Andreas Krause

The decision-making process in investment banks

Flat structures and decentralized decisions

- Investment banks are characterised by flat hierarchical structures with only few management levels
- Decision-making is also decentralised in that decisions on how to advise clients are made at relatively low levels.
- Most other companies have a much more hierarchical structure and key decisions on clients are taken by senior managers.
- We will investigate why investment banks have adopted such a management system.

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- The most able employees are promoted to senior positions but they are less involved in day-to-day decision-making regarding client advice
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Chapter 18.1

The impact of the organisational structure

Discussion of the model results

- Managers lack the specialist knowledge and might therefore not offer the best advice to clients, making the involvement of senior managers less effective
- Managers might be better at extracting surplus from clients, but this would not benefit clients, which might find the advice to be of lower quality

? If flatter structures are better for investment banks, why are management levels needed at all?

! Clients have many needs and will interact with many different teams providing advice; this advice needs to be coordinated and capacities need to be planned

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- Senior managers might have better knowledge and their experience might benefit clients
- We will look into the reason why delegating decision-making to junior employees is beneficial for investment banks

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Chapter 18.2

Delegation of decision-making

Discussion of the model results

- Employees need to apply their knowledge when working with clients and providing incentives motivates them to exert effort.
- If employees disagree with decisions of senior managers their efforts may reduce, leading to lower benefits to their clients and lower profits to the investment bank.

? Why would employees disagreeing with decisions be detrimental to the advice given?

! Employees might not seek to implement a decision they disagree with and they might implement it only partially; the client might also sense that different opinions exist and be less than satisfied with the advice provided, especially if the advice turns out to be wrong.

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Summary of key results

- Flat structures are optimal for investment banks as they allow specialist knowledge to prevail to the benefit of clients, increasing the investment bank's long-term profits
- Allowing junior employees to make decisions motivates them and allows to identify their ability, leading to higher effort
- Investment banks rely on the knowledge of those in direct client contact and taking decisions away to higher management levels lowers the quality of advice

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