

A wide-angle photograph of a city skyline viewed from across a body of water. In the foreground, there's a calm body of water with some ripples. Behind it, a row of older, multi-story brick buildings with dark roofs and dormer windows stretches across the frame. In the background, a dense cluster of modern skyscrapers of various architectural styles, including glass facades and unique shapes, rises against a clear blue sky. A construction crane is visible on the right side of the skyline.

Andreas Krause

Investment bank partnerships

# Traditional organisation

- Traditionally investment banks have been organised as partnerships, where senior managers were owning the investment bank
- On promotion to partner, the employee would invest into the investment bank and own a fraction of its equity and when leaving the investment bank this investment would be repaid
- Partnership at the main investment banks have been transformed into limited companies
- Many of the characteristics of partnerships have been maintained
- We will investigate the reasons for this demise and its implications

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## Becoming a partner

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Chapter 17.1  
Viability of partnerships

## Discussion of the model results

- In partnerships the pay of associates are low to motivate them to seek becoming a partner, leading to high levels of effort
- The cost of mentoring associates cannot be too high and there must be sufficiently different skill levels for partnerships to be viable
  - How do bonus pools for senior managers emulate partnerships?
- In partnerships senior managers obtain the profits of the investment bank, and bonus pools that cross divisions will similarly reflect the profits of the investment bank, making the bonus pool equivalent to the profits of the investment bank

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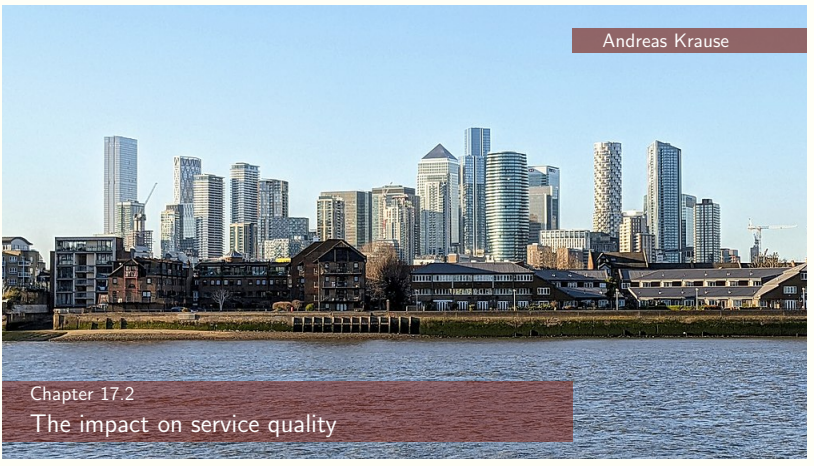
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Chapter 17.2  
The impact on service quality



## Discussion of the model results

- Partnerships select more able employees as the salary of partners depends more on the ability of employees
- Clients knowing this, are willing to pay higher prices for the services, making investment banks more profitable
- If partnerships are more profitable, why do they not dominate the market?
  - Maintaining partnerships is costly and they cannot offer the scale of business that is often required

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## Summary of key results

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- They are also more costly to maintain as prospective partners need to be mentored, taking away resources of partners from the core business
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