



## Chapter 18.1

# The impact of the organisational structure

# Outline

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

## ■ Problem and model assumptions

## ■ Possible organisational forms

## ■ Optimal organisational form

## ■ Summary

# Flat organisation

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- ▶ The ideas of higher ranked staff have **priority** in being put forward

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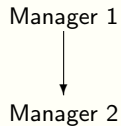
# Hierarchical structure



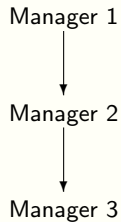
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Manager 1

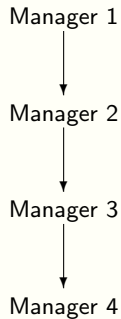
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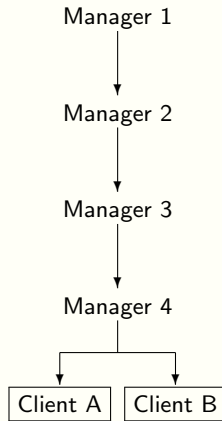
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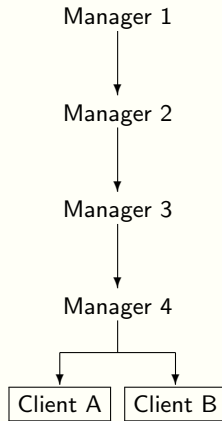
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# Investment bank profits in hierarchical structures

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► **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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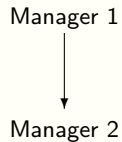


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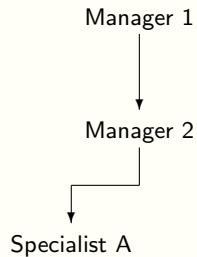
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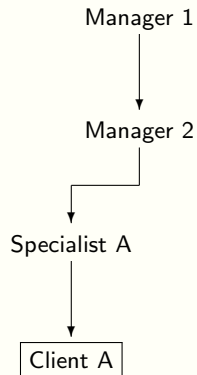
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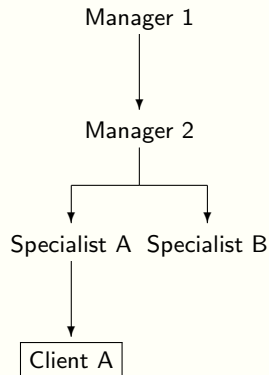
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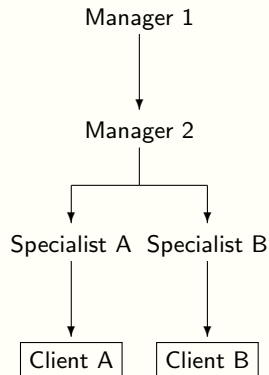
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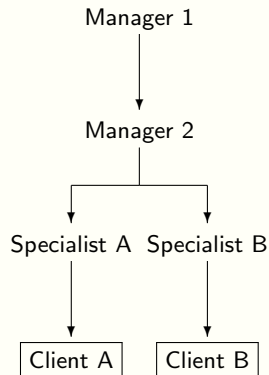
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- ▶ The managers have an idea that is accepted

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

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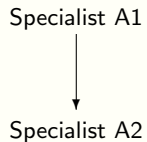
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Specialist A1



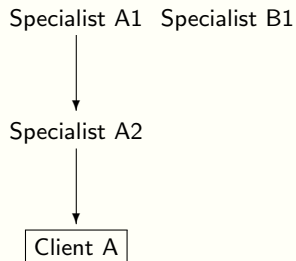
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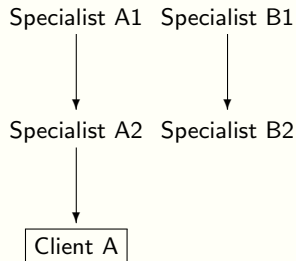
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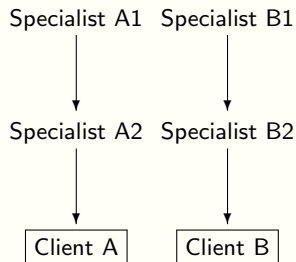
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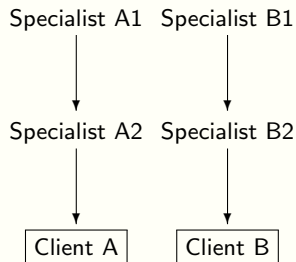
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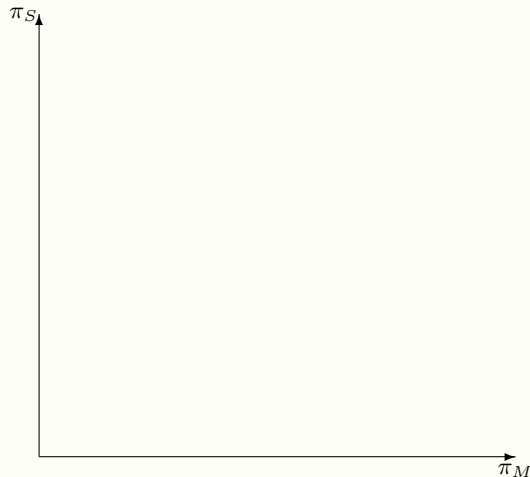
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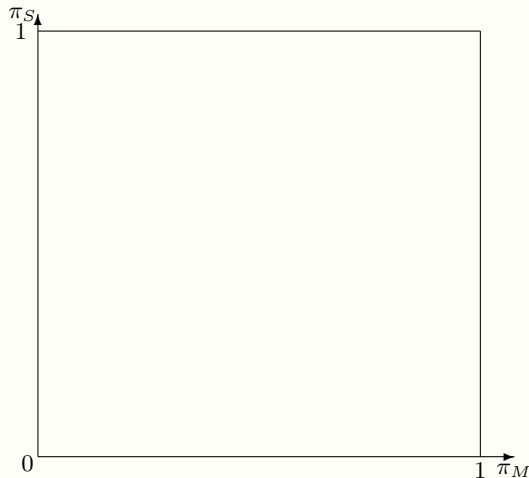
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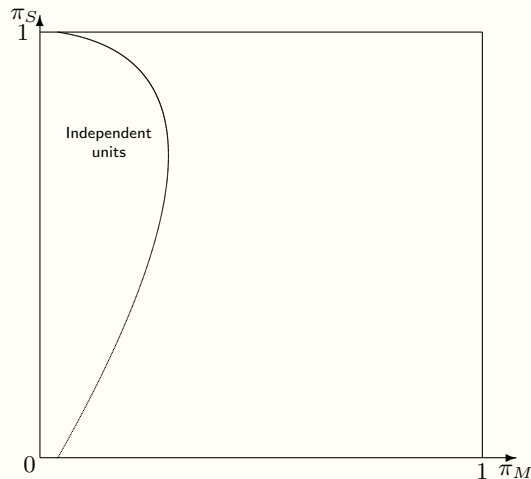


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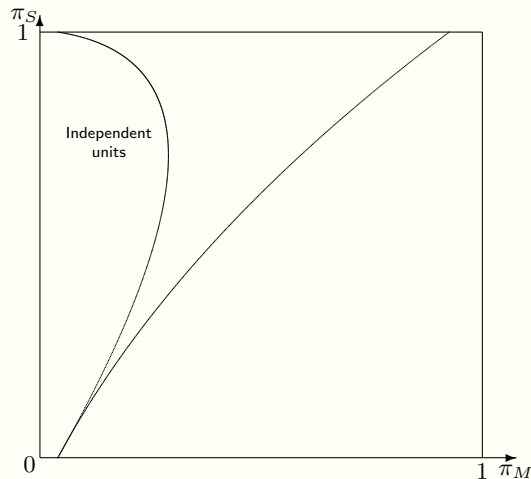




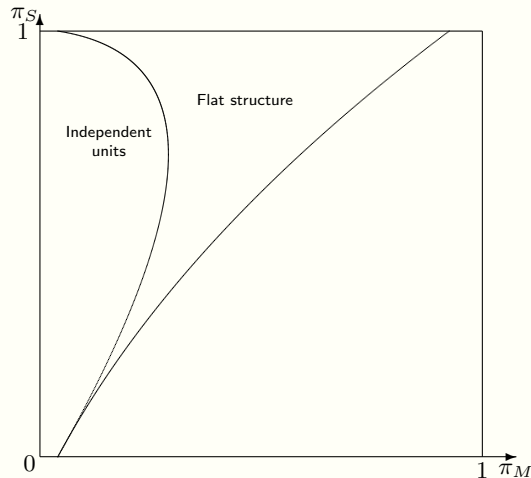
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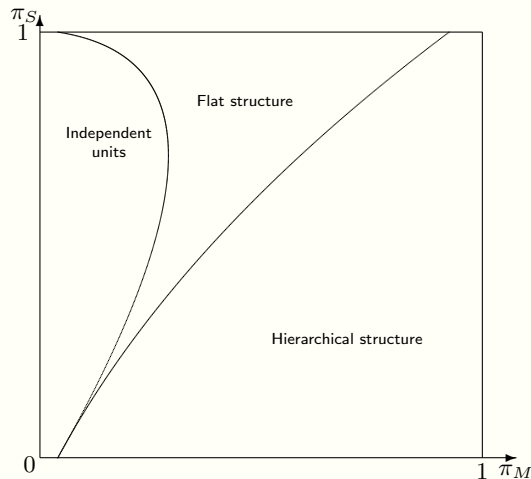
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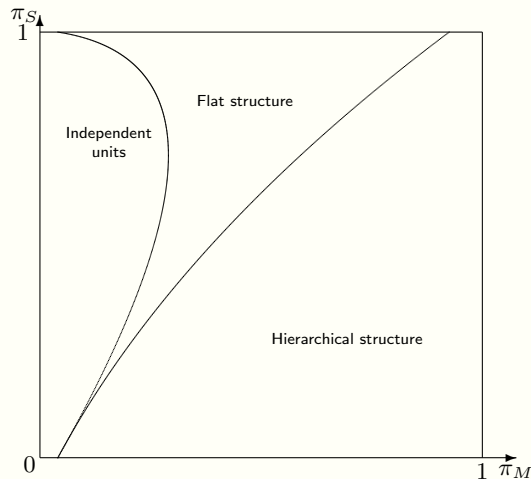
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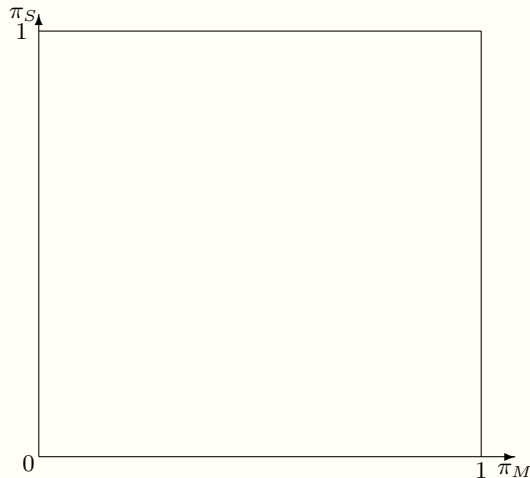
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- ▶ A **flatter structure** is preferred if specialists are producing advice that is more likely to be accepted by clients

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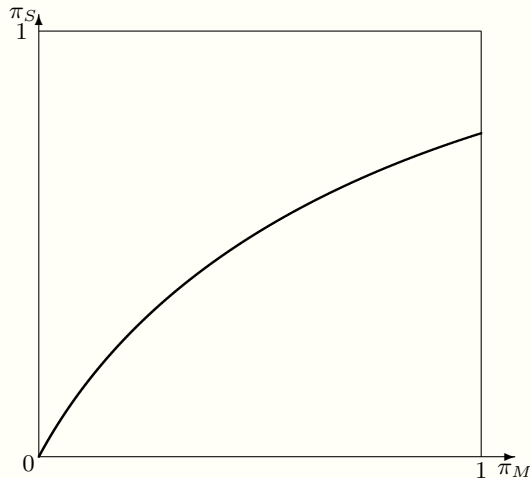
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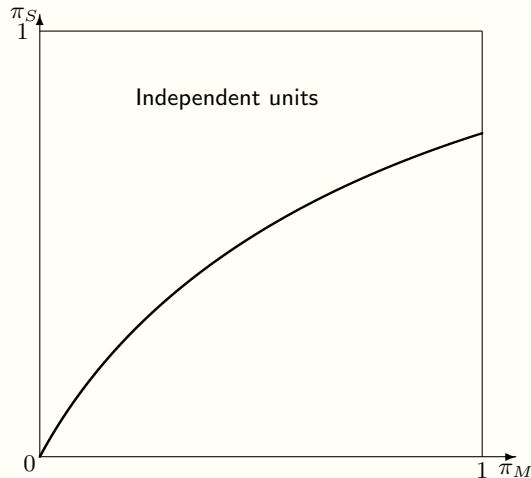
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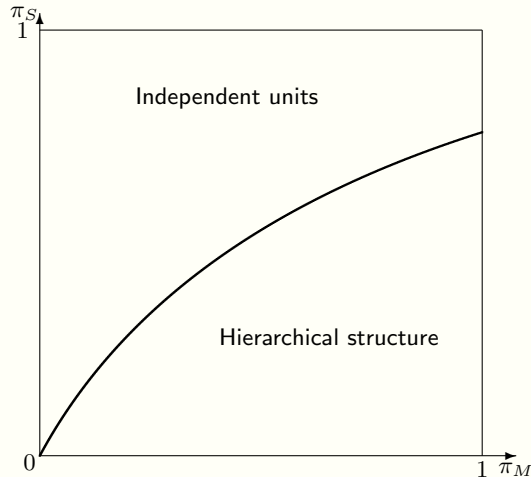


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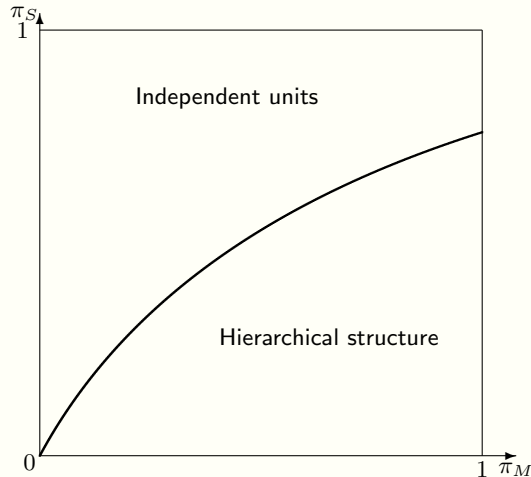




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- ▶ If managers generate less surplus than specialists, **flatter structures** are favoured even more

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- ▶ A flat structure is **not** optimal

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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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Andreas Krause  
Department of Economics  
University of Bath  
Claverton Down  
Bath BA2 7AY  
United Kingdom

E-mail: [mnsak@bath.ac.uk](mailto:mnsak@bath.ac.uk)