Mapping Interlocking Directorates: Citigroup's Eight Links with the Mortgage Crisis

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This paper presents an analysis and visual map of Citigroup's interlocking directorates that could have been related to the mortgage crisis. Interlocking directorates occur when a member of the board of directors of one company sits on the board of directors of another company, providing the opportunity for shared communications and exchanges of information. An analysis of eight Citigroup board members indicates 1,209 links.

INTRODUCTION

In the past few years, one of the largest monetary crises in American history has quickly developed and grown into a worldwide economic breakdown, with home values and markets falling like never before except for the Great Depression. The sub-prime mortgage crisis, started by numerous participants and circumstances, has mushroomed into global disorder. Discovering what set in motion the mortgage crisis is not the purpose of this paper. The purpose is to demonstrate a potential link between the interlocking board members of the nine major banking institutions involved, especially Citigroup, and how strategic relationships and social networks might increase the probability that interlocks could have magnified the crisis. This paper presents an example of how interlocking directorates could be a source of information, through board networking opportunities, which may have led each of the entities to be involved in the buying of the sub-prime mortgage packages. The paper also presents a visual map of Citigroup's eight links.

INTERLOCKING DIRECTORATES

An interlocking directorate occurs when a member of the board of directors of one company sits on the board of directors of another company. A direct interlock occurs when one board member is the link between two companies. When a director of company A and a director of company B are both directors of company C, there is an indirect lock. Interlocking directorates, therefore, are linkages among corporations created by individuals who sit on two or more corporate boards (Domhoff, 2005).

The research literature published on interlocking directorates is extensive both theoretically and empirically and encompasses many diverse disciplines, industries, and countries. An Internet search using Google Scholar, Advanced Scholar Search, produced 16,400 articles, with 4,250 published since 2009. Popular avenues of research include the relationship between interlocking directorates and a nearly insurmountable number of other variables. Examples include:

Corporate performance (Overfelt, Annaert, Ceuster, & Deloof, 2009; Phan, 2003)
CEO compensation (Dalton & Daily, 2001; Shropshire, 2010)
Board monitoring and/or weak governance (Devos, Prevost, & Puthenpurackal, 2009)
Busy directors--directors serving on numerous boards (Cashman, Gillan, & Jun, 2012)
Corporate headquarters locations (Kono, Palmer, Friedland, & Zafonte 1998)
Corporate decision making and strategic choices (Bazerman & Schoorman, 1983; Geletkanycz & Hambrick, 1997; Yoo, Reed, Shin, & Lemak, 2009)
Environmental uncertainty (Lang & Lockhart, 1990)
Resource dependence (Schmidt & Keil, 2013)
Class integration (Mizruchi, 1996)
Reputational advantages or disadvantages (Zajac & Westphal, 1996)
Adoption of proactive environmental strategies (Ortiz-de-Mandojana, Aragon-Correa, Delgado-Ceballos, & Ferron-Vilchez, 2012)
State-owned versus non-state-owned enterprises (Choon-Yin, 2008; Li, Tian, & Yan, 2013)
Information sharing and networking (Borch & Huse, 1993; Shropshire, 2010)

Of interest in our research is the relationship between interlocking directorates and the ability to pass information quickly through the network. One way of accomplishing this is to map the structure of the existing interlocks for a particular company of interest. Our research objective was to examine the structure of Citigroup’s interlocking directorates to determine whether any links were present with other financial institutions involved with the mortgage crisis.

THE BANKING CONNECTIONS

Every publicly traded United States Corporation is required to have at least three directors on their boards, with most large corporations having at least ten (On, 2004). Each of the companies examined have more than ten, with many between 12 and 18 directors. The initial investigation of the eight banks was conducted through the website *They Rule* (On, 2004), which is a database that allows the creation of maps that connect boards of leading companies to each other and links each director to all of the boards to which they belong. Additional information was then collected from the companies’ websites and SEC filings. Our intention was to research Citigroup’s board relationships as they existed prior to the peak of the mortgage crisis, followed by an update on those Citigroup Board members in 2011.

The following eight banks were the preliminary group used to connect to Citigroup’s Board:

- Bank of America
- Goldman Sachs
- J.P. Morgan Chase
- Mellon Bank
- Morgan Stanley
- Merrill-Lynch
- State Street
- U.S. Bank Corp

After closer inspection of the connections, it became apparent that by using only eight 2004 Citigroup Board Members, there were nine more financial institutions involved in the mortgage crisis that could be linked to them. In total, there were indirect links to seventeen financial institutions. The nine organizations not included in the first search are Wachovia, Lehman Brothers Holdings, Bear Stearns, Freddie Mac, Fannie Mae, Countrywide, Principle, Wells Fargo and Bank One.

THE EIGHT CITIGROUP DIRECTORS AND THEIR CONNECTIONS

Franklin A. Thomas

Consultant for The Study Group and has served on the board since 2005. He has been involved with nonprofits such as the September 11th Fund and the Friends of the Nelson Mandela Children's Fund. Through one connection with Salomon D. Trujillo, Thomas is indirectly linked with four Board Members on the Pepsi Co Board and four members of the Target Board. Through these two boards and Trujillo, Thomas is indirectly linked with Lehman Brothers Holdings, Wells Fargo, Goldman Sachs, US Bank and Fannie Mae by one link for each of them. Thomas connects to Freddie Mac, Bank of America, Mellon Bank and Goldman Sachs by two links and to Morgan Stanley, J.P. Morgan Chase and State Street by three links. There are five links to Bear Stearns. He serves on the boards of Lucent Technologies and Alcoa in addition to Citigroup, where he has been a board member since 1970.

Kenneth T. Derr

Derr was the Chairman and Chief Executive Officer of the Chevron Corporation from 1989 to 1999 and has been on the board since 1987. He has been a member of the Council on Foreign Relations, the National Petroleum Council and the Hoover Institution Board of Overseers. Derr serves as a director for Halliburton Corporation and through this one board is connected to Wells Fargo by two links and State Street, Merrill Lynch and J.P. Morgan Chase by three links. Derr also sits on the boards of Calpine and AT&T.

George David

Former president of United Technologies Corporation, the manufacturer of the Black Hawk Helicopters, David started his career with the Boston Consulting Group as a Management Consultant. He is a board member of Citigroup, United Technologies and British Petroleum, plus a member on the Business Council and the Business Roundtable. As a member of the United Technologies Board he has links to Fannie Mae, Principal Financial and Wells Fargo through one link, and Wachovia Corporation by two links.

John M. Deutch

Deutch has served as the Director of Central Intelligence, Deputy Secretary of the U.S. Department of Defense, and the Under Secretary for the U.S. Department of Defense and the U.S. Department of Energy. He has held numerous positions at M.I.T. where he is an Institute Professor. He is involved in the Urban Institute as a Life Trustee, plus Resources for the Future and the Center for American Progress, both as a trustee. He has been on the board of Citigroup since 1996. Deutch has a single link through Raytheon Corporation to State Street and a link to J.P. Morgan Chase by three links. He serves also on the boards of Raytheon and Cummins.

Richard D. Parsons

Parsons is the Chairman of Time Warner Inc. and has been in several positions there since 1991, plus he sits on the board. He has been the Chairman and Chief Executive Officer of Dime Savings Bank of New York, General Counsel and Associate Director for the Domestic Council of the White House, Deputy Counsel to the Vice President, Office of the Vice President of the United States, Assistant and First Assistant Counsel to the Governor, State of New York, and a director of Citigroup since 1996. He has only one link to Morgan Stanley. Parsons serves on the boards of Estée Lauder and Time Warner, Inc.

Robert E. Rubin

As the Chairman of the Executive Committee, Rubin has been on the board since 1999. His positions have included Secretary of the Treasury of the United States, Assistant to the President for Economic Policy, Co-Senior Partner, Co-Chairman, Vice-Chairman, Co-Chief Operating Officer and general partner for Goldman Sachs. Rubin has served as a member of the Harvard Corporation, Co-Chairman on the Council on Foreign Relations, on Insight Capital Partners Advisory Board, as a special advisor for Tinicum Capital Partners, and Taconic Capital Advisors as a member of the advisory board. Rubin, through the Ford Motor Company, is associated to Bank One Corporation by one link, Merrill Lynch by two, plus Goldman Sachs and Bank One by three links.

Alain J. P. Belda

Belda has been the Chairman of Alcoa Inc. since 2001 and has held numerous positions there since 1969. He has served on the Conference Board, as a trustee and is a member of The Woodrow Wilson International Center for Scholars, The Business Council, the Business Roundtable, and the World Business Council for Sustainable Development, plus the World Economic Forum International Business Council. He is linked with Countrywide Financial by three links and those three boards are DuPont, Conoco Phillips and Lockheed Martin.

C. Michael Armstrong

Armstrong has been on the board at Citigroup since 1989 and is the Chairman for the Board of Trustees at John Hopkins Medicine. He has been the Chairman of Comcast, Hughes Electronics Corporation, IBM, and AT&T. He has served on the President's Export Council, a member on the Council on Foreign Relations, the Schroder Venture Capital Advisory Board, and a Visiting Professor for the M.I.T. Sloan School of Management. Armstrong is linked through Comcast and Northrop Grumman to Merrill Lynch.

Each of these biographies can be found in numerous articles on the Internet, including the Citigroup website (Citigroup.com, 2008); however the AOL Finance website was used (AOL Finance, 2008). *Business Week's* website lists not only each of the board members, but has also counted the number of board relationships that each has (*Business Week,* 2008). The following is a list of the eight board members, listed above, and the number of associations *Business Week* found between them and their board associations:

Franklin A. Thomas	71
Kenneth T. Derr	54
George David	64
John M. Deutch	98
Richard D. Parsons	252
Robert E. Rubin	234
Alain J. P. Belda	194
C. Michael Armstrong	242

A sample portion of the visual map is shown in *Figure 1.* These numbers do not take into account all of the professional acquaintances that these board members have throughout the government and on major councils. Each one of these directors has the ability to pass along everything from a harmless recipe to a great deal, like the mortgage packages. It would be impossible to definitively prove that banks learned about the sub-prime mortgage packages from their board associations, but there is enough circumstantial evidence to suggest this possibility.

Many more connections could have been indicated if the links were followed beyond the fourth level and it would be possible to complete a full circle back to the initial link. Just by examining the eight board members' links mentioned, there are numerous connections to government agencies and committees, which would link with large insurance, media, and manufacturing entities.

UP-DATE ON CITIGROUP'S BOARD OF DIRECTORS SINCE INITIAL MAPPING

On January 28, 2009, shareholders brought a derivative action suit against sixteen former directors and officers on behalf of Citigroup, seeking to recover the company's losses from their exposure to the subprime lending market. The plaintiffs claim that the defendants failed to properly monitor and manage the corporation in allowing and authorizing the purchase of the subprime mortgage loans. The suit stated that they are liable to Citigroup for corporate waste in (1) allowing the Company to purchase $2.7 billion in subprime loans (2) authorizing and not suspending the Company's share repurchase program in the first quarter of 2007, which allegedly resulted in the Company buying its own shares at "artificially inflated prices" (3) approving a multi-million dollar payment and benefit package for defendant Charles Prince, whom plaintiffs describe as largely responsible for Citigroup's problems, upon his retirement as Citigroup's CEO in November 2007 and (4) allowing the Company to invest in structured investment vehicles ("SIVs") that were unable to pay off maturing debt. The defendants included Franklin A. Thomas, Kenneth T. Derr, George David, and Robert E. Rubin, who are no longer on the board, and C. Michael Armstrong, Alain J. P. Belda, Richard D. Parsons and John M. Deutch were still serving on the board at the time of the filing (In The Court, February 24, 2009).

As of November 9, 2010, U.S. District Judge Sidney H. Stein stated that the case against Citigroup could proceed, although reducing the allegations and dismissing seven of the fourteen defendants, finding that the plaintiffs failed to prove the alleged facts that the bank and its executives knew they mislead investors. On May 17, 2011, Judge Stein dismissed the lawsuit, with prejudice, stating "the amended complaint shareholders should have approached the board first and cannot overcome a simple, irrefutable arithmetic fact: the eight directors who plaintiffs claim are not impartial do not constitute a majority of the seventeen-person board" (Stempel, 2011).

CONCLUSION

Even though there are laws against direct interlocks with businesses in the same industry, these directors do not have to link directly. They have enough indirect social and professional interlocks to promote their class and business interests very well. They sit on the boards of the largest and most influential companies in America and also serve on major government committees. These powerful directors make decisions that affect the lives of many. This article has provided an overview and visual map of Citigroup's eight links that could be related to the mortgage crisis.

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Figure 1

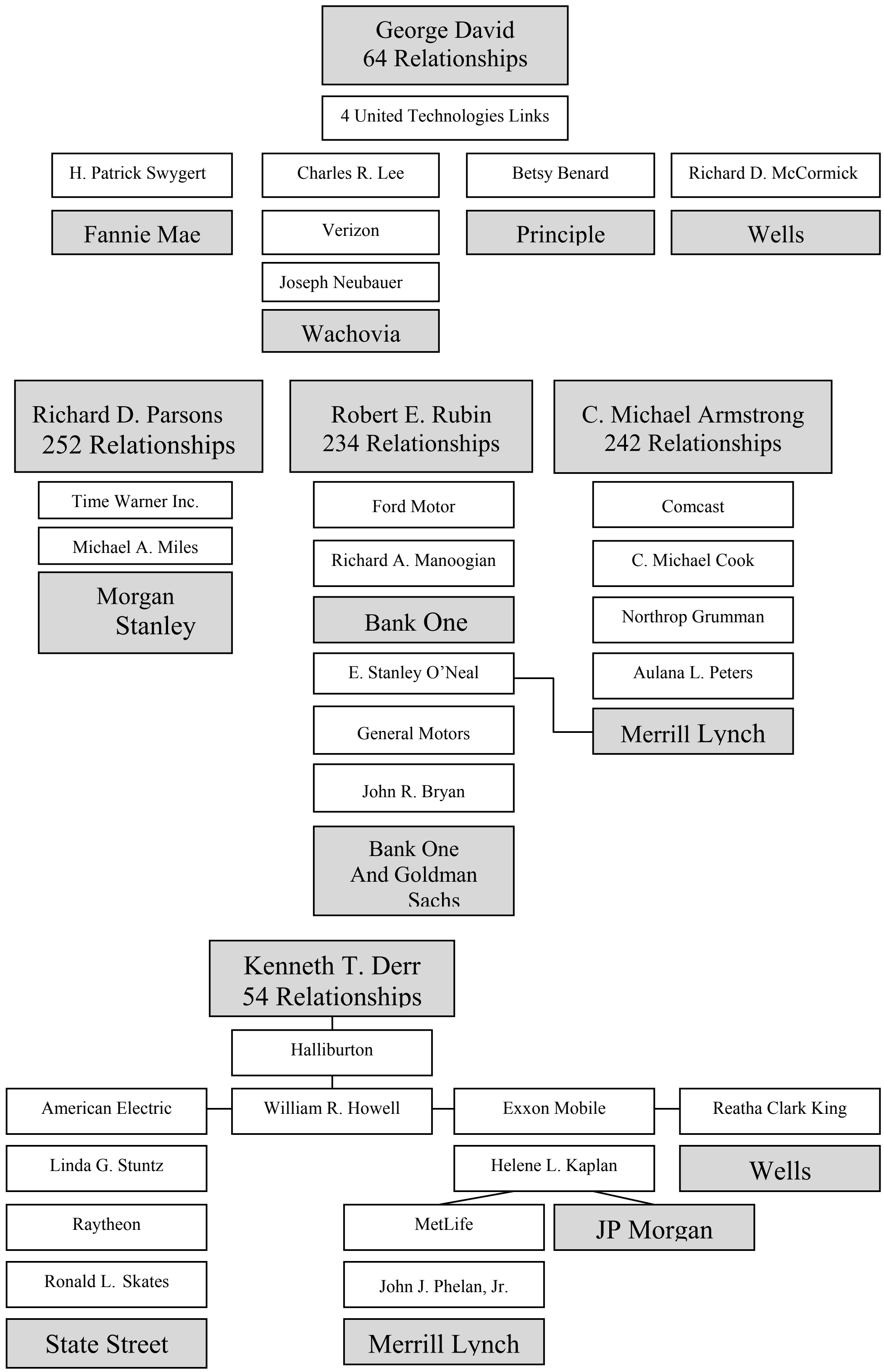
George David
64 Relationships
4 United Technologies Links
H. Patrick Swygert
Fannie Mae
Charles R. Lee
Verizon
Joseph Neubauer
Wachovia
Betsy Benard
Principle
Richard D. McCormick
Wells
Richard D. Parsons
252 Relationships
Time Warner Inc.
Michael A. Miles
Morgan Stanley
Robert E. Rubin
234 Relationships
Ford Motor
Richard A. Manoogian
Bank One
E. Stanley O'Neal
General Motors
John R. Bryan
Bank One And Goldman Sachs
C. Michael Armstrong
242 Relationships
Comcast
C. Michael Cook
Northrop Grumman
Aulana L. Peters
Merrill Lynch
Kenneth T. Derr
54 Relationships
Halliburton
William R. Howell
American Electric
Linda G. Stuntz
Raytheon
Ronald L. Skates
State Street
Exxon Mobile
Helene L. Kaplan
MetLife
John J. Phelan, Jr.
Merrill Lynch
JP Morgan
Reatha Clark King
Wells

Figure 1 (continued)