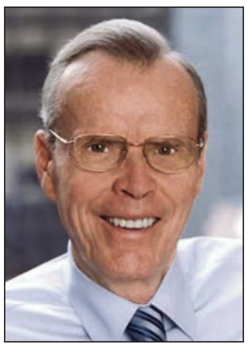
Leadership Perspectives

An Interview with
Donald B. Marron, Chairman, Lightyear Capital

EDITORS' NOTE *Donald Marron founded Lightyear Capital in 2000 and serves as Chairman and a member of the Investment Committee. Prior to this, he served as Chairman and CEO of PaineWebber Group Inc. for 20 years. In 2000, PaineWebber merged with UBS AG, creating a top wealth and asset management firm. Following the merger, Marron served as Chairman of UBS Americas until September 2003. Prior to his tenure at PaineWebber and UBS, Marron served as President and Chief Executive Officer of Mitchell Hutchins. He began his career at the New York Trust Company and, in 1969, co-founded Data Resources Inc. (DRI) with Harvard economist, Dr. Otto Eckstein. Marron served as DRI's Chairman until McGraw-Hill Inc. purchased the firm in 1979. Marron attended The City University of New York. In February 2013, New York University announced the launch of the Marron Institute on Cities and the Urban Environment, an interdisciplinary and international effort to advance vital new research and teaching on cities and the urban environment.*



Donald B. Marron

COMPANY BRIEF *Based in New York, Lightyear Capital (lycap.com) is a leading private equity firm making primarily control investments in North America-based, middle-market financial services companies. Through its affiliated funds, Lightyear has raised over $2.5 billion of capital and has completed investments across the financial services spectrum, including asset management, banking, brokerage, financial technology, insurance, and specialty finance. The senior team of professionals averages over 25 years of financial services-related experience.*

What should be done today to spur better growth within the U.S. economy?

After the crash, American business made itself more efficient by reducing costs, mainly through people, but it also cut back on R&D and on infrastructure spending.

As we moved forward over the past couple of years, that resulted in higher earnings, which helped the markets, but over time, people began to realize the higher earnings were at the expense of a reduced investment in the future.

What's going on now is that American business is thinking hard about how to invest in the future be it in technology, infrastructure, or via some combination of the two.

However, they're very worried about several things: Brexit, partly because of its economic impact but more so as a symbol of how thinking is evolving in Europe; the growth rate of the American economy, which is slow; and, of course, the number-one thing on Americans' minds is the outcome of this election.

These things are keeping CEOs and companies from pushing forward aggressively but they're still strengthening and building companies, and thinking about the future.

What happens now is that we continue slow growth, which isn't so bad because slow growth forces companies to continue to think very clearly about how they run their businesses; faster growth works well but also creates excesses and we're not ready for those yet.

The second half of this year will be better than people think because the outcome of the election will be clearer, and CEOs will start to plan further into the future.

Is a cumbersome regulatory environment hindering some of that growth?

The statement about growth coming from small and mid-sized companies is accurate but we should remember that most of those small and mid-sized companies' business is with big companies.

Clearly, regulation is a serious issue. We saw it with Obamacare, not so much in terms of regulation but in that it wasn't clear exactly how it worked. We're going through that now in the securities industry with the Department of Labor getting involved in how the money is managed.

There will always be regulation but there should be more of an effort to make it clearer how it will impact individual entities and what that impact will be long term.

You ran a leading financial institution at a time when it seems top talent was pouring into large financial institutions. Today, private equity and hedge funds draw them in. What do you tell young people about the opportunities that traditional big players can offer?

It used to be that talent had to go with big firms to first learn, then get access to capital, and then get access to technology. It's still a good place to learn at least the basics, but the capital will follow the talent now and technology can be outsourced.

The most important thing is to work one's way through the areas in which one has the greatest interest and to take risks.

Why isn't there more investment in infrastructure today?

It's a great mystery why government didn't spend more time investing in infrastructure partly because of the impact on the country but also because it could create visible jobs.

The country desperately needs improvement in basic and technology infrastructure. We hope the next administration will stimulate that.

There has been an emphasis placed on driving innovation and bringing tech companies to New York. Are financial institutions and Wall Street still the backbone of this city or is it more tech related today?

Financial institutions are definitely the backbone because they attract talent. Ambitious and smart people are drawn here. Many activities are also technology driven. People can learn quickly here and move on.

Obviously technology is getting a bigger share and we want that to happen, and we want the city to be very technology friendly and understanding.

A few years ago, Mayor Bloomberg put in a program to build the technology, particularly in science, and he invited universities from all over the country to compete to be the one that would move in near Rockefeller University, and Stanford won that. They ran into issues and backed off and now we have Cornell.

What this says is that the city has to be very user-friendly, particularly in technology, because the West Coast is more free-wheeling and open.

When considering a merger or acquisition, how important is the management team?

It's about looking at the history of a company. It's not necessarily the person who invents the idea that is successful in making it work. One has to turn the idea into a logical, buildable model for the future. It's a combination of an important idea and recognizing it as such, but more important is the ability to set it up to grow.

Is it about innovation or disruption today?

We have to separate the two. Much of the technology is doing what we did before but doing it faster and more efficiently, and sometimes even cheaper for the consumer.

Different kinds of innovation are coming about now, like drones and self-driving cars, which will change how people operate, and that kind of change is the biggest disruptor. ●