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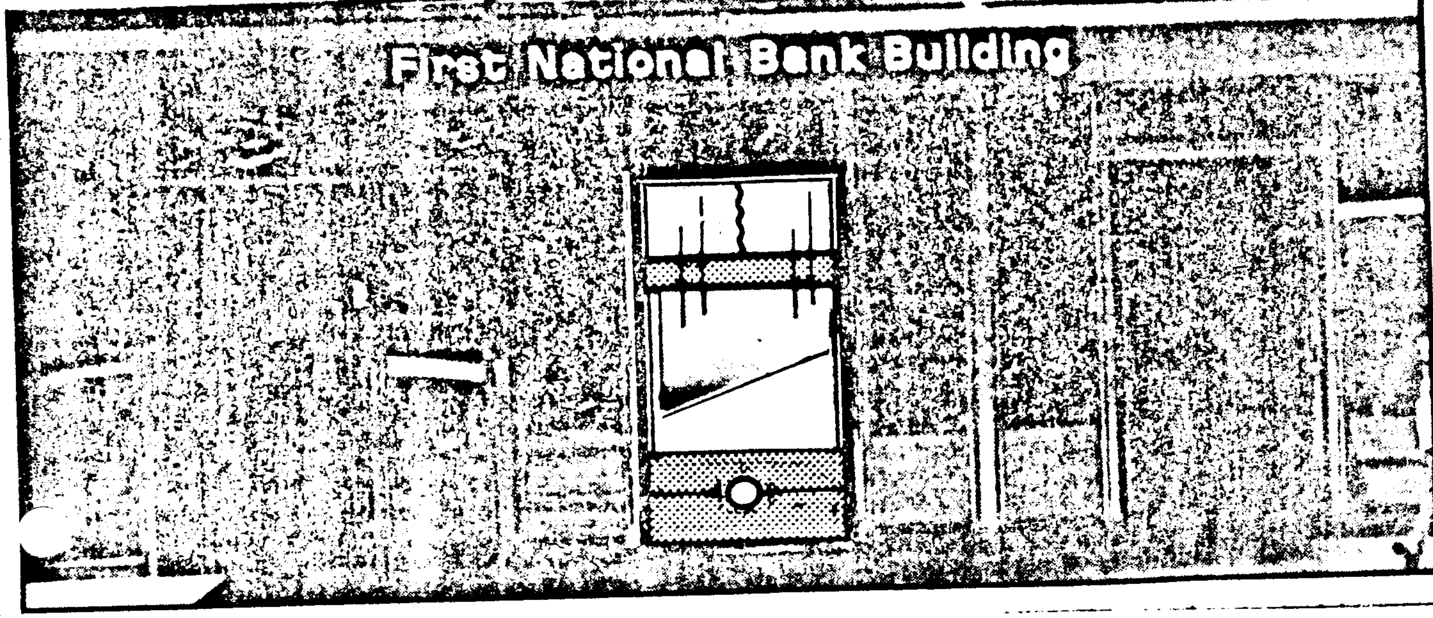
Analysis

Whodunit to Abboud? Did Freeman accidentally seal his heir's fate?



Chris Voit

By William J. Bowe

Much like the ash filtering to earth from the volcanic eruption of Mt. St. Helens, fallout continues from the summary dismissal of 51-year-old A. Robert Abboud and 54-year-old Harvey Kapnick from their jobs as chairman and deputy chairman of First Chicago Corporation, parent company for the First National Bank of Chicago.

It now seems that there was even more going on in the executive suite than imagined when the firings were announced to the press on April 28.

It also appears that the press fallout from that announcement focused too heavily on the personalities involved, particularly Abboud's, while missing more serious underlying economic and organizational problems at the bank.

Reports have come to light that, sometime between the April 11 annual meeting (when Abboud did his best to handle shareholder questions concerning the bank's 44 percent earnings fall[illegible] and the board meeting April 28, Kapnick, former head of Arthur Andersen & Company, attempted to end-run Abboud by taking his case against the chairman to the First's directors, in particular Ben Heineman. One version has it that Kapnick enlisted the support of two of the bank's three top department heads and even traveled with friendly directors to Abboud's farm in Barrington Hills to discuss the developing situation.

Another story has it that Kapnick's power play to the board was in substance: Fire Abboud and make me numero uno, or I quit. Officials of the bank have neither confirmed nor denied these reports.

The board's organization committee met the Friday before the Monday firing and had the whole problem dumped in its lap.

The organization committee, in addition to Heineman and Abboud, included Chicago's top, top executives: Thomas Ayers, Commonwealth Edison; William Graham, Baxter Travenol Laboratories; John Gray, Hart Schaffner & Marx; Robert Gwinn, Sunbeam; Brooks McCormick, International Harvester; William Wood Prince, F.H. Prince & Company, Inc.; and Bob Stuart, Quaker Oats.

It is clear that at that meeting they had to sort through the complications of high-level executive disarray and probably an incipient palace coup. The executive committee of First Chicago's board also met that Friday at its regularly scheduled time. No decisions were made by either committee, and on Sunday, the day before a special meeting of the full board of directors, the organization committee met at the bank to formulate their final recommendations.

The double firing may have been a foregone conclusion at this point. The possibility of firing Abboud and retaining Kapnick in either the top or second spot didn't wash. First, Kapnick is not a banker, and how could you have the top office of an international financial services company with 10,000 employees, in 60 offices in 35 countries, being headed by someone without a banking background? Further, how could they keep Kapnick in the second slot and ever hope to attract the kind of number one banking executive the bank would need? Any inheritor of Abboud's mantle would be looking over his shoulder, wondering if Kapnick was gaining on him, as well.

When the special meeting of the board convened the next day, it was all over but the mop-up. A terse press release was issued. Heineman was delegated as the spokesman, and Abboud and Kapnick were left to suffer their own perception of events in silence.

The resulting coverage — "Ding dong, the witch is gone" said the front page of the *Wall Street Journal* — focused on Abboud's alleged shortcomings as a "people person," and most accounts failed to address underlying problems of the bank that will continue after Abboud's departure. Ex-Marine Abboud admittedly is more given to action than reflective judgment, and hence has a predilection toward public missteps: witness the Bert Lance loan, for instance, the highly visible and embarassing endorsement of Mayor Michael A. Bilandic, and the heavy-handed killing of a *Chicago* magazine article thought to be unfavorable to the bank. Nevertheless, the image of a complete ogre appears overdrawn.

One former officer, who had to face the music in a meeting with Abboud about a multi-million dollar loan write-off, had nothing but the highest personal and professional respect for Abboud. "He got to the guts of matters quickly. Sure he was tough and hard minded, but he was dealing with tough situations that demanded that. In all of my contact with him I never found him rude or inappropriate and, in fact, found him an absolutely outstanding banker who was capable of warm and sensitive personal relations."

Others, too, have questioned the image of Abboud as Ghengis Kahn with a hangover. In fact, for every reference to his supposed tendency to criticize individuals before their peers, there seems to be a personal story of Abboud going out of his way to empathize with a parent enduring the tragedies of a child suffering from cancer, or consoling a staffer adjusting to the loss of a loved one. And apparently these personal kindnesses were evident at all levels at the bank.

It is perfectly reasonable to hold a chief executive officer accountable for a sharp downturn in earnings — largely due to making fixed-rate loans to corporate customers when the prime was streaking toward 20 percent. But one still must ask why the bank was in a situation where it had to use such a traditional, if aggressive, marketing tool. The answer is that the bank had been losing market share, the board was pressuring Abboud to recoup, and they all got caught with their pants down.

Abboud's five-year tenure (starting in November, 1975) must be looked at as a transition period during which neither Abboud nor any other officer could have fully completed the digestion of the extensive international and regional expansion plotted during the years of Abboud's predecessor and mentor, Gaylord Freeman. In fact, it is this digestion that Abboud's own successor will have to complete if the bank is going to finish the eighties exploiting its potential as a leading financial institution.

One major problem area that Abboud has been tagged with creating is the turnover of experienced senior personnel at the bank. In fact, much of the bank's problem can be directly traced to Freeman's decision (then thought innovative and praiseworthy)

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Abboud fought and won, but ultimately lost

Continued from page 11

to let a troika of pretenders to his throne contend for the succession. Abboud, Richard L. Thomas and Chauncey E. Schmidt fought it out as vice chairmen under Freeman.

The plan proved to be a disaster. The captains and their departmental teams and subordinates fought it out all right, but when Abboud finally was anointed, many officers left because they were not on the winning team and felt their futures were foreclosed at the bank. One officer's judgment is that 40 percent of the turnover was attributable to this factor; 40 percent would have left anyway in the ordinary course. Perhaps only 20 percent left later because of policy or other differences with Abboud.

Another hangover from the Freeman expansion of the sixties and early seventies was that there were a lot of bad loans on the books, particularly real estate loans, that came home to roost in the recession of 1973-75. Abboud's whole early tenure was spent addressing this problem, and it is generally agreed that he did a highly commendable job in cleaning up the portfolio. Further, it was not his policy judgment that encouraged highly competitive departments to vie for the honor of making the most loans without sufficient collateral.

In trying to sort this problem out, Abboud may have erred in the other direction. If lending authority is too decentralized and you get burned, the reaction is to tighten the reins, particularly if delegating authority isn't your long suit. You institute bureaucratic layers that weren't there before for loan approvals. However, when the reins were tightened, it conflicted with the need for regional and geographic autonomy brought about by the international and domestic expansion so recently generated.

The bank already had a tradition of operating through tight division lines. Division loan officers with 15 years experience would know a given industry inside and out, with the resultant sixth-sense ability to tell a good loan from a bad one. Divisional preeminence had been fine during earlier years, but was too restrictive for the different competitive situation that evolved.

Competing with Citibank and the Bank of America in regional markets of the United States proved difficult during Abboud's tenure. Those banks, with a relatively decentralized loan approval process, began running circles around regional loan officers of the First National, who had to go back through the regional and divisional bureaucracies in Chicago for approvals.

This squeeze — between the desire to tighten controls in the wake of the 1973-75 write-offs and the consequent anti-competitive impact on regional offices — caused expansion expenses to balloon without producing the hoped-for earnings advances. Abboud apparently understood this tension, but it seems to have been far down on his list of priorities to resolve. It certainly remains a major issue for the yet-to-be named incoming chief executive officer.

For all of the turnovers and departures in recent years, the incoming chief executive will still find ample deadwood in the layer upon layer of approval levels within the bank's infrastructure.

Perhaps Abboud's greatest failing was not in the "people" department, but rather in the reluctance to make hard organizational decisions. While Abboud could shuffle individuals (four heads of the key commercial banking division in the last four years), this never addressed a root cause of the First's problems in recent years: customers not being able to get a quick, authoritative decision out of the bank.

Russell Reynolds Associates has been hired to find a replacement for Abboud — who earned more than $300,000, plus incentives. We are likely to see a period of relative calm at First Chicago followed by a brief ballyhoo over the choice of a new chief executive.

While the current focus on declining earnings and executive disarray is no doubt inevitable and perhaps not even all bad for the bank, Chicagoans pay attention to First Chicago's fortunes for reasons other than prurience. As a local institution carrying Chicago's name into national and international markets, First Chicago has been invested with a certain measure of the public's store of civic pride, and to that extent its misfortunes are our own.

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cy / Corres

July 3, 1980

Mr. William J. Bowe
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Dear Bill,

I like your article on Bob Abboud. I hope you are receiving positive feedback from others, for I do believe your article bears a close relationship to reality.

Sincerely yours,

Bob

B. A. Street

BAS/pdr