Pirate Season? No, Business as Usual

Newsletter dated:

16 December 2009

Author: **Olivier R i b e r t**

Position: **Managing Director**

Investment banks, en route for another round of bumper bonuses, are making a strong statement to the World: they won't reward their staff as much as they could or did before the crisis. According to them, despite the billions being handed over to their staff it is one of the lowest bonus seasons ever because it represents a much lower portion of their revenues than it used to.
For Goldman Sachs, around 42% instead of the usual 48% or so; for JPMorgan only 33% of its investment banking revenues, far below its 44% historical average (sources: the FT).

This reminds me of Warren Buffet's past experience at Salomon's Brothers, and his stunned realisation that staff at all levels were in fact working mainly for their own compensation and, as a lesser concern, for shareholders; an enormous chunk of total profits went to the staff. Mr. Buffet is no angel himself, but this prompted him to mainly back off from foraging into this area of business.

Are we talking about capitalism? It seems that the ship's crew seize half of its cargo on delivery for its own well-being, leaving the ship's owner who took the financial risk with a meagre half. And after deducting costs including base salaries. A punishing cost for the financial backer, may be, but quite a pay-off for the crew. Considering the risk-reward ratio, who would one rather be, the risk taker or the crew? Isn't that a bit odd in a self-proclaimed capitalist society?

And what about one would define as "collateral damages", meaning the consequences of pursuing such financial practices on the Community at large? Is it worth affecting the world's economies so adversely?

Hence, the growing feeling there is no need to go to Somalia to find pirates. A royal ransom is being paid every year, and investors seem not to notice or bother.

The current M&A deal attracting a lot of attention is the hostile Kraft-Cadbury take-over. In this kind of operations huge fees have usually (and casually) been paid to advisors working on behalf of companies putting their future on the line, mostly regardless of how the operation turns out in the future and what good it brings the companies.
Surprisingly a shareholder (Mr. Buffet again) has stepped out to make public his disapproval of the deal he deemed too expensive and not fair value. Is he trying to keep the pirates at bay and assert control on its investments?

Of course, I am not saying that bonuses are inappropriate; they are a huge incentive and are expected by anyone willing to put in long hours of high quality work. The point is to strike a balance between what is expected and what can be decently paid, who's carrying the risk on what has been achieved, and how sustainable is the gain for the investors paying off the bonus.

On ethical grounds I would further ask how much of this money is being attributed to charities or philanthropic activities? Earning large sums of money and investing them into something benefiting our Communities offer the opportunity to make a difference. Needless to say, to make sense one shall talk about the proportion of its total income being allocated to such ethical investments, and not mention any amount of money in itself

Olivier Ribert
Managing Director

"Prejudice is opinion without judgment."
Voltaire

42 Elvaston Place
London SW7 5NP
United Kingdom

www.poune-am.com
contact@poune-am.com
+44 (0)79 6907 2872