Leadership Lessons

An Interview with David H. Komansky,
Former Chairman and Chief Executive Officer, Merrill Lynch & Co., Inc.

David H. Komansky

EDITORS' NOTE *David Komansky served in the U.S. Coast Guard before joining Merrill Lynch in 1968 as a broker. He became a regional director in 1981 and an executive vice president in 1990. Komansky also served as a director and Chief Executive Officer of Merrill Lynch from December 1996 to December 2002, and as a director, President, and Chief Operating Officer of Merrill Lynch from January 1995 to December 1996. Komansky retired as Chairman from Merrill Lynch in April 2003 after spending 35 years at the firm. He serves as a director of BlackRock and as a member of the International Advisory Board of the British-American Business Council. In July 2005, the Phyllis and David Komansky Center for Children's Health was established at New York-Presbyterian Hospital/Weill Cornell Medical College of Cornell University.*

Have you been surprised by the depth of the recession?

It didn't surprise me. With the bailout, I thought the government was doing the right thing. With Hank Paulson (former Treasury Secretary), we were lucky we had someone that understood the markets and what was happening.

Nobody knew what to do. I thought it would last 7 to 10 years and I don't think it's over.

Have you seen real reform taking place?

I think it's futile to encourage the country and the people to think that we can ever get to a too-big-to-fail situation. We have to have the most powerful banks in the world. Because of the financial institutions in this country, we have had the role of accessing capital and distributing it, which is the classic role of this industry. In order to do that, you need big, powerful organizations.

The trick with these organizations is that you have to have certain regulations that have to be enforced but that will not cripple their potential.

We have gone too far with eliminating certain lines of business – the overall bureaucracy that is seen as reform makes me glad I'm not running a financial institution now because it's almost impossible to get anything done. I don't think we have come upon the answer.

Lehman Brothers was a mid-sized firm; no one thought its tentacles would reach around the world and drag down so many things. You can't let a big firm go down. So there has to be a system built without destroying the opportunity for these firms to function, but at the same time, controlling them.

This relies on the capital but also on enforcing a lot of the rules and regulations that already existed.

Firms like Merrill, which people thought were too big, have just gotten bigger.

Yes. Merrill is gone – all of that potential and market impact could have been part of Bank of America. Which part they managed to save, I don't know. The work expands to fill the space available, so the void was created and these firms moved into it. You will see more of that; you will see fewer and bigger firms on one end.

On the other end, the day of the boutique and the small firm has arrived and that is where you will see the brain work done; you will see the heavy lifting done in the big firms.

Is talent still going to Wall Street?

No. There has been an enormous brain drain from the Street; that and the collapse of the industry gave a lot of people an opportunity to run these firms prematurely. Guys like myself were trained for 25 years – step-by-step, business-by-business. This time, people were thrown into these jobs and that, coupled with the brain drain, left Wall Street "leaderless."

Young people are still attracted to making money on Wall Street. They know trading is not the same and that investment banking is difficult. The sweet spot of this industry now is going to be wealth management, but they don't want to work that hard.

Is it troubling to observe the overall negative perception of Wall Street as a result of the recession?

The ramifications of what happened are disappointing and insulting.

From the 1990s through 2003, when I retired, there have been 13 guys that worked with us who have become CEOs of other firms – that is the kind of talent we had at Merrill.

One of the universal reactions was that anybody from the financial services and securities business was demonized immediately.

The financial people are the ones who are making things happen in New York City today. Many of us spent our lives in this industry doing what we thought was right. By and large, these are people of great integrity and great involvement, and for everybody to be painted with the same brush that some of the desperados were painted with is difficult.

What allowed you to succeed and to lead Merrill?

I started in the retail branch office and, at that time, the manager reported to the Chairman of the firm, who had your entire career in the palm of his hand. It just took me a week to figure out that I wanted to be that leader.

I purposely set out to do everything I could do to be as successful as possible. Every job I approached with the same attitude – I was going to do that job better than anyone else in the world; I never worried about that next job. What that firm gave me was opportunity – that was the secret of Merrill Lynch.

Is it possible to maintain the sense of being a real relationship guy when you're running a firm of that size?

It depends on how you structure your organization.

You have to know who you are. My strength was not in managing minutia; my strength was in leading people, in getting an organization to do something they might not have done without me. Client work was something I loved, and I focused on my strengths and made sure I was surrounded by the best talent.

The downfall of Merrill Lynch was that my successor discontinued all of these programs. You can be who you are only if you're structured properly.

Do you still appreciate how much success the firm had in the past?

I can enjoy it when I think about how it affects me. It's tougher when I see those who have lost their jobs; the people I met, the situations I was put into.

I never had a day in 35 years that I didn't look forward to coming to work. I had many bad days, but it was all challenging to me.

Was the desire to give back instilled in you early on?

No, my parents had no ability to do this. As I became more successful than I ever imagined, we had some health situations, particularly with my older daughter. So my wife and I came to the decision that when the time came, we would try to do everything we could.

Once I became President of Merrill Lynch and there were funds available, we were doing things with big amounts but not intelligently.

I had never sold a share of Merrill Lynch so 95 percent of my net worth was tied up in the Merrill Lynch shares. When I retired, I started liquidating that and we had this currency that we could use to make contributions.

Because of the way the world and particularly New York Hospital helped us, we were bound to give back. But by that time, I also felt a responsibility to participate.

As we became sophisticated in giving, we narrowed our focus, which you need to do to make an impact.

We have four or five main causes we support and we try also to do things within our community where we operate as anonymously as we can. My wife hears stories about people in the newspapers and on TV and she finds ways to give back on an individual basis.

We try to support several major causes and, at the same time, we try to find situations where we can see the real effect of our contributions. What we don't like to do is give money randomly to organizations that may or may not help.

When you look at the Phyllis and David Komansky Center for Children's Health, do you ever consider your legacy?

The reward we get from that is personal. Our name would not be on that center other than that they want to use our name for fundraising. But my ability to be on the board, the investment committee, and executive committee is probably the most rewarding thing that has happened to me since I retired.

I think of it in terms of the impact that I hope it has on my children, grandchildren, and nieces and nephews, that they see our family's name there and see it as a standard for them to follow. It's important to me that the kids in the family have that kind of commitment.

With all the demands made on you professionally, how did you balance your personal life?

My wife is fabulous. To travel the road I traveled, you give up certain things. I tried to keep a business life and a personal life, and I tried not to let them cross. I succeeded to some extent, and maybe I wasn't at every birthday I should have been at. But if I told my wife that I would be away 10 days in Asia for work, she would help me pack. She was totally supportive of my career and she was part of it – she knew all of our major clients.

From 1990 until retirement, I was out of the country 50 percent of the time and she manned the fort and never complained.

Is there a void in leadership today? Does a different type of leader need to emerge?

Things have changed and in a much broader scenario than just the financial industry. The industry suffers from the overall change that is happening in this country. Politically, I feel liberated for the first time in many years because I hold both parties in equal disdain.

To me, our elected officials, by and large, act as though they are nothing but a bunch of dysfunctional windbags. It's a disgrace that nothing can get done; the very thought of compromise, the thought of leadership, and the thought of statesmanship doesn't exist anymore.

The gun bill is a perfect example: when 90 percent of the country supposedly supports background checks and they can't get it done, it's telling me that all they care about is getting reelected.

The example that government has set has led to a "me" environment, an instant-gratification environment.

Statesmen will not appear overnight; it may take a generation to rebuild.

Every job I approached with the same attitude – I was going to do that job better than anyone else in the world; I never worried about that next job.

The people who have the leadership ability are in the industry somewhere. The firms themselves have stopped nurturing them in the vein of cost control and have stopped the management training programs. The macro environment has inhibited this. People don't want the legal and regulatory exposure; they don't want the negative publicity that goes with it; and the firms have stopped nurturing them.

One of the things the BlackRock board and Larry (Fink, Chairman and CEO) are constantly discussing is succession, management training, and developing people. However, BlackRock is in a unique situation because it's still a founder-led company that has a culture that the seven founders developed and have maintained. This culture can often get diluted as a firm grows. But I enjoy the board so much because it reminds me of things I experienced and that I think are still appropriate.

There is talent out there; the firms have to get back to thinking about it. Statesmen will not appear overnight; it may take a generation to rebuild.

You built some long-lasting relationships during your tenure. Was it tough to retire?

I never wanted to retire, but I didn't want to be CEO anymore. I would have liked to have stayed on and done client work. But in Merrill Lynch at that time, the only position with mandatory retirement was CEO.

One of the things that was always drilled into me was that when you walk out the door, you don't look back. I have been back in that building once for 15 minutes since I retired and that's when they put my portrait on the wall.

I made some good choices and laid out a program where I come into the city at least four days a week, no matter what – I don't just sit at home. I enjoy meeting with a lot of my clients and friends from abroad who are in town often.

The most difficult adjustment I had to make was getting used to the fact that I could do anything I wanted to, or avoid anything I didn't want to do at any time.

I also genuinely have no desire to keep driving towards a certain goal. I am happy where I am. ●