

At B of A, Quest for Outsiders Undermines Insiders as Plan B

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There may be no more awkward position in financial services right now than being an internal candidate for the chief executive of Bank of America Corp.

Board members have so far failed miserably — and very publicly — to entice any outside candidates to replace Ken Lewis before his planned retirement at yearend. If the company's Thanksgiving deadline is to be met, it might have to default to one of the leading internal contenders, Brian Moynihan or Gregory Curl.

But if it looks like the board got stuck with its second choice or worse, then Moynihan, Curl or some dark horse insider's reputation would suffer. And his or her ability to lead likely would be weakened.

The company's continued review of outsiders "gives an indication to internal candidates that they aren't good enough for the job," said Thomas Watkins 3rd, a partner at the executive search firm Chartwell Partners.

Efforts to reach Moynihan and Curl were unsuccessful.

Executive recruiters said the prolonged process is likely less damaging to the chief risk officer Curl, 61, because of his age and a penchant for staying behind the scenes since joining B of A from a merger in 1997. There is more concern about the impact that the search may have on

the reputation of Moynihan, 50, who oversees consumer and small business at the \$2.39 trillion-asset company.

"The process is making Moynihan look like a runner-up," said an executive search consultant who asked not to be named. "Either way, it is becoming clear he isn't the first choice. That cannot give shareholders any comfort, and it cannot give him any comfort."

Several high-profile outsiders have reportedly spurned overtures, including Bank of New York Mellon Corp. CEO Robert Kelly, PNC Financial Services Group Inc. Vice Chairman William Demchak, Barclays PLC President Robert Diamond and BlackRock Inc. CEO Larry Fink. Institutional shareholders in recent weeks have said there may have been other high-profile rejections from U.S. Bancorp Chairman and CEO Richard Davis and Charles Scharf, head of retail financial services at JPMorgan Chase & Co.

None of those executives have publicly dismissed the possibility of joining B of A, but Kelly sent a memo to top Bank of New York Mellon executives this month stating that he was not interested in the job.

There has also been external pressure to reject Curl and Moynihan. Shareholder Finger Interests Ltd. on Nov. 3 urged the board in a letter and corresponding regulatory filing to look outside, producing a wish list of 18 candidates including former U.S. Bancorp CEO Jerry Grundhofer, retiring Morgan Stanley CEO John Mack and W.L. Ross & Co. adviser John A. Kanas.

Not everyone is critical of the process.

"In a highly charged situation, it is very common for boards to conduct an external search even if they have decided they want to

hire an internal candidate," said Rod Taylor, the senior partner at Taylor & Co. "They do it to validate a decision they have already made."

To call the situation highly charged would be an understatement, in part because of the \$45 billion in capital B of A received from the Troubled Asset Relief Program and the assumption that the government is exerting influence over the situation. At a congressional hearing Tuesday, Charles Gifford, a company director and member of the search committee, was grilled over Moynihan's contender status.

Gifford, with Moynihan sitting directly to his right, refused to say whether the executive was under consideration for the top post. "He is a very talented executive at Bank of America," Gifford said.

Recruiters believe B of A could lose a number of high-quality executives if an outsider is chosen.

Watkins said overlooked internal candidates typically leave their company more than 50% of the time, either because of displeasure or because the new CEO plans to bring in a new team.

Moynihan indicated in a Nov. 4 interview with Reuters that he prefers to stay at B of A. "It's one of the best jobs in the business," Moynihan said in a brief comment about the post. "This is a great company, and I will continue to do a great job for it, no matter what the outcome."

A bigger concern might be retaining executives who report directly to Lewis or those who are a rung below them. Watkins said 20% to 30% of those executives are apt to leave regardless of whether an internal or external candidate is chosen.