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BofA's scramble for a CEO shows vulnerability of succession plans

By Kevin Dobbs

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As Bank of America Corp. moves hastily this week to find an emergency chief executive to replace CEO Ken Lewis, who has announced plans to retire early, industry observers say the predicament is one that other banks could soon face.

To be sure, succession plans, particularly at companies with a vast and complex structure such as BofA's, are common. Nearly two-thirds of financial companies have a formal plan in place, according to the National Association of Corporate Directors.

But in light of heightened government scrutiny and the lofty credit losses that continue to bruise banks, observers say many more CEOs could end up stepping down early — or being forced out — setting off a scramble to fill the gap.

"Whenever there is a major difficulty in an industry — and we've obviously had massive issues in banking the past couple years — you tend to see a tsunami of management changes as companies prepare for better times," Mark Fitzgibbon, the head of research at Sandler O'Neill & Partners LP, told SNL. "So while a lack of a succession plan in itself really isn't a big-deal problem for the banking industry as a whole, many may not quite be ready to use that plan. We're on the precipice of a big wave of management changes, either because a company wants a new leader or, as is often the case, because you have a CEO who guided things through the downturn and now is exhausted or burned out and needs to step away."

Burnout may have been at least part of the situation at BofA, given that Lewis has spent much of the past year under intense scrutiny from regulators, lawmakers and investors as he integrated the acquisitions of Merrill Lynch & Co. Inc. and Countrywide Financial Corp. When Lewis said last week that he planned to step down at the end of the year, he threw off the planned succession timetable. BofA had structured an internal competition for its next CEO, announcing it in August, but the board had viewed the competitive race as one that would carry out over a year or perhaps longer, not a few months. The sense of urgency at BofA is heightened by the possibility that Lewis may have to resign even earlier than the announced Dec. 31 retirement date.

Now, with regulators and Wall Street demanding a stellar replacement, the company finds itself looking for an interim CEO who will give it either the time to recruit a top outside candidate or to groom an internal successor.

"That could well be the issue at other banks going forward: You have a No. 2 in mind, or more than one, but the CEO steps away sooner than the plan accounted for, and now you're left with a No. 2 who just isn't quite ready for the top job," Fitzgibbon said.

What's more, possible internal successors, anxious to move into the CEO's office, might find opportunity at another company first and jump ship, upending the succession plan. American Express Co. President Alfred Kelly Jr., for example, said Oct. 5 that he will leave the company early in 2010 to look for a CEO position at another company. Chairman and CEO Kenneth Chenault, who does not plan to retire soon, said Kelly had expressed a strong desire to run his own company.

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"Given my own plans for the coming years, we both agreed that was not likely to happen at American Express in the short term," Chenault said in a prepared statement.

All of which could lead other banks, particularly large, complex ones, to modify plans to include both a long-term successor and a plan for an extended interim replacement.

Of course, at the behest of regulators, most companies have a plan to replace their CEO should he or she suddenly fall ill, get into a serious accident or abruptly quit for other such reasons. But these plans often involve naming a successor who would take over for a matter of weeks or a few months while the company lines up a permanent replacement. The difference at BofA, and the difference that others could face, is that the interim CEO might serve for a year or perhaps significantly longer to allow an internal candidate to gain experience before taking over.

"And it's not all just about one person," Robert Voth, an executive recruiter at CTPartners, told SNL. "The board has to look at the bench strength under the top person, because the management teams beneath the CEO need to be ready on day one to be running the place, and the board needs to be confident in them."

Just last week, JPMorgan Chase & Co. announced several senior management changes, most notably the promotion of Jes Staley to CEO of the company's investment banking arm. He is now positioned as a front-runner to replace JPMorgan CEO Jamie Dimon, who suggested that it was critical to have a firm succession plan in place. Dimon has no immediate plans to retire, but observers said last week that he might abruptly leave if sought out for a high-profile government job, making it necessary to at least have a successor who could take over on short notice and run the company for an extended period, if not indefinitely.

"With the credit crisis largely behind us and the economy recovering," Dimon said in a prepared statement, "the timing was right to begin the succession process."