

## Assessing Challenges of Sovereign's Power Shift

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Sovereign Bancorp Inc.'s decision to consolidate its senior leadership in Boston, roughly 300 miles away from its Philadelphia headquarters, poses managerial challenges.

The shift of power to New England could create confusion and even resentment among rank and file employees, according to management consultants and business experts.

Gerald Zeitz, an associate professor who teaches organizational design at Temple University's Fox School of Business in Philadelphia, said he would not recommend Sovereign's far-flung approach to management.

"It is true that nowadays, with electronic communication, you can achieve better communication over long distances" than in the past, but organizational structures need to be clear, Prof. Zeitz said. Such an arrangement could "lead to a bit of a rift" between senior executives and the rest of the company.

Elaine Miller, a managing director at PricewaterhouseCoopers LLP, would not speak directly about Sovereign, but said that in general a geographic disconnect between staff members and executives is not ideal.

"It could certainly lead to a decrease in their commitment to the organization, and they may equally feel that the organization is less committed to them, which can really start to affect performance and sometimes cause a significant talent drain," she said.

Others pointed to precedents in the banking world.

Michael Poulos, a managing director at Marsh & McLennan Cos.' Mercer Oliver Wyman, said that Capital One Financial Corp. has worked out an arrangement where some of its operations and management teams are based in McLean, Va., where it is headquartered, while others operate out of Richmond.

The setup works "through an elaborate system of videoconferencing," he said.

**And Rod Taylor, the senior partner of the executive search and consulting firm Taylor & Co., said that Banco Bilbao Vizcaya Argentaria SA appears to be working out a similar arrangement with Compass Bancshares Inc. of Birmingham, Ala., which the Madrid company acquired in September. "They have the executive offices split between Houston and Birmingham," he said.**

The \$84.7 billion-asset Sovereign completed its leadership shift to New England, its biggest market, last month by hiring Kirk Walters as its chief financial officer.

Mr. Walters succeeded Mark R. McCollom, who had been based in Wyomissing, Pa., which had been Sovereign's headquarters until it moved to Philadelphia in 1999.

During an analyst presentation last month, Joseph Campanelli, Sovereign's chief executive, characterized Mr. McCollom's departure at least partly as a logistical issue.

"It's very important for the CEO and the CFO to have a lot of dialogue on a day-to-day basis," he said. "While Mark and I were able to chase each other down through videoconferences and cell phones and e-mails ... we felt the time has come

when we need to be together." In addition, he said, "we outnumbered him in Boston."

Mr. McCollom said at the same conference: "The bottom line is, Joe is a Boston guy. ... I am a Pennsylvania guy."

All of Sovereign's business-line heads are now based in Boston, reporting to Mr. Campanelli, who has been based there since 1997 when he joined Sovereign from Fleet Financial Corp. Most middle- and junior-level managers remain in Wyomissing.

Of Sovereign's roughly 12,000 employees, 502 are in Boston. None were moved from Pennsylvania, according to a spokeswoman, but many new or newly promoted executives are in Boston including Roy J. Lever, who was hired in January to head retail banking, and Patrick J. Sullivan, who was promoted the same month to head of commercial banking.

The company has never spoken formally about the leadership shift, and a spokeswoman

declined to discuss it for this story. She would not say how much time Mr. Campanelli spends in the Pennsylvania offices.

Gerard Cassidy, an analyst with Royal Bank of Canada's RBC Capital Markets Corp., said that Sovereign needs to explain the executive moves formally at some stage.

"It wouldn't surprise me if, over time, Sovereign makes the decision" to formally move the corporate headquarters to Boston, he said.

However, John Murphy, the head of the Bay State Federal Savings Charitable Foundation of Cambridge, Mass., a Sovereign shareholder, said the current arrangement could work without major problems.

"They could go on like this," Mr. Murphy said. "It seems to me that the home ... is in Boston. I don't think it is an issue," in the age of telecommuting.