

Goldman Sachs and culture essay sample



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DOES CULTURE MATTER IN MANAGEMENT CONTROL? A GOLDMAN SACHS EMPLOYEE RESIGNS PUBLICALLY “ Employees Management believes that a major strength and principal reason for the success of Goldman Sachs is the quality and dedication of our people and the shared sense of being part of a team. We strive to maintain a work environment that fosters professionalism, excellence, diversity, cooperation among our employees worldwide and high standards of business ethics. Instilling the Goldman Sachs culture in all employees is a continuous process, in which training plays an important part. All employees are offered the opportunity to participate in education and periodic seminars that we sponsor at various locations throughout the world. Another important part of instilling the Goldman Sachs culture is our employee review process. Employees are reviewed by supervisors, co-workers and employees they supervise in a 360degree review process that is integral to our team approach, and includes an evaluation of an employee’s performance with respect to risk management, compliance and diversity.

As of December 2011, we had 33, 300 total staff, excluding staff at consolidated entities held for investment purposes.” [SOURCE: 2011 10K of The Goldman Sachs Group, Inc., pp. 6-7; published online February 28, 2012] EXCERPT FROM: “ Goldman Sachs’ Response to March 14, 2012 New York Times Op-Ed The following is the message Lloyd C. Blankfein and Gary D. Cohn sent March 14, 2012 to the people of Goldman Sachs. By now, many of you have read the submission in today’s New York Times by a former employee of the firm. Needless to say, we were disappointed to read the assertions made by this individual that do not reflect our values, our culture

and how the vast majority of people at Goldman Sachs think about the firm and the work it does on behalf of our clients.” [SOURCE: <http://www.goldmansachs.com/media-relations/comments-and-responses/current/nyt-oped-response.html>; accessed March 14, 2012]

EXCERPT FROM: March 14, 2012 Why I Am Leaving Goldman Sachs By GREG SMITH TODAY is my last day at Goldman Sachs. After almost 12 years at the firm — first as a summer intern while at Stanford, then in New York for 10 years, and now in London — I believe I have worked here long enough to understand the trajectory of its culture, its people and its identity. And I can honestly say that the environment now is as toxic and destructive as I have ever seen it... [SOURCE: A version of the op-ed from which this excerpt was taken appeared in print on March 14, 2012, on page A27 of the New York edition of the New York Times]

INTRODUCTION On March 14, 2012, Greg Smith stunned the business community by publically explaining his resignation from Goldman Sachs in an op-ed piece published in the New York Times. [Mr. Smith’s full article is in Appendix 1 of this case]. The reaction was swift and varied, ranging from sympathy and support to outright hostility. Some immediate reactions were offered by readers of Mr. Smith’s article who uploaded comments to the New York Times website: for a sampling of these online comments, see Appendix 2. Lloyd C. Blankfein (Goldman Sachs’s Chairman and Chief Executive Officer) and Gary D. Cohn (President and Chief Operating Officer) quickly responded on the same day that Mr. Smith’s resignation was published, by releasing a message “ to the people of Goldman Sachs” (see Appendix 3). GOLDMAN SACHS GROUP, INC. According to page 1 of its 2011 10K report, Goldman <https://assignbuster.com/goldman-sachs-and-culture-essay-sample/>

Sachs Group, Inc “ is a leading global investment banking, securities and investment management firm that provides a wide range of financial services to a substantial and diversified client base that includes corporations, financial institutions, governments and high-net-worth individuals.” The company reports its activities in four business segments: Investment Banking, Institutional Client Services, Investing & Lending and Investment Management. The chart below presents the four business segments:

The table below presents Goldman Sachs’s recent operating results, by segment:

[See pages 2 – 5 of the company’s 10K report for 2011 for more information on its business segments] REACTION TO MR. SMITH’S PUBLIC RESIGNATION
In addition to the immediate reactions of readers of the New York Times (Appendix 2), Mr. Smith’s article stimulated numerous responses in a wide variety of media.

QUESTIONS 1. Is this a case of whistleblowing? Explain. Should a formal mechanism for whistleblowing be part of a management control system? 2. What is corporate culture? Is it different from organizational culture? 3. Review Goldman Sachs 2012 Proxy document (which reports on 2011), including the CD&A. Do you have any comments? 4. Are “ culture” and “ management control” related? Explain. Is “ ethics” involved? Explain. 5. Describe Goldman Sachs culture. 6. Review Goldman Sachs 2011 MD&A, audited financial statements, and CEO letter to shareholders. Does your answer to Question 5 change?

7. Suggest, with reasons, how the situation could be improved, if it needs to be improved. 8. Is Mr. Smith telling the truth? What might have motivated him? SUGGESTED ADDITIONAL READING -Flamholtz, E. (1996), “ Effective Organizational Control: A Framework, Applications, and Implications”, European Management Journal, Vol. 14, No. 6, pp. 596-611. -Malmi, T. and Brown, D, (2008), “ Management Control Systems as a Package— Opportunities, Challenges and Research Directions,” Management Accounting Research, 19(4), pp. 287-300. -Jubb, P. B., (1999), ‘ Whistleblowing: A Restrictive Definition and Interpretation’, Journal of Business Ethics, 21(1), 77-94. -See the following Canadian perspective: Tim Kiladze, “ Opinion: Why I gave up my six-figure salary and quit Bay Street”, from Saturday’s Globe and Mail, Posted on Friday, March 16, 2012 7: 00PM EDT; FROM: <http://www.theglobeandmail.com/globe-investor/investment-ideas/streetwise/why-i-gave-up-my-sixfigure-salary-and-quit-bay-street/article2372106/singlepage/#articlecontent>

APPENDIX 1

MR. SMITH’S RESIGNATION ARTICLE March 14, 2012, on page A27 of the New York edition of the New York Times FROM: <http://www.nytimes.com/2012/03/14/opinion/why-i-am-leaving-goldman-sachs.html?pagewanted=all>

OP-ED CONTRIBUTOR

Why I Am Leaving Goldman Sachs

By GREG SMITH Published: March 14, 2012

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TODAY is my last day at Goldman Sachs. After almost 12 years at the firm — first as a summer intern while at Stanford, then in New York for 10 years, and now in London — I believe I have worked here long enough to understand the trajectory of its culture, its people and its identity. And I can honestly say that the environment now is as toxic and destructive as I have ever seen it. To put the problem in the simplest terms, the interests of the client continue to be sidelined in the way the firm operates and thinks about making money. Goldman Sachs is one of the world's largest and most important investment banks and it is too integral to global finance to continue to act this way. The firm has veered so far from the place I joined right out of college that I can no longer in good conscience say that I identify with what it stands for. It might sound surprising to a skeptical public, but culture was always a vital part of Goldman Sachs's success. It revolved around teamwork, integrity, a spirit of humility, and always doing right by our clients. The culture was the secret sauce that made this place great and allowed us to earn our clients' trust for 143 years.

It wasn't just about making money; this alone will not sustain a firm for so long. It had something to do with pride and belief in the organization. I am sad to say that I look around today and see virtually no trace of the culture that made me love working for this firm for many years. I no longer have the pride, or the belief. But this was not always the case. For more than a decade I recruited and mentored candidates through our grueling interview process. I was selected as one of 10 people (out of a firm of more than 30,000) to appear on our recruiting video, which is played on every college campus we visit around the world. In 2006 I managed the summer intern

program in sales and trading in New York for the 80 college students who made the cut, out of the thousands who applied. I knew it was time to leave when I realized I could no longer look students in the eye and tell them what a great place this was to work. When the history books are written about Goldman Sachs, they may reflect that the current chief executive officer, Lloyd C. Blankfein, and the president, Gary D. Cohn, lost hold of the firm's culture on their watch.

I truly believe that this decline in the firm's moral fiber represents the single most serious threat to its long-run survival. Over the course of my career I have had the privilege of advising two of the largest hedge funds on the planet, five of the largest asset managers in the United States, and three of the most prominent sovereign wealth funds in the Middle East and Asia. My clients have a total asset base of more than a trillion dollars. I have always taken a lot of pride in advising my clients to do what I believe is right for them, even if it means less money for the firm. This view is becoming increasingly unpopular at Goldman Sachs. Another sign that it was time to leave. How did we get here? The firm changed the way it thought about leadership. Leadership used to be about ideas, setting an example and doing the right thing. Today, if you make enough money for the firm (and are not currently an ax murderer) you will be promoted into a position of influence. What are three quick ways to become a leader? a) Execute on the firm's "axes," which is Goldman-speak for persuading your clients to invest in the stocks or other products that we are trying to get rid of because they are not seen as having a lot of potential profit. b) " Hunt Elephants." In English: get

your clients — some of whom are sophisticated, and some of whom aren't — to trade whatever will bring the biggest profit to Goldman.

Call me old-fashioned, but I don't like selling my clients a product that is wrong for them. c) Find yourself sitting in a seat where your job is to trade any illiquid, opaque product with a three-letter acronym. Today, many of these leaders display a Goldman Sachs culture quotient of exactly zero percent. I attend derivatives sales meetings where not one single minute is spent asking questions about how we can help clients. It's purely about how we can make the most possible money off of them. If you were an alien from Mars and sat in on one of these meetings, you would believe that a client's success or progress was not part of the thought process at all. It makes me ill how callously people talk about ripping their clients off. Over the last 12 months I have seen five different managing directors refer to their own clients as "muppets," sometimes over internal e-mail.

Even after the S. E. C., Fabulous Fab, Abacus, God's work, Carl Levin, Vampire Squids? No humility? I mean, come on. Integrity? It is eroding. I don't know of any illegal behavior, but will people push the envelope and pitch lucrative and complicated products to clients even if they are not the simplest investments or the ones most directly aligned with the client's goals? Absolutely. Every day, in fact. It astounds me how little senior management gets a basic truth: If clients don't trust you they will eventually stop doing business with you. It doesn't matter how smart you are. These days, the most common question I get from junior analysts about derivatives is, "How much money did we make off the client?" It bothers me every time I hear it, because it is a clear reflection of what they are observing from

their leaders about the way they should behave. Now project 10 years into the future: You don't have to be a rocket scientist to figure out that the junior analyst sitting quietly in the corner of the room hearing about "muppets," "ripping eyeballs out" and "getting paid" doesn't exactly turn into a model citizen. When I was a first-year analyst I didn't know where the bathroom was, or how to tie my shoelaces. I was taught to be concerned with learning the ropes, finding out what a derivative was, understanding finance, getting to know our clients and what motivated them, learning how they defined success and what we could do to help them get there.

My proudest moments in life — getting a full scholarship to go from South Africa to Stanford University, being selected as a Rhodes Scholar national finalist, winning a bronze medal for table tennis at the Maccabiah Games in Israel, known as the Jewish Olympics — have all come through hard work, with no shortcuts. Goldman Sachs today has become too much about shortcuts and not enough about achievement. It just doesn't feel right to me anymore. I hope this can be a wake-up call to the board of directors. Make the client the focal point of your business again. Without clients you will not make money. In fact, you will not exist. Weed out the morally bankrupt people, no matter how much money they make for the firm. And get the culture right again, so people want to work here for the right reasons. People who care only about making money will not sustain this firm — or the trust of its clients — for very much longer. Greg Smith is resigning today as a Goldman Sachs executive director and head of the firm's United States equity derivatives business in Europe, the Middle East and Africa.

Readers' Comments Readers shared their thoughts on this article. ☺ I find that these testimonials are important to help change the corrupt and rotten financial culture that surrounds our society. The sad part is that a company like Goldman Sachs has far too much power and controls not only the wealth of the wealthier, but also the wealth of independent countries. After the 2008 collapse, independent States all over the world have injected huge amounts of tax payers' money to cover for the blatant mistakes and greed of Goldman Sachs (and others). Now the people of the more vulnerable States, which little industrial and productive power, are being sacrificed so that this spiral of lunacy can continue.

As a citizen of one of these countries that is being sacrificed - Portugal - I demand that my elected leaders stop pampering for these lunatic companies like Goldman Sachs and stop imposing harsh austerity measures that will lead us nowhere and will only destroy the social fabric of our country.

However, I fear that this will not happen, because as we saw in Italy and Greece, when elected leaders stop cooperating with these powers they are simply replaced by former Goldman Sachs executives...sad world we are living in. March 14, 2012 at 10: 07 a. m. ☺ A moral decision is to be commended regardless of circumstance; coming of age in a culture that prizes the making of money to the exclusion of everything else makes reaching such a decision doubly difficult. Mr Smith is to be congratulated for his personal revelation.

However, the survival of the company pales next to the slow-motion chaos into which this behavior - by no means confined to GS - plunges the real world on a regular basis. Of course it's very clear that those responsible are

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not the least bit interested, for reasons mentioned in the article. If Mr Smith is interested in clearing his conscience, he might consider working to advance real regulation of the industry - at the very least. March 14, 2012 at 10: 01 a. m. ☺ Wow!.....I'm impressed. I hopeMr. Smith Goes to Washington!!! How refreshing to read your comments. There are other companies / hospitals that should examine the internal cultures they have created. The country is slowly going down the tubes because there is a level of corruption that is becoming the accepted norm across the board. If things are not changed now? When ! March 14, 2012 at 10: 00 a. m. ☺ Thank you, Greg for speaking out. I have been a Goldman client since 2006, and have been trying to get my money out for several years now, to no avail. My money was placed in proprietary funds that have under-performed other similar investments and were clearly designed to maximize Goldman's profit at my expense.

I am not allowed to get money out of these investments, in some cases for up to 810 years, without a significant " haircut" (hmmm, I wonder if Goldman partners profit from the haircut??). In one of these investments (which has lost 35% of its value since 2008), Goldman even refuses to provide basic information, like estimates of income or expenses for tax planning purposes. I literally have to guess the income my K-1 will show when I file my taxes in April, because Goldman won't even give me an estimate (much less quarterly or annual commentary or disclosure by the fund managers). In many years, the fund shows substantial interest income (on which I have to pay taxes), but none of that income is ever distributed to me and the NAV of the fund simultaneously goes down. Where did the income go? When asked,

Goldman refuses to provide specifics (even though I am a limited partner of the investment partnership and have a right to this information). It is amazing how little Goldman cares about its customers.

Goldman exists for the sole purpose of enriching its partners. March 14, 2012 at 10: 00 a. m. ☺ Congratulations, Greg! I resigned from more than one company where integrity was seriously lacking. In my first position, I was ordered to help clients lie on financial statements and change invoices – the partner actually handed me a bottle of white out! I was ordered to be a part of hiding a pension shortfall that I discovered and was walked out for refusing to go along. I have paid a price for walking away from these ‘ great opportunities’, but I sleep well at night. You are brave to take a stand for your clients and for your own integrity. I applaud you for walking away and for speaking out. March 14, 2012 at 9: 59 a. m.

I guess when you are part of the government with the keys to the treasury.....you can do whatever you want. The only way of stopping them is the same way to change our bloated and useless government: The Fat Cats have the only voice and will have to effect any change March 14, 2012 at 9: 46 a. m. ☺ The paradigm shift of which you write is not unique to Goldman Sachs, Wall Street, or even the business community at large. It has infiltrated nearly every facet of economic activity in the country. Politics and medicine immediately come to mind. As a culture, we have skidded off our moral base. March 14, 2012 at 9: 46 a. m. ☺ Unfortunately my factory-working friends who took such a big hit in this latest recession don’t read the NY Times. If they saw Smith’s article they might then begin to see that it wasn’t big government deficits that brought down the economy but this Wall Street “
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take the money and run” mentality. It’s the way American CEOs run our corporations and it is this mentality that destroys morale all the way down to the factory floor. March 14, 2012 at 9: 46 a. m. ☺ Greg Smith You sound like one of the insipid fools who has supported Obama over the last 3 years.

You believe the hype and feel-good rhetoric as a young pie in the sky college grad, then find that everything isn’t as you thought . Not only are you delinquent in your own moral standing , but then you lash out at the hand that feeds you . Would you have quit Goldman if you were only a 3rd year analyst , or did you wait to resign after your were a Managing Director with millions in stock and options . Your hand wringing about themoral fiber and culture is hypocritical , as you were part and parcel of that culture —and you are a fraud..... just like the stooges who believe in Obama , the worst president since Herbert Hoover March 14, 2012 at 9: 46 a. m. ☺ Greg, your complaints are the same complaints that were around 12 years ago, 25 years ago heck 35 years ago , not to mention but since the beginning of banking! Nothing wrong with making money on clients for services.

Something wrong when you come from a lack of sound shared values. Sounds like the tipping point was reached for you... and I am guessing you thought you and your values could survive GS changing environment and stayed way too long. With a trillion in assets you can make a living as an independent with no problem even if you captured 10% of them. But what would really make a difference is if YOu went to Singularity University and worked with a bunch of 20 somethings on a new paradigm for money, finance and banking that is value based. That would make a difference.

Leaving GS to their vices only lets them survive longer. Do something! March 14, 2012 at 9: 46 a. m.

Congratulations, Mr. Smith, and best wishes in your future endeavors. It is refreshing to see someone in your position who is willing to walk as well as talk. It is also not everyday I get to read a resignation letter and morning wakeup call printed for the entire circulation of the NYT and which is also probably giving more than a few of your former colleagues a well-deserved conniption. Too many believe that pursuit of money is an end in itself. Now, more than ever, whether in politics, business or elsewhere, personal integrity should and does matter. March 14, 2012 at 9: 46 a. m. ☺ The problem is that they don't CARE if they destroy the company, as long as they make a lot of short term profits on the way there. That attitude is not just destroying Goldman Sachs, it's destroying the entire marketplace. Profit Motive Uber Alles. The result is that a few people make a lot of money, and quality and innovation cease to exist. That's why the United States of America no longer leads the world in anything at all. But a few of us have a whole lot of money, and that's more important. March 14, 2012 at 9: 46 a. m.

Greg, where are you going next, and how do I get you to manage my accounts? March 14, 2012 at 9: 46 a. m. ☺ The problem is that they don't CARE if they destroy the company, as long as they make a lot of short term profits on the way there. That attitude is not just destroying Goldman Sachs, it's destroying the entire marketplace. Profit Motive Uber Alles. The result is that a few people make a lot of money, and quality and innovation cease to exist. That's why the United States of America no longer leads the world in anything at all. But a few of us have a whole lot of money, and that's more
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important. March 14, 2012 at 9: 46 a. m. ☺ Chapeau tres bas! No use to keep nagging about ‘ what if’ on scenario planning in the past. It’s never too late to become who you want to be and that is what you did, are doing and most likely will be doing in the future. For that you get my compliments and respect. The world needs more people like you who have overcome fear and remain close to themselves and their values! Thanks 4 that. Greeting from Holland where the tulips are almost ready for saying hello ????? March 14, 2012 at 9: 46 a. m. ☺ I wish Greg Smith well. It takes courage to do what he has done.

After spending several years educating myself as to the causes and culprits of the Great Recession of 2008 I have no doubt that his fundamental take on today’s culture at Goldman (and the rest of Wall Street) is correct. Once investment banking went from being funded by partnerships (1970’s?) to offering stock and once the regulations separating banks from investment banks were eliminated and once the SEC became inept and corrupt, the environment and culture of banks and Wall Street gradually changed to what it is today: poorly regulated and filled with unrepentent seekers of enhanced profits using irresponsible levels of leverage (25 to1 & up) and risky financial vehicles, unrepentent buyers of congressional support using K Street lobbyists — and the architects of the next world-wide financial meltdown before the end of this decade. Who would have ever thought that putting cash under the mattress might be an acceptable component of the average man’s portfolio! March 14, 2012 at 9: 46 a. m. ☺ Job Opening: Goldman Sachs executive director and head of United States equity derivatives business in Europe, the Middle East and Africa.

Don't bother applying - one of the "Elephant Hunter" already got the job. March 14, 2012 at 9: 46 a. m. ☺ Sadly, Greg, the board-rooms today are where the problems start(ed) - in a few more years, you will realize a fish rots from the head down, and that the pathetic corporate governance by pliable boards is what allows the thriving of a culture you bemoan. For this reason, and because every firm will engage in whatever their competitors are doing to make a buck, regulators are needed, and bright red lines. And you're right, there are too many synthetic trades in finance, with the most illiquid and most arcane being the most prized, since they can be marked-to-model instead of marked-to-market if an objective fair value could be determined; makes it much easier to meet those performance goals and get that bonus, you know. Good luck ! March 14, 2012 at 9: 46 a. m. ☺ Now comes damage control, as GS attempts to destroy the messenger. March 14, 2012 at 9: 46 a. m. ☺ This article is low on substance.

In telling us that GS is ruthlessly profit-driven, we're not learning anything new. If the firm really has changed over the last ten years, I'd like to hear specific details about why this happened. Instead, the author spends most of the article talking about himself, his accomplishments in business and elsewhere, and his commitment to his clients. It feels like he is using the NYT to send out a resume to the world, already looking ahead to the next phase of his career. March 14, 2012 at 9: 46 a. m. ☺ Liked your piece, but I agree with Paul from Hartford: talk is cheap. Write back when you've returned some of your bonus money to clients or donated significant sums to the cash-starved PUBLIC university system of California and not just to the

private equity firm you trained at for four undergraduate years before your formal ties with GS began. March 14, 2012 at 9: 01 a. m.

APPENDIX 3

GOLDMAN SACHS RESPONSE FROM: [http://www. goldmansachs. com/media-relations/comments-and-responses/current/nyt-op-edresponse. html](http://www.goldmansachs.com/media-relations/comments-and-responses/current/nyt-op-edresponse.html)

Goldman Sachs' Response to March 14, 2012 New York Times Op-Ed The following is the message Lloyd C. Blankfein and Gary D. Cohn sent March 14, 2012 to the people of Goldman Sachs.

By now, many of you have read the submission in today's New York Times by a former employee of the firm. Needless to say, we were disappointed to read the assertions made by this individual that do not reflect our values, our culture and how the vast majority of people at Goldman Sachs think about the firm and the work it does on behalf of our clients. In a company of our size, it is not shocking that some people could feel disgruntled. But that does not and should not represent our firm of more than 30, 000 people. Everyone is entitled to his or her opinion. But, it is unfortunate that an individual opinion about Goldman Sachs is amplified in a newspaper and speaks louder than the regular, detailed and intensive feedback you have provided the firm and independent, public surveys of workplace environments. While we expect you find the words you read today foreign from your own day-to-day experiences, we wanted to remind you what we, as a firm – individually and collectively – think about Goldman Sachs and our client-driven culture.

First, 85 percent of the firm responded to our recent People Survey, which provides the most detailed and comprehensive review to determine how our

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people feel about Goldman Sachs and the work they do. And, what do our people think about how we interact with our clients? Across the firm at all levels, 89 percent of you said that the firm provides exceptional service to them. For the group of nearly 12, 000 vice presidents, of which the author of today's commentary was, that number was similarly high. Anyone who feels otherwise has available to him or her a mechanism for anonymously expressing their concerns. We are not aware that the writer of the opinion piece expressed misgivings through this avenue, however, if an individual expresses issues, we examine them carefully and we will be doing so in this case. Our firm has had its share of challenges during and after the financial crisis, but your pride in Goldman Sachs is clear. You've not only told us, you have told external surveys. Just two weeks ago, Goldman Sachs was named one of the best places to work in the United Kingdom, where this employee resides. The firm was the highest placed financial services company for the third consecutive year and was the only one in its peer group to make the top 25. We are far from perfect, but where the firm has seen a problem, we've responded to it seriously and substantively.