

MERGERS & ACQUISITIONS

PRIVATE EQUITY PERSPECTIVE: The RLJ Rule

Moves in private equity and venture capital investing

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To kick off Black History Month, *Mergers & Acquisitions* caught up with Robert L. Johnson, one of the most successful African Americans in business, about recent efforts to increase opportunities for minorities in corporate America.

Johnson is best known as the founder and chairman of Black Entertainment Television, or BET, the nation's first TV network to provide quality entertainment, music, news, sports and public-affairs programming for the African American audience. Under his leadership, in 1991, BET became the first African American-owned company publicly traded on the New York Stock Exchange. In 2001, Mr. Johnson sold BET to Viacom for approximately \$3 billion. Today, he is the founder and chairman of The RLJ Companies, which boasts a diverse portfolio of companies, including RLJ Equity Partners, a middle-market private equity firm he founded in 2006 through a strategic alliance with The Carlyle Group.

Last year, Johnson outlined the RLJ Rule for public and private-sector businesses. An adaptation of the National Football League's Rooney Rule, which requires teams to interview at least one qualified minority candidate whenever a head coaching or general manager position becomes available, the RLJ Rule encourages companies to establish voluntarily a best-practices policy of diversity and inclusion by identifying and interviewing minority candidates or vendors that, he says, are often overlooked under traditional hiring or procurement practices. In December, the Congressional Black Caucus issued a letter of support for the RLJ rule. On Feb. 1, Johnson followed up the rule with the launch of OppsPlace.com, a website that provides companies with the opportunity to find qualified, minority job seekers and minority businesses. Developed in collaboration with Symplicity Corp., a provider of online career tools, OppsPlace.com has attracted, as charter members, more than 30 companies from a wide variety of sectors, including consumer products, entertainment and financial services.



M&A: *How did you come up with the RLJ Rule?*

Johnson: The model is the NFL's Rooney Rule, which the league instituted in 2003 to stimulate minority hiring. Under the Rooney Rule, any owner seeking to hire a new coach or general manager must, under penalty

of a fine, interview at least one minority candidate. The effect of the rule was that, five years later, the number of minority head coaches had gone from three to eight, and the number of general managers went from one to five.

M&A: *What do you hope to accomplish with the RLJ Rule?*

Johnson: There's a need for large and small U.S. companies to focus on increasing opportunities for minorities as employees and small business operators. The only way to do that is to enhance best practices, and not just pay lip service to diversity and inclusion. I accomplished what I did because I was the beneficiary of someone giving me a chance. Because John Malone, who at the time was the chairman of Telecommunications Inc., invested half a million dollars in my vision, BET became the most successful minority-owned company ever created and the first to go public on the New York Stock Exchange. If John Malone backed me, and I started BET, why couldn't Warren Buffet back a young African American or other minority? Why couldn't Larry Ellison in the tech space back him? My life has been an example of what happens when you give an African American, or other minority, a chance.

M&A: *Why did John Malone take a chance on you?*

Johnson: John Malone is a fundamental believer in the merit system and a non-believer in handouts. He liked my idea for BET. This wasn't a government grant. It was in his own best interests, because TCI needed to be in urban markets. It was enlightened self interest. BET was good for TCI.

M&A: *Has the climate for African American entrepreneurs changed since you founded BET?*

Johnson: Not, it hasn't changed significantly. There hasn't been much wealth accumulation in the minority community. The wealth gap has widened in the last 20 years. Minority unemployment today is double that of white. There is a huge amount of capital on the sidelines, but that capital is not flowing into the hands of minority visionaries who can use it for business opportunities. I'm the only African American to take two companies public on the New York Stock Exchange. I'm proud of that. But I'm not the only smart guy in the country who is African American.

M&A: *Why is diversity good for business?*

Johnson: In the future, the majority of the people are going to be minorities. If they're not working, the whole economy is going to suffer. It's in the best interests of the business community to embrace the rule. The benefit of diversity to a company is: you bring new talent to your business that can potentially change the dynamics of your company. If you give someone an opportunity, it could change the nature of your company. Think back to the time when it was, "No Irish need apply." Well the Irish came, and they brought new ideas and new intellect, new products and new services. The same thing happened with Jewish Americans. Think about sports. Remember when African Americans weren't allowed to play baseball. Then Jackie Robinson came, and he changed the nature of baseball. He opened the door for African Americans to play, and now there are African Americans in baseball who are superstars. The same is true in football – and in business.

M&A: *Why aren't more minorities in the executive ranks today?*

Johnson: They're not in the deal flow. They're not considered for those opportunities. When a company wants to hire somebody, they make three phone calls to identify people they want to hire, and if you're not part of those calls, you don't get a shot at it. People hire people they know. A CMO or a COO might pick up a phone

call from a colleague looking for a top marketing guy, and he might say, “Yeah, I know a guy, a member of our country club.” But the African American candidates are not members of the country club.

M&A: *How can companies find qualified minority candidates to bring into the deal flow?*

Johnson: RLJ Companies has many strategic partnerships – with The Carlyle Group; with Mac McClarty, President Clinton’s former chief of staff, our partner in auto retail sales; with Legg Mason, with Western Asset, with Marriott. We know how to interact with white businesses. And one thing we hear is the question, “How do I find talented minorities and minority-owned companies?” That’s why I invested in OppsPlace.com – to aggregate minorities looking for careers and jobs.

M&A: *Is there a version of the RLJ Rule for M&A?*

Johnson: The RLJ Rule can apply to any business sector. With respect to the M&A sector, a company could inquire about minority professionals who will be working on the team, or if a minority firm, or firms, are part of the deal -- or even ensure that a company interview minority investment bankers.

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