Goldman Sachs
by Lisa Endlich

SUMMARY
This is the story of a phenomenally successful company which has remained largely hidden from the public eye. The company employs thousands of people worldwide but the name is largely unknown. Although it makes more profit each year than many multi-national corporations, it is not on everyone’s lips in the way that the names of Coca-Cola and Microsoft are.

Success was built on a culture of client care. As one of its many strong leaders said ‘Good companies worry about their competition, great companies worry about their clients’. By worrying about its clients, Goldman Sachs became a international player in the investment banking world. Arguably, success was also based on the culture of participation in profits. Until 1999, the firm was a partnership, with all the partners sharing in the unbelievable profits. As the Guardian newspaper once remarked, Goldman Sachs made more profit in one year than the income of the country of Tanzania, but distributed it amongst just 161 people.

Of course, there were risks in the partnership approach. A partner could walk away, and take his capital with him – the masculine pronoun is largely correct in that sentence; until 1986 there were no female partners, nor any of African-American background. And there were bad times as well as good. As the financial markets became more volatile, a single trader could lose millions in one day.

For these reasons, Goldman Sachs began to consider an initial public offering (IPO). But this was against its ‘culture of success’, and it was many years and many meetings before it was eventually approved, and another two years before it actually happened, in November 1999.

ABOUT LISA ENDLICH
Lisa Endlich was, for a long time, a trader in the foreign exchange department of Goldman Sachs. She has a good understanding of the world of finance, and combines this with her professional knowledge of Goldmann Sachs in her telling of this story.

BACKGROUND AND THEMES
We are all familiar with what is known as consumer banking, with its services to customers of current accounts, deposit accounts and personal loans, including mortgages. Less well-known is investment banking (known in the UK as merchant banking) which offers financial products to companies not to individuals. Yet investment banking came first in the chronology of financial services. Indeed, one of the biggest financial institutions in the world began life as a kind of merchant bank in London. ‘The Company of the Merchant Adventurers for the Discovery of Regions, Dominions, Islands and Places unknown’ was founded in 1555, and, by 1600, was trading regularly with Russia.

The word ‘Adventurers’ in the company name is completely accurate, because each trading voyage was an adventure with an uncertain outcome. The voyage was funded by merchants who took shares in the voyage before the ship set sail. They divided the profits when the ship came back ... if the ship came back.

After trading for many years, the owners of the company realised that they could spread their risk by involving other people if they could find a way for people to sell their shares easily. The first shares were exchanged in coffee houses, including one called ‘New Jonathan’s’ and by 1770 more shares were being bought there than coffee.

‘New Jonathan’s’ became ‘The Stock Exchange’. By 1802 this exchange, which was the first share dealing system in the world to have this name, had over 500 members and 100 clerks.

Other exchanges opened in other parts of the United Kingdom in the next one hundred and fifty years, but in 1973 they were combined to form The London Stock Exchange. The exchange came into the modern age when it became fully computerised in 1986, a change so dramatic that it was called ‘The Big Bang’.

The London Stock Exchange now trades in approximately 10,000 securities with a total value worth over £3,000,000,000,000, and amongst the companies represented is Goldman Sachs, the modern epitome of the merchant adventurers who started the exchange.
### Teacher’s notes

#### Communicative activities

The following teacher-led activities cover the same sections of text as the exercises at the back of the Reader and supplement those exercises. For supplementary exercises covering shorter sections of the book, see the photocopiable Student’s Activities pages of this Factsheet. These are primarily for use with class readers but, with the exception of the discussion and pair/groupwork activities, can also be used by students working alone in a self-access center.

#### ACTIVITIES BEFORE READING THE BOOK

1. Ask students if they have ever heard of Goldman Sachs and what, if anything, they know about it.
2. Ask students to describe the differences between partnerships and public companies.
3. Ask students what they know about the process by which a partnership becomes a public company.

#### ACTIVITIES AFTER READING A SECTION

**Chapter 1**

Ask students to role play the meeting on December 6th, 1986. Some students should role play the new partners and some should role play established partners.

**Chapter 2**

Ask students to work in groups of five. Write each of the groups. The most outrageous week wins!

**Chapter 5**

Ask students to imagine a week in the life of a partner at Goldman Sachs, then to write the partner’s diary of meetings, trips, etc. They present their 'week' to the other groups. The most outrageous week wins!

**Chapters 6–7**

Put students into two groups. Each group studies one chapter and writes the events described in a set of single sentences – no date! – then jumbles them up. The groups exchange sets and try to order them the correctly.

#### ACTIVITIES AFTER READING THE BOOK

Ask students to discuss their reaction to the story of Goldman Sachs. Is it a success story – or a tale of corporate greed?

#### Glossary

It will be useful for your students to know the following new words. They are practised in the Before You Read sections of exercises at the back of the book. (Definitions are based on those in the Longman Active Study Dictionary.)

**Chapter 1**

- **client**: (n) someone who pays a person or organization for services or advice
- **committee**: (n) a group of people who meet regularly and have been chosen to do a particular job
- **culture**: (n) the beliefs and behavior of a particular group of people
- **director**: (n) someone who controls or manages a company or organization
- **equity**: (n) the part of a company’s money that is raised by selling ordinary shares
- **firm**: (n) company
- **initial public offering**: (n) the first offering of shares in a company which has previously been private
- **invest**: (v) to give money to a company or bank in order to make a profit later
- **merge**: (v) to join two companies together
- **percent**: (n) an amount that is expresses as a part of a whole when the whole is considered as 100
- **senior**: (adj) having an important or more important job or position
- **stock**: (n) an ordinary share in a company
- **trade**: (v) to buy or sell something

**Chapter 2**

- **arbitrage**: (n) the buying and selling of shares, goods etc. in two different markets at almost the same time
- **asset**: (n) an item of value belonging to a person or company
- **bankrupt**: (adj) unable to pay your debts and therefore to stay in business
- **block trading**: (n) buying and selling large numbers of shares in a company at one time
- **bond**: (n) a promise by a government or company to pay back a loan, usually at a fixed rate of interest
- **broker**: (n) someone whose job is to buy and sell shares etc. for someone else
- **investment trust**: (n) a limited company that uses its shareholders’ money to buy securities on the stock exchange
- **leverage**: (n) the ratio between the amount of money provided by shareholders and the amount of money a company owes to its banks
- **retailer**: (n) a person or company that sells goods to people
- **security**: (n) property or an item of financial value that can be claimed by a person, bank or other organization if a loan is not repaid
- **transaction**: (n) an occasion when a company buys or sells something
- **underwriter**: (n) an organization that guarantees to buy a proportion of unsold shares when a new share issue is offered

**Chapters 3–4**

- **excesses**: (n) actions that are immoral or harmful
- **fund**: (n) money or assets collected for a specific purpose
- **principal**: (adj) main, most important
- **principle**: (n) moral rule or idea that has a strong influence on the way you behave

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Students can do these exercises alone or with one or more other students. Pair/group-only activities are marked.

Activities before reading the book

1. The subtitle of the book is *The Culture of Success*. Discuss in pairs possible meanings of this phrase.
2. Read the first part of the Introduction. What makes Goldman Sachs special? Make a list of points.
3. Read the last paragraph of the Introduction. In what way was the writer well-placed to write this book?

Chapter 1

Work it out!

Can you work out the answers to these questions from the information in this chapter?

(a) How many employees of Goldman Sachs were disappointed on 15th October 1986?
(b) What was the retirement age at Goldman Sachs?
(c) Was the new woman partner at Goldman Sachs an African-American?
(d) When was Goldman Sachs probably founded?
(e) Did the existing partners know about the IPO before the meeting on December 6th?
(f) What day of the week was December 6th?
(g) How long did the meeting last?
(h) Was Goldman Sachs successful in 1986?
(i) When was John Weinberg appointed as head of Goldman Sachs?
(j) Did John Weinberg say to the meeting that he was against the plan?
(k) Were there any business disadvantages to the IPO?
(l) Did a majority of the partners vote against the IPO?
(m) Was Goldman Sachs #1 in investment banking?
(n) By how much had the firm's capital grown in the last 6 years?
(o) Was Goldman Sachs typical of investment banks in terms of its culture?
(p) What percentage increase in capital was Komatsu offering?

Chapter 2

Number these events from the history of Goldman Sachs in order.

(a) Catchings was asked to leave but the firm’s name was so badly damaged that it did not lead an underwriting for five years.
(b) Goldman Sachs joined with Lehman Brothers to start the first mail order retail business.
(c) Goldman Sachs worked with Henry Ford II on the largest ever public offering.
(d) Gus Levy became the senior partner with a six-member management committee.
(e) Gus Levy joined the firm and started an arbitrage department.

(f) Henry Goldman left the firm and returned to Germany.
(g) Marcus Goldman and his family moved to New York City and started his own business as a broker.
(h) Marcus Goldman arrived in the US from Germany.
(i) Marcus Goldman died and his son, Henry, took over control of the firm with Sam Sachs.
(j) Marcus Goldman invited Sam Sachs to join the broker business.
(k) Sam Sachs died and Sidney Weinberg took over with Walter Sachs as managing partner.
(l) Sam Sachs started a foreign department of Goldman Sachs in London.
(m) The daughter of Marcus Goldman married Sam Sachs.
(n) The firm of Goldman Sachs joined the New York Stock Exchange.
(o) The New York Stock Market crashed and shares in Catching’s investment trust fell from $326 to $1.75.
(p) Waddill Catchings joined the firm and built up a huge investment trust business.

Chapters 3–4

1. Complete this summary of information from Chapter 3 with a suitable word in each space.

(a) Whitehead had always wanted a job in investment ...
(b) When Whitehead first joined Goldman Sachs, there was no office ...
(c) After some time, Whitehead became a partner and all of his money in Goldman Sachs.
(d) John Weinberg learnt from Floyd Odlum to watch for the ...
(e) Odlum’s words of advice saved Goldman Sachs from many million of dollars of ...
(f) In the 1980s, Goldman Sachs took part in few big deals.
(g) When Weinberg and Whitehead took over control of the firm, they felt that too much money was ...
(h) Whitehead was the planner, who ... the firm’s future business.
(i) He and Weinberg wanted Goldman Sachs to become an international firm but it was not the best time for international ... – ...
(j) – but later the ... were enormous.
(k) When Whitehead left Goldman Sachs, ... for managing the firm moved to two younger partners.
(l) Bob Rubin, an expert in risk ..., became a partner after only five years at the firm.
(m) Steve Friedman had started the first ... department on Wall Street in the 1960s.
(n) Goldman Sachs developed a reputation for ...
Students activities

the targets of merger attacks.

(o) In November 1981, Goldman Sachs bought a small ... company, J. Aron and Co.

(p) Soon after the merger, there was ... between top J. Aron management and the partners of Goldman Sachs.

(q) Less than two years after buying the firm, almost 20% of the J. Aron employees were ...

(r) By 1986, the practice of risk arbitrage specialists advising merger specialists had become known as ... trading and was illegal.

(s) By using inside information, Robert Freeman, head of risk arbitrage at Goldman Sachs, ... the firm $548,000, but spent 109 days in prison and had to pay $1.1 million for his ‘crime’.

2 Find these dates and numbers in the chapter and say what each one refers to.

(a) December 1, 1990
(b) 6,500
(c) $135 million
(d) $48.7
(e) $25
(f) 1940
(g) November 5, 1991
(h) $2.8 billion
(i) 400
(j) $400 million
(k) £54.9 million
(l) October 1991
(m) 17,000

Chapter 5

How do these names from the chapter feature in the history of Goldman Sachs? Discuss in pairs.

1 Virgin Music
2 The ERM
3 Bill Clinton
4 Tanzania
5 Larry Becerra
6 The Bank of England
7 Deutsche Telekom
8 John Corzine

Chapters 6–7

These sentences from Chapter 6 are not quite true. Make any necessary changes or additions to each one.

(a) When some partners could not decide whether to stay or leave the firm, they were told to ‘get into the boat and get out’.

(b) In 1994, 10% of the firm was asked to leave.

(c) The firm improved the management committee by increasing the number of members by half.

(d) In 1995, five of the old partners returned to the firm.

(e) The firm’s profits for 1995 were $1.37 million.

(f) Corzine and Paulson suggested a public offering and the committee members agreed.

(g) The idea was presented to the whole partnership at a meeting at 85 Broad Street.

(h) At the time of the meeting, 53 of the partners had worked less than three years with the firm.

(i) Partners were given a new title of Managing Director.

(j) Up until 1996, partners risked only the assets they had invested with the firm.

(k) By early 1998, financial newspapers were saying that Goldman Sachs could sell itself for 3 to 5 times the book value.

(l) At the start of the 1990s GSAM had $100 billion under management.

(m) At the end of 1997, Corzine and Paulson believed that the opportunities were ending.

(n) From the beginning of 1993 to the middle of 1998, the firm was #1 in the world for mergers.

In Chapter 7, why...

(a) did the block traders in BP shares have to be careful?

(b) was the block trade a simple matter for Goldman Sachs?

(c) was Goldman Sachs well-prepared for the request from Schroeders on May 14th 1997?

(d) was the block trade in BP shares an enormous risk for the firm?

(e) didn’t the firm want to begin selling in New York on the afternoon of May 14th?

(f) did the firm decide to wait until the morning to sell the shares?

(g) did British Airways and Disney ask the firm to handle the block trade of their shares later in the year, in your opinion?

(h) was the BP block trade bad news, in the end, for the firm?

(i) did a committee of eight heads of department of the firm meet in March 1997?

(j) didn’t the firm merge with Chase Manhattan Bank or J.P. Morgan?

(k) were partners still worried about an IPO?

(l) did the meeting on Friday June 12 move into small groups?

(m) did Corzine think the IPO was the correct decision?

(n) did the firm stop the offering?

Activities after reading the book

1 What, in your opinion, are three of the high points in the history of Goldman Sachs? Look through the book and make notes.

2 What, in your opinion, are three of the low points? Look through the book and make notes.

3 Compare your ideas in groups.
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