Organization Culture at Goldman Sachs

This case was written by R.N. Ajit Shankar, under the direction of Sanjib Dutta, IBS Center for Management Research. It was compiled from published sources, and is intended to be used as a basis for class discussion rather than to illustrate either effective or ineffective handling of a management situation.
Organization Culture at Goldman Sachs

“Everyone here is committed to a level of excellence and going the extra mile in a way that I’ve never seen at any other organization.”

- Suzanne Nora Johnson, Managing Director, Global Investment Research, Goldman Sachs in 2005.

“At Goldman Sachs, culture is a key issue since the company is essentially a ‘bunch of people’ that does not produce a concrete product.”


INTRODUCTION

In 2005, Goldman Sachs Group Inc. (GS) was one of the leading merchant banking and securities firms. It provided services to corporations, financial institutions, governments, and high-net worth individuals in three segments - Investment Banking, Trading and Principal Investments, and Asset Management and Securities Services (Refer Exhibit I for details). The company, founded in 1869, was successful in all the businesses it operated. This success could be attributed to its culture, which proved to be a source of competitive advantage for the firm. “Our firm’s culture is the most sustainable competitive advantage that we have; I also believe that we have the best people, but the magic is the combination of outstanding people and a strong culture,” said Bill Buckley, Former Managing Director and Former Co-Head, Private Client Services, GS.

GS also attracted media headlines because of the money the company’s top management made. When GS made a US$ 2.6 billion pretax profit in 1993, UK-based newspaper, The Guardian, remarked, “What’s the difference between Tanzania and Goldman Sachs? One is an African country that makes US$ 2.2 billion and shares it among 25 million people. The other is an investment bank that makes US$ 2.6 billion and shares most of it between 161 people.”

ABOUT THE COMPANY

In 1869, Marcus Goldman (Goldman) started his entrepreneurial venture as a commercial paper dealer in New York. Goldman bought promissory notes from jewelers and resold them to commercial banks. In 1882, Samuel Sachs (Sachs), who married Goldman’s daughter, joined Goldman in his business. In 1885, the venture was named Goldman, Sachs & Company. In the 1900s, the company played a lead role in establishing the Initial Public Offering (IPO) market in the US. In 1906, GS lead managed Sears, Roebuck & Company’s IPO. GS was one of the first investment banks to recruit MBAs. It recruited Harvard Business School MBAs in 1922. The firm

1 http://www.gs.com/our_firm/corporate_information/our_story/index.html#
4 http://www.wofoster.com/murphy_article.shtml.
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also took the lead in banking reforms and corporate governance issues in the 1930s. By the 1950s, GS had become a leader in the equities markets through its innovations in block trading\(^5\) and risk arbitrage\(^6\).

In the 1960s, GS set up a Mergers & Acquisitions (M&A) group, the first dedicated M&A group on Wall Street. In 1977, GS created a single computerized information network that provided instant access to all GS offices. In 1984, the firm became the only investment bank to be ranked in the top 10 in the first publication of ‘The 100 Best Companies to Work for in America’\(^7\). In 1986, GS was the US advisor and lead manager for UK’s sell-off of British Gas\(^8\). Subsequently, GS took the lead role as an advisor in the sell-off of state-owned companies around the globe. By the late 1980s, GS was ranked among the top ten financial institutions involved in the mergers and acquisitions business in the UK.

In 1999, GS went public. It raised US$ 3.66 billion through the sale of 69 million shares. The company’s shares were also allotted to the 221 partners and the 13,000 employees in the company. Of the US$ 3.66 billion, US$ 200 million was donated to establish the Goldman Sachs Foundation\(^9\). In 2000, GS created Pine Street, a training and development initiative for its managing directors. From 1996 to 2004, GS had an annual revenue growth rate of 15% when peer companies were able to chart only an annual revenue growth rate of approximately 8%. In 2004, the company improved its net earnings to US$ 4,533 million from US$ 3,005 million in 2003; the net revenues increased to US$ 20,550 million from US$ 16,012 million during the same period (Refer Exhibit II).

**DRIVERS OF CULTURE**

The organization culture at GS was driven by its 14 business principles (Refer Exhibit III). Of these, putting clients’ interests topped the list. In the 1980s, GS adopted the practice of refusing to represent any company involved in a hostile takeover bid. GS believed that the company being targeted might have been its client in the past or had the potential to be one in the future. This was the result of the legacy left by Goldman who stressed hard work and the importance of absolute integrity. Walter Sachs, nephew of Goldman, remarking on the ways in which Goldman conducted his business, said, “It was a small business done in a small way – but with accuracy and exactitude.”\(^{10}\)

The GS culture, which evolved over one and a half centuries, was shaped by “ambition, greed and paranoia”.\(^{11}\) Most of the top management at GS clawed their way up hierarchical ladder. Sidney Weinberg (Weinberg), who was the Chairman of GS from 1930 to 1969, began his career by shining the shoes of partners.\(^{12}\) CEO Henry M. Paulson, Jr. (Paulson), Chairman of the Board and

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5 A block trade is a privately negotiated futures transaction executed apart from the public auction market. There are minimum order size requirements that vary according to product and order type, and eligibility for engaging in such trades is strictly regulated.
6 Arbitrage is the attempt to profit by exploiting price differences of identical or similar financial instruments, in different markets or in different forms. Risk arbitrage, as the term denotes, is a high risk arbitrage process.
7 Great Places to Work Institute comes out with a list of “100 Best Companies to Work for in America” every year. It is published in Fortune. In the 2005 list, Goldman Sachs was ranked 35th.
8 The Thatcher government in UK went ahead with privatization of state-owned firms. The sale of British Gas brought in 5.6 billion pounds.
9 The Foundation has awarded grants in excess of $62 million since its inception. It focused its activities on the three primary areas of Developing High-Potential Youth, Promoting Entrepreneurship and Business Education, and Advancing Academic Achievement.
Chief Executive Officer, GS, mentioned that he had a hard time thinking of anyone at the top management hierarchy at GS coming from a wealthy background. Gary Cohn (Cohn), Managing Director and Co-Head, Equities Division, joined GS in 1983 from the floor of the New York Commodities Exchange, where he worked as a silver trader. He was dyslexic and had reading problems until the eighth grade. “We were all on the wrong side of everything. Years of being told you were going to fail makes you say, ‘I’ll show you’,” remarked Cohn.13

**STRUCTURE AND SYSTEMS**

As most of the GS partners had been in the organization right from the start of their careers, they had worked as part of the same team at some point. Thus, by the time they became partners, they were familiar with and trusted each other. The trust thus generated among the partners helped them to use each other’s resources – something that the structure of the organization required. The organization plan at GS has been described as fluid with a circle at the center representing a management committee, with the operational divisions being around the circle (Refer Exhibit IV). Each management committee member was in the center circle and in the producing circle, which showed her/his dual roles. Unlike many organizations, there was no need for the management to monitor the GS staff, as the need to monitor was taken care of by the culture of the organization.14

The structure at GS was such that an individual recruited at GS could in future become a partner of the company. This ensured loyalty and high performance from the employees. At GS, partners’ compensation was tied to the profitability of the whole firm. This was in contrast to other firms where managing directors of profitable departments were well paid even if the organization was doing poorly. Though the private partnership ended in 1998, the firm’s profitability did not suffer as some had predicted it would. “Goldman Sachs made a good job of going public. It has done a good job of maintaining its bottom line,” commented Ashish Nanda, Associate Professor, Harvard Business School.15

Though the partnership structure ended, GS continued to elect partners every two years. In 2004, there were 253 partners at GS who drew an annual salary of US$ 600,000 and shared in the firm’s profits. “Goldman has done well because it attracts good people, and good people attract other good people, and in that business, that’s the stock in trade,” said Jeffrey R. Immelt (Immelt), CEO, GE.16 People looking for a stimulating work environment were attracted to GS. Though it did not offer its bankers multi-year salary guarantees and did not pay traders a percentage of their earnings, the company still got the best of the talent available in the market. “I had this philosophy that I had learned in government, and the philosophy was it’s very, very important what you do, but it’s even more important who you do it with. And when I met these people at Goldman Sachs, I said these are the people I want to work with,” said Paulson.17 The inbuilt enthusiasm of the GS employees ensured a high morale and low turnover through its history till the early 1990s. Only two senior partners left the organization between 1930 and 1990. Staff turnover of 3 percent in 1980s was below industry average. Till the mid-1980s, no partners at GS had left the firm to join a competitor at Wall Street in a comparable position.

GS recruited candidates who fit into the culture of the organization. Potential candidates went through a minimum of a dozen interviews before being given a formal offer. The initial stages of the interviews determined the intellectual caliber of the employees while the later stages determined the ‘culture fit’ of the candidate. Only those candidates who demonstrated a burning

17 http://www.gs.com/our_firm/corporate_information/our_story/index.html#
ambition, total commitment, and an inclination for teamwork were selected. “We get people who are excellent when they get here. They do however have an inflated sense of self and an enormous need for recognition,” said a New York Times article in 1988, which quoted a study done by GS. A 360-degree employee review process brought in an element of team approach in the organization.

ELEMENTS OF CULTURE

Long-term Customer Focus

GS believed in long-term customer focus. “We’re focused on our relationship being sustained over centuries, not for the next deal,” said Rajiv A. Ghatalia, Managing Director, Investment Banking Division, GS. GS served clients like Sears, Goodrich, and General Foods for almost a century, ‘nurtured by generations of bankers and handed down almost like family heirlooms.’

GS stood by its clients during difficult times. In 1987, GS along with other members of a syndicate agreed to underwrite the sale of state-owned British Petroleum. Following the stock market crash of October 1987, the US stock market dipped by 22 percent in a single day, and GS was about to face a loss of US$ 100 million on that deal. While other underwriters reviewed their commitment by instructing their lawyers to see if there was a legal method to reduce their exposure, GS stood by its word, and influenced other member firms of the syndicate to stand by their word too. John Weinberg (Weinberg), who was a Senior Partner at GS during this period, explained GS’s stand, “Gentlemen, Goldman Sachs is going to do this. It is expensive and painful but we are going to do it. Because if we don’t do it, those of you who decide not to do it, I just want to tell you, you won’t be underwriting a goat house. Not even an outhouse.” Though the transaction turned out to be a loss, GS went ahead with the deal.

GS operated on the maxim of ‘Greedy, but long-term greedy’. “If you are willing to turn down money and you keep your ego under control, you can save yourself a lot of heartache in this business,” said Steve Friedman (Friedman), former Senior Partner, GS. Partners reinvested most of their earnings in GS, and this also contributed to a long-term customer focus as the partners looked at the long-term well-being of the company. Cohn recounted what a former partner of GS, Mark Winkelman, had once told him, “There’s no difference between us and every other investment bank out there – except your hard work, your management, and the people you hire. Think about it. We work in the same buildings, we have the same computers, we fly on the same planes, we sleep in the same hotels. We even have the same clients.”

GS put in extra effort to build relationships with potential clients. The GS top management was known for spending time with customers, and this helped it reap long-term dividends. Immelt commented that Weinberg, who was also one of three heads of investment banking at GS, was one of the few bankers on Wall Street who nurtured a relationship with Immelt even when Jack Welch was the CEO of GE. When GE’s Genworth insurance came out with a US$ 3 billion IPO

18 http://www.gs.com/our_firm/corporate_information/our_story/index.html#
19 General Foods was acquired by Philip Morris Companies Inc. in 1985. In 1989, the food products division of Philip Morris, General Foods, and Kraft, were joined to become Kraft General Foods. In 1995, Kraft General Foods was renamed Kraft Foods.
20 Approximately 20 percent of GS’s earnings in 1986.
24 Jack Welch (John F. Welch, Jr.) was the CEO of GE between 1981 and 2001.
in 2004, GS along with Morgan Stanley were the lead underwriters. Paulson spent roughly one-third of his time visiting clients. Jim Coulter (Coulter), Founding Partner, Texas Pacific mentioned that his firm’s relationship with GS improved due to the regular visits the GS top management made to his office. Coulter stressed the fact that these visits were made by the GS team even though he had never asked for their presence at his office. Media reports indicated that Paulson visited China 68 times between 1992 and 2004, and was closer to China’s leaders than many in the US government. Frank Dangeard, a former senior executive at France Telecom, mentioned that Paulson always found time to communicate with his clients, a rare characteristic among chairmen of Wall Street firms.

A close relationship with clients helped GS to update themselves and to respond quickly to changing client needs. “Close client contacts gave Goldman Sachs proprietary information which in turn allowed the firm to tailor products and services which would then earn them a premium,” remarked Peter Mathias, a former Vice-President in the area of professional training and development at GS.

Secretive Nature

The private partnership culture at GS continued even after the company ceased to exist as a private partnership firm. GS was often criticized as being too opaque in its operations in a world where investors were demanding increased transparency. In the fixed income and commodities markets, GS often used company capital to facilitate a client trade, bringing in a proprietary aspect to that transaction. Analysts covering GS wanted to know how much money GS made by buying and selling transactions for its own account, and for the same practice on behalf of its clients. Though analysts pressed GS to divulge details about the way money was made, the company did not reveal much. “If any profitable opportunity to expand any of our businesses arose, we would take advantage of it, and if it didn’t, we wouldn’t,” commented David Viniar (Viniar), Chief Financial Officer, GS, while refusing to provide guidance for the future. During the GS IPO in 1999, Paulson told investors that if they were looking for stable earnings, they should opt for a toothpaste manufacturer and not GS. Though media reports mentioned that the firm took exhaustive measures to ensure correct valuation of trades, there was no way by which an outsider could verify how the firm made money. Due to the fact that there was comparatively less transparency in GS’s operations, GS stocks traded at low multiples of both earnings and book value (Refer Exhibit V for stock movement of GS).

Risk-taking Ability

According to some analysts, one of the reasons for GS’s success was its risk-taking ability. Many investors were wary about the ways in which GS dealt with risk in its business. Value-at-risk, a measure that indicated the amount GS could lose in a day’s trade, tripled since 2000 to US$ 69 million in 2005. Though there were times GS played by instinct, the investments were on target many a time. Post-2000, GS took over power plants in the US and also became the largest owner of golf courses in Japan. In 2001, when GS ended a four-year relationship with Constellation Energy, it made over US$ 1 billion from the deal, one of the most lucrative returns ever in the history of investment banking. An investment of US$ 1.3 billion in Japan’s Sumitomo Bank in 2002 added an average of 11% to GS’s annual operating earnings between 2002 and 2004. However, GS’s risk-taking ability had its downturns as well. FICC, a division where high-risk

25 Morgan Stanley is a leading financial services firm.
26 Texas Pacific is an investment company with more than $10 billion of assets under management.
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dealings were undertaken, faced huge losses in 1994\textsuperscript{29} and 1998\textsuperscript{30}. FICC was informally referred to as ‘FITANIC’\textsuperscript{31} inside GS.

GS analyzed the changing business environment and how the company was positioned to take advantage of the changes. The risk management model followed by GS collected on an average, 25,000 inputs a day to measure market risk. It did scenario exercises to gauge its preparation for accepting change. Some of the scenarios that GS followed included the ‘Fall of 1998 stress test’, which brought back the scenario of 1998 and the ‘Equities crash test’ which looked into the scenario of a 50% dip in S&P 500. GS also had access to the ‘BONY box’, which referred to short-term securities at the Bank of New York amounting to US$ 35 billion to US$ 40 billion dollars. This mitigated the risk of non-availability of funds in the short term.

Conservative Spending

GS emphasized the creation of wealth rather than displaying it. GS was conservative when it came to spending. It was reported that Jon Winkelried, Co-head, FICC, GS, occasionally worked in a shirt with a torn sleeve and missing buttons. Throughout its history, GS wasn’t known for having flamboyant leaders. Paulson was against conspicuous consumption, though he owned over US$ 350 million worth of GS stock. “Hank (Paulson) doesn’t drink, doesn’t smoke, is still on his first wife, and you’d never catch him dead in a Porsche,” said a former GS partner.\textsuperscript{32}

Ruthless

GS was termed a ‘ruthless place’ where non-performers were rapidly shown the door. Every year, GS ranked its employees into four quartiles and ‘fourth-quartilers’ made their way out of the organization. “This is an intensely competitive place. There are plenty of external factors, but a lot of it is self-induced,” said Kevin Kennedy, Head, Human Capital Management, GS.\textsuperscript{33} GS hadn’t yet reached a situation where it had difficulty in recruiting smart young talent. In 2004, Goldman Sachs was ranked third in the ‘50 most desirable MBA employers’, as per a study conducted by research firm Universum\textsuperscript{34}.

At an investment conference held in New York in 2002, Paulson mentioned that at GS, 15% to 20% of the people added 80% of the value to the business, and hence cutting a fair amount of work force would not affect the business much. Though Paulson later apologized for the remark, it generated lot of publicity. The ruthlessness at GS was also reflected in the reducing tenures of the partners. In the 1980s, the average tenure of a partner was ten years while in 2004, it was eight. Partners either moved up the hierarchy or they had to leave the organization.

According to analysts, GS was successful in channelizing the individual greed, ambition, and paranoia into a common goal of long term value addition. This resulted in teamwork. “It is important to have the ability to get along with people, and know your business well. I came up through every single department of our firm,” said Weinberg.\textsuperscript{35} The teamwork was genuine because it reflected the survival instinct of the employees. The ruthlessness displayed at GS was

\textsuperscript{29} In 1994, there was unforeseen increase in interest rates.

\textsuperscript{30} 1998 was a year of global financial turmoil. Russia defaulted on its debt, sending world markets into a frenzy. GS suffered huge losses, nearly $500 million in the month of September itself. When the equity markets sank, the valuation of GS fell by 40 percent.

\textsuperscript{31} Rhyming with Titanic, the famous British ocean liner that sank in its maiden voyage resulting in the death of more than 1,500 people.


\textsuperscript{34} Every year research firm Universum ranks the 50 most desirable employers in the world, based on the preference given by MBA candidates.

\textsuperscript{35} http://www.gs.com/our_firm/corporate_information/our_story/index.html#
driven by the fear of uncertainty. Mike Evans, Co-head, Equity Business, GS, pointed out that everyone at GS lived with the understanding that the business was always under threat and so it was necessary for GS to constantly adapt and look for new ways of making money. Except in rare cases, GS usually had ‘co-heads’ rather than unit heads.

In the mid-1980s, years before any American investment bank played a role in the M&A deals in UK, GS sent merger specialists to its London office. Without much business in the new location which could have utilized their expertise and having to justify their expatriate existence, the merger specialists made cold-calls to potential clients and this resulted in GS building up a business from scratch. Earlier, in the 1960s, GS created the first M&A department on Wall Street, operating it as a subsection of the investment banking division of GS. In 1966, M&A revenues accounted for US$ 600,000 and by 1980, it went up to US$ 90 million. By 1989, M&A business brought in US$ 350 million and by 1998, it became a billion dollar business for GS.

**DRAWBACKS AND CHALLENGES**

Detractors of GS argued that the collective focus at GS quashed innovation. The interviewing process at GS was criticized for recruiting clones and not bringing in candidates who had the knack of understanding and diversifying into emerging areas in financial services. Friedman questioned, “Why should Goldman Sachs have been so much later than other firms in getting into derivatives? Why should we have been so much later than Salomon in getting into the mortgage business or in developing a capital markets group?”

The collective focus at GS had a negative side due to the existence of groupthink in the organization. And groupthink became more pronounced with the company’s involvement in the trading business. Investment patterns followed by traders who made good returns were imitated by other traders. This resulted in a situation where bets became more concentrated and gains and losses were greatly accentuated. Between 1990 and 1994, Sharp Ratio, a measure of the quality of returns at GS, deteriorated, indicating that the firm had to take greater risk to generate each dollar of profit. The famed loyalty of GS employees toward the company too began to erode from the mid-1990s.

After the GS IPO in 1999, potential recruits to GS especially at the entry level started questioning whether they could make money and achieve career progress in the same manner as they used to under the partnership structure. “Unless there are tangible rewards, all that a massive change like this (post-IPO) can do is destroy the very qualities that brought people into the business in the first place,” commented Neil McEwen, Head-Change Management Consulting, Hay Management Consultants. As GS was unwilling to compensate extraordinary contributions financially, unlike competitors, some of the expert talent of GS, who started their careers at GS, left the organization.

Investment Banking was able to contribute only 5% of GS’s profits in 2003 as compared to 34% in 2000. Bankers who were part of the M&A department were made to work as part of the industry group. There was a decrease in the headcount at GS from 22,677 in 2001 to 19,476 in 2003. In 2004, the employee strength was 20,722, and of these, half had been with the firm for less than four years.

By 2004, competitors had made inroads into all areas of financial services. Leaders from the banking industry commented that they had an advantage over GS due to their ability to combine lending and investment-banking products. In 2004, GS’s market capitalization of US$ 42 billion was one-sixth of Citigroup’s market capitalization of US$ 238 billion. Banks like Citigroup, Bank

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37 An Economist article in 1998 commented, “Junior employees work like slaves for years on very little pay (by Wall Street standards, that is), in the hope of one day winning the great prize of a partnership.”
of America, etc., who had the advantage of higher revenues than GS, due to their presence in diversified financial services, made their way into both low-paying segments like debt underwriting, and high margin segments like equity underwriting and M&A. Charles O. Prince, CEO, Citigroup, commented that that he would like to depose GS from its top M&A ranking over the next three years. GS was aware of the changes in the environment. Jack Levy, Co-head, M&A department, commented, “The last three years have been more difficult than any I can remember – ever. This is an environment where we cannot afford to make a mistake.”

COMPLIANCE ISSUES

In 2002, the company paid US$ 1.65 million in fines for allegedly violating e-mail record keeping requirements. In 2003, GS paid US$ 110 million as part of the settlement over research improprieties when New York State Attorney General, Eliot Spitzer, fined Wall Street for bad behavior. In the same year, the company agreed to pay US$ 4.3 million in restitution and US$ 5 million in penalty related to improper trading in US Treasury securities and futures. In 2004, GS agreed to pay US$ 2 million to the Securities and Exchange Commission (SEC) for settling charges of promoting an IPO before the IPO registration became effective. The SEC also alleged that GS spoke to the media about an IPO by PetroChina before an initial registration was filed. Spear Leeds, a firm GS bought in 2000 and renamed as Goldman Sachs Execution & Clearing LP, had to pay US$ 45.3 million to the National Association of Securities Dealers (NASD) in 2004 to settle charges that it traded ahead of customers. In 2005, Goldman Sachs Execution & Clearing LP was fined US$ 1 million by NASD for hiding IPO allocations from the Depository Trust Corporation.

By 2004, GS put in place a program for the entire firm dealing with regulatory compliance and reputation. The CEO of the firm had indicated to the employees that the slightest infraction would cost them their jobs. But Paulson admitted that it would be difficult to completely eliminate fraudulent behavior on the part of employees. With the regulatory environment getting stricter, the reputation of the company became a source of competitive advantage in the global financial industry. Industry observers commented that it would be difficult for GS to continue with its old culture. With every passing year, GS was growing bigger. Former employees at GS mentioned that the organization had become less of a partnership. The shares of GS owned by employees of GS declined from 80% at the time of the IPO to about 30% in 2004. Though senior people at GS were optimistic about the future of the company, the uncertainty about it brought in elements of abstractness in their visualization of the future, something uncharacteristic of the way GS functioned. “Look, fortunes are going to be made. But the biggest risk is what you can’t see today. That’s why life is the ability to step outside yourself, to see that something that you can’t see today, something that one day you’ll hit yourself on the forehead and say, ‘Why didn’t I see it that way?’” said Lloyd Blankfein (Blankfein), Chief Operating Officer, GS.

<table>
<thead>
<tr>
<th><strong>Exhibit – I</strong></th>
<th><strong>Services Offered by Goldman Sachs</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Investment Banking</strong></td>
<td>The Financial Advisory component dealt with advisory assignments related to divestitures, mergers and acquisitions, corporate defence activities, restructuring, and spin-offs. The Underwriting component included public offerings and private placements of equity instruments, equity-related instruments, and debt instruments.</td>
</tr>
<tr>
<td><strong>Trading and Principal Investment</strong></td>
<td>The Fixed Income, Currency and Commodities Division (FICC) dealt with interest rate securities, foreign exchange, commodities and credit businesses. The Equities division of the Trading and Principal Investment segment assisted clients with their investing and trading strategies by acting as a specialist for trade equities and related products, structuring and entering into equity derivative transactions. The division also executed and cleared customer transactions on stock, options and futures exchanges worldwide. The Principal Investment division of the Trading and Principal Investment segment represented net revenues from the company’s merchant banking investments.</td>
</tr>
<tr>
<td><strong>Asset Management and Securities Services</strong></td>
<td>The Asset Management and Securities Services segment of GS dealt with investment advisory and financial planning services, brokerage services, securities lending services, etc.</td>
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## Exhibit II

### Financial Highlights of Goldman Sachs between 1999-2004

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<thead>
<tr>
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<tr>
<td>Investment Banking</td>
<td>3,374</td>
<td>2,711</td>
<td>2,830</td>
<td>3,836</td>
<td>5,371</td>
<td>4,359</td>
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<td>Trading and Principal Investments</td>
<td>13,327</td>
<td>10,443</td>
<td>8,647</td>
<td>6,349</td>
<td>6,627</td>
<td>5,773</td>
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<tr>
<td>Asset Management and Securities Services</td>
<td>3,849</td>
<td>2,858</td>
<td>2,509</td>
<td>5,626</td>
<td>4,592</td>
<td>3,213</td>
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<tr>
<td>Total Net Revenues</td>
<td>20,550</td>
<td>16,012</td>
<td>13,986</td>
<td>15,811</td>
<td>16,590</td>
<td>13,345</td>
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<td>Pre-tax Earnings</td>
<td>6,676</td>
<td>4,445</td>
<td>3,253</td>
<td>3,696</td>
<td>5,020</td>
<td>1,992</td>
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<td>Net Earnings</td>
<td>4,533</td>
<td>3,005</td>
<td>2,114</td>
<td>2,310</td>
<td>3,067</td>
<td>2,708</td>
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### Common Share Data ($)

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<th>Diluted Earnings per Share</th>
<th>8.92</th>
<th>5.87</th>
<th>4.03</th>
<th>4.26</th>
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<tr>
<td>Dividend Declared per Share</td>
<td>1</td>
<td>0.74</td>
<td>0.48</td>
<td>0.48</td>
<td>0.48</td>
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<tr>
<td>Book Value per Share</td>
<td>50.77</td>
<td>43.60</td>
<td>38.69</td>
<td>36.33</td>
<td>32.18</td>
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<tr>
<td>Tangible Book Value per Share</td>
<td>40.91</td>
<td>33.56</td>
<td>28.84</td>
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</table>

### Financial Condition and other Operating Data

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<thead>
<tr>
<th>Total Assets (Million US$)</th>
<th>531,379</th>
<th>403,799</th>
<th>355,574</th>
<th>312,218</th>
<th>284,410</th>
<th>289,760</th>
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<tr>
<td>Shareholders’ Equity (Million US$)</td>
<td>25,079</td>
<td>21,632</td>
<td>19,003</td>
<td>18,231</td>
<td>16,530</td>
<td>10,145</td>
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<tr>
<td>Leverage Ratio</td>
<td>21.2x</td>
<td>18.7x</td>
<td>18.7x</td>
<td>17.1x</td>
<td>17.2x</td>
<td></td>
</tr>
<tr>
<td>Adjusted Leverage Ratio</td>
<td>15.1x</td>
<td>16.5x</td>
<td>15.2x</td>
<td>13.2x</td>
<td>13.1x</td>
<td></td>
</tr>
<tr>
<td>Debt to Equity Ratio</td>
<td>3.2x</td>
<td>2.7x</td>
<td>2.0x</td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Return on Average Shareholders Equity</td>
<td>19.8%</td>
<td>15.0%</td>
<td>11.3%</td>
<td></td>
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</tr>
</tbody>
</table>

### Selected Data

<table>
<thead>
<tr>
<th>Total Employees</th>
<th>20,722</th>
<th>19,476</th>
<th>19,739</th>
<th>22,677</th>
<th>22,627</th>
<th>15,361</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assets under management (in billion US$)</td>
<td>452</td>
<td>373</td>
<td>348</td>
<td>351</td>
<td>294</td>
<td>258</td>
</tr>
</tbody>
</table>

Exhibit III

14 Business Principles of Goldman Sachs

1. Our clients’ interests always come first. Our experience shows that if we serve our clients well, our own success will follow.

2. Our assets are our people, capital, and reputation. If any of these is ever diminished, the last is the most difficult to restore. We are dedicated to complying fully with the letter and spirit of the laws, rules, and ethical principles that govern us. Our continued success depends upon unswerving adherence to this standard.

3. Our goal is to provide superior returns to our shareholders. Profitability is critical to achieving superior returns, building our capital, and attracting and keeping our best people. Significant employee stock ownership aligns the interests of our employees and our shareholders.

4. We take great pride in the professional quality of our work. We have an uncompromising determination to achieve excellence in everything we undertake. Though we may be involved in a wide variety and heavy volume of activity, we would, if it came to a choice, rather be best than biggest.

5. We stress creativity and imagination in everything we do. While recognizing that the old way may still be the best way, we constantly strive to find a better solution to a client’s problems. We pride ourselves on having pioneered many of the practices and techniques that have become standard in the industry.

6. We make an unusual effort to identify and recruit the very best person for every job. Although our activities are measured in billions of dollars, we select our people one by one. In a service business, we know that without the best people, we cannot be the best firm.

7. We offer our people the opportunity to move ahead more rapidly than is possible at most other places. Advancement depends on merit and we have yet to find the limits to the responsibility our best people are able to assume. For us to be successful, our men and women must reflect the diversity of the communities and cultures in which we operate. That means we must attract, retain, and motivate people from many backgrounds and perspectives. Being diverse is not optional; it is what we must be.

8. We stress teamwork in everything we do. While individual creativity is always encouraged, we have found that team effort often produces the best results. We have no room for those who put their personal interests ahead of the interests of the firm and its clients.

9. The dedication of our people to the firm and the intense effort they give their jobs are greater than one finds in most other organizations. We think that this is an important part of our success.

10. We consider our size an asset that we try hard to preserve. We want to be 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.

11. We constantly strive to anticipate the rapidly changing needs of our clients and to develop new services to meet those needs. We know that the world of finance will not stand still and that complacency can lead to extinction.

12. We regularly receive confidential information as part of our normal client relationships. To breach a confidence or to use confidential information improperly or carelessly would be unthinkable.

13. Our business is highly competitive, and we aggressively seek to expand our client relationships. However, we must always be fair competitors and must never denigrate other firms.

14. Integrity and honesty are at the heart of our business. We expect our people to maintain high ethical standards in everything they do, both in their work for the firm and in their personal lives.

Source: www.gs.com
Exhibit IV

Organization Representation of Goldman Sachs


Exhibit V


Source: www.bigcharts.com
Additional Readings & References:

11. **$35m, and not a penny more**, The Economist, May 20, 2003.