

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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## Few management levels

- The most able employees are promoted to senior positions, but they are less involved in day-to-day decision-making regarding client advice
- This suggests that advice is given by less able employees, in the judgment of clients
- We will establish that is not necessarily true and how the flat management structure is suited to the business of investment banks

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- ▶ The **most able** employees are **promoted** to senior positions, but then 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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- ▶ Managers lack the **specialist knowledge** and might therefore not offer the best advice to clients, making the involvement of senior managers less effective
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- ❑ Decisions in investment banks on how to advise clients are taken at a relatively junior level
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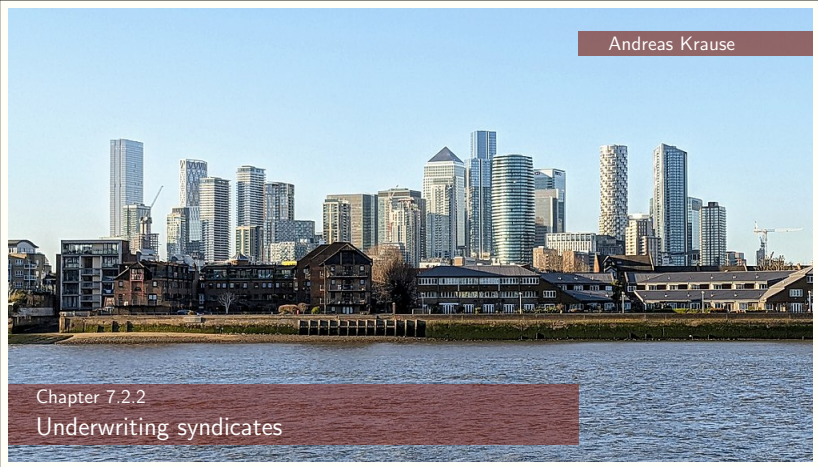
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Chapter 18.2  
Delegation of decision-making



## Discussion of the model results

- Employees need to apply their knowledge when working with clients and providing incentives motivate 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 talent
- ▶ 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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