. While the search process is becoming more professionalized, companies use search firms less aggressively in looking for directors than for management talent. The process is basically driven by the CEO, and most CEOs are looking for either one of two things — peers, which suggests executives in their same age group, or more senior people who bring prestige and stature to the board simply because of who they are and their obvious accomplishments. So by and large, this is an age-biased set of selection criteria.

Do you see this changing in the future?

I could see 1% going to 2%. So no, I don't see much change. It will still be an age-biased process. What is going to change it? Look at the pull factors and the push factors. On the pull side, one is generally looking for a director who has a certain skill set, experience, and stature, all of which take time to accomplish. On the push side, why does somebody seek to go on a board? One reason is because he or she has the time and interest to do so. Most of the people that you would consider at ages 35-45 haven't yet built a resume to be attractive. Moreover, they are so busy with their own careers and climbing the ladder of achievement that they aren't focused on looking at the board opportunities.

Richard Parsons (pictured in 1995 at time of interview)**:** 'Most 35-45-year-old executives haven't yet built a resume to be attractive.'

There aren't that many 40-year-old CEOs, and those that are do get looked at. I was 40 when I went to The Dime, and that is when people started "hitting" on me, so to speak, because I now had the right title and the right standing in the business community. I had now entered the zone of eligibility or attractiveness.

There just aren't that many people who have achieved those indicia of attractiveness by the time they are 40. Also, it is a matter of understanding how to function within the context of the dynamics of a board. It takes a certain seasoning to effectively participate on a board.

Do you miss something by not having younger directors, or a broader cross-section? Yes, you probably do. You should understand that I am not making any value judgments as to whether the system necessarily is right or wrong or the way it should be. This is the way that it is.

In reflecting on your work on boards, is there any experience that you had or part you played that might be considered attributable to your relative youth on these boards?

I would say that where I have sometimes found myself in the minority or had differences with other board members had more to do with other aspects of my experiences, such as my legal orientation or political background, as opposed to the fact that I was younger and they were older.

Are there any issues that might skew to the strengths of a younger director?

Workforce diversity — what are we doing in this area and how aggressively are we going at it — tends to be a younger person's set of issues. It has been my experience that directors who are more aggressive in pushing the corporation to do more toward diversity in the workforce tend to be younger.

I am also tempted to say that technology tends to be a younger director issue. You will find that younger directors have greater orientation toward technology, how technology impacts a business, and in trying to take advantage of new technologies. These tend to be areas where you would find younger directors kind of come to life.

in a very valuable way in the boardroom. Private equity sponsors also usually perform intense due diligence prior to investing, so their appointed directors always arrive to the first meeting with actionable intelligence. The candid, informal and continual dialogue between the private equity firm and its portfolio company management means the directors benefit from granular, real-time performance data.

Time Horizon — As shareholders, private equity board members are motivated primarily by the prospect of long-term capital gains. They will have a strong bias for sacrificing quarterly results in order to accomplish complex corporate transformations. In fact, if they don't advocate forcefully for necessary, painful steps in the short-term, they may find their board roles, and even their private equity careers, cut short.

Sense of Urgency — Call it our "youthful impatience," perhaps the greatest leverage in a private equity transaction is the leverage of time. Private equity owners bring a much needed sense of urgency to the boardroom, reflecting realities of increasing international competition, game-changing new technologies, and the long arm of regulators, which threaten every day to undermine a company's positioning. With investment horizons usually somewhere between three and seven years, the PE model recognizes that a long-term perspective is critical to developing sound and sustainable strategy, but it doesn't allow time for obstacles to implementing required changes in a business. Speed of execution itself is a competitive advantage.

The best of the model

During the LBO boom years of the mid- to late 2000s, the attendant celebration of large deals made it easy to lose track of what the private equity ownership model was supposed to accomplish — to wit, the creation of lasting shareholder wealth through effective governance, interest alignment, and performance-based compensation. In the wake of the recession, many public corporations have come under heavy criticism for failing to deliver on any of these. We therefore anticipate the continuing adoption of corporate models that resemble the best of what the private equity model has to offer. In many cases, these transformations will begin with a private equity investment. And while the presence of private equity in the boardroom certainly doesn't guarantee success, take it from us — if success isn't in sight, youthful private equity-appointed directors will develop gray hairs with alarming speed. ■

Joe Flom on age limits for directors

Ed. Note: Joseph Flom, a venerable force in the legal and business worlds, died in February 2011. Directors & Boards lead columnist Hoffer Kaback met with the prominent M&A lawyer for an extended discussion that resulted in an 11-page cover story in the Fall 1998 edition. In the interview they discussed Flom's board memberships — he was then 75 years old — and age limits for directors. That passage follows. (See Kaback's column on page 8 of this current issue for his reflections on Flom's passing.)

HK: Are you only on the Warnaco and Petrie Trust boards right now?

JF: I got off the Wrigley board because of age.

They had an automatic age limit?

Yes. At 72.

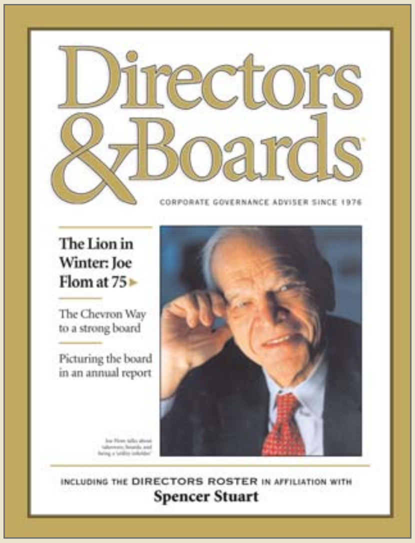
What do you think of age limits?

I think it's like everything else. It works on some; it's good on some; it's bad on others. By and large, in the broad picture, the age limits are there because you don't want people to get totally entrenched and you want to leave room for the younger people. But I can think of some terrific directors that are overage and they're better than a lot of the younger ones. Not me!

Do you think there's any relationship between the age of a director and his ability to perform?

Depends on how you age. Some wine ages well. Some doesn't.

I think age limits are ridiculous. You know who's over 70 right now? Alan Greenspan. Henry Kissinger. Paul Volcker. Konrad Adenauer was 86 when he was Chancellor of West Germany. I think these guys would tend to be okay on corporate boards. And



Joseph Flom: 'Some wine ages well. Some doesn't.'

you, Joe Flom: When you're 69 and 11 months you're okay as a director, but when you're 70 you're no good all of a sudden?

I've got Tony Solomon on a board. Tony is 80.

The ex-Federal Reserve guy.

He's phenomenal. He's on the Alexander's real estate board. It's like everything else. You set up rules. We've got rules in the firm. We can make exceptions and do occasionally. But a lot of firms are very rigid.

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