

Strategic Issues Facing Investment Banks

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Course Objectives

The investment banking industry has always been characterized by significant change (e.g., regulatory, technology, risk, globalization, product development, asset allocation, client needs). However, during and after the financial crisis the strategic issues facing investment banks were and are changing at an unprecedented pace which has resulted in a great deal of uncertainty.

This course is designed to help those interested in evaluating an industry undergoing rapid change; those interested in working in investment banking; those interested in working in management consulting; and those interested in learning more about the financial system. Whether you plan on working in management consulting and advising investment banks or at a not-for-profit organization dependant on contributions from those working at financial institutions, you will need to better understand the issues facing these institutions.

In addition, although technical expertise may be important in gaining entry level positions in the financial or any other industry, students who are able to raise their sights to understand and develop perspective into the critical strategic issues facing a complex industry such as investment banking firms today will be the ones to more effectively contribute to their firms and progress to senior management levels.

This focus of this course is the presentation of a number of viewpoints on the critical strategic issues facing investment banks, and the actions that leading companies are taking to address them. This will be achieved in part from presentations by, and discussion with, prominent professionals working at, have been clients of or are advising leading financial services firms. These individuals will address the issues currently faced by their organizations and the strategic actions currently being taken.

In addition, students will learn how to design and implement a coherent strategy to address a critical strategic issue facing an investment bank through lecture, discussion and case analysis. Students will complete a strategic study project based on the investment bank and issue of their choice.

Background

During the past few years, significant turbulence and changes have occurred in global investment banking. Investment banks have been acquired, faced bankruptcy, sought TARP, been encouraged to take TARP, sought outside capital, filed to be bank holding companies and have been told to eliminate proprietary trading activities. All investment banks de-leveraged themselves. Some investment banks significantly reduced risk across the board while others tactically reduced risk. Some banks are reevaluating risk management tools. Some investment banks are pushing a larger emphasis on asset management or private banking. Others are reconsidering how they cover clients and which clients they should cover. All of the investment banks are trying to understand how new

regulations and capital requirements will impact them. Each investment bank has been dealing with their own marketing and public relations issues.

Pedagogy

Each class session focuses on one critical strategic issue facing global investment banks. In general, a case discussion will be led by the teacher and a group of students assigned to the topic, and a question and answer session. Also, periodically a guest speaker will be invited to participate.

In order to gain the most out of the case study discussion, preparation in advance of each class session is very important. Furthermore, since much learning is derived from fellow students' contributions to class discussion, failure to prepare for class should be construed as breaking a contract with them.

As preparation for class and/or each guest speaker, students will be assigned to various strategic topic areas. Each student (or student group) will be responsible for developing a small set of reading materials, preparing a synopsis for their fellow students, and making a short presentation to the class. The materials must be prepared two (2) weeks before the class in which their topic is being discussed and presented and discussed with the teacher so that fellow students can be provided the materials one (1) week in advance to prepare for class.

At *each* class session you are expected to place a name card in front of you; failure to do so will negatively affect your grade because of the role class participation plays in grade assessment.

You should assume the teacher has an extremely bad memory for names and requires the assistance of a name card! The namecard is also a courtesy to the guest speakers. In addition, you must deliver a class card (including photograph, available from Student Affairs) to the teacher at the start of the course. A class list will be provided to each visiting speaker.

Course Requirements

As indicated above, students are expected to contribute to the class discussion, 25% of the final grade. A team term project (see below) counts for 50% of the grade.

The final examination (see below) counts for 25% of the grade.

There is no mid-term examination.

Course Materials

Readings Packet Assigned books

Course Outline

Session Topics and Assignment

Each topic will be two classes

- 1. Business Overview
- Existing business model: Agency vs. Prop
- Business/Revenue mix (sales & trading, asset management, wealth management, retail banking)
- Geographic/Regional mix (US, EMEA, APAC)
- Client segmentation and concentration
- Corporate Culture (how do you retain old vs create anew)
- 2. Operations
- Costs (fixed vs. variable)

- IT & Security
- Public Relations

3. Capital

- Capital allocation (risk capital vs operating)
- Risk management practices
- Return Metrics (Capital, Profitability etc)
- Funding Plan (long vs. short term)
- Dividend policy

4. Legal/Regulatory

- Financial Holding Company Act
- Compliance
- FASB v IFRS (Basel I, II & III)
- Tax

5. Human Resources

- Hiring practices
- Compensation
- Aligning incentives w/ shareholders
- On-going education/training

6. Strategy

- Growth areas/products
- Organic vs. in-organic growth
- Bolt-on acquisition vs. Transformational
- Operating model of the future

TERM PROJECT

In addition to experience gained through case analysis, a key purpose of the course is to provide students with an in-depth experience in strategic issues facing an investment bank. This is achieved through the preparation of analyzing and presenting a significant strategic issue facing an investment banking firm.

Students will be assigned or select a strategic topic that relates to the class topic and/or guest speaker. Each student (or student group) will be responsible for developing a small set of reading materials, preparing a synopsis for their fellow students on the readings, writing a 2-3 page memo written to an actual specific CEO of a specific global investment bank with the following sections (What is the Strategic Issue; Background/Why Important; What Are Others Doing; Your Recommendation in Addressing the Issue; Potential Issues Related to Addressing the Issue) and a make a short presentation (4-8 page powerpoint presentation pages) to the class that will take 30 minutes.

The materials must be prepared two (2) weeks before the class in which their topic is being discussed and presented and discussed with the teacher so that fellow students can be provided the materials one (1) week in advance to prepare for class.

Students will work in groups.

FINAL EXAMINATION

Students are expected to select their own strategic topic facing an investment bank (whether discusses in class or not), based on interest, and discuss with the teacher for approval at least three (3) weeks before the last day of final examinations.

Each student will be responsible for writing a 2-3 page memo written to an actual specific CEO of a specific global investment bank with the following sections (What is the Strategic Issue; Background/Why Important; What Are Others Doing; Your Recommendation in Addressing the Issue; Potential Issues Related to Addressing the Issue) and a putting together a short presentation (4-8 page powerpoint presentation pages).

Due on the final examination day. No exceptions.