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Not a Jolly Season for 2 Top Bankers

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[James E. Cayne](#) and [John J. Mack](#) have a lot in common. The chiefs of both [Bear Stearns](#) and [Morgan Stanley](#) have presided over announcements of steep losses this week and have forgone bonuses.

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John Mack, chief executive of Morgan Stanley, presided over the firm's staggering fourth-quarter loss.

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James Cayne, chief executive of Bear Stearns, which also reported a steep loss this week.

And, despite a year that they would certainly admit to being among the worst in their firm's long histories, both are holding tight to their perches of power.

Mr. Cayne, who is 74, has rebuffed any suggestion that he cede his chief executive title, even as Bear Stearns, battered by \$1.9 billion from subprime-linked charges, reported its worst quarter ever on Thursday. And Mr. Mack, 63, who pushed his traders to take the kind of risks that eventually led to \$11 billion in losses, has persuaded his board for now that he is still the person to lead Morgan Stanley.

As losses from the spreading mortgage crisis mount on Wall Street, the question of whether chief executives should stay or go has become a sensitive issue for boards and the executives themselves.

"This is a tough call," said Michael Useem, a professor of management and corporate governance at the Wharton School. "Directors have to judge whether the company is better off without Mr. Mack and Mr. Cayne than it is with them. It's a judgment on leadership."

And the pressures that outside investors can bring to bear on a board, even one that strongly supports its chief executive, can be withering. [Charles O. Prince III](#) of [Citigroup](#) and [E. Stanley O'Neal](#) of [Merrill Lynch](#) have already lost their jobs, hurt by their lack of popularity and escalating subprime losses that will surpass those of Morgan Stanley and Bear Stearns. So far there has been no public outcry from investors or internal revolts at Bear Stearns and Morgan over the fact that Mr. Cayne and Mr. Mack are staying on.

Partly this is because Mr. Cayne and Mr. Mack, who both started their Wall Street careers as fast-talking municipal bond salesmen, are throwbacks to an earlier era of Wall Street

partnerships tightly controlled by the towering will and stubborn dictates of their managing partners. Brassy, often profane and steeped in the culture of their respective firms, Mr. Cayne and Mr. Mack are able to tap deep pools of support.

Like all the old partnerships, Bear Stearns and Morgan Stanley have shunned that cozy model for the larger ambitions of public ownership, more capital and higher-risk trades which, for now at least, have led to debilitating losses.

“It is a clash of the old and new on Wall Street, the partnership model versus the risk-taking model,” said Charles R. Geisst, a Wall Street historian at [Manhattan College](#). “In the old days you would not take on such risk, because capital was too small. And if you lost it, you were not going to raise it in China or Abu Dhabi; you would have to find new partners.”

While giving up a bonus may seem like a humiliation, for a chief executive looking to soothe employees who themselves are facing lower pay packages, such a move can be an adroit one.

“There is no ignominy here; it says you are a leader,” said Ari Kiev, a psychiatrist who counsels financial executives. It can make it easier for a board to give a chief executive a second chance and not ask him to step down under pressure, an outcome that is anathema to hard-charging executives like Mr. Cayne and Mr. Mack. “Now falling on your sword, that is much more difficult, Mr. Kiev added.

By most accounts, the prevailing mood on Wall Street is that a stronger case can be made that Mr. Cayne should step down. Not only has he seen his firm’s profits for the year plunge, he must also confront state and federal investigations into this summer’s collapse of two hedge funds that invested in subprime mortgages and lost \$1.5 billion in investor funds. The time that he devotes to his two passions of bridge and golf has also come under scrutiny.

For Bear Stearns, the immediate prospects do not seem promising. The firm’s core mortgage bond business will remain weak. Morgan Stanley, on the other hand, is a more diversified firm and can rely on areas like investment banking, hedge fund servicing and equities trading that are doing very well.

Unlike Mr. Mack, Mr. Cayne has a ready and respected successor: Alan D. Schwartz, the president of the firm. A number of investors have suggested that he hand over the executive reins to Mr. Schwartz and keep the chairman’s title for himself, just as his predecessor Alan C. Greenberg did in 1993.

“Investors are telling me that he should go,” said Richard X. Bove, a securities analyst at Punk Ziegel. “He has a mind-blowing loss that is his fault, and he should take responsibility for it.”

Mr. Cayne’s defenders say that while his year may have been a terrible one — he has described the hedge fund collapse as one of the most painful events in the firm’s history — he should be given a chance to right matters.

Bear Stearns, more than Morgan Stanley, still operates as a partnership, and Mr. Cayne, like Mr. Mack, is a constant presence at the firm, haunting the hallways and trading floors.

“Jimmy is a tough guy and throwing in the towel is the antithesis of his makeup,” said Alexandra Lebenthal, the former chief executive of Lebenthal & Company, who has known Mr. Cayne for many years.

Mr. Mack would seem to be on surer footing, although the losses have been a blow to his reputation. His speed in disclosing the subprime trading errors and holding top executives accountable, as well as the reluctance of the board to subject Morgan Stanley to a second leadership change in little more than two years, should help him survive.

The strong performance of Morgan Stanley’s shares — they are up 3 percent in the last two days — suggests that investors agree. “I think John Mack is solid. No one I talk to wants to see him removed,” Mr. Bove said.

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