



October 16, 2009

Bonuses Put Goldman in Public Relations Bind

By [GRAHAM BOWLEY](#)

A celebrated [Goldman Sachs](#) partner, Gus Levy, coined the maxim that long defined the bank, the savviest and most influential firm on Wall Street: “Greedy, but long-term greedy.”

But these days that old dictum is being truncated to just “greedy” by some Goldman critics. While many ordinary Americans are still waiting for an economic recovery, Goldman and its employees are enjoying one of the richest periods in the bank’s 140-year history.

Goldman executives are perplexed by the resentment directed at their bank and contend the criticism is unjustified. But they find themselves in the uncomfortable position of defending Goldman’s blowout profits and the outsize paydays that are the hallmark of its success.

For Goldman employees, it is almost as if the [financial crisis](#) never happened. Only months after paying back billions of taxpayer dollars, Goldman Sachs is on pace to pay annual bonuses that will rival the record payouts that it made in 2007, at the height of the bubble. In the last nine months, the bank set aside about \$16.7 billion for compensation — on track to pay each of its 31,700 employees close to \$700,000 this year. Top producers are expecting multimillion-dollar paydays.

The latest tally came Thursday, when Goldman reported another set of robust results. But its strong financial showing — a profit of \$3.19 billion in the third quarter — was overshadowed by Goldman’s swelling bonus pool. Goldman set aside nearly half of its revenue to reward its employees, a common practice on Wall Street, even in this post-bailout era.

But despite Goldman’s success or, perhaps, because of it, the bank has come to symbolize for many a return to wanton Wall Street excess. Even in 2008, the most tumultuous year in modern Wall Street history, Goldman

employees reaped rewards that most people can only dream about. Goldman paid out \$4.82 billion in bonuses last year, awarding 953 employees at least \$1 million each and 78 executives \$5 million or more. The rewards for 2009 will be far greater.

Goldman executives know they have a public opinion problem, and they are trying to figure out what to do about it — as long as it does not involve actually cutting pay.

[Lloyd C. Blankfein](#), Goldman's chairman and chief executive, finds himself in the unusual position of defending a successful company in a nation that normally celebrates success.

Goldman said Thursday that it would donate \$200 million to its charitable foundation (that figure represents 6 percent of its third-quarter profit, or about six days of earnings).

Rumors are swirling on Wall Street that Goldman might donate even more money to charity, perhaps as much as \$1 billion, in an effort to defuse public resentment directed at the bank. Mr. Blankfein has even urged his free-spending bankers to be mindful of conspicuous consumption.

Goldman is also weighing changes to some of its compensation practices. Its executives receive a significant portion of their total compensation in stock. But like other banks, it is considering increasing that portion for all employees, giving deferred payments and introducing provisions that would enable the bank to claw back bonuses if trades go wrong.

Mr. Blankfein laid out such ideas in a speech in Germany last month that drew wide attention on Wall Street.

Despite the news of Goldman's strong quarter, David A. Viniar, the chief financial officer, was on the defensive Thursday. Talk of bonuses, and whether they were justified, dominated what in another era might have been a celebratory call with the media.

"We are very focused on what is going on in the world," Mr. Viniar replied to a barrage of questions about whether the bank should pay outsize bonuses in these hard economic times. "We are focused on the economic climate. We are focused on what is going on with other people."

But he said Goldman had a duty to its employees and to retain staff. By paying big bonuses, he said, the bank was trying to make a difficult trade-off between “being fair to our people who have done a remarkable job” and “what’s going on in the world.”

Goldman, Mr. Viniar said, was being unfairly singled out over its bonus culture. “Yes, I think that is too big a focus,” he said. “I would prefer people to be focused on the success of our business, how well we’re doing, and how well our people are performing.”

Still, some outsiders wonder if Goldman, which is so adept at reading the markets, is misreading public opinion, and whether the gilded Goldman name will be tarnished by this episode.

Goldman is no different from most Wall Street firms: it rewards bankers and traders who make lots of money.

“They do it because they can,” Michael Useem, professor of management at the Wharton School at the [University of Pennsylvania](#), said of the bonuses. “But strategic thinking requires that you think not only about trading but also about reputation and where the bank stands in the court of public opinion.”

This much is indisputable: Goldman Sachs is minting money. Its third-quarter profits were powered in large part by aggressive trading in the fixed income and equity markets.

Its earnings were also bolstered by mark-ups in its own [private equity](#) stakes and other corporate investments, which have risen as markets have rallied this year. Its earnings from investment banking were down from the second quarter, it said, because of the seasonally weak summer months and because the second quarter had been enhanced by underwriting business as other banks had rushed to raise capital.

While Goldman has been a vocal proponent of reforming pay practices, the bank has not yet shown its hand and will only describe any major changes in its compensation structure when it announces final bonuses at the end of this year. Meanwhile, other banks, like [Morgan Stanley](#), have moved ahead in reform, by introducing three-year clawback provisions, for example.

Brian Foley, a compensation consultant in White Plains, said of the possible reforms like delayed payments and clawback provisions: “I definitely think they ought to be doing it, and I assume they will be doing it. They have

got to arrange the chairs on the deck so things look different.”

[Copyright 2009 The New York Times Company](#)

[Privacy Policy](#)[Terms of Service](#)[Search](#)[Corrections](#)[RSS](#)[First Look](#)[Help](#)[Contact Us](#)[Work for Us](#)[Site Map](#)