Problematizing Goldman Sachs: indoctrination, paradigm shift and revolving doors

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From its active implication in the subprime crisis to its participation in the cover-up of the Greek debt (Roche, 2010; Story, Thomas & Schwartz, 2010), the once discreet Goldman Sachs is now part of the media landscape. It quickly went from the shadows to the light and is currently suspected of various evils: conflicts of interest, absence of ethics, excessive speculation, power plays and other political manipulations (Roche, 2010; Cohan, 2011). Consequently, many books, press articles and film documentaries have focused on "GS"[1] that demonstrate, state or imply many of these evils. Considering the worldwide importance of the bank as well as its culture of secrecy, this prolific polyphony of discourses is not surprising. From scandal to scandal, Goldman Sachs has naturally become the subject for many questions and worries. Several very interesting and well-documented books have been written (Endlich, 2000; Ellis, 2008; Cohan, 2011; Smith, 2012; Roche, 2012), each presenting crucial differences regarding GS's identity. Three main topics impose themselves when reading these books: the intense socialisation that every new employee encounters (almost an indoctrination), the cultural paradigm shift that Goldman Sachs underwent during the 1990s and 2000s and the intensity of the revolving doors between GS's managers and the public regulatory sector. Focusing on these three topics, we choose to take a closer look at Greg Smith's *Why I Left Goldman Sachs* and the French investigation of Marc Roche entitled *THE Bank: How Goldman Sachs Rules the World*. Smith's primer offers a fascinating insider account from 2000 to 2012, and the latter work presents a detailed synthesis of Goldman Sachs' history and more or less official practices.

Three recurrent topics on Goldman Sachs

[1] 'Goldman Sachs', for insiders.

Induction and promotion: indoctrination in Goldman Sachs

Roche (2012) describes the importance of GS culture in his third chapter "Monks banker". An enduring tradition at Goldman Sachs was the solemn lifestyle of its bankers demonstrated by their basic attire: dark suits, white shirts, neutral ties and short hair. Moreover, GS's employees were and are expected to be in shape and to practice sports with colleagues. Teamwork had to be apparent; thus, egocentrism and bragging were previously regarded as major flaws. GS's bankers were austere and efficient. Today, every year, employees are reviewed by a dozen colleagues in a "360" manner before being divided into quartiles according to their performance. Consequently, at Christmas, up to 10% of the employees could be fired. Goldman Sachs not only incarnates American culture but also pushes this culture to the extreme. In the very first chapter of Smith (2012), the importance of GS's culture is evident. The hiring process is long and extremely competitive; only "the best and the brightest" are selected and recruited. Then, employees are encouraged to identify, approach and follow mentors and culture carriers. Teamwork is central to this intense induction process. A prime example is the importance of nicknames as described by Greg "Springbok" Smith; acquiring a nickname makes a member finally feel like part of the team. Dress code also plays an important role, and compliance with it is mandatory. In addition, rituals and routines must be respectfully and closely followed.

Not only is the induction process important, but GS's culture is also conveyed through its promotion system and the underlying performance evaluation process. In the third chapter, Smith (2012) details how bonuses are regarded as a synthesis of quantitative and qualitative assessments of individual and collective performances. Moreover, the frequency of layoffs mirrors this imperative process. The cult of performance lays the ground for a "star system" that the author describes in chapter 4. GS's rising stars are idolised and are praised for their excellent relationships with clients, their accurate analysis and their strength of conviction. Being an employee at Goldman Sachs cannot be regarded as a "normal", "usual" or "classic" 9-to-5 job; there is a socialisation that borders on cult-like.

The intensity of this socialisation clearly evokes a process of indoctrination where GS's values and rituals become central to the life of every employee. Greg Smith often describes how his new world revolves around his job and how his friends and family often cannot understand what he is experiencing. Indoctrination takes place inside the firm as well as outside. In the fifth chapter, he explains the professional stakes at play in a simple bachelor party invitation. Being part of that type of trip in Las Vegas is a requirement for advancement. Furthermore, in the third chapter, he shows how a simple ping-pong match becomes an opportunity for advancement. For one to be promoted, one has to "spontaneously" know how to behave inside, and outside, the firm.

From discrete advisement to wild speculation: the paradigm shift of Goldman Sachs

Although the history of Goldman Sachs is not our focus here, the detailed accounts offered by Endlich (2000) or Ellis (2008) are important for understanding how the bank became what it is today; it is even more fascinating when the author problematizes the subject, as is the case in Cohan (2011). Indeed, the road from the small partnership between Marcus Goldman and his son-in-law Samuel Sachs in 1882, to the multinational corporation involved in the 2008 financial crisis, is a long and complex path. An especially interesting aspect of this history is the role played by anti-Semitism in the business community throughout the 20th century and its importance to the bank's development; yet, this issue is not our subject here. In our problematizing, we want to focus on the last two decades, when a cultural paradigm shift occurred within Goldman Sachs. It is during this period that, according to Roche (2012), the "Monks banker" went from discrete servants to arrogant speculators.

During the 1990s, Goldman Sachs was barely profitable and crucially needed to raise capital to consolidate and to develop its activities. Therefore, in 1999, after many negotiations, the 189 partners decided to go public through an IPO (see the last two chapters of Endlich, 2000). Considering the fundamental change of rationale that was implied, the road to this IPO was more than hectic (for details, see chapters 32 to 35 in Ellis, 2008). Since the IPO, the logic of Goldman Sachs' business model slowly changed, including a constant increase of trading activities, especially proprietary trading. According to Roche (2012), in 1999, trading accounted for 43% of Goldman Sachs' revenue, investment banking for 33% and wealth management for 24%. In 2006, these revenue numbers were 68%, 15% and 17%, respectively, and in 2009, 77%, 10% and 13%, respectively. During the last two decades, Goldman Sachs transitioned from being an investment bank that rigorously helped major firms raise necessary capital, to a hedge fund company investing both its clients' money and its own money, with all the conflicts of interest that accompany this model.

Regarding this transformation, Smith (2012) is particularly fascinating, as it provides a detailed account as an insider. In the fifth chapter, the author foresees a deep change in the culture of Goldman Sachs with the drastic increase of trading activities. Indeed, to him, the transition from Henry Paulson to Lloyd Blankfein makes the paradigm shift official. Thereafter, he observes the start of an unrestrained race to profits, a domination of mathematical models on relationships with clients and the development of high-frequency trading; these components constitute the new norm. GS's employees are expected to focus on "elephants": operations of more than one million dollars. In this context, Greg Smith and his colleagues saw Bear Sterns go bankrupt, soon followed by Lehman Brothers and AIG. At that time, the paradigm had fully shifted, and, to Greg Smith, the historic business model of Goldman Sachs, as an investment bank, was destroyed to lay the groundwork for a financial holding company with speculation-oriented hedge funds. Chapters 7 to 9 offer a detailed analysis of the extinction of Goldman Sachs' traditional culture. After the Paulson era, lauded by Greg Smith, profits became not only a necessity, but an absolute obsession. Clients soon came to be considered as only means toward this goal, and traders did not bother to disclose any conflicts of interest as their managers were focused solely on the bottom line. Scandal after scandal, Greg Smith witnesses how clients who continued to work with Goldman Sachs did so only without illusion, sticking with the bank for its efficiency and technical services quality. However, he deplores clients' cynicism when facing the arrogance of GS's employees, fully aware of their opportunistic posture. When transferred to London (chapter 9), Greg Smith discovered how the branch had pushed the model even further. In the eleventh chapter, the new paradigm is institutionalised, and the culture is fully switched to what he calls “The Far West”. The bottom line is based on an obsession with profits, on “elephants” and on a profound contempt for clients. At that time, clients are seen only as “puppets”—mindless dopes providing capital. Moreover, disasters become appreciated when they are profitable, e.g., the collapse of the Euro zone. Greg Smith observes the extinction of any investment strategy and the consequential rise of the focus on local, one-time profits. Thereafter, employees only focus on their bonuses, which are based on the profits they individually produce.

The epilogue of Smith (2012) is enlightening. The author thoroughly explains how today’s investment banks only ensure profits using the information asymmetry to their benefit. More than simply a change in the organisational culture, Smith (2012) presents an image of a paradigm shift that reflects the extent to which Goldman Sachs, and the entire industry, has changed during the last two decades.

The porous frontiers between public and private sectors: revolving doors at Goldman Sachs

Goldman Sachs’ paradigm shift raises many issues when considering its position in the financial field, in the market, and in society at large. When bankers were discrete advisors, the confidential information they had access to was handled with care and was framed by a strict sense of professional deontology. Today, being closer to a hedge fund (Cohan, 2011; Roche, 2012; Smith, 2012), information is synonymous with conflicts of interest when considering the amount of proprietary trading that GS conducts. Roche (2012) shows how these problems occurred during the internet bubble, years before the subprime scandal. As Smith (2012) explains, Goldman Sachs’ new business model is based on its access to early, private (if not confidential) information.

In the second chapter, Roche (2012) shows how Goldman Sachs’ network is built on what he calls “the Goldman government,” assuring access to this type of information. Focusing on GS expansion in Europe, Marc Roche observes a pattern: in each country, the strategy is carried out by two executives, one from the business community, and one deeply involved in public and political networks. In Ireland, Peter Sutherland, a former EU Competition Commissioner and former first chair of the GATT, played a major role. As CEO of Goldman Sachs International, he was assisted by Lord Griffiths, a former counsellor of Margaret Thatcher, and Gavyn Davies, then the future CEO of the BBC. That type of team can be found in many countries. In Germany, Goldman Sachs contacted Otmar Issing, a former chair of the Bundesbank and of the ECB. In Italy, GS hires two executives called "Super Marios" by Roche (2012): Mario Draghi, former governor of the Bank of Italy and chair of the Financial Stability Board, and Mario Monti. They closely collaborated with Romano Prodi, the two-time Italian Prime Minister and future president of the European Commission. For Roche (2012), this public and private sphere-based network ensured that Goldman Sachs continually had access to formal and informal information, including the ability to speak directly with political and business leaders. Benefiting from the revolving doors between corporations and public entities, Goldman Sachs' network became a central element of its business model, providing essential gossip, indiscretions and other chatter. In addition, revolving doors make lobbying easier as players on both sides of the public-private frontier become increasingly known to one another.

Even more than GS's cult-like indoctrination and its cultural paradigm shift, these revolving doors are recurrent issues in books on Goldman Sachs and pinpoints where we want to initiate a dialogue with the academic literature.

Revolving door dynamics

Revolving doors can be defined as the circulation of personnel between regulatory institutions and regulated organisations. For example, the revolving door between American federal agencies and the private sector is well known and regularly studied (Meghani & Kuzna, 2011). Part of a regulatory institution's activity is to analyse information provided by corporations regarding new products and services and to approve or reject their activities on the market. On the positive side, revolving doors allow industry veterans to use their experience and knowledge to help improve regulations (Che, 1995); and former public servants can provide corporations with a better understanding of complex administrative regulatory processes (Salant, 1995). However, many worries arise from the potential negative aspects of revolving doors: the circulation of personnel could alter the objectivity, honesty and transparency of regulation. Although many rules are in place to prevent conflicts of interest (asset disclosure, interdiction of private investment in regulated sectors), the multiple scandals over the last decade, including those involving Goldman Sachs, have proved that the revolving door phenomenon remains problematic. Alternatively, some academics deny such a problem (Geiger, North & O'Connell, 2005).

One-way revolving doors: conflicts of interest, weak and strong objectivity

According to Meghani & Kuzma (2011), revolving doors raise three major ethical problems: (1) they weaken public trust, (2) they bias regulatory decisions, and (3) they guarantee that industries have a voice in these regulatory decisions. In a democracy, regulatory institutions provide protection for the interests and well-being of citizens; consequently, ethical principles that govern these institutions should be known, and approved, by these citizens. However, revolving door dynamics present the risk of regulatory capture, favouring industries' interests when they differ from the public interest (Stigler, 1975; Peltzman, 1976; Dal Bo, 2006). To Meghani & Kuzma (2011), these revolving doors could be regarded as a mode of stabilising lobbying practices, which places them at the very heart of democratic institutions. Yet, simply forbidding revolving doors is generally seen as problematic in most of the academic literature on the subject (Salant, 1995; Law & Long, 2011). According to Meghani & Kuzma (2011), it would be best to find a new approach to attaining objective regulation by inviting a heterogeneous set of stakeholders to participate in decisions. Regulatory institutions only rarely invite consumer groups and environmentalists to their deliberations because they tend to base their decisions on a model of objectivity in which only experts, specialists, elected officials and scientists offer legitimate information (Meghani & Kuzma, 2011). However, as "objective" as this process should be, it is problematic in democratic societies; furthermore, it is even more problematic when revolving door dynamics are taken into account. Indeed, it could lead to what Fung (2007) called "tyranny of a minority faction", or an "expert tyranny" (Dahl, 1989). To avoid these "public failure" (Bozeman & Sarewitz, 2005), two democratic values have to be supported: the principle of just representation and the principle of government transparency.

Despite these concerns, every regulatory institution continues to rely on an ideal of objectivity. For example, the FDA claims to make decisions on "precise and scientific information". To Meghami & Kuzma (2011), the problem with this statement lies in a rather naïve and positivist view of a science disconnected from any political, ethical, economical or cultural values. According to them, the idea of value-neutral agents who would be carriers of objective knowledge and objective proposals is an illusion. It is now known that any knowledge belongs to an epistemic community, which frames the interests, beliefs, desires, projects and values of its members. Moreover, individuals always belong not only to one community, but to an interconnected set. Consequently, problems of influence, subjectivity and values of an individual appear to be unsolvable: multiple influences cannot be reduced to simply a single source (Cohen, 1986). When this set of epistemic communities for every player and the contingency of every situation are taken into account, the idea of pure objectivity disappears. According to Harding (1998; 2004), it is the idea of weak objectivity that should be abandoned in favour of adopting what she calls "strong objectivity". Inspired by scientific work, this notion is based on the double-blind evaluation and peer-review process. It is not about ignoring values, beliefs and interests, but rather about identifying and questioning them. Applying strong objectivity in public regulation would lead to an implication of multiple stakeholders and public deliberations during which questions of values and interests are exposed and discussed (Meghani & Kuzma, 2011).

Continuous revolving doors: convergence of habitus

The one-way circulation from private sector to regulatory institutions, or the other way around, raises political and ethical questions within the academic community and results in many different answers. To benefit from the positive aspects of these revolving doors, rules against conflicts of interest can be passed and strong objectivity deliberations can be implemented. However, the intensification of these dynamics and particularly the continuous revolving doors remain problematic. For a public servant to enter the private sector after completion of his or her mandate is more than understandable; it is the round-trip that raises legitimate concerns. Indeed, even if rules can be passed to frame regulatory decisions, continuous revolving doors lead to the homogenisation of a "moral community" that does not delineate a clear frontier between private and public sectors. In the case of Goldman Sachs, as we have seen with Roche (2012), these continuous round-trips with regulatory institutions became an intentional and intense strategy. In fact, the last chapter, called "What have they become?", offers a striking synthesis:

	Used to be…	Before…
Robert Rubin	Co-Chairman of G.S. (1990-1992)	Becoming Secretary of the Treasury (1995-1999) for the Clinton administration
Stephen Friedman	Co-Senior Partner of G.S. (1990-1994)	Becoming head of the New York federal reserve (2008-2009)
Jon Corzine	CEO of G.S. (1994-1999)	Being elected senator of New Jersey (2001-2006)
Joshua Bolten	Head of legal affairs at G.S in London (1994-1999)	Becoming the White House's chief of staff for George W. Bush (2006-2009)
Reuben	Managing partner of the G.S.	Being nominated chairman of

Jeffery	Paris office (1997-2001)	the Commodity Futures Trading Commission (2005-2007)
John Thain	Co-COO of G.S. (1999-2004)	CEO of the New York Stock Exchange (2004-2007)
Hank Paulson	CEO of G.S. (1999-2006)	Becoming Secretary of Treasury (2006-2009)
Neel Kashkari	Vice President of G.S. & Co. in San Francisco (2002-2009)	Being put in charge of TARP, President Bush's plan to save the banking industry
Petros Christodoulos	Trader for G.S.	Running the Greek Debt Agency and becoming number 2 at the National Bank of Greece

Although Goldman Sachs is far from being the only corporation in which revolving doors are used, it is astonishing how predominant this phenomenon is in GS's case. It is not only a circulation between some public agencies and GS, managers, partners and CEOs of GS found themselves highly involved within the very public institutions that regulate finance. However, one should absolutely not hastily jump to the conclusion that revolving doors inherently imply conflicts of interest, lies, embezzlements or misappropriations. According to this article, when shedding an academic light on the many books written about Goldman Sachs, another problematic issue emerges.

During the continuous revolving doors, a community is built in which actors come to share values, world views, interests and beliefs. These actors tend to see situations from the same perspective. When this community blurs the line between private and public sectors, regulatory processes become "objectively" biased. Beyond providing unofficial information and returning favours, habitus converge: "Habitus spontaneously orchestrated among themselves and pre-adjusted to the situations in which they operate and of which they are the product tend to produce sets of actions which (…) are roughly attuned to each other and in accordance with the interests of the agents concerned" (Bourdieu, 2000: 145).

The convergence of habitus brought by continuous revolving doors allows for problematizing the phenomenon without predicating misconducts. Through intense, round-trip revolving doors, a community of spontaneously agreeing decision-makers emerges from both sides of the private/public frontier. Therefore, using revolving doors as an intentional and intense strategy, Goldman Sachs, as with many other corporations[2], has secured itself socially and morally by embedding safeguards around regulatory processes that cannot be easily dismantled. This phenomenon emerges when opening a dialogue between several books on GS and the academic literature on revolving doors and requires a closer and more systematic examination through further studies.

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[2] According to Eggan & Kindy (2010), three of every four oil and gas lobbyists in Washington used to work for the federal government.

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