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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

Becoming a partner

- Partnerships worked by developing promising employees until they had the skills and experience to become partners
- This was a long process that required loyalty to the employer and investment by the employer
- We will look at implications of the partnership model for investment banks

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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

Reputation of partnerships

- Partnerships are reputed to offer higher quality services to their clients than incorporated investment banks
- Clients will find it difficult to identify the quality of service investment banks provide
- We will explore why partnerships should provide a higher quality of service

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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

Summary of key results

- Partnerships provide better services and are more profitable than incorporated investment banks
- They are also more costly to maintain as prospective partners need to be mentored, taking away resources of partners from the core business
- Partnerships have retained their place for specialist services in challenging markets

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