Research on Partner System—Taking Goldman Such as an Example

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ABSTRACT
Goldman Sachs is a company that has grown very large in recent years. The most important factor contributed to its success is partnership. In this paper, it will focus on Goldman Sachs' partnership system by the method of literature review, and relevant data used in this paper are derived from major literature. The paper finds that the material interests of owners and operators are rationally allocated and institutionally guaranteed. In a limited partnership investment bank, the limited partners provide about 99% of the capital and share about 80% of the income, while the general partners enjoy management fees, profit distribution and other economic benefits. The management fee is generally charged as a percentage of the total assets managed by the general partner who is about 3%. In the profit distribution, the general partner can receive up to 20% of the investment income with 1% of the capital. In addition to the material incentives provided by financial benefits, the limited partnership has strong moral incentives for the general partners, such as power and status incentives.

Keywords: *partnership system, Goldman Sachs, investment, administration and management, limited partner*

1. INTRODUCTION

The partnership system was first created in the medieval European cities of the Mediterranean and is one of the oldest forms of organization. The partnership system was popularized by the maritime trade, and capitalists were reluctant to venture out to overseas after the accumulation of capital, so they invested in mariners to transport and sell goods, and the profits were distributed in proportion to their capital contribution. In case of loss, the capitalist was liable only in proportion to his capital contribution, while the mariner bore unlimited liability, and the "Commendatore" was regarded as the prototype of the partnership system. This form of partnership was gradually extended to the land trade, and the anonymous partnership and the two-partnership company emerged [1].

As relevant studies have not yet reached to this side, this paper analyzes the advantages of the partnership system through literature review. It hopes that it might improve the uneven distribution of shareholders' interests in the partnership system, in order to solve the problem of common prosperity.

2. REVIEW OF GOLDMAN SACHS

Goldman Sachs has grown very rapidly in recent decades. According to the literature on Goldman Sachs Group's history and strategy, we can learn that in 1966, the M&A division's revenues were $600,000 [4].

By 1980, M&A revenues had risen to approximately $90 million. In 1989, the M&A group's annual revenue was $3.5, and just eight years later, that figure had risen again to $10. This made Goldman Sachs a true "world class" investment banking firm. Goldman Sachs became a world-class "player" in the investment banking world. Goldman Sachs is a pioneer in the field of investment banking, with "first to start" and "first to imitate" as its key strategies. In 1981, Goldman Sachs acquires the Goldman Sachs Group. In 1981, Goldman Sachs acquired Allan & Co. Allan & Co. and entered the foreign exchange trading. This marked the beginning of Goldman Sachs' diversification beyond the traditional investment banking agency and advisory business. The acquisition of Allan & Co. By 1989, Allan & Co. contributed 30% of Goldman Sachs' $7.5 million in total profits. In the 1990s, Goldman Sachs senior management realized that it was only possible to make a profit of $7.5.

In the 1990s, Goldman Sachs executives realized that the firm would not be able to sustain its prosperity by relying solely on agency and advisory work. Thus, they opened another capital investment business, establishing the GS Capital Partners investment fund, which relies on equity underwriting, bond underwriting or the firm's own funds to make long-term investments of five to seven years.

The GS Capital Partners investment fund, which relied on equity underwriting, bond underwriting or the firm's own funds, made long-term investments of five to seven years and then sold them at a profit. Goldman Sachs invested $1.35 billion in 1994 for 28 percent of a clothing company, Ralph Lauren. Goldman Sachs invested $1.35 billion in 1994 for a 28% stake in Ralph Lauren, a company in the apparel industry, and assigned its president to the company. Three years later, it sold 6 percent of the shares for $487 million. The remaining shares appreciated to $53. The rest of the shares appreciated to more than $53. In just three years, Gao's capital investment income nearly doubled tenfold, while the old business and investment banking division only quadrupled.

Investment banking is like any other industry. Business innovation and risk-taking can make a company famous and rich overnight. This shows that Goldman Sachs is growing very fast with very high profit margins.

Today's partnership system is about partnership and co-prosperity, and according to the first China Business Partner Summit, the press materials recorded[3], "Mr. Zhou Qinye, Chief Accountant, delivered a keynote speech on "China's Capital Market Reform and Development", in which he pointed out that there are eight reform issues that need to be paid attention to at present.

First, the registration system reform is the top priority at the moment, which should respect the basic connotation of the registration system and draw on international best practices, but also reflect Chinese characteristics and the stage of development.

Second, a market-oriented underwriting mechanism for new share issuance should be established. In the face of the test of research ability, pricing ability and sales ability, the establishment of an underwriting mechanism can ensure that the science and technology board can make up for the shortcomings and card necks, and then realize the substitution of imports to ensure independent and controllable.

Third, to improve the quality of listed companies, we need to improve the governance of listed companies. The registration-based system to keep the entrance gate and the establishment of an exit mechanism, prohibit major shareholders to occupy funds and illegal guarantees, and increase the penalty for non-compliance costs.

Fourth, it is necessary to achieve multi-level market construction, to the North Exchange, for example, to deal with the relationship with the Shanghai and Shenzhen exchanges and regional equity markets, to achieve staggered development, interoperability.

Fifth, strengthening the responsibility of intermediaries is necessary. It is imperative to abandon information disclosure as the center, consolidate the system, improve the quality of practice, and increase the accountability system of intermediaries.

Sixth, it is important to balance the three elements of the capital market, chips, capital and indexes to carry out the investment side of the reform.

Seventh is to improve the securities enforcement and judicial system mechanism, through the securities enforcement and judicial system mechanism, to promote the efficient operation of all links.

Eighth, it is imperative to promote the opening up to the outside world, gradually increase the proportion of foreign ownership in joint venture securities operators, control the proportion and scope of foreign investment in China's capital market, promote the listing of foreign enterprises on domestic stock exchanges, and improve the regulatory system for enterprises listed abroad".

3. PARTNER SYSTEM

3.1 Professional Partners

The author said that [5] "A professional partner is an individual in partnership, and the partnership is with the enterprise, which provides a new business platform, resources and shares. Partners and clients are collaborative relationship, and the business of partners is to collaborate with clients to succeed in their business, create value and share benefits. Professional partners aim at profit, personal development and giving back to the society, through establishing business circles, innovation and professional services, and cooperating with macro-enterprises and clients to create and share wealth."

3.2 Limited partner

The author said [6]: " Limited partners, i.e. institutional investors such as companies or financial and insurance institutions participating in the investment and individual investors, only bear limited liability.

The limited partnership consists of general partners and limited partners, and the general partners bear unlimited joint and several liability for the debts of the partnership.

The general partner has unlimited joint and several liability for partnership debts, and the limited partners are

liable for partnership debts up to the amount of their capital contributions.

The limited partners shall not execute the partnership affairs and shall not represent the limited partnership externally.

3.3 Development trend of partnership system

"The typical practitioners of partnership systems in China include Vanke, Haier, Alibaba, Huawei, etc. The partnership system has been widely applied in China and can provide a new driving force and mechanism for enterprise development. As China's development enters a new era, with comprehensive high-quality social and economic development, the era of human capital has arrived, and the partnership system has become an organizational system most closely integrated with the contemporary Chinese reality, which can better meet the needs of contemporary enterprise management and has a wide scope of application. Kang Zhijun believes that "knowledge employees will truly lead their own career and future as business partners; the era of employment is disintegrating, and the era of partnership is coming."[1]

To further explain the development trend of partnership system, four main models of partnership system are presented below.

3.3.1 partner hierarchy model

Diversified development and platform-type companies can adopt partner hierarchy model.

This kind of company generally integrates various business units, and the quality and ability requirements of the personnel vary greatly. The most important feature of the junior partner grading model is the combination of multiple business units, which requires the participation of partners from different business units, while the senior partner provides a guarantee for the overall business development of the company.

Diversified business combinations attract partners with different segment capabilities, while senior partners ensure the unity of the whole company platform. This business model is applicable to regional headquarters branches. [1]

3.3.2 Partner classification model

" The classification model is applicable to the businesses that depend on both capital and human capital, such as investment and finance, funds and securities. This model includes both general partners and limited partners. The general partners have greater decision-making power and unlimited liability to the company, while the limited partners have no real influence on the management of the company and only limited liability to the company, and their decision-making and distribution rights are relatively small. This model is suitable for those enterprises with intensive capital and decentralized shareholding, mainly to guarantee the unified decision-making power like the Goldman Sachs[1].

3.3.3 Partner executive model

This model is suitable for companies like the Internet. This model is suitable for companies like the Internet, and its most important feature is the high degree of flatness. The management of a flat organization is like that of a partnership, operating mainly as a small team, with each individual being responsible for operating results and profitability, although there is no clear distribution of individual equity. This model does not require redesigning management mechanisms, but rather maintaining effective incentives for employees based on the existing structure. This model is mainly used in the management of the company's executive team to ensure unity of decision making and to prevent excessive separation of the organization [1].

3.3.4 All-partnership model

The all-partnership model is essentially a change in the incentive approach, where only a small amount of equity is allocated or only equity interests without decision-making power are granted to employees, with no impact on the actual decision-making mechanism of the company. The full partnership model is similar to the other models in design[1].

4. TYPES OF PARTNERSHIP SYSTEM

4.1 Two-tier equity structure model

The two-tier shareholding structure has become a widely used shareholding structure in the United States and Canada. The company generally issues two different shares in the market, A and B, with A shares representing equal shares and B shares generally held by the company's founders, who have several times (usually 10 times) more voting power than A shares. By giving the founders of the company different voting rights from those of the investors, the need for the founders to have effective control over the company is met. Companies with this structure are generally family-owned or emerging industries where the founders or core personnel want to have control of the company." [1]

4.2 Business partnership model

In industries where human capital plays a major role, such as consulting firms, investment funds, and securities funds, or in platform companies that need to integrate multiple business segments, there are two types of partners: junior partners and senior partners. Based on the principle of equal responsibility and rights, junior

partners are often responsible for specific businesses or are the leaders of small teams, with a high degree of independence to run the team, carry out business development and operation on their own, and share the profits of team operation; while senior partners are required to take on cross-functional or cross-departmental responsibilities, for example, Alibaba adopted this mechanism in the early stage of its business.

4.3 Business partnership model

The management characteristics of the business partnership model are that the common management objectives are shifted from the corporate level to the business level. Neither the legal entity nor the business registration information is changed, nor a fixed organization is used as the profit-sharing unit. But a business, product, project, or region are treated as an independent accounting unit, and virtual shares or project follow-on investments are made. A typical example is Vanke's partnership system, which mainly consists of a shareholding plan and project follow-on investment.

5. PROSS AND CONS OF PARTNERSHIPS

The implementation of the partnership system can transform the identity of talents, emphasize the unique value of the partners' contribution to the company, and reward the actual performance created by the partners in a timely manner. In the traditional distribution system, employees' salaries are regarded as the cost and burden of the company, and most of the profits are distributed to shareholders in proportion to the equity allocation after deducting all costs, but only a small portion is distributed to employees.[2]

The partnership system is only suitable for knowledge-intensive industries, not labor-intensive industries. According to the Company Law, listed companies must have the same shares and the same rights, but in order to implement the partnership system, the control of the company is determined by the partners according to the agreement, ignoring the other shareholders of the listed company, which makes it impossible to be listed in China.[2]

The main advantage of the partnership system is that it is based on enterprise value creation, emphasizes the value contribution of human capital, provides opportunities for core technology and management personnel, and creates a bottom-up vision and mission, a value-driven common goal, and a common business platform for active participation. The partners share the risk of responsibility based on value creation and goal sharing, which can effectively motivate the core talents and change the emphasis from individual employee capability to team capability, thus forming a complementary knowledge and capability. The company's management is flattened, and the trust and support of partners and the organization are enhanced, thus improving efficiency. The human controllability of partner boundary adjustment. It does not require unlimited joint and several liabilities.

The main shortcoming of the partnership system is its lack of legality, i.e., the lack of legal protection. The partnership system is still in the initial stage of corporate governance in China, and there is a lack of legal system construction and protection. The partnership system also has the defect of ignoring other stakeholders, and the management transparency is poor, which may cause the founding partners' control problems. The partnership system violates the principle of "equal shares and equal rights", resulting in unequal shareholding.

6. MEASURES CONTRIBUTED TO THE SUCCESS OF GOLDMAN SACHS

6.1 Transforming a Partnership into an Equity Firm

After more than 100 years, Goldman Sachs has become one of the world's most influential investment firms. Goldman Sachs believes that the partnership system has been one of the key factors in its success.

Goldman Sachs began as a partnership, with partners assuming unlimited responsibility for operational risk. In order to maintain a competitive advantage, Goldman Sachs planned a public offering in 1998, converting the partnership into a stock corporation. However, the Goldman Sachs IPO was strongly opposed by some partners, who believed that the high returns would be shared with minority shareholders. Goldman Sachs designed a quasi-partnership to get partners to agree to the IPO. After the firm's IPO, the "quasi-partnership" system became commonly known as the "partnership system.[2]

6.2 Inspiring Talent

A Goldman Sachs Partner is a symbol of Wall Street's elite status and is required to meet three criteria: business skills, management and leadership, and culture and values. Every two years, Goldman Sachs selects a new partner based on nominations from existing partners. Goldman Sachs has established a unique "mutual screening" partner selection process, whereby candidates are not interviewed, but are initially vetted and backchecked by a dedicated team of the Partners' Executive Committee using a confidential evaluation process. Candidates are rated by their department heads and the partner team, and the cross-score difference is the candidate's strength score. The new partners are formally announced after a closed-door meeting of the Partners' Executive Committee.

Unlike a partnership, Goldman Sachs' partnership system is a management system that assigns partner status to senior managers in order to lock in and motivate talent in the context of a corporate system. This system maintains the corporate goal of maximizing shareholders' interests while ensuring that the interests of partners are protected and that the partnership culture of profit sharing and risk sharing is maintained, thus balancing the interests of major shareholders with those of minority shareholders.[2]

Goldman Sachs Partners are selected to receive a base salary increase, a share of the firm's substantial bonus pool, and special investment opportunities. Goldman Sachs contributes 15% of its annual profits to the bonus pool, which the partners collectively receive as a priority, and 1% of pre-tax profits for individual partner performance awards. To ensure incentive compatibility, partners must disclose their personal balance sheets to the firm, contribute to the firm based on their assets, and receive an equity stake of equal value.

If the firm is subject to regulatory penalties, the partner is liable for the same percentage of the fine. The firm has the right to reduce or cancel the equity of a partner who has not performed well, or to revoke his or her partnership. For long-tenured partners who have contributed less, the Partners' Executive Committee may revoke their partnership through a closed-door process to bring in new blood. [2]

6.3 Two Levels of Partner Committees

Goldman Sachs has established two levels of partner committees: the Management Committee, which is composed of senior partners, participates in major decisions and governance of the firm and is under the unified leadership of the Board of Directors; and the Partnership Committee, which is responsible for the development and career management of the firm's partners. Besides, the Partnership Committee, which is responsible for partner development and career management, includes selection, training, performance evaluation, diversified development, promotion and succession training. General managers are promoted through a "partner candidate - general partner - senior partner" track. Goldman Sachs keeps the number of partners to about 1.6 percent of the workforce, and the average partner tenure is about eight years, with about one-quarter to one-third of the partners eliminated every two years. These initiatives reflect the "elite" nature of Goldman Sachs' partnership.[2]

Goldman Sachs was developed from a partnership and has the right soil for the development and improvement of a partnership system, which can be described as an innate partnership system. The Goldman Sachs Partner Management Committee participates in major decisions, and its governance mechanism is designed to incentivize talent and, in effect, to help the founders and majority shareholders consolidate control of the company through the Partner Committee, thereby gaining priority in the distribution of residual income. In implementing the partnership system, Goldman Sachs and Vanke have some commonalities, namely "consolidating control + motivating talent". Goldman Sachs' partnership system takes into account the interests of the original partners (i.e., the majority shareholders) and helps mitigate the conflicting interests of the majority and minority shareholders.

7. CONCLUSION

This paper examines the important components of the partnership system and how this system works in practice. The paper finds that the material interests of owners and operators are rationally allocated and institutionally guaranteed. In a limited partnership investment bank, the limited partners provide about 99% of the capital and share about 80% of the income, while the general partners enjoy management fees, profit distribution and other economic benefits. The management fee is generally charged as a percentage of the total assets managed by the general partner who is about 3%. In the profit distribution, the general partner can receive up to 20% of the investment income with 1% of the capital. In addition to the material incentives provided by financial benefits, the limited partnership has strong moral incentives for the general partners, such as power and status incentives. It is clear that the partnership system has greatly contributed to the economic development of Goldman Sachs and its profitability has increased tenfold in a very short period of time. The author believes that it is possible to agree and sign an agreement at the beginning of the business. Agreement on the issue of profit. In the future research the author would like to specifically study the game problem of benefit distribution in the partnership system.

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