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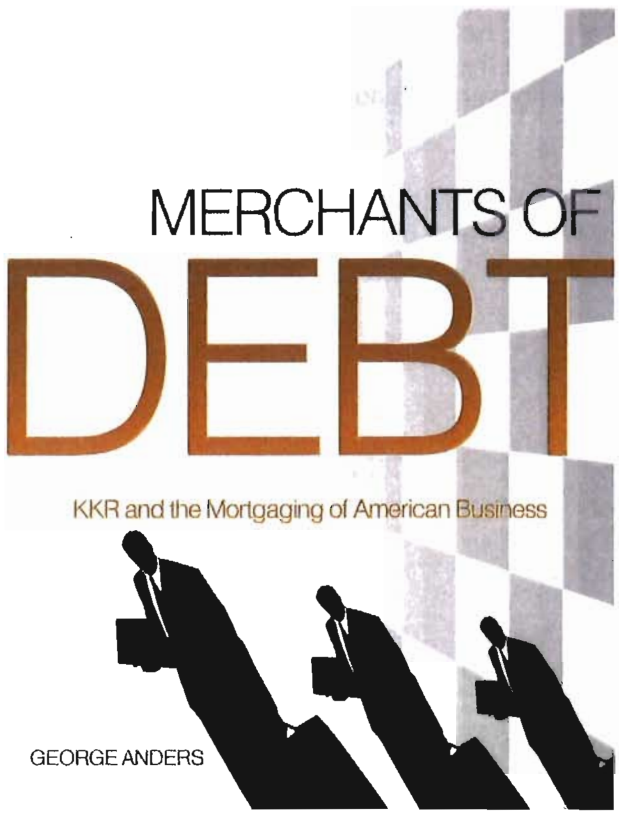
How Shy Jerry Kohlberg Built A $1.5 Billion Reputation

Plenty of media outlets are paying tribute to Jerry Kohlberg, the co-founder of private-equity giant Kohlberg Kravis Roberts & Co., who died last week at age 90. Those obituaries carefully document the highlights of a long Wall Street career. But they don't do justice to the most striking part of Kohlberg's story: the way he turned his shy, idealistic personality into a $1.5 billion asset.

I spent some time with Kohlberg in 1988, when I was researching "Merchants of Debt," a book about KKR's rise and impact. Novelist Tom Wolfe had coined the phrase "Masters of the Universe" to describe Wall Street's go-getters — and Jerry Kohlberg was their antithesis. The deal-making titan who met me was a small, baldish guy with wire-framed glasses and a sweet smile. His offices were decorated with vacation photos and department-store furniture. He seemed so astonishingly ... normal!

As book research continued, the stereotypes kept exploding. Kohlberg had started his career at Bear Stearns & Co., a firm that favored loud-mouthed, coarse personalities who openly wanted to get rich. I learned that Kohlberg had always been the odd man out. He had the face of a friendly, caring uncle. He spoke so softly that people needed to pull chairs closer in order to hear him properly. His favorite conversation themes tended to involve noble abstractions like "honor" and "integrity."



Yet Kohlberg's demeanor turned out to be his biggest asset. He discovered at Bear Stearns that a small circle of investors could buy a company with borrowed money ... use cash flow to pay down the debt ... and then sell the company or take it public at a big profit. He had unwittingly stumbled upon the essentials of leveraged buy-outs or, as they are known today, private equity investments.

Plenty of people made only one such acquisition in their careers, because their main objective was to gain control of a single company. Kohlberg's great insight was that if he treated lenders and CEOs courteously, people would want to do business with him a second time. Just as important, they would vouch for him when future deals came on the horizon.

The result: Kohlberg and his partners could go from industry to industry, doing buyouts one after another. What was a mere financing technique to others became a full-fledged industry in the hands of Kohlberg and two younger colleagues at Bear Stearns, George Roberts and Henry Kravis. Buyouts' financial delights seldom reached rank and file workers, but that's a different story for a different day.

In one of Wall Street's great ironies, the partners of Bear Stearns treated Kohlberg harshly in the mid-1970s and ultimately squeezed him out of the firm. That led to the birth of KKR, which started out as a tiny outfit with just $120,000 in capital, most of it from Kohlberg himself. Today, Bear Stearns doesn't exist. It went bust in the financial meltdown of 2008. By contrast, KKR is one of the world's premier investment firms

Kohlberg's role at KKR diminished in the mid-1980s, as he battled a brain tumor and a blood clot on his lung. He ultimately achieved a full recovery, but it took a while. In the meantime, he and his younger KKR colleagues ended up in a variety of tussles about how their partnership shares should be reallocated, what type of investments to make, and the role of one of Kohlberg's sons at the firm.

Eventually, Kohlberg left in 1987 and set up a smaller firm, Kohlberg & Co., with his son James. He continued to invest in some KKR deals as well; his net worth was estimated at $1.5 billion by Forbes in 2008, though more recent estimates aren't available.

My favorite image of Kohlberg involves his long campaign in 1980-81 to negotiate a buyout of Fred Meyer, a major Oregon retailer. The company's founder had died, leaving control in the hands of a bunch of squabbling trustees. "I would like to feel that I could restore a healing influence," Kohlberg told the trustees. Then he started meeting with them individually.

One of the trustees later told me what it was like to be wooed by shy Jerry Kohlberg. "He's anxious that people recognize the benefits of the deal to all parties," Gerry Pratt recalled. "He has this soft voice that makes people listen carefully. It implies an intimacy." KKR ultimately made many millions of dollars from the Fred Meyer deal. But that wasn't Kohlberg talked about. His message focused on idealism.

Lots of Wall Street operators try to make deals happen by being the most strong-willed personality in the room. Kohlberg had the humility — and the genius — to speak softly and let other people start to persuade themselves. As long-time KKR investor John Canning told me: "Jerry was the gray-haired guy who came in and gave everyone confidence."

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To learn more about Kohlberg Kravis Roberts and the men who built it, see these links for a preview of Merchants of Debt in Kindle or paperback