

Broad Leadership

An Interview with Eli Broad, Founder, The Broad Foundations

EDITORS' NOTE Eli Broad attended Michigan State University, graduating with a degree in accounting and becoming the youngest CPA in the state's history. While working for two years as an accountant, Eli Broad and Donald Kaufman founded a homebuilding business called Kaufman and Broad Home Corporation. In 1971, Kaufman and Broad acquired a small life insurance company for \$52.1 million that they eventually transformed into a retirement savings



Eli Broad

empire. With the merger of SunAmerica into AIG in 1999, Eli Broad stepped down as CEO and turned his attention to full-time philanthropy. The Broads had created a family foundation in the '60s as a way to support their charitable interests and causes, but refocused their charitable giving on venture philanthropy. Eli Broad has held numerous leadership roles on boards around the country: he was the founding chairman and is a life trustee of The Museum of Contemporary Art in Los Angeles; a life trustee of the Los Angeles County Museum of Art and at the California Institute of Technology; and he's currently a trustee of The Museum of Modern Art in New York. Eli Broad is also a Fellow of the American Academy of Arts and Sciences and in 1994 was named Chevalier in the National Order of the Legion of Honor by the Republic of France. In 2004, he became a Regent of the Smithsonian Institution by appointment of the U.S. Congress and the President, serving until this year. In 2007, Eli Broad was awarded the Carnegie Medal of Philanthropy.

ORGANIZATION BRIEF The Broad Foundations (www.broadfoundation.org), which include The Eli and Edythe Broad Foundation and The Broad Art Foundation, were established by entrepreneur and philanthropist Eli Broad to advance entrepreneurship for the public good in education, science, and the arts. The Broad Foundations have assets of \$2.1 billion and their mission is: transforming K-12 urban public education through better governance, management, labor relations, and competition; making significant contributions to advance major scientific and medical research; fostering public appreciation of contemporary art by increasing access for audiences worldwide; and leading and contributing to major civic projects in Los Angeles.

Did the speed and severity of the economic downturn surprise you, and when you look at the path to recovery, where do you see us today?

Everyone knew there were a lot of bubbles building up, whether in real estate, consumer credit, mortgage credit, etc. But the speed at which all this occurred was somewhat of a surprise. The government did what it had to do – it had to save the financial system from total collapse and they've pretty much accomplished that. But while saving

the financial system from total collapse is clearly a necessity, it does not provide the springboard for a recovery, rapid or otherwise.

Many say that while the government stimulus was necessary, true recovery will come from the private sector via entrepreneurship and innovation. Do you agree, and is enough being done to foster that?

I do agree, because the American economy is almost 70 percent consumer-oriented. But with the number of people out of work and the fact that American consumers – who have had negative savings in the past – would spend more than they earned, everything has changed. Savings are up to about 7 percent, probably heading to 10 percent. So how do you get enough economic activity if 70 percent of the economy is consumer-oriented? You probably will not for a number of years.

Also, homebuilding has typically been an industry that has been countercyclical, so if times were tough like this in the past, if you had a lot of homebuilding activity, you'd have the multiplier effect because people have to buy appliances, do landscaping, carpeting, etc. That is not happening, because we've got a huge inventory of unsold houses in America, and foreclosures are actually picking up and will go higher. So you're not going to have any real homebuilding activity for several years, until you get rid of the inventory. With regard to the auto industry, we no longer have a 15 million or 16 million car industry – it's going to be 10 or 11 million cars. So what is going to happen? We may be near bottom in housing and other things, but we're not going to get out of this for at least several years. Psychology has to change.

What else could happen in innovation? Jobs will be created with all that's happening in

the energy sector and biotech. But it's not going to be huge compared with the number of jobs that have been lost and are continuing to be lost from other sectors.

There's a great debate about whether companies of a certain size can't be allowed to fail. Do you believe that's the case?

I think to some degree, it's true. You cannot afford to have companies fail that would bring down the financial system or have a huge domino effect on the entire economy, but every case is different, so you can't just paint it all with the same brush. There are companies out there that have to keep their doors open regardless of how ownership has changed, or otherwise. For example, we could not afford to wipe out the entire auto industry, and one of the reasons is if you're ever at war, where are you going to outsource making airplanes and tanks? We need manufacturing capability. So you redo things the way they've done with GM and Chrysler.

Many say that not enough is being done to foster entrepreneurship, innovation, the taking of risks, and the growth of companies today. Is there validity to that, and does it concern you?

For entrepreneurs starting companies, there is no question that it's far more difficult for them to get credit because financial institutions are not willing to take the risks with entrepreneurs that they were willing to take several years ago. But the American public and even those in public office believe in innovation and entrepreneurship in theory, and I haven't seen anyone criticizing someone that came out with a new service or product that made a lot of money.

Does it come back to the type of people you hire?

Absolutely. It starts out with leadership, and in my case, to keep the culture, I have always favored very bright young people who have far less experience than the older people who seem to know all the reasons you can't change. So it's about having the spirit of entrepreneurship throughout the enterprise and letting people know that they're not going to bat a thousand, and that a reasonable amount of failure is going to be tolerated.

Having founded Kaufman and Broad at the age of 23, are you of the belief that there is some type of entrepreneurial gene, or can you train future entrepreneurs?

You may teach some of it, but you have to have it in you. Some people just cannot bring themselves to take risks, and to be an entrepreneur, you have to measure risk against reward in everything you do. But to some degree, I have pushed people to become more entrepreneurial who would otherwise have been very conservative and would not have wanted to take risk.

Do you feel that the U.S. is going to remain a global leader in innovation in the future, and does it worry you that we're losing some of that positioning?

It will remain a leader, but not the only leader. If you go back and look at what percentage of innovation came from America 40 years ago versus the rest of the world, it was an extremely high percentage. It is now more balanced. We're still innovative, but other countries, like China and India, have become innovators also.

How have you defined the mission of the foundations, and has that remained relatively consistent?

Yes, it has. The most important part of our foundation activities is education reform in America. America has failed in its K-12 public education system. Other countries are way ahead of us in student achievement. Ten years ago, I said that if we were going to maintain our standard of living, our economic future depends on how we educate our children, and there's only been modest progress made in the past 10 years. For example, our kids only get 720 hours of academics on average per year; in other countries, you get 1,000. In other countries they have a longer school day and longer school year – they don't have 10 to 12 weeks off in the summer. In other countries, they have tougher standards. In other countries, they have their brightest people running education ministries while we have governance in the hands of 14,000 school boards where, with some exceptions, people who are not competent are on the governing bodies and set the agenda for educating kids. In other countries, they respect teachers and pay them a lot more than we do, and offer them incentives, which we don't. It's tough because you have all these adult interests that don't want to see anything change because they're not comfortable with change.

A great deal of corporate social responsibility and foundation work is focused around education, but no matter how much is done, it seems the system stays broken. Do you agree?

It does, but there are some exceptions. In urban education, the only time you have real change is when you have mayoral control, and you do away with the power of school boards, and you have someone that's strong that can weigh the interests of the children against the interests of the adults involved in education. We're at a tipping point in education reform, with President Obama and U.S. Secretary of Education Arne Duncan, coupled with the \$100 billion stimulus money for education. But it's very tough work. I work harder now at our foundation than I ever worked running a Fortune 500 company. We work in three areas, but education reform is the most consuming.

We're very hands on in trying to reform things across the country.

Scientific and medical research is a whole different area for us. We established the Broad Institute, partnered with Harvard and MIT, and put \$600 million into it, and it's become number one in the world in genomics. We're involved with three universities in California in stem cell research. But not having any background in science or medicine, we're just investing in the best and brightest people in science.

Our third focus is the arts. We started our art foundation 25 years ago and have been involved in starting a number of art institutions and have created a new paradigm by founding a lending library of contemporary art to lend to museums, universities, and art galleries.

In running a business, there are metrics in place to track results. Around this type of foundation work, it would seem challenging to put those metrics in place. Are you able to do that?

To an extent, we can. What kind of return do you want in education philanthropy? It's very simple: you want to improve student achievement and you want to close the gap between income and ethnic groups. We have a separate unit at our foundation where all they do is evaluate every one of our grantees. We let the grantees know they're expected to achieve certain things or else the funding is going to be cut off. Philanthropy to us is not like charity – it's not writing checks. Its investing money in education to improve student achievement, and in science and medical activity, it's to improve the human condition.

With so much need out there, is it challenging to say no?

Ninety percent of what we do does not come from grant applications. We go out and look for opportunities the way an entrepreneur would, rather than having a bunch of senior grant officers sitting in our offices waiting for paperwork to come in.

You touched on being busier than ever today. Do you ever think about slowing down?

A friend of mine says those that retire die, and those that work live. I've just changed my work from the profit sector to the nonprofit sector, and I'm getting more satisfaction out of it. Having said that, I control my calendar more than ever, because we've got lots of great people at our foundations, so if I want to plan a trip for two weeks, I can do that.

There are many people who have had the opportunity to work with you and for you over an extended period of time. If I was talking with some of them without you in the room and I asked what it was like to work for Eli Broad, what do you think they'd say?

They'd say he's very driven, very results-oriented, and very demanding, but also fair, and he doesn't want to be the most popular guy in the world but he wants to be respected, and to accomplish things. And he's not someone who likes to preside over the status quo.

Could you ever have imagined achieving the type of success you've had?

No. When I graduated college in accounting, I wanted to become a CPA, which I did

rapidly and then I thought I'd own a store, and that's as far as it went. Then when we started Kaufman and Broad, I had a lot of dreams that we'd become a multi-market homebuilder, which was unheard of then. When we talked about going public, people thought I was crazy because it had not been done. When we acquired Sun Life Insurance Company of America and changed it to a retirement savings company, people also rolled their eyes. But I'm an avid researcher and reader, and I measured the downside and considered consequences if it didn't work, and I've never bet the farm on any one thing. We haven't always batted a thousand, but we have no problem going up to the plate and trying to hit a thousand.

Having built and led two Fortune 500 companies, what are some key characteristics necessary in order to be a successful CEO today, and has that role changed over the years?

It's changed in many ways, but it depends on the industry. Some of the great growth in America has come from homebuilding and financial services, but it's more from things like technology and science. So those CEOs have to have a different background – they can't just have the type of background I had starting as a CPA. Also, today, a CEO has to be concerned with more than shareholders and quarterly results. You have to have far more social responsibility and need to be more regulation-savvy than ever before, and consumers are activist far more than they've ever been, so you not only have to get the results for your shareholders, but you also have to keep a lot of other constituencies happy. It's a tougher job now being a CEO than it was 20 years ago.

Could you have built a company like Kaufman and Broad in today's environment?

Yes, but today, it would require far more skills, capital, and sophistication than when we started in 1957.

Do you ever take the time to appreciate all you've been able to do, or are you still looking forward to more challenges?

Every now and then, I think about what I've done. I'm 76 – I'm not going to be here forever. I feel very good about what we've done in homebuilding, which allowed people to move out of apartments, and have their own piece of property, which appreciated dramatically. I feel good with what we did in retirement savings. With regard to all my colleagues and employees, several hundred at least became millionaires. In the nonprofit sector, I feel I'm leaving something behind that is good and worthwhile as opposed to simply being someone who made a lot of money.

Is there certain advice you'd give to future leaders early in their careers?

Whatever position you have, act as if you're an owner, not an employee, and be willing to take risks. You can be an entrepreneur inside an existing enterprise. You don't want to just be there as a payroll patriot, work 9 to 5, get a paycheck, and so on. If you want to get ahead, you've got to do more than others are doing and you've got to be willing to take some risks. ●