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. Behind it, a row of older, multi-story brick buildings with dark roofs sits along the waterfront. In the background, a dense cluster of modern skyscrapers with glass facades rises against a clear blue sky. The lighting suggests it's either early morning or late afternoon, with soft shadows.

Andreas Krause

Chapter 18.1

The impact of the organisational structure

# Outline

- Problem and model assumptions
- Possible organisational forms
- Optimal organisational form
- Summary

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# Flat organisation

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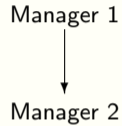
# Hierarchical structure



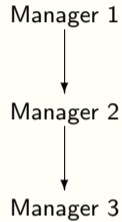
# Hierarchical structure

Manager 1

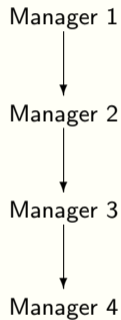
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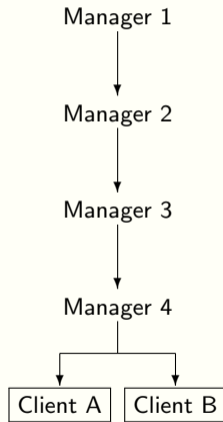
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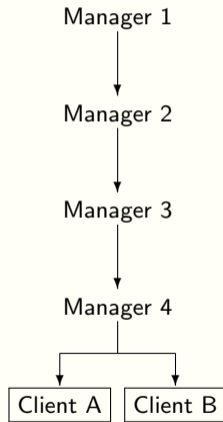
# Hierarchical structure



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# Investment bank profits in hierarchical structures

# Investment bank profits in hierarchical structures

▶ **None** of the four managers have an idea that is accepted

▶  $\Pi_H = (1 - \pi_M)^4$



# Investment bank profits in hierarchical structures

▶ Managers have an idea that is accepted by **one** of the clients

▶  $\Pi_H = 1 - (1 - \pi_M)^4$

# Investment bank profits in hierarchical structures

▶ Managers have an idea that is accepted by **both** clients

▶  $\Pi_H = \left(1 - (1 - \pi_M)^4\right)^2$

# Investment bank profits in hierarchical structures

- ▶ Managers have an idea that is accepted by both clients and generates the **surplus** from **both**
- ▶  $\Pi_H = 2 \left(1 - (1 - \pi_M)^4\right)^2 V_M$

# Investment bank profits in hierarchical structures

- ▶ Managers have an idea that is accepted by both clients and generates the surplus from both
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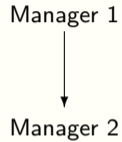


# Flat structure

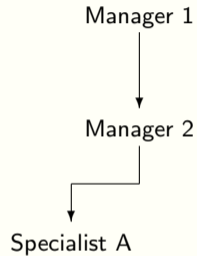
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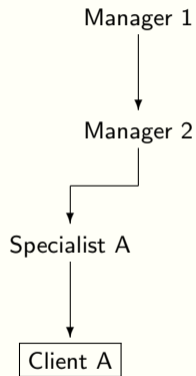
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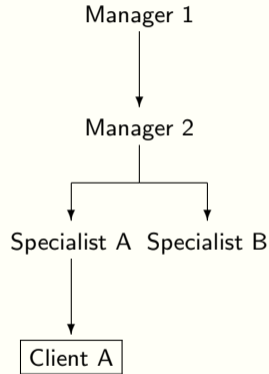
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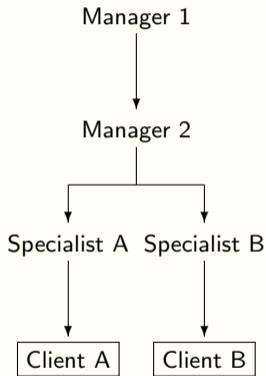
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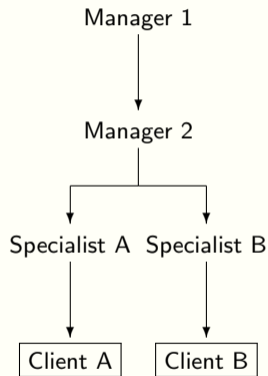
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# Investment bank profits in flat structures

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- ▶ The managers **have an idea that is accepted**

- ▶  $\Pi_F = 1 - (1 - \pi_M)^2$

# Investment bank profits in flat structures

- ▶ The managers have an idea that is accepted by **both clients**

- ▶  $\Pi_F = \left(1 - (1 - \pi_M)^2\right)^2$

## Investment bank profits in flat structures

- ▶ The managers have an idea that is accepted by both clients, and generate the surplus

- ▶  $\Pi_F = 2 \left(1 - (1 - \pi_M)^2\right)^2 V_M$

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- ▶ The managers have an idea that is accepted by both clients, and generate the surplus
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$$\begin{aligned} \text{▶ } \Pi_F &= 2 \left( 1 - (1 - \pi_M)^2 \right)^2 V_M \\ &\quad + 2 \left( 1 - (1 - \pi_M)^2 \right) (1 - \pi_M)^2 (V_M + \pi_S V_S) \end{aligned}$$



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# Independent units

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## Specialist A1



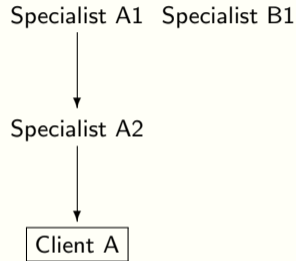
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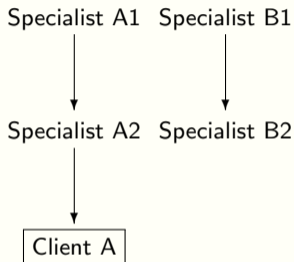
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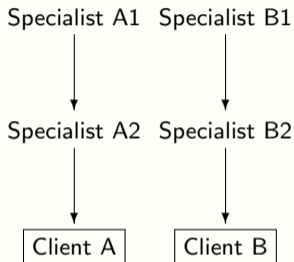
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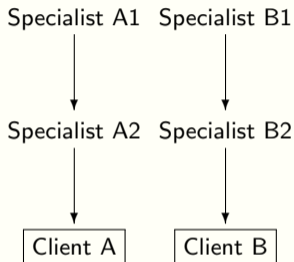
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# Investment bank profits with independent units

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- ▶ Specialists might have ideas accepted
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Using the expressions on the revenue as determine above, we now compare these pairwise.

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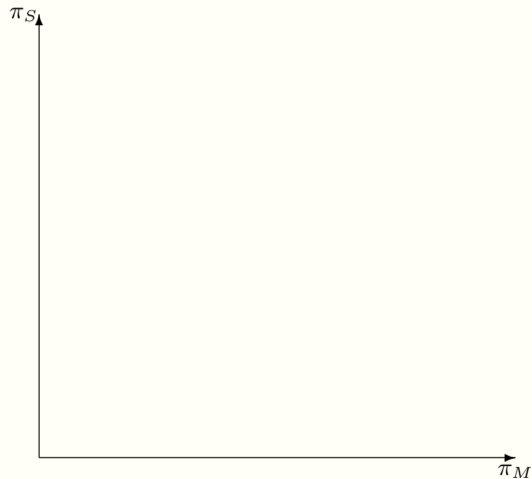
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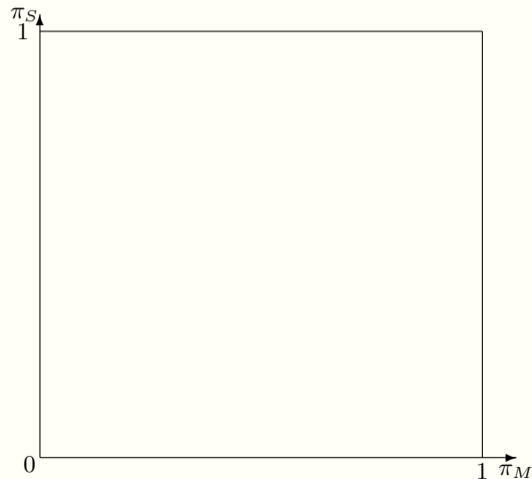
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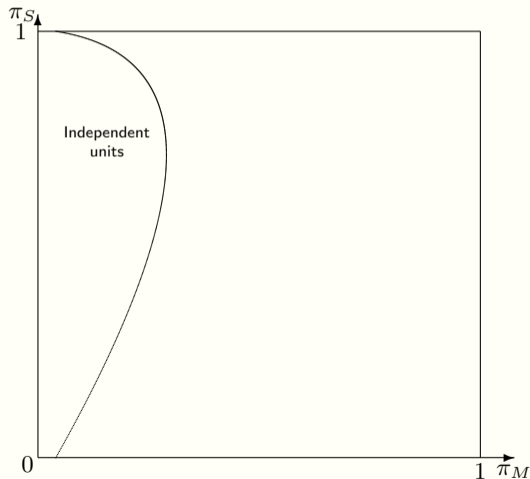


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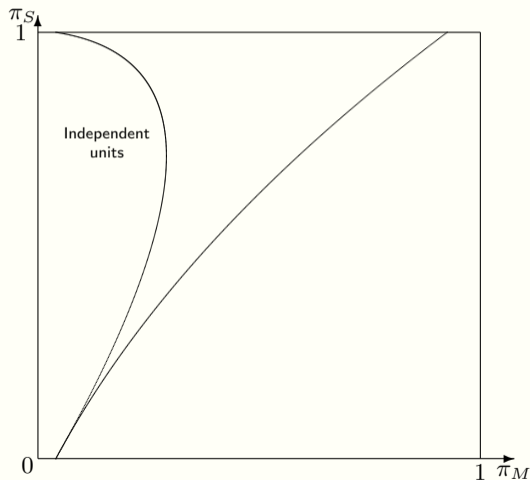




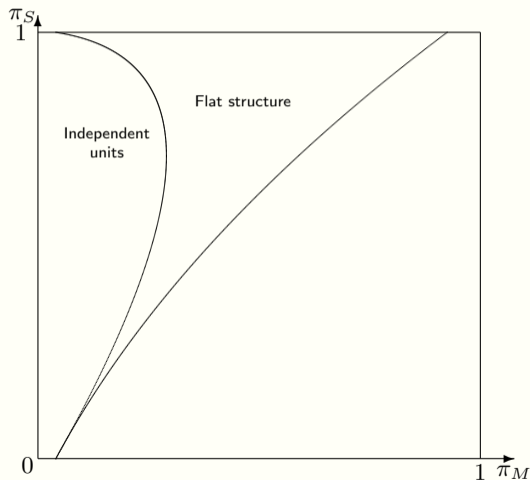
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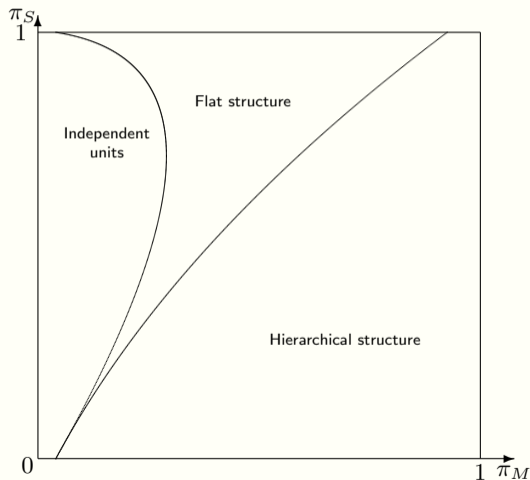
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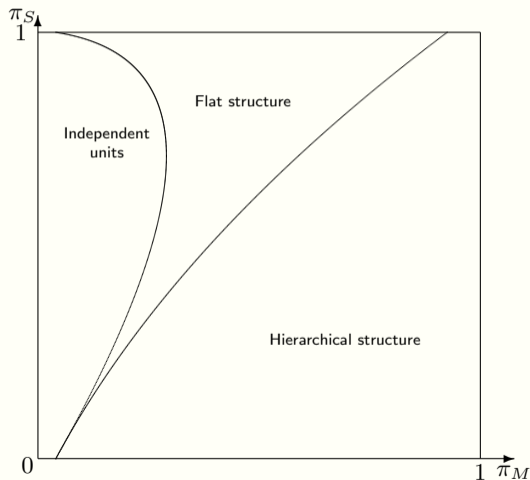
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# Trade-off between many ideas and good ideas

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- ▶ Investment banks face a **trade-off** between more ideas by managers in a hierarchical structure and fewer but better ideas in flatter structures

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- ▶ If the acceptance rate are very high, the added layer of management can **improve** the overall revenue at low cost

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## Trade-off between many ideas and good ideas

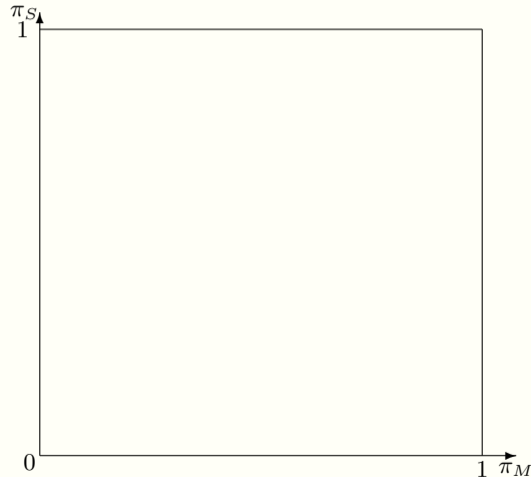
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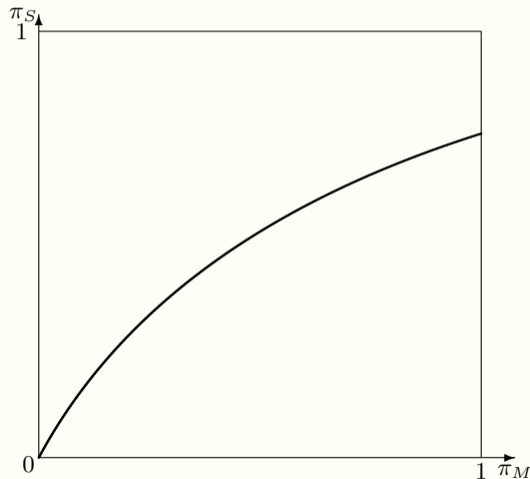
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# Managers providing lower surplus than specialists ( $V_M < V_S$ )

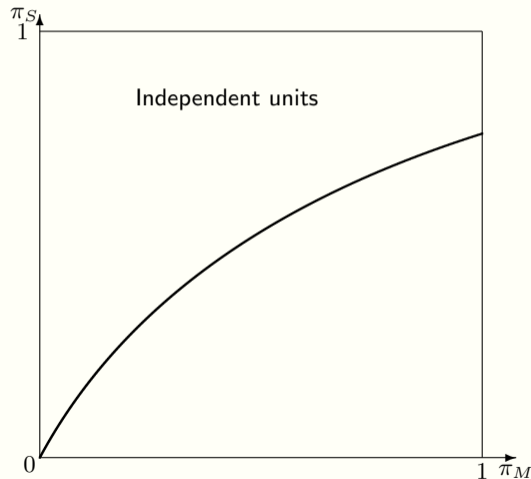
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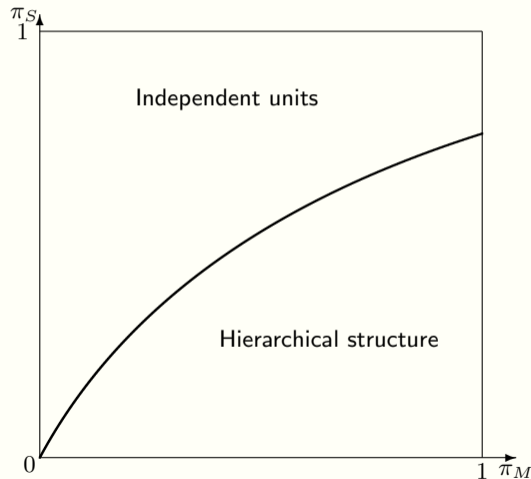


# Managers providing lower surplus than specialists ( $V_M < V_S$ )

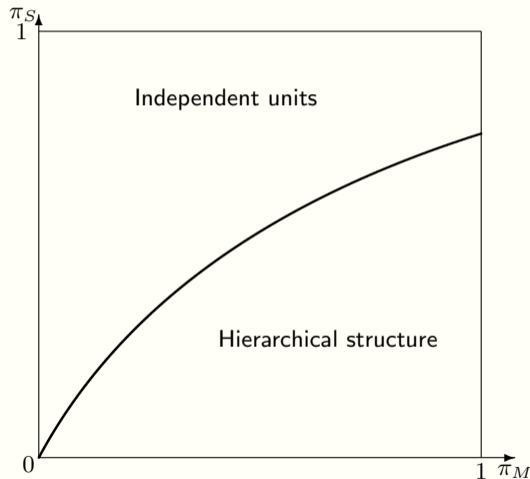




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- Problem and model assumptions
- Possible organisational forms
- Optimal organisational form
- **Summary**

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This presentation is based on  
Andreas Krause: Theoretical Foundations of Investment Banking, Springer Verlag 2024  
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