June 18, 2009

AMERICAN BANKER

Execs Come, Execs Go, Effects Stay

Turnover at major firms goes well beyond CEO's office

By Paul Davis

Voth, Partner *Bregman, Vice Chairman*

On the eve of the financial crisis, many large banking companies began playing musical chairs with their top managers, and the damage may linger for years.

The nation's 12 biggest banking companies have gone through 18 chief executives since 2004, regulatory filings show. In that time those companies have employed 30 chief financial officers, 23 chief risk officers and 20 general counsels.

The rotating cast of characters has made it harder for certain firms to navigate through the crisis, management experts say. And many are concerned that the game is far from over and could have lasting adverse effects on the bottom line.

"If you have a lot of turnover, then you are in trouble," said D. Anthony Plath, a finance professor at the University of North Carolina at Charlotte. "It injects too much disruption into the business model. We need much better succession planning, because right now it is a mess."

Some turnover is natural, but observers said the churn within the banking industry has exceeded the norm in corporate America.

The most changes were at Bank of America Corp., which has gone through four CFOs, four general counsels and two chief risk officers in the last five years. Citigroup Inc. has employed three CFOs and a trio of risk chiefs over that time, while Fifth Third Bancorp has had five CFOs. B of A and Citi have arguably struggled the most among the country's major banking companies since the financial crisis hit.

The reasons for such senior-level turnover vary from retirements and ousters to mergers and acquisitions, and observers said some departures could be the results of pressure from investors or regulators. Many changes took place as the companies were making critical decisions on acquisitions, loans and trading positions.

Robert Voth, a partner in the Cleveland office of CTPartners, said there are "big lessons to learn" from the last five years. "Banks get themselves into trouble in three ways: poor hiring, weak benches and less-than-satisfactory succession planning."

Unexpected resignations only draw attention to those deficiencies, he said.

The biggest risk occurs when an executive in charge of developing a strategy leaves before it can be implemented, Voth said, since the successor, who is eager to leave a unique stamp on the company, is often tempted to chart a different course.

"Financial planning, for instance, is done two to three quarters ahead," but "the changes you get from reorganization throw off your execution," he said. "What if you do that twice in a two-year period? It's not a guarantee for a struggle, but it isn't the optimal path to success."

Fifth Third has had torrid turnover in a key post. Since Neal Arnold, its longtime CFO, was reassigned in 2004, the $120 billion-asset Cincinnati company has employed four successors. They include Daniel Poston, the company's controller, who

handled the financial duties during most of last year, when the company was taking losses and evaluating the sale of noncore assets.

A Fifth Third spokeswoman would not discuss the matter.

Observers cited another type of risk: a massive and sudden exodus of talent. Typically, the turnover does not stop at the top executive, they said, because the departed manager recruits top lieutenants to a new firm, and the successor often ushers in new people.

Such was the case at B of A, whose four CFOs since 2004 included Alvaro G. de Molina. Since leaving the $2.3 trillion-asset Charlotte company abruptly in late 2006, he has hired at least eight former colleagues to join him at GMAC Financial Services LLC, where he became the CEO last year.

"There is always a third and fourth layer of management to leave," said Kevin Fitzsimmons, an analyst at Sandler O'Neill & Partners LP, who would not discuss specific companies. "You never hear about those departures in press releases, but they are still very important cogs in the wheel."

Observers said rapid turnover can also leave companies exposed at inopportune times. Some cited Timothy Mayopoulos' departure as B of A's general counsel in December as part of massive job cuts. Brian Moynihan succeeded him for a month but was then chosen to lead B of A's corporate and investment bank, succeeding the fired John Thain.

Edward O'Keefe has been B of A's general counsel for the last six months or so. He was the lawyer sitting behind Kenneth D. Lewis as the CEO was grilled under oath by lawmakers last week over his handling of the Merrill Lynch & Co. Inc. acquisition.

Scott Silvestri, a B of A spokesman, said, "We believe our executive leadership has significant experience within the company and the industry to meet the challenges of the current environment."

Observers noted that many of the companies with the most stable leadership teams, such as JPMorgan Chase & Co., U.S. Bancorp and Capital One Financial Corp., passed the government's stress tests and have been cleared to exit the Troubled Asset Relief Program.

There are some exceptions. Wells Fargo & Co., KeyCorp and SunTrust Banks Inc. have had minimal turnover but were required to raise additional capital. But representatives for SunTrust and KeyCorp said having stability in crucial posts mitigated the damage caused by external economic pressure.

"There has never been a better time to have a stable management team," said Bill Murschel, a KeyCorp spokesman.

Wells would not discuss the matter.

Observers are concerned about continued turnover if reforms — such as President Obama's plan to give the Federal Reserve Board sweeping new powers to dig into all facets of holding companies — are approved. Government-imposed limits on executive compensation could also cause some shifts.

Many observers drew correlations to the departures of CFOs after the Sarbanes-Oxley Act's enactment in 2002. In announcing his departure from B of A, de Molina said the regulatory restraints that came from the law had made his duties "a little less fun" and contributed to his decision to leave.

Barry Bregman, a partner at CTPartners, said the chief risk officer role is particularly susceptible to churn in the current environment.

"It was more narrowly focused in the past, but the risk role has been upgraded in the last 18 to 20 months," he said.