

interview

RUSS CARSON

Russ Carson grew up in Toledo, Ohio, attended Dartmouth, and then found himself in New York City to attend Columbia Business School. Awed by the big city, he planned to graduate, work downtown for a few years, find a wife, and move back to the Midwest.

Fifty years later, he's still in midtown, but now as a successful private-equity investor and active philanthropist. With his wife Judy and two children, he runs a non-bureaucratic, New York City-focused foundation. Using judgment honed by his years assessing leaders of businesses, Carson handpicks investments that he thinks will yield good social returns. Philanthropy met with Carson in Manhattan to learn more about investing in people, promising biomedical research, his Catholic-school deal with Cardinal Dolan, and how a bustling city became his philanthropic passion.

Philanthropy: You're in the private-equity business. What distinguishes a successful private-equity firm from a mediocre one?

Carson: In a word, returns.

I started my firm, Welsh, Carson, Anderson & Stowe, with two partners almost 39 years ago. The first partnership that we put together raised \$33 million, which we thought was all the money in the world. Since then we have raised over \$20 billion in capital, through 16 different limited partnerships over time. So part of the answer of what makes a successful firm is consistency, of being in business over a long period of time, and developing good relationships with your limited partners to effectively become a trusted source of investment. Ultimately the partners have to transition the firm to the next generation of leadership. We've successfully done that, which is something we're very proud of.

Philanthropy: Do you think any of those challenges and skills translate to successful philanthropy?

Carson: Absolutely. For our first ten years we were financing start-ups and early-stage ventures. We were heavily dependent upon entrepreneurs. That experience has been enormously valuable to me in the philanthropic world. In venture capital you invest in people, not in businesses or ideas. For me, the same thing is true in philanthropy. The number one thing for me is finding really good people who are doing something interesting that fits within the framework of what our foundation wants to do.

Philanthropy: Business-wise, my understanding is that your expertise is in the health-care sector—why that area of specialization?

Carson: When we first started we invested in virtually anything that looked like it could produce a successful return. A lot of it was in technology. After we'd been in business for eight years, we took a hard look at the industries that we'd invested in and it turned out that information-services and health-care were by far the most attractive in terms of the returns that we'd been able to generate. We also discovered that investments where we actually had control did better than investments where we were a minority owner of the business.

So in 1987 we decided to narrow the firm's focus to two industries and go from being a generalist investor to one that bought control of the businesses that we invested in. Now our whole strategy is to work in partnership with managements to make companies more successful than they would've been otherwise. But obviously if there's ever a difference of opinion between management and the owners, if you own 51 percent or more, which we usually do, then our viewpoint is going to prevail.

Philanthropy: As you got involved in philanthropy, were there people who gave you useful advice?

Carson: The best single piece of advice I got was to put together a mission statement. Figure out what it is you really care about. Think about what you're trying to accomplish, and see if you can get that down on paper in a way that makes sense.

Early on, our family decided we wanted to focus on our home community—New York City—in a number of different areas, from poverty and homelessness to health care to culture to education.

The next thing we decided was that we wanted to be active participants. This came from my professional background. Rather than just give money, we'd also like to give time and get involved. Today my family and I collectively sit on about 15 boards of nonprofit entities in New York City.

Philanthropy: How do you find time for that?

Carson: You can always make time for something that's important. It's a question of planning. But honestly, I began to get more involved in the community when I turned 50. Until then, I was totally focused on building my business. But by 50, I'd accumulated enough wealth that I could begin to do things on a scale that made some difference, and I began serving on boards. Today I sit on eight boards, three of which I chair. For three others, I chair major committees of the organization.

Philanthropy: What makes for a great board member?

Carson: Somebody who's willing to take the time to understand the issues that the organization has and is willing to step up and deal with them, whatever area it may be. For me, finance is an obvious one. I can certainly help nonprofits think through their financial situation. Often it's a question of strategy. Most organizations are expanding. So how fast should you expand? How do

Private-equity investor **Russ Carson** applies his years in business to handpicking top-notch leaders and investments in philanthropy.



you finance that expansion? How do you keep it under control? These are all the same issues that companies have when they're in their early stages of development. How do you select the right people? How do you change personnel? On any board, whether it's for-profit or nonprofit, some members will step up if times get tough, and some will disappear when that happens. I'd like to think that my family and I are in the former category; we deal with problems, as opposed to ducking them.

Philanthropy: How do you evaluate a cause or organization?

Carson: We have a somewhat unusual approach to philanthropy. We don't want a bureaucratic process. We started the foundation in 1990, yet just recently hired our first employee outside the family.

My primary interest has always been investing in people. From my investing experience I'm very comfortable assessing people and their story and making a decision. From the beginning our process has generally been that somebody comes in—usually by our invitation or thanks to a reference by somebody we know well—and we make a decision in the course of one meeting. There is no bureaucracy, no saying, “Go back and write us a 25-page proposal.” I don't need a proposal to make decisions.

Philanthropy: How many family members are involved, and how are decisions made?

Carson: It's myself, my wife Judy, and my two children Cecily and Ed. Judy and I are in our 70s and our children are in their 40s. Cecily and I are the most active in the foundation, but any one of the family members can make a commitment to something of interest and the rest of us will support it. We don't feel like we're constrained, and we don't confuse ourselves by saying we have to look at 25 alternatives before acting.

To the extent you can do it, involve your family and your friends in your philanthropy—making it a family activity is really good. It gives you a backup if anything happens to you. It forces you to set a much more serious tone about what you're doing. Really taking the time to think hard about what the family cares about, involving the family members in that decision, and enlisting them in the execution of the philanthropic mission, it just makes all the sense in the world.

Philanthropy: What kind of counsel have you given your children in regards to giving?

Carson: Judy and I try to lead by example. Both of us have been giving for a while, and I think the kids picked up pretty quickly why it was important. And their interests dovetail nicely with ours. Ed is very interested in social issues and helping people who are having trouble helping themselves. Cecily is particularly interested in education. Judy's and my interests are pretty broad.

This all started when the kids were teenagers. The predecessor to our formal

foundation structure was an account at New York Community Trust, a donor-advised fund. We used to sit around the dining table at home and talk about what we were giving to and why we were doing it.

The other thing I decided when we set up the formal foundation in 1990 was that I didn't want to have a foundation that would last in perpetuity. I feel very strongly about that. I'm in a business where I understand that a dollar spent today is more valuable than a dollar spent ten years from now. You're under-optimizing the use of the money by saying, “Well, we've got to save money for the next hundred years,” as opposed to saying, “We've got to spend the money in real time to address real problems today.”

I also understand that with the passage of time, when the founders are no longer around, organizations can go in strange directions. So our foundation is set up so that it sunsets in the year 2050 or at the death of our last child. We have a termination plan—if all four of us went down in an airplane, the U.S. Trust

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Company, which we work with closely, knows exactly who the beneficiaries are of the assets in the foundation, which is itself the primary beneficiary of my wife's and my estate.

Philanthropy: Let's take a couple of your philanthropic priorities one by one. I've talked to some donors who say that Rockefeller University is "the best thing that no one's ever heard of." How did you get involved?

of psoriasis, which is a non-life-threatening skin disease. The dermatologist who was treating her wasn't finding any solutions. So I finally asked, "Who's the expert in New York City on psoriasis?" and the doctor said, "There's a professor at Rockefeller University named Martin Carter." I cold-called Dr. Carter and said, "My daughter is a senior in high school and she's about to go away to college and she's got this problem. Can we come over and see you?"

Cecily spent a month in Rockefeller University Hospital. The treatment at the

hospital was worth. Within a week I had the chairman of the board and the president of the university asking if they could come and see me. I guess they weren't used to people writing them checks unsolicited! That led to a conversation where I joined their board. I've been on that board for more than 25 years now, and I've chaired the board for the last 11 years.

So why is it the best thing no one's ever heard of? Rockefeller University is



One of the foremost biomedical research institutions in the world, Rockefeller University is behind only the entire nations of the U.S., the U.K., and Germany in the number of Nobel Prizes awarded to its scientists. In the latest year, its philanthropic revenue was four times the size of its total government grants.

Carson: Like most people, I had no idea what Rockefeller University was. I used to take a cab to work in the morning that would go right past it. The only thing I knew was that there was a tennis court, and there always seemed to be a couple of kids playing tennis. I thought it was just another university.

But when Cecily was a senior in high school, she came down with a fairly bad case

time was what they called the tar treatment, where they put this goo on your skin. It's messy and if you do it at home you have to clean sheets and pillows and all sorts of stuff. When I went to pick her up I said to the nurse, "Where do I go to pay the bill?" The nurse said, "There's no charge; we're a research hospital." I went back to my office and wrote out a check for what I thought a month in the

the world's foremost biomedical-research institution. As our former president used to say, "If Rockefeller University were a country, it would be tied for number four in the world in number of Nobel Prizes won in the field of medicine." With 24 Nobel Prizes over the years, we're behind only Germany, the U.S., and the U.K.

It was started in 1901 by John Rockefeller Sr. of Standard Oil. He asked

an adviser to look into the field of medicine and see if there was anything the Rockefellers should do. His advisor did his research and reported back, “The field of medicine has gotten to the point where we can now diagnose what’s wrong with you. But what we can’t do is intervene and actually do anything about it. So we can tell you what you’re going to die of, but you’re still going to die.”

Rockefeller University was created to bring together the best and the brightest globally to solve the major disease issues of mankind. We have 75 laboratories, each run by a world-class scientist. We have an operating budget of \$350 million a year and have no departments. We hire the best and the brightest, and each of the best and brightest is free to choose their own area of research and to do whatever they want.

Philanthropy: How do you keep an organization like that from resting on its laurels?

Carson: There are a number of metrics by which we measure the university. Number of papers published is probably the single most important one—the number of papers in select highest-quality medical journals. Obviously Nobel Prizes won. The second to the Nobel Prize is the Lasker Prize, which people call the U.S. Nobel. Recently there’s a prize called the Breakthrough Prize that was created by Yuri Milner and a couple other people. That has a million-dollar award attached to it. They give that every year to a small number of scientists for outstanding work. Several of our scientists have won.

That’s one way of doing it. The second way is from a managerial standpoint, selecting top people to lead the institution. Our three presidents during my tenure as chairman have all been scientists and leaders of the highest caliber. From the board’s side the question is: how do you create a management structure that enables the scientists to do their great things with as little interference and as little bureaucracy as possible?

Philanthropy: Many people believe that medical research is mostly funded by the

National Science Foundation and NIH. Why do we need private philanthropy in this area?

Carson: Here are the numbers for Rockefeller. We get roughly \$100 million of grants from the National Institute of Health every year. We have a \$350 million operating budget. We happen to have a \$2 billion endowment, so we get \$100 million plus from the endowment. And the rest of it is raised through private gifts and grants. So the government funds less than 30 percent of the activity of the university.

Philanthropy: You serve on the boards of several storied New York medical institutions. Do you ever encourage collaboration?

Carson: That’s one of my major priorities, though it’s not an easy thing to do in New York.

The original human genome was sequenced in 1990, at a cost of \$3 billion.

Today you can sequence the human genome for a thousand dollars or less. That’s opened up all sorts of opportunities to do research. We’re learning that a lot of illness traces back to something that happened in the genome. It’s a very exciting area.

So I was involved in setting up an organization called the New York Genome Center. I currently serve as co-chairman of the organization. We got the 12 major medical-research and hospital organizations in the city to all come in as the original owners. They each put up \$2.5 million and they control the organization.

The idea was inspired by the Broad Institute in Boston, which brings together researchers from Harvard and MIT. We thought, “New York has some of the top medical-research facilities in the world, why don’t we have something like that?” And so a group of us set out to

see if we could get the major institutions interested in doing something like that.

Another good example is at Rockefeller—we have what we call the Tri-Institutional Therapeutic Development Institute, which is a big fancy name for a partnership between Rockefeller University, Weill Cornell Medical School, and Sloan Kettering Hospital. The institute helps fund the commercialization of ideas that come out of any of the three organizations.

Collaboration can be complicated, because you have so many personalities and so many different points of view. But collaboration is much commoner than it was 25 years ago.

Philanthropy: Speaking of partnerships, let’s move on to education. I heard that you support Catholic schools thanks to your wife. Is that right?

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a 25-page proposal.” I don’t need a
proposal to make decisions.**

Carson: Judy is Catholic, I’m Protestant. Years ago I got a call from a good friend of ours who was involved in the Inner-City Scholarship Fund for Catholic schools in New York. I was inspired by what I learned, so we started writing checks. They then started something called the Patrons Program where you could adopt a school. Judy and I went to visit two schools and they asked, “Which one would you like to become the patron of?” We couldn’t decide between the two, so we said, “We’ll take both of them.” Then we were off and running.

Not long after that, a friend and I sat down and looked at the finances of the Archdiocese of New York which was spending about \$30 million a year to support its schools. We came up with the idea of creating an endowment to establish some permanent support. We went out and raised \$100 million and for years we awarded scholarships to students attending

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the inner-city schools of the Archdiocese. At our peak we served 7,000 kids.

About five years ago we began to change direction. We thought there was an opportunity to make a serious investment in some of the schools and dramatically up their game. So we negotiated a deal with the Archdiocese whereby we took over management control of six Catholic elementary schools—three in Harlem and three in the South Bronx, both very underprivileged neighborhoods. In return, we took full financial responsibility for the schools.

We, the Partnership for Inner-City Education, just finished our fourth year of operation. We've raised the number of kids passing on the state test from 19 percent the first year to 44 percent passing last year. We did that by holding people accountable for the results, running a longer school day, and providing supplementary programs and additional teacher training. We've done all the things you would do with a business. And so far the results are saying that this was a pretty good investment.

Philanthropy: What is the value of going to a Catholic school for somebody who is not Catholic?

Carson: What we have here are private schools performing a public service. In the six schools that we run, only about half of the kids are Catholic. And that's true all over the Archdiocese. It isn't about religion; it's about giving the kids a good education. This year we'll spend \$10,500 a kid as the all-in cost of the education. Our parents will contribute about \$2,500 a kid. We'll get somewhere between \$500 and \$1,000 of government support for kids with special needs and things like that, and the balance all has to be made up with philanthropy. I worry about Catholic education long-term. If we lose religious-based education in this country, it would be a shame.

But there are other numbers that are meaningful. We're spending \$10,500 a kid. Charter schools in New York get about \$16,000 in public dollars per kid,

and the city school system is spending about \$22,000 per kid. So we're delivering education at half the cost of the public school and we're delivering a superior product. Our six schools are demonstrably better in terms of test performance than the neighborhood schools. In addition to that, they're safer, and the kids are learning a whole set of values—Christian values, basic human values of respecting the rights of others, respecting yourself.

Philanthropy: Do you think this partnership model would work in another city?

Carson: It's a unique model. For the Catholic Church to give up control of the schools was a really big deal, and I give Cardinal Dolan a lot of credit for being farsighted enough to agree to that. So I think the answer is yes, it would work, but it requires enlightened leadership in the church and a group of people in the community who care enough to step in.

I often say the fact that I'm not Catholic worked in our favor. The Cardinal did not have any kind of power over me. And if this were more a religious mission for me than a practical one I might have been less inclined to ask hard questions about results.

I was discouraged our first year when 19 percent of our kids were passing the competency tests. To put that into perspective, that's probably similar or slightly better than what's happening in the public schools in the same neighborhoods as our schools. To me, though, it was totally unacceptable having 81 percent of our kids not at a grade level. We made some management changes, we upped our investment in the system and in the training of our teachers, and it all came around very nicely. We had to

change out the original superintendent, and the person we replaced her with has been absolutely fabulous. But again, these are all things that you do in business all the time. I respect the Catholic Church, I respect the Cardinal, but change comes very slowly to an organization that has been around for so long.

Philanthropy: You also serve at the Metropolitan Museum of Art. Why invest in something as "impractical" as art?

Carson: Art is one of the cornerstones of culture. The Metropolitan Museum is the history of the world—it shows how ancient cultures operated and what they valued. It's a way of tracking mankind. I'm not an art collector myself. But the museum is one of the most important draws in New York City for the tourist industry. Last year we had 7.7 million visitors come to the museum, by far the largest attendance of any facility-based

I'm not Catholic. If my funding for Catholic schools were a religious rather than practical mission, I might have been less inclined to ask hard questions.

institution in the city. The Met is considered to be one of the top museums in the world. We on the board think it's number one. If it isn't, we're going to make it number one before long. We are constantly asking, "What are we going to do next?"

Philanthropy: I noticed that you gave to the 9-11 Memorial Fund and serve on the board. Were you in the city that day?

Carson: I was in an airplane on my way to a board meeting in Houston, and got diverted to Birmingham, Alabama, where I spent the next three days. I watched the towers fall on TV after I had landed. It was very personal for all of us in New York. Part of the personal connection for me is that our office for ten years was across the street at the

World Financial Center. I used to have lunch almost every day on the top of one of the Trade Center towers. Cecily and I were there in 1993 when the first Trade Center attack occurred, when a guy blew up a van in the garage. It was sad—six people died—but nothing like what we experienced on 9/11, with all of these people killed at one time.

That was just an extraordinary shock to New York City, and it took a long time to clean it up and figure out how to memorialize it. But the visitation at the memorial has been way beyond anyone's expectations. We get about 3 million visitors a year. Two thirds of them are from people outside the country. This many years after the event it's still a very meaningful place. We're spending a lot of time thinking about how do we continue that remembrance? What can we do today that 20 years from now people will still want to come to that site? I think a lot of the answer is, as tastefully as possible, being able to talk about the issue of terrorism and why does mankind do this to each other.

Philanthropy: How has New York changed since 9/11?

Carson: The hardest part is just increased security. You used to be able to walk right into any office building in New York and go up the elevator. We now have security in every building. I think all of us probably spend a little more time looking over our shoulder than we used to, to make sure there isn't something bad about to happen near us. It brought the city together in an extraordinary way in the immediate aftermath. People really rallied, and we suddenly discovered how patriotic we were, and how much we cared about our city.

Philanthropy: You're originally from Toledo, Ohio. Do you still have ties there?

Carson: Oh yes, I go back a lot. Two of my sisters still live in Toledo. My father died ten years ago, and he left behind a family business that I now chair. It's

basically an investment partnership for family members. My father was one of the most farsighted people I ever knew and I'm not sure even he would've appreciated what a great idea it was to leave something like that, where the family members all have a reason to get together. Once a year we take my generation and the next, about 25 of us in all, and have a company meeting and a family reunion in an offsite location.

The second time in my life that I set foot in New York City was the day I showed up to go to Columbia Business School. It was a shock, coming from Ohio. I used to walk into the midtown area and just look at all the skyscrapers, because there was nothing like that back home. The tallest building in Toledo is probably ten stories. My plan when I first came here was to get a job in New York, find a wife, get married, and then go back to the Midwest. And here I am more than 50 years later.

Philanthropy: How do you think philanthropists could help economically depressed parts of the country thrive again?

Carson: One way is education. It's the great equalizer. With education and with knowledge comes the ability for communities to revive themselves. If you can create an educated workforce anywhere in the country, business will flock to it. Plus, you'll find a number of those educated citizens will start their own businesses.

Some of the answer lies in civic leadership. In midsize cities, if you have strong civic leadership, you can make a difference. You can interest companies in coming there, and you can make things happen. My father was a leader in the community when I was growing up. He was always very generous in town, and he took an active leadership role in its organizations.

One of the issues I'm very aware of is that for the last 30 years the real income of the middle class has been stagnant. Zero growth in real terms over an extended period of time. We can't let that continue and think that our society is going to keep working smoothly. **P**

COMING ATTRACTIONS

Future issues of Philanthropy magazine will feature interviews with the prominent D.C.-based philanthropist (and Carlyle Group founder) David Rubenstein, and with the nationally influential pastor and church planter Tim Keller. Here's a sneak peek of their views on some very timely topics:

Philanthropy: Tax reform is on the legislative agenda. And at the Roundtable, our eyes are always on the charitable deduction. Is it an important and positive piece of our tax code, or is it just a big tax loophole for the wealthy?

Rubenstein: I don't think it's a tax loophole for the wealthy. The word "loophole" is a pejorative, so I don't think that's a fair characterization. Americans give roughly 2 percent of GDP every year to charities, making us the most philanthropic people in the world. If we eliminated the deduction, there would still be charitable giving, but reduced, and organizations would be harmed. For that reason, I don't think Congress is likely to change the charitable deduction. I don't see widespread support for that. While there should be many changes to the tax code, I don't think that's something that should, or will, be altered.

Philanthropy: What do you think about the Museum of the Bible?

Keller: I'm actually encouraged by it. The articles I've read that were written by people who are just furious about the museum show me that there's probably a need for it. My understanding is that the message of the museum is that the Bible is not irrelevant. There are a lot of folks who don't like even that message. I have to say I'm more supportive of the museum the more criticism I've read of it, because the criticism is almost frightening. The main criticism seems to be that as a country we need to put all religion behind us now—that the Bible and religion are the problem. So, when I read that, I think, "Maybe it's not so bad to have a museum there to remind people that the Bible and religion have been an important influence on our public life."

Turn the page for more on the Bible Museum. →