The rise and fall of Merrill Lynch CEO Stanley O’Neal

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30 October 2007

The ouster of Stanley O’Neal as chairman and CEO of Merrill Lynch & Co., the giant Wall Street investment bank and brokerage house, is one more indication of the deep crisis gripping major US financial institutions. It also provides an insight into the corporate culture and social types that have come to dominate the US financial establishment.

It was widely reported Monday that the Merrill Lynch board of directors had decided over the weekend to demand O’Neal’s retirement and was negotiating the terms of his separation package. Last week, the 93-year-old firm announced it had lost over $2.2 billion in the third quarter and written off $8.4 billion in failed investments, of which $7.9 billion was due to the downward valuation of highly speculative securities linked to subprime mortgage debt.

The massive write-off, equivalent to 13 percent of the value of the firm’s shares on the stock market, exceeded Merrill’s net earnings for all of 2006 and equaled 42 percent of gross revenue in the first nine months of 2007. Financial analysts predict that the company will be forced to write down another $4 billion in the fourth quarter.

This spring, Merrill’s stock was trading at around $95 a share, and O’Neal was being hailed as a financial genius for transforming Merrill Lynch from primarily a retail brokerage business into an aggressive, risk-taking institution. Last week, the stock sank to as low as $59 and the credit service Standard & Poor’s downgraded the firm’s credit.

Of the major Wall Street banks, Merrill Lynch has suffered the highest losses from the collapse of high-yield, high-risk investments linked to speculation in the housing market, especially the market in subprime mortgages to borrowers with marginal credit worthiness. The company, under O’Neal, recorded huge profits from 2002, when he took over as chairman and CEO, until the last quarter as a result of O’Neal’s single-minded focus on underwriting so-called collateralized debt obligations (CDOs)—loans linked to home mortgages and the financing of leveraged buyouts that are bundled and resold to other financial companies and big investors.

According to the *New York Times*, Merrill’s exposure to the CDO market soared to more than $40 billion from around $1 billion some 18 months ago—that is, precisely during the period when the housing market was collapsing and warnings were being issued about the stability of housing-linked securities.

The meltdown in the housing market and surge in subprime home foreclosures led over the summer to a collapse in the market for CDOS and other forms of debt, exposing the reckless speculation that had fueled the stock market boom of recent years and generated huge profits and paychecks for top Wall Street executives. O’Neal was paid $48 million in 2006. Of the major Wall Street bank CEOs, only Goldman Sachs head Lloyd Blankfein was paid more.

The housing crisis and credit crunch have hit a wide spectrum of US and international banks and financial institutions. The world’s largest banks and securities firms announced more than $30 billion of third-quarter losses from write-downs on bad debt.

O’Neal is the first Wall Street CEO to be sacked, but a growing list of bank executives have lost their jobs. Swiss-based UBS in July dismissed its CEO and earlier this month announced the departure of two additional top officers. Others who have been ousted or have departed in management shakeups include Bear Stearns’ co-president and Citigroup’s trading head.

Bank of America reported last week that its investment banking profit had dropped 93 percent. It cut 3,000 jobs and removed the heads of its investment banking and structured products divisions.

The future of Citigroup CEO Charles Prince is in doubt following the number one bank’s announcement of billions in mortgage-related losses.

While O’Neal’s position was shaky, Wall Street insiders were nonetheless shocked by the speed with which the board of directors—hand-picked by O’Neal—decided to oust him. According to sources within Merrill cited by press reports, the decision was precipitated by the news, leaked to the *New York Times* and published Friday, that O’Neal had, without the knowledge or authorization of the board of directors, contacted the head of Wachovia Bank to see whether he was interested in buying Merrill.

One likely reason for the overture was the personal windfall that would accrue to O’Neal if such a takeover were effected.

The *New York Times* wrote on Monday: “If he leaves, O’Neal could be paid at least $159 million, according to an analysis by James F. Reda & Associates, a compensation consulting firm. Had he succeed in putting together a merger, he might have left with as much as $274 million.”

O’Neal’s career and tenure as Merrill CEO exemplify the combination of recklessness, short-sightedness, ruthlessness and greed that has become the hallmark of those who have risen to the top of the US corporate establishment over the past quarter century—a period that has seen an unprecedented redistribution of wealth from the working population to a financial aristocracy that wallows in previously unheard of personal wealth.

His rise to the summit of Wall Street, to become the first African-American CEO of a major bank, also reflects the social results of the policy of racial preferences and affirmative action pursued by the US political and corporate establishment in the aftermath of the ghetto eruptions of the 1960s. A thin layer of blacks and other minorities have been elevated to lucrative positions in business and government, while the living standards of the mass of minority workers have stagnated or declined.

O'Neal, 56, was born into a poor family in Alabama, and subsequently moved to Atlanta. There he got a job at a General Motors plant and was evidently spotted by GM as a minority worker who could be groomed for a position in corporate management. He graduated from General Motors Institute, now Kettering University, and obtained a scholarship from GM to study at Harvard Business School.

After receiving his MBA, O'Neal was given a position in GM's treasurer's office. In 1986, at the age of 35, he joined Merrill's high-yield, or "junk bond," department. Within three years he was running the department, competing with Michael Milken's Drexel Burnham Lambert Inc. When Milken pleaded guilty to securities fraud in 1990, it enabled O'Neal's unit at Merrill to become the biggest junk bond operator for five consecutive years.

In 1997, O'Neal became co-head of Merrill's corporate and institutional client group, which includes investment banking and securities trading. A year later, he was promoted to chief financial officer. In 2000, O'Neal was promoted once again to head the brokerage division, Merrill's more prominent department.

He quickly redirected Merrill's army of 15,000 brokers to focus on winning more millionaires as clients, and after the 9/11 terrorist attack on the World Trade Center he eliminated more than 20,000 employees and closed 266 offices around the world. This ruthless cost-cutting gave him an inside track to the top position, which he was awarded in 2002.

Soon after becoming chairman and CEO he set the tone for his tenure by purging the firm of dozens of its longtime senior employees and firing those who had been considered his rivals for the CEO post. Later he forced out some of his former allies, including Executive Vice President Thomas Patrick, who had campaigned for his elevation to head the company.

As the *Wall Street Journal* put it on Monday: "With his restructuring, Mr. O'Neal was seen as rejecting the longtime culture of a company known internally as "Mother Merrill." For years, the brokerage giant was willing to accept lower profit margins in order to keep longtime loyal employees on the payroll, much like International Business Machines Corp. had a no-layoff policy during its 1980s heyday...

"Merrill's board gave him leeway because he more than doubled the firm's profit level to an average topping $5 billion annually from 2003 to 2006. Those at the company said he was proud of cutting through the cozy corporate culture."

According to various press reports, O'Neal's management style was little short of despotic. "Merrill Chief Executive Stan O'Neal would grill his executives about why, for instance, Goldman Sachs was showing faster growth in bond-trading profits," wrote the *Journal*. "Subordinates would scurry to analyze the Goldman earnings to get answers to Mr. O'Neal. 'It got to the point where you didn't want to be in the office' on Goldman earnings days, one former Merrill executive recalls."

In July of 2006, O'Neal ousted three senior bond executives. They were, according to the *Journal*, "summoned upstairs, one after another, for 5- to 15-minute meetings" and told "there was no role for them."

Winthrop Smith, who left as head of Merrill's international brokerage after O'Neal became president, told *Bloomberg.com*,"He got rid of people with hundreds of years of [combined] experience."

Earlier this month, after the end of the third quarter, O'Neal fired two top bond executives and, the *New York Times* reports, he was looking to fire his chief financial officer and replace him with a longtime friend.

Little wonder than a large number of former executives have been involved in discussions to launch a proxy fight if O'Neal was not removed.

The O'Neal saga is not primarily a matter of the business methods of a single individual. He is rather a representative of the social types and corporate policies that predominate throughout corporate America and, increasingly, the world.

The short-sighted and reckless striving for immediate profit returns at previously unheard of and unsustainable levels is, in the end, driven by profound and insuperable contradictions of a crisis-ridden capitalist system. Unable to generate sufficient rates of profit from productive investment, the entire system is increasingly based on the creation of wealth from speculative and parasitic forms of financial manipulation.

The immense fortunes of the modern American gilded age, unlike the days of the robber barons, are not bound up with the creation of industrial empires, but rather go hand in hand with the decay of industry and the rotting out of the socio-economic infrastructure. All the more intense and explosive are the social and class contradictions building up beneath the surface of American society.