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TALKING BUSINESS

Incompetent? No, Just Not a Leader

By [JOE NOCERA](#)

Some people are born to be leaders.

Hugh L. McColl Jr. is such a person. Starting in 1974, when he was 39, he became the president of a small southern bank called North Carolina National Bank. He then proceeded to build one of the great banking empires in American history. Buying bank after bank, he transformed his small institution into NationsBank, which became one of the biggest regional banks; then, in 1998, as the capstone of his career, he bought mighty [Bank of America](#) for \$65 billion, promptly moving its headquarters from San Francisco to NationsBank's hometown of Charlotte, N.C.

A former Marine, Mr. McColl was so insistent on creating a culture of discipline that he preferred to hire executives who had spent time in the military. As an entrepreneur, he had the charisma of, say, Sam Walton or Herb Kelleher, and instilled in his employees a powerful sense of mission. He was — is — blunt, funny and smart. Employees would walk through walls for him. He had the classic Southern businessman's chip on his shoulder, burning with desire to show those Northern fancy-pants that he could play the game just as well as they could, if not better.

You know who served as Mr. McColl's right-hand man as he built NationsBank into Bank of America, don't you? Yes, that's right: it was [Kenneth D. Lewis](#), who this week announced — finally! — that he was resigning as chief executive of Bank of America in the face of an unending series of controversies, most of which revolved around Mr. Lewis's purchase last year of [Merrill Lynch](#) in the middle of the [financial crisis](#).

During the 1990s, Mr. Lewis was the man whose job it was to make Mr. McColl's bold acquisitions succeed. By all accounts, he was very good at it. "McColl could never have made it work without Ken Lewis," said Richard X. Bove, a veteran bank analyst with Rochdale Securities. "Most of the banks McColl bought were deeply troubled. Ken would shrink the companies, fire people, determine what had to be done to make it profitable and actually get it done."

Jeffrey A. Sonnenfeld, of the Yale School of Management, called Mr. Lewis "the devoted servant of Hugh McColl." Tightly wound, tough-minded and ruthless when he needed to be, Mr. Lewis was the perfect Mr. Inside to Hugh McColl's Mr. Outside.

And then, in 2001, Mr. McColl retired, and Mr. Lewis became the boss. Unlike his legendary predecessor, however, he turned out not to be a born leader. Which goes a long way toward explaining why Mr. Lewis will soon join the likes of John A. Thain, Richard S. Fuld Jr. and Charles O. Prince III as financial chief executives who lost both their jobs and good reputations in the crisis.

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The financial crisis didn't bring down Ken Lewis so much as it exposed his flaws. He was a perfect example of [Warren E. Buffett](#)'s wonderful adage that "only when the tide goes out do you discover who's swimming naked."

It's wrong to say he was incompetent; he really does understand, on an operational level, how to run a bank. And as the chief executive of Bank of America, he was an empire builder himself, largely continuing Mr. McColl's strategy of growing through acquisitions, until Bank of America became the biggest bank in the country by assets. As long as he was riding a bull market, that strategy worked.

But his sphere of competence never expanded beyond that original set of skills. Even as C.E.O., said Tony Plath, a banking professor at the University of North Carolina-Charlotte, "His capability was operations. He's an inside guy." Mr. Lewis was uncomfortable rousing the troops, or even giving an executive a pep talk. Small talk with underlings was out of the question. He brutally fired many of the firm's most talented executives, seemingly afraid to be surrounded by potential successors. Despite the size of his company, his board had almost no one with big-time banking experience. Instead, it was made up largely of cronies.

Thomas K. Brown, an independent bank analyst who for years has been Mr. Lewis's loudest critic, called him "aloof and arrogant." Certainly, many shareholders felt that way. It often seemed as if he cared more about creating a big bank than a profitable one. Although the stock returned negative 13 percent on his watch (Wells Fargo, by contrast, returned 53 percent between 2001 and 2009), he took home \$60 million over the last three years. "He has been hideously overpaid for hideously bad performance," said Nell Minow, co-founder of the Corporate Library, which monitors corporate executives and boards.

And at a time when many companies were dividing the jobs of chairman of the board and chief executive, Mr. Lewis declined to go along, keeping both titles. Last year, however, shareholders voted to strip him of his chairmanship, a humiliating blow.

Even when the financial crisis hit, his response was to fall back on the only strategy he had ever known: buy more companies. Thus it was that in 2008, he bought Countrywide and Merrill Lynch — moves that eventually caused Bank of America to need both government assistance and guarantees against loan losses. The latter purchase, in particular, was his downfall.

One reason he bought them was that he could no longer buy a bank; Bank of America's deposit base had reached a 10 percent market share, and under federal rules, banks aren't allowed to expand beyond that mark.

But another reason is that, despite their obvious problems, they were just sitting there, waiting to be bought. And Mr. Lewis could never resist a juicy acquisition. Indeed, less than a year before he bought Merrill Lynch, Bank of America's profits had been devoured by losses from the troubled securities held by its investment banking division. At the time, Mr. Lewis was quoted as saying, "I've had all the fun I can stand in investment banking." He told analysts that he wanted the bank to become less dependent on investment banking revenue.

Yet when bait like Merrill Lynch was dangled in front of him, he immediately bit — and overpaid for an asset

he could have had for much less had he just waited a few extra days. (Remember, this was [Lehman](#) weekend.) To long-time Lewis watchers, this was par for the course.

You know what happened next. The huge Merrill losses in the fourth quarter of 2008. The government's insistence that Mr. Lewis go through with the merger — or lose his job. The billions in bonuses Merrill handed out to its executives just days before the merger was completed. The lack of disclosure of any of this to Bank of America's shareholders before they voted to approve the merger. And finally, the investigations — by Congress, the [Securities and Exchange Commission](#) and [Andrew M. Cuomo](#) of New York — that are still a long way from winding down.

As the controversy over Merrill Lynch has escalated, Mr. Lewis has come across as both cowardly and dissembling — indeed, that is part of the reason it has escalated: nobody really believes his version of events. It is possible, I suppose, that he really didn't know that the Merrill losses were mounting until after the merger was approved by shareholders — even though Bank of America had executives swarming all over the place. But is it likely?

As for the controversy over the Merrill bonuses — and the lack of disclosure in the merger material — I doubt that Mr. Lewis personally knew the details of the disclosure, which the bank says were dictated by its lawyers. But Bank of America's consistent inability to explain clearly its role in the bonuses has made the bank appear that it was hiding something. This did not reflect well on Mr. Lewis either.

When he was deposed by Mr. Cuomo's investigators, he told them, in effect, that [Henry M. Paulson Jr.](#), then the [Treasury](#) secretary, had forced him to go through with the Merrill deal, despite his second thoughts. But when he was hauled up before Congress, Mr. Lewis denied that Mr. Paulson's strong-arming was the deciding factor in going through with the merger. And on, and on.

This week I watched a replay of that Congressional hearing from June, during which Mr. Lewis was grilled mercilessly about the Merrill deal. It was painful to watch. He stuttered, grimaced, hemmed and hawed, looking like the proverbial deer in the headlights.

At one point, he was read an internal [Federal Reserve](#) e-mail message in which the Federal Reserve chairman, [Ben S. Bernanke](#), said that Mr. Lewis had requested a letter from the government saying that it had forced him to go through with the merger. It would help defend the bank from shareholder lawsuits, Mr. Lewis told Mr. Bernanke, according to the message.

When asked about that request by a congressman, Mr. Lewis stammered, "I don't remember." What kind of leader makes the biggest deal of his life and then wants the government to protect him from his own decisions? And what kind of leader then won't admit to making such a request?

It may turn out that the acquisition of Merrill Lynch by Bank of America was a good deal. For now, it's too early to tell. On the one hand, Merrill Lynch brokers, unhappy at Bank of America, are leaving in droves. On the other hand, Merrill's profits are propping up Bank of America, which is awash in credit card and other losses.

A final point: I couldn't help noticing that when Mr. Lewis made his surprise announcement this week, he said he would stay on until the end of the year — in part because there was no chosen successor. The board

now has to find a new chief executive, at a very stressful time, because Mr. Lewis never groomed one himself.

Meanwhile, on Monday, just days before Mr. Lewis's announcement, [JPMorgan Chase](#) announced a new head of investment banking — in a move that was clearly intended as part of a potential succession plan. [Jamie Dimon](#), JPMorgan's chief executive, made the move even though, at 53, he is eight years younger than Mr. Lewis, and even though he has no intention of leaving the bank in the foreseeable future.

“It's my duty to the board to focus on succession,” Mr. Dimon told one reporter. “It's important that we have people trained and tested with experience to succeed me.”

Isn't that what a real leader does?

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