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Goldman Sachs culture 'toxic'? Letter confirms suspicions about Wall Street.

Polls show that Americans hold a very low opinion of Wall Street, and a damning public letter of resignation from a Goldman Sachs executive could only amplify that perception.

A Goldman Sachs sign is seen at the New York Stock Exchange. A Goldman Sachs executive director published a withering resignation letter in The New York Times, saying the investment bank is a 'toxic and destructive' place where managing directors referred to their own clients as 'muppets.'
(Brendan McDermid/REUTERS/File)

By Ron Scherer, Staff writer
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New York

The opinion article in The New York Times has a simple headline: “Why I am leaving Goldman Sachs,” written by Greg Smith, identified as a former executive director.

Mr. Smith, with more than decade at the firm, then goes on to describe the culture at Goldman Sachs “as toxic and destructive as I have ever seen it.”

He says he knew it was time to leave when he could no longer look students being recruited by Goldman Sachs in the eye and tell them

Goldman was a great place to work. Instead, he describes a place where making money off the firm's clients became the mantra.

Smith's description of the firm fits with Main Street's perception of Wall Street these days. Despite the run-up in the stock market, many people view Wall Street as a place where fat cats rake in huge bonuses, and lobby aggressively against attempts by Congress to rein in their activities.

"Wall Street is not held in high regard so this is certainly not going to help," says Dennis Jacobe, chief economist at the Gallup Organization in Washington. "I think one of the things that is under-perceived on Wall Street and many of the financial sectors is how badly the financial crisis has hurt the reputation of everyone involved with Wall Street."

In a survey published last December, Harvard's Center for Public Leadership ranked Wall Street at the bottom in terms of American's confidence in its leadership. Congress, the media, and the White House all ranked higher.

Even long-time Wall Street observers agree that the perceptions are distinctly negative.

"Wall Street is not doing a very good job of explaining its importance to the economy and the good it does," says public relations executive Richard Torrenzano of the Torrenzano Group and a former spokesman for the New York Stock Exchange. "It helps corporations and new organizations raise money in a public environment, and that money is used to build new plants, create jobs, and really help the quality of life in which we live."

However much good Wall Street does is far overshadowed by the public's memory of 2008 financial crisis, which ultimately lead to the Great Recession.

"People will always be suspicious of banks," says Hester Peirce, a senior research fellow at the Mercatus Center at George Mason University and a former Securities and Exchange Commission official. "Part of the reason is that Main Street has suffered so tremendously, and people are still mad at the banks getting all the money they got."

At the height of the financial crisis, Goldman Sachs, like other large financial institutions, borrowed money from the federal Troubled Asset Relief Program (TARP). And, like other large banks, it repaid those loans with interest.

Also, at the height of the financial crisis in 2008, Warren Buffet's company, Berkshire Hathaway, invested $5 billion in Goldman Sachs. Part of Mr. Buffet's investment was in the stock, which he purchased for $115 a share. On Wednesday, the stock was selling for $120 a share, off about $4 a share.

Goldman Sachs, which made a profit of about $1 billion in the fourth quarter, is known for its intense work ethic and cutthroat culture. Each year the investment bank culls its ranks of underperforming executives and traders. However, in the past, the firm has also sent many of its alumni to Washington, including former Treasury Secretaries Robert Rubin and Henry Paulson.

“Many have worked there or wanted to work there,” says Ms. Peirce. “Goldman is elite but all the big banks have the reputation of people working very hard.”

Goldman officials are also politically active. In the 2012 cycle, Goldman Sachs, through its political action committee as well as individual contributions, is the top organizational donor to Mitt Romney’s presidential campaign, according to the Center for Responsive Politics/Open Secrets. Goldman Sachs and its officials have made 232 donations totaling $426,780.

In a letter to their employees on Wednesday, Goldman Sachs executives Lloyd Blankfein and Gary Cohn disputed Smith’s characterization of the firm. “Needless to say, we were disappointed to read the assertions made by this individual that do not reflect our values, our culture and how the vast majority of people at Goldman Sachs think about the firm and the work it does on behalf of clients,” wrote the two men in a letter posted on the firm’s website.

The Goldman Sachs officials said that as far as they knew, Smith, whom they never identified by name, had not expressed any misgivings through any of their anonymous channels. “If an individual expresses issues, we examine them carefully and we will be doing so this case,” they wrote.

The Goldman Sachs letter to its employees also noted that two weeks ago, Goldman was named one of the best places to work in the United Kingdom, where Smith resides.

Critics of Goldman Sachs blame its problems on a fixation with short-term profits. “It is just this short term grab for profits,” says T.J. Faircloth, director of research at Boston-based Corporate Accountability International, which monitors corporate behavior. “We see this across the board with other corporations.”

This jibes with Smith’s view of the big firm. In his op-ed, the former executive writes, “Today, if you make enough money for the firm (and you are not currently an ax murder) you will be promoted into a position of influence.”

Smith says he hopes his op-ed acts like a warning shot to the company’s board of directors.