Teaching Note

Organization Culture at Goldman Sachs

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SUMMARY:

The case focuses on the organization culture at Goldman Sachs. It explains the drivers and elements of Goldman Sachs’ culture, which has been a source of competitive advantage for the company. Goldman Sachs, which operated based on its 14 business principles, was known for its risk-taking ability, ruthlessness, and conservatism. The case also looks into the changes that are taking place in the partnership culture at the organization after the company went public in 1999. The case also looks into the role played by the top management in the evolution of the Goldman Sachs culture.

TEACHING OBJECTIVES & TARGET AUDIENCE:

The case will help the students understand:

1. How culture can be a source of competitive advantage for an organization.
2. The elements of an organizational culture.
3. What drives organizational culture.
4. The role of the top management in the evolution of organizational culture.
5. The role of myths/stories/incidents/rituals in communicating culture.

The case is meant for MBA/ PGDBM students and can be a part of Human Resources Management/ Organizational Behavior curriculum.

TEACHING APPROACH & STRATEGY:

This case can be used effectively in classroom discussions as well as in distance learning programs. In the classroom mode, the case moderator can initiate the discussion by asking students to give their comments on what would constitute an ideal organization culture in their opinion and what they would expect in the organization they would like to work for. A background study on what constitutes culture will help students understand the culture in an organization. The moderator can request a professional from an investment banking company to share his experiences and judgments about how it would be like to work in an investment banking company. The moderator can take the discussion further with the help of the following questions:

1. “The organization culture at GS was driven by its 14 business principles”. How did GS apply its business principles and create standards among the peer groups?
2. “The structure at GS was such that an individual recruited at GS could in future become a partner of the company.” How did partnership at GS impact the culture of the firm?
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3. “GS culture, which has evolved through one and a half centuries, was shaped by ‘ambition, greed and paranoia’”. Though the company, through its more than century old existence, was able to converge these factors and its business principles into a common goal of long term value addition, reports show that in recent years the company has been facing difficulties in achieving this convergence. Discuss.

ANALYSIS:

1. ‘Putting the customer first’, the first business principle, was a driver of organizational culture at GS. The organization followed this principle in letter and spirit. GS refused to associate itself with companies involved in a hostile take-over. This, it felt, was unethical because the company being targeted could have been its client in the past or could become its client in the future. Though GS lost revenues in the short term, the message that the company sent to the industry was clear enough. Soon, companies were willing to share confidential information with GS. In addition, companies also came to GS seeking advice for thwarting hostile bids by other companies.

GS looked at long-term benefits even if it meant losing short-term gains. GS exhorting other underwriters to stand by their word during the sale of British Petroleum is an example in this regard. Going the extra mile to be with the clients and the company’s principle of dealing carefully with confidential information relating to clients, were the two elements that were part of GS’s business principles. GS also applied one of its business principles “to anticipate the rapidly changing needs of our clients and to develop new services to meet those needs” in its work. The Mergers and Acquisitions Group of GS, one of the first dedicated M&A groups on Wall Street, was an example of how GS adapted to the changing market environment. M&A activities, by 1998, had become a billion dollar business for GS. The “proprietary information” that GS received from close client contacts helped the firm to offer tailor-made products and services, which earned GS a premium.

2. From the founding of the company by Marcus Goldman in 1869, GS had a partnership structure. Though the company went public in 1999, it continued to elect partners every two years. The partners were paid exorbitant sums of money as compensation. In 2004, 253 partners at GS drew a salary of US$ 600,000 per annum in addition to sharing the firm’s profit. The partnership culture thus attracted and retained people.

The lure of becoming a partner was so strong that people stayed on in the organization for years till they became partners. It thus followed that by the time the employees became partners, they knew each other very well. This familiarity helped partners to rely on each other. The attractiveness of becoming a partner also brought in the finest talent available in the market to the company. In 2004, GS was ranked No.3 in the ‘50 most desirable MBA employers’. Being a partnership firm helped the company to focus on long-term growth as it was not under pressure from investors to look for short-term results.

The end of the partnership structure after the company went public had a negative impact on the firm. Potential recruits started questioning whether the rewards that would be offered by the company in the new structure would match the effort that they would have to put in. Also, an increasing number of senior people at the organization started leaving.

3. GS operated on the maxim of ‘Greedy, but long-term greedy’. The partners at the company reinvested most of their earnings in GS looking for long-term appreciation of their capital. Though the company had problems in the form of lack of innovation arising out of company’s obsession with collectivism, GS was strong in the execution of any plan. The company built its culture in
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such a manner that till the mid-1980s, no partners at GS had left the firm to join a competitor at Wall Street in a comparable position. The company had a strong reputation in the financial services industry and conservatism was the norm at the company. Between 1996 and 2004, the company had an annual revenue growth rate of 15% while GS’s peer companies had an annual revenue growth rate of approximately 8%.

But, indications of the grey areas in GS soon started to show up. There was increasing competition and GS found that competitors were making inroads into all areas of financial services. GS faced trouble in practicing its business principle of being “big enough to undertake the largest project that any of our clients could contemplate, yet small enough to maintain the loyalty, the intimacy, and the esprit de corps that we all treasure and that contribute greatly to our success”, as competitive firms made way into both low-paying segments like debt underwriting and high margin segments like equity underwriting and M&A in order to offer complete solutions to their clients. The regulatory environment also got stricter with scandals rocking corporate America. GS went on a settlement spree between 2000 and 2005. Its public image took a beating during the period with the company paying millions of dollars to various regulators for alleged violations of rules by GS during this period. This was in contradiction to the company’s explicit tenet of “Integrity and honesty are at the heart of our business”. In 2004, half of the 20722 employees at Goldman Sachs had been with the firm for less than four years, and this, in a company earlier known for its loyalty. The company had problems with retention, as expert talent left the organization and the new recruits took time to fit in with the GS way of functioning.

FEEDBACK:

The case was discussed by a group of students at IBS Center for Management Research, Hyderabad, India. The discussion started with an introduction to what culture stands for. The discussion took into account the kind of high-performance culture normally found in firms engaged in investment banking, equity trading, dealing with high-net worth individuals etc.

The group dealt with the kind of partnership culture that existed in the firm, and how the organization nurtured and maintained the culture. The group also spoke about the impact of changing business environment on the company and whether the company would be able to sustain its earlier culture. The group questioned whether the espoused values like integrity, honesty, teamwork are mere words which are not put into practice. The argument was supported by incidents like the amount of fines the company had to pay in the early 2000s, one-fourth of the people leaving the company annually etc.
Additional Readings & References:

11. $35m, and not a penny more, The Economist, May 20, 2003.
19. NASD Fines Goldman Sachs Unit Over IPOs, Reuters, March 22, 2005.