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The Pine Street Initiative at Goldman Sachs

Pine Street is a planned structure that lets line leaders at Goldman Sachs teach and share. Because we grow organically, we need to develop our own leaders. Even when we hire people laterally, we need to train and acculturate them. We have 1,200 managing directors and a good number of people below that level doing very important jobs. Our business changes extremely quickly, to the point that experience is only so valuable. The key thing is judgment. The markets are changing, the technology is changing, the products are changing, but the values remain the same. Pine Street is the focal point for training leaders at Goldman Sachs. It's an extension of the apprenticeship system.

—Hank Paulson, Goldman Sachs Chairman & CEO, May 2005

Early in May 2005, members of the Pine Street Board of Directors gathered for their quarterly meeting. Almost five years had passed since Goldman Sachs launched an innovative leadership development initiative called Pine Street. Focused primarily on developing Goldman's most senior managers, Pine Street had built and executed a number of programs since its inception in November of 1999 (See **Exhibit 1**, Evolution of Pine Street Offerings). But with each string of successes came a new set of challenges. At each turn, members of the Pine Street Board—comprised primarily of senior line leaders from Goldman's key businesses around the world—provided institutional guidance and support to meet these challenges. The agenda for today's meeting was broader than usual: how to leverage Pine Street's initial success and maximize its value into the future.

Moving forward, Pine Street faced several broad challenges. First, its curriculum needed to maintain the interest of an increasingly demanding internal clientele. Second, program content needed to keep pace with the constantly changing requirements of a rapidly shifting competitive and regulatory landscape. Third, Pine Street itself needed to pursue creative ways of renewing its structure and people without compromising either its mission or its unique culture. Fourth, Pine Street needed to retain the continued support of Goldman Sachs' senior leadership, without which such an innovative venture could not succeed. Finally, as program offerings grew, so did fundamental questions of identity. After five years of evolutionary growth, what did the Pine Street brand mean to Goldman Sachs? How should Pine Street staff think about their unique contribution within the broader structure of a constantly evolving organization? How should Pine Street be positioned vis-a-vis Goldman Sachs University, which focuses on development and skill-based training of the broader non-Managing Director (MD) population?

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The Origins of Pine Street[1]

In the early days of 21st century, the investment banking world was changing. Customers were increasingly price-sensitive, and banks were betting that competitiveness correlated directly with scale and scope. By 2005, the technology bubble of the early 2000s had ended, and the industry was predicted to grow quickly again. Several firms announced record profits, mostly fueled by trading activities. Many banks also started to significantly increase their hiring. The ensuing "war for talent" threatened to put a damper on the growth of banks. Though Goldman Sachs preserved its reputation as an employer of choice for many graduates, it was not immune to broader industry dynamics. The company's objective was growth, taking advantage of new opportunities while maintaining and extending its competitive position and sustaining its cultural identity among leading full-service investment banks. (See **Exhibit 2** for selected financial data.)

Goldman's business was divided into three segments: investment banking, trading and principal investments, and asset management and securities services. Investment banking activities were divided into two categories, financial advisory and underwriting. Financial advisory included advising companies on mergers and acquisitions, divestitures, corporate defense activities, restructurings, and spin-offs. Underwriting included public offerings and private placements of equity and debt securities. Trading and principal investments facilitated client transactions, but also included taking proprietary positions through market-making in, and trading of, fixed-income and equity products, currencies, commodities, swaps and other derivatives. Principal investments primarily represented revenue from merchant-banking investments. Asset management and securities-service activities fell into three categories: asset management, securities services, and commissions. In asset management, Goldman provided a broad array of investment advisory services to a diverse client base. Securities services included prime brokerage, financing services and securities lending, and matched-book business.[2] Commissions included agency transactions for clients on major stock and futures exchanges, revenues from the increased share of the income, and gains derived from merchant-banking funds.[3]

History[4]

Goldman Sachs was founded in 1869 on lower Manhattan's Pine Street as a broker of promissory notes. In 1906, the company strategically moved into the underwriting business. The firm's efforts paid off with the $650 million Ford Motor Company IPO in 1956, at that time the largest public offering on record. This and subsequent high-profile transactions sustained Goldman's reputation as the leading U.S. investment bank, with performance consistently at or near the top of the league tables in the most defining categories.

In the early 1980s, Goldman Sachs' staff grew at an annual rate of about eight percent. Over 90% of that new growth came from entry-level hires. During the same period, annual turnover averaged only about five percent. Typical industry turnover rates hovered around 20% annually. The rule of thumb among professional-service firms was that it cost about one year's salary to replace a professional. By the mid-1990s, however, Goldman's annual turnover had grown to double digits as hiring grew to between 20% and 25%—split about evenly between entry-level and experienced hires.

By 1996, the 172 partners concluded that they needed to increase their competitive strength by creating a new title of managing director (MD) for hundreds of vice presidents (as well as all partners). This new title was intended to convey the responsibility and leadership being asked of this group. MDs who were not partners received many of the benefits of partnership—equal salaries and offices, for example—with the exception of an ownership stake in the firm.[5,6] In only a few years, the number of MDs exceeded 1,000.

Structure

A 15-member Management Committee was the firm's senior-most leadership group. The Committee's charter extended to all issues that did not require a vote by the full partnership or a partner's individual consent. The Partnership Committee oversaw partnership policy, selection and practices, as well as the firm's capital structure.[7] Hank Paulson, Goldman Sachs Chairman & CEO, emphasized the important role that the Partnership Committee played in dealing with cultural issues connected to the firm's managing directors and partners. Specific management topics were addressed by ad hoc committees.

Far more than other investment banks, Goldman relied on teams of two or even three line managers to jointly lead departments and divisions. This relatively unusual practice of management by "co-heads" offers several significant advantages. First, it allowed the firm to maximize the benefit of complementary skill sets. Second, having multiple heads with different lengths of service at the company made transitions easier by guaranteeing built-in overlap. Finally, small leadership teams increase representation and ownership, which helped retain top players by providing them with access to leadership opportunities. One manager noted that Goldman often had the advantage of being able to field more than one senior executive to meet clients and win business: "Virtually all of the leaders of the firm spend a big part of their time in execution, in meetings with clients, working on specific deals. Having co-heads allows each to play an active business role and still have capacity to handle core management tasks." At a more junior level, co-headships supported the development and transfer of skills. As one HR professional noted, "There's always this handoff, this apprenticeship, this kind of cordial approach to how we hand the business over. We take a lot of time and we try to do it carefully."

Culture, the Special Ingredient

Goldman Sachs prized its rich corporate culture. According to managing director John Rogers, a member of the firm's Management Committee:

> Our bankers travel on the same planes as our competitors. We stay in the same hotels. In a lot of cases we have the same clients as our competition. So when it comes down to it, it is a combination of execution and culture that makes the difference between us and other firms. Behavior is shaped by it. People who think culture is just a bunch of bacteria in yogurt set a tone that strips values from a company. That's why our culture is necessary—it's the glue that binds us together. We hold onto the values, symbols and rituals that have guided us for years, and anything new that we add to the culture always supports what already exists.

Lloyd Blankfein, the Chief Operating Officer of the firm, summarized elements of Goldman Sachs culture as "an interesting blend of confidence and commitment to excellence, and an inbred insecurity that drives people to keep working and producing long after they need to. We cringe at the prospect of not being liked by a client. People who go on to other commercial pursuits frequently self-identify as a former Goldman Sachs employee long after they have left the firm. Alumni take a lot of pride in having worked here."

A natural by-product of hiring so many high achievers was an almost universal expectation of high standards. "Execution, the ability to turn around a product and do it flawlessly, is paramount at

Goldman," said one manager. "This is an environment where people expect successes and they remember failures for a long, long time," added another. "Things have to be done in a very high-end way. People at Goldman Sachs are pretty intolerant of weak execution and weak quality, even of things most people might think of as trivial. Word of mouth about how good something is spreads in about seven seconds. If it's a bust, you've got no second swing at the ball." With high standards came a tendency toward self-criticism, added one senior manager: "We're harshest on ourselves, competitively. Once you're here, you're in. So the question becomes how to make ourselves better every single day. People say to each other, 'That was a good argument. But next time, it would actually be really interesting if you also added these three things.'" A relentless drive for excellence when coupled with openness to critique reinforced a strong norm of "feedback-seeking" behavior. More so than at most financial services firms, Goldman employees were known for their collaborative practices.

Human Capital

As a long-time employer of choice for elite undergraduates and MBAs, Goldman was able to select from a broad array of talented applicants for the traits it preferred. Overwhelmingly, the firm chose smart high achievers. As Paulson put it, "Our people are what my wife calls gold-star types. They want the gold star, to get the A on the test. They want to be told they're doing a good job, and they want to get good feedback. We all do." While everyone had high expectations, no one was a prima donna. Despite the emphasis on teamwork, Goldman Sachs also stressed the importance of leadership. Everyone, no matter how junior, was expected to lead. Paulson explained, "We're global and multicultural like other professional service firms, but we also have huge capital commitments and risks to manage. It takes many, many leaders. Goldman Sachs is leaders working with leaders." Blankfein supported this notion by citing typical career choices made by departing Goldman partners: "A fair number of people who leave Goldman Sachs go into public service, whether as leader of the NYSE or to senior government posts. " But as Goldman Sachs became increasingly large and complex, it became increasingly difficult to grow enough leaders to meet the demand, let alone facilitate productive interaction among so many of them.

The Pine Street Concept[8]

In June 1999, Goldman's senior leaders selected a diverse group of managers from across the firm to form the Leadership Development Advisory Committee (see **Exhibit 3**). Their official charter was to "assess the future training and development needs of Goldman Sachs, with particular focus on the need for a more systematic and effective approach to developing managing directors." Early in the process, Committee members agreed that Goldman's focus on professional development would be driven by the following four objectives (direct excerpts are below):

1. *Developing the firm's key asset*: With the firm's people representing our most critical asset and competitive advantage, the task of keeping our talent excited and moving up a steep learning curve has become mission-critical.

2. *Winning the "War for Talent"*: Accelerated professional development is a key element in the overall "value proposition" to the most talented people.

3. *Building a cadre of outstanding leaders*: The firm's growth and ambitious business objectives demand a larger group of outstanding, well-rounded leaders.

4. *Maintaining quality and cultural strength amidst rapid growth*: Our expanded scale dictates that our traditional "apprenticeship" model of professional development be supplemented with more structural measures.

For six months, committee members gathered extensive data using four different research approaches. First, using both internal surveys and in-depth interviews, they elicited a broad range of opinions from Goldman Sachs leaders and employees about professional development. Second, they analyzed the status quo within Goldman: How much professional development was currently taking place within the firm, and how effective were these initiatives at meeting the firm's needs? Third, committee members traveled extensively to benchmark "best-of-class" firms around the world to learn how they developed their leaders. Finally, they interviewed a select group of external consultants and thought leaders about current best practices in senior-level executive development and corporate universities.

Several broad themes (described in detail in **Exhibit 4**) emerged from these benchmarking visits and consultant interviews. In the most successful firms, senior management devoted significant energy to people issues and held their senior line managers accountable for talent development. Leadership development focused more on boosting high-potential groups than on bringing slow learners up to minimum standards. Only a small percentage (thought to be about 10%) of leadership development happened in formal classroom settings. Instead of an exclusive focus on structured programs, best-in-class companies preferred to have teams working on real projects as the primary vehicle for development. In practice, firms relied on multiple developmental experiences to grow leaders.

On the morning of November 8, 1999, the Leadership Development Advisory Committee presented its findings to the firm's Management Committee. The original proposal included four main components: 1) an initial two-day mandatory seminar for all Goldman Sachs managing directors (MDs), 2) action-based learning projects, 3) executive coaching, and 4) master classes. The committee also recommended establishing a special supervisory board and initiating a search for a Chief Learning Officer (CLO) to oversee the evolution and execution of these programs. With the exception of the action-based learning projects, which were deemed to be "too much too soon," the Management Committee accepted the proposal, and "Pine Street" was born. The initiative was named "Pine Street"--after the location of the firm's Wall Street headquarters in the late 1800's—to connote an effort specific to the firm's culture and heritage.

It was agreed that the focus of Pine Street would be on leadership development of the most senior people within the firm, the MD population and Goldman Sachs University would continue to focus primarily on skill-based training for the non-MD population. Given the nature of the business and the highly educated workforce, this would ensure that leaders would be developed at all levels in the organization.

Having passed this initial milestone, it became clear that Pine Street's central challenge would be to convince Goldman's extremely busy, capable, and business-minded managers that leadership development was an investment worth considering. Despite strong support from several influential Management Committee sponsors, wholesale acceptance of the fundamental premise for pursuing a more systematic approach to leadership development was not a given. Many excellent leaders had developed over the years at Goldman Sachs, without the benefit of formal programs such as the ones proposed by Pine Street.

Furthermore, Goldman Sachs was not a firm like General Electric where Jack Welch could simply require all managers' quarterly attendance at Crotonville for leadership development. Approval by the Management Committee in no way guaranteed that Pine Street would succeed. For Pine Street to have a chance, it had to be tightly aligned with Goldman Sachs' business and culture. For example, all notions of a brick-and-mortar corporate university were quickly rejected. Said Pine Street COO Steffen Landauer, "That was probably one of the best decisions we made. We really went aggressively in the other direction to embed Pine Street in the business, to blur the lines between us and the business, to do things that are close to people's desks." Following a similar logic, Pine Street's board of directors was designed to link the Pine Street team in the learning and development world with a group of respected leaders out on the line. Creating a board composed of leaders from across all Goldman divisions was seen as a critical way to broaden internal ownership of Pine Street initiatives. Selection criteria for board members included a demonstrated interest in talent development, credibility within the firm, connection to one's division and business, and the ability to represent one's division. Members also had to have reputations as strong commercial contributors. Landauer continued, "We talked person by person with senior leaders. In the beginning it was very important to get powerful, highly-respected, leaders to serve."

Eventually what distinguished Pine Street's board was the remarkable level of hands-on engagement by its members. "We never build an initiative without either a board member or another line person," Landauer emphasized. From the start, senior line leaders from across Goldman Sachs were heavily involved in both the design and actual delivery of every initiative. Pine Street's initial offering was no exception.

Getting Started

Steffen Landauer recalled the very moment when he realized that Pine Street was "for real." According to him:

> It was Christmas Day, 2000 when I—together with a group of senior leaders around the firm—received the following voicemail from Mark Schwartz, the Pine Street Board member who had offered to lead development of the Pine Street Leadership Program (PSLP) for all MDs. It began as follows: "This is Mark Schwartz from Ho Chi Minh City, inviting you to serve as faculty in the most important leadership initiative ever at Goldman Sachs." At the outset of Pine Street, it sent a powerful signal to the firm that such a well-respected leader as Mark Schwartz was sending Christmas Day voicemails about this program launch from the back alleys of Ho Chi Minh City. Six weeks later, sixteen partners flew to London, not for the first PSLP program, but rather to *rehearse* for the program. It's probably safe to say that's something that never happened before at Goldman Sachs and will never happen again.

During much of 2000, Mark Schwartz, an early champion of Pine Street and at the time head of Goldman Sachs Asia, led a twelve-person team through weekly meetings to design Pine Street's inaugural program. For almost eight months, every Friday morning at 6 a.m. NY time, the PSLP team met to discuss every detail of this landmark event. Finally, in February of 2001 the entire team, including all faculty members, converged on London for a series of intense rehearsals. Everyone, including John Thornton, the firm's co-President, sat through multiple repetitions. The stakes were high and there was a great deal of pressure to get it right the first time. Over the next 18 months every Managing Director in Goldman Sachs would attend the program. Landauer described the elaborate preparations and tense atmosphere:

> We designed and recruited a faculty group of 20 for this program—primarily GS line leaders. We brought them to London to rehearse for a day to make sure they understood their roles and how all the pieces fit together. We would never do that again now, but at that moment we wanted to get it right. We were very afraid that if it wasn't successful, it would be

not only the first but also the last Pine Street program. This program was a big bet, and one that really got Pine Street on the map.

Schwartz too felt pressure to make the first program a success, but for different reasons. These were anxious times at Goldman. The company had just gone public, the equities bubble had burst, and most investment banks were cutting costs. Any program or activity that did not directly affect productivity was vulnerable—and ultimately expendable. "That first program was going to be challenged if it hadn't been successful," he explained. "Killing it would have been easy. Divisions that were under a lot of financial pressure were being asked to subsidize the program, though it wasn't obvious what the return on investment was going to be."

Offsetting these risks, key senior leaders lent their support. John Thornton sent personal voice mails to each MD, describing the inaugural PSLP and promising them an invitation. "When we decided to run these 10 Pine Street programs, we basically said we are not running any one of them without a commitment from Hank, the CEO, or the co-COOs at the time, to be a host for the whole two-day program," explained one Pine Street team member. "So they ultimately made the business case for us. It was being shopped in every speech that Hank made, every conference he appeared in. Your personal invitation to Pine Street from Paulson was viewed as recognition of you as a leader of the firm. Yet in every single training program that first year, if half of the crowd was feeling proud to be there, the other half was skeptical."

The first PSLP debuted on March 22, 2001 and largely met expectations. As a leader development initiative, PSLP had relatively modest goals. First, the Pine Street group wanted to create a common language and a certain baseline of leadership capacity among the MD population, most of whom had only limited previous exposure to such training in their careers at Goldman Sachs. Early on a conscious decision was made not to adopt an external model of leadership. Instead, during each iteration of PSLP, Hank Paulson or one of the firm's co-chief operating officers led interactive discussions to develop Goldman's unique approach to leading.

A second goal of PSLP was to generate a shared understanding of and common set of expectations for Pine Street itself. To achieve these goals, Schwartz explained: "We wanted everyone exposed to this program as quickly as we could, but in groups small enough so everyone who attended would feel that it was intimate enough that they could participate fully." Ten programs in London and New York ran over a period of 18 months. In addition to exposing MDs to a few world class thought leaders on the subject, each program included heavy doses of senior Goldman line leaders sharing personal insights and experiences from their careers.

Following each program, a member from the Pine Street staff held a 45 minute "live debrief" with participants to note reactions and solicit suggestions. According to Landauer, "From the beginning they got the idea that we were listening to them." Each event was rigorously evaluated and continuous adjustments were made. As a result, successive programs became increasingly interactive and less presentation-oriented.

Schwartz felt that PSLP generated enough enthusiasm and support to buy time for Pine Street to develop. This was crucial, he added, because "if people feel something is a waste of time at Goldman Sachs, nobody can make you do it. It wasn't that the first program in and of itself convinced everyone that leadership training was essential and that Pine Street was the most effective and efficient way to get to a great leadership program, but *it was good enough* and there was enough enthusiasm that the program survived and got traction. I think Paulson's support was really critical at that time."

Proving its Value

Despite the personal commitment and support of senior Goldman Sachs leaders, most attendees calculated the program's expected utility before deciding to attend. They simply couldn't help themselves. One investment banker described the process this way:

> Pine Street was presented to me from the start as a way to make senior people here feel special, to connect them to one another—as some group of them will continue to rise and lead parts of the firm, as well as lead practical projects within their business. My first reaction to being included in the program was "Sounds good, but what is it? How much time is it going to take? I'm honored to attend but, ultimately, will this be time well spent?" So I asked around to see what people thought of it. When I realized it had the full sponsorship of the Executive Office, that gave credibility to the program for me.

Other participants believed that not all of their time was well spent. For example, as part of dinner entertainment, Pine Street invited a leaderless orchestra to perform. It went poorly; one partner recalled: "Everybody's bitching and moaning and complaining, 'What a waste of time, these idiots at Pine Street.' This is a zero-defects place. And any start-up, as we know, has defects." PSLP put Pine Street on the map, but clearly there was much to learn.

Steve Kerr

In an organization where systematic senior leader development was a novel idea, establishing credibility early on was critical. One of the most public demonstrations of Goldman's commitment to Pine Street was the decision to invest in a Chief Learning Officer (CLO).

Paulson recalled, "We decided to go outside, which was a big step for us. Thain [co-President John Thain] and Thornton went through a search and found Steve Kerr at GE's Crotonville training campus. Steve convinced all of us that he understood that we are not GE and that he wanted a different challenge." Most everyone agreed that Kerr's arrival gave momentum to Pine Street. According to Schwartz, Kerr was a heavyweight who added credibility to Pine Street at a time when the business was first being created: "His style, his delivery, and his expertise really resonated with people. Having great credentials in academia and great credentials at Crotonville, he spoke to us in a way that suggested he really understood his business." Another insider agreed, "Steve Kerr brought a kind of celebrity status with him. He was so well known to senior leaders in the firm that he brought instant credibility to this fledgling group that otherwise might have had a more difficult time." The *Financial Times* praised not only Kerr's deep understanding of leadership, but also his uncanny ability to get a roomful of "type-A managers itching to be back at their desks making money" to actually put their Blackberries away to listen to him.[9] This was precisely the challenge Pine Street faced at Goldman Sachs.

After a year of courtship, Kerr finally arrived on March 22, 2001, just in time for the inaugural PSLP program. Landauer recalled, "Even before he joined the firm, Steve offered to join in many of those 6 a.m. meetings, but I think the whole process horrified him. We spent a long time getting it right. Steve was shocked at the amount of resources, and meetings, and people and everything that was involved in it." Kerr himself recalled thinking, "Fourteen people had devoted serious time to it (PSLP) for months. How one could use that many people on a two-day program was beyond me. But that's what they did. I caused one module to be cancelled and they threw me in because they did not have anyone else."

Lessons Learned

With extensive participant feedback pouring in from multiple iterations of PSLP and an experienced CLO on board to help them interpret it, Pine Street managers quickly grasped a few fundamental insights that would shape the general trajectory of leadership development at Goldman Sachs for years to come. First, as a group, Goldman's senior leaders desired more customized content. Since PSLP targeted *all* MDs in the firm, its content and coverage had to be very general. Landauer framed the challenge this way, "People—including people on the Pine Street team—would get tired of it very quickly. It served its purpose, but then we wanted to target more specific groups, higher-touch events, more intensive offerings for people whom division heads designated as leaders." One lesson was clear: two-day, one-size-fits-all training programs could never be the primary vehicle for developing senior leaders at Goldman Sachs.

A second insight concerned faculty composition. Initially, faculty came from top universities. "We found pretty quickly that even outstanding professors didn't necessarily have enough understanding of the Goldman Sachs experience to really connect with our people," Schwartz recalled. "We decided quickly to add our own trainers and managers to the program faculty to help legitimize the programs internally and increase their perceived effectiveness." He elaborated:

> When division heads ended up teaching at Pine Street, it was a lot easier to persuade vice presidents and younger managing directors in those divisions that they should be participating thoughtfully. Over time it became really inspirational. People wanted to participate in the program and thought it might be pretty neat to teach in the program, and over time we developed outstanding internal teachers. Ultimately we got the balance right, using a few external speakers who had great wisdom and great intellectual thought, but merging and melding that with internal division heads, internal partners who obviously knew the way the firm worked intimately, connected well with participants directly, and could relate their own experiences to the experiences that younger people were about to go through.

Added Landauer, "We have an intimate culture, a producing culture, a culture of apprenticeship. You learn from your colleague in the next office, and people here liked that model; the only issue is that Goldman Sachs had outgrown apprenticeship as a sole means of leader development. We quickly figured out that making the apprenticeship idea scalable required Pine Street to use internal leaders. If you look at how knowledge is transmitted, Pine Street continues to ask experienced leaders to teach what they know and outline best practices to others at the firm."

By 2005, Goldman Sachs line managers taught over 80% of Pine Street courses. Program participants list "internal faculty" as one of the most valuable aspects of the Pine Street experience. According to one, "It makes it very tangible and real when someone says why these things have worked for them personally in their career and why I need to learn them too. It's about what leaders do, but more importantly, it's about what Goldman Sachs leaders do." Teaching developed the faculty as well, noted Blankfein, the firm's President and Chief Operating Officer. "The professor generally gets more out of a good class than the students do in terms of affirmation of principles. Anyone at Goldman Sachs who trains junior people, seeing the quality of the people and the questions asked, feels good about him or herself and feels good about the institution."

The Evolution of Pine Street

From its inception, Pine Street was a work in progress, constantly evolving and adapting to internal feedback and external demands. **Exhibit 1** summarizes the evolution of Pine Street from its launch in November of 1999 through May of 2005. By tracing the general evolution of Pine Street, several discernable themes emerge. First, Pine Street offerings became increasingly specialized. From the original "one size fits all" PSLP, to its eventual mix of highly focused curricula, Pine Street responded to customer demands for increasingly customized interventions designed to meet the unique needs of specific businesses and individuals. Second, the relative mix of traditional classroom training programs as a percentage of the overall curriculum continued to decrease with time. In fact, by 2005 the core practice area "Leadership Programs" was dwarfed by all other major components of Pine Street. Third, Pine Street continued to broaden its connections with line leaders, from the relatively small initial team of champions out of the Executive Office, to over 107 line leaders serving as Pine Street Faculty in 2005 (including 91% of the firm's Management Committee). Fourth, over time Pine Street offerings grew to include not only senior leaders within Goldman, but significant client participation as well. A fifth trend was the gradual globalization of Pine Street events and services. Finally, from its initial image as a small standalone effort with a distinct brand, Pine Street staff worked increasingly closely with many other parts of the firm, including the Executive Office, the Partnership Committee, Goldman Sachs University, and other Human Capital Management (HCM) functions. In particular, closer integration with Goldman Sachs University became increasingly important to ensure the whole leadership and management development curriculum was seamless from junior level managers through to the most senior leaders in the firm. As Carol Pledger, Managing Director, Goldman Sachs University, observed,

> We jointly agreed to a framework to be used as the anchor in all the key leadership and management programs, regardless of whether they were being delivered at the Associate, VP or MD level. This has served us well in ensuring our curriculum is holistic and that programs build on each other as an individual transitions from being an individual contributor to a manager of people to the leader of a significant business.

The Early Years (1999-2000)

In addition to spending a great deal of time and effort planning for the **Pine Street Leadership Program** (PSLP), important seeds were planted during the first few years that would eventually grow into a comprehensive suite of core practice areas. Goldman always had a Managing Directors Orientation Program. Since Pine Street's initial focus was on MDs, it was only natural for the group to pick up responsibility for this legacy program. One of the Leadership Development Advisory Committee's initial recommendations was to "link development to performance reviews." According to Landauer, "**performance review training** was a way for us to collaborate with HCM in adding value to the firm as a whole. We had talked in our report about how important it was to incentivize people to the correct behaviors, not just commercial behavior; so we got involved in performance review training right in the beginning. In an attempt to get people engaged in the topic of leading, a series of **Master Classes** were also introduced in 2000. Landauer explains, "We brought some big-name outsiders (e.g. Clay Christensen, Dan Goleman, Philip Evans, and Gary Hamel) to interact in discussion, not lecture, with leaders on issues of their choosing. The Master Classes ran their course and we decided to stop doing them, but they served a purpose. Most people had a positive experience and got insights in 40 person group discussions with thought leaders in relevant disciplines. That was also helpful in getting Pine Street on the map."

Perhaps the most powerful program launched in 2000 was **Executive Coaching**. Coaching had been available at Goldman prior to Pine Street, but had largely remedial rather than developmental goals. According to Advisory Director Jon Cohen, "It was implied that you had a choice between getting fired or getting coaching. That didn't give it a very good patina. But once the world learned that over a third of the firm's Management Committee had been coached, it was seen as more desirable to do." Goldman transformed coaching's image from a last-ditch effort to save problem children into a highly sought after investment in Goldman's high-performing leaders. Cohen continued, "Maybe they've gotten sent to China to run a joint venture. That's not a three-inch putt, as golfers would say. They're perfect candidates for coaching that can make them more effective at new challenges and assignments." Customer satisfaction was high. "Based on what our clients tell us, executive coaching remains one of our most valued offerings," reported Cary Friedman, who managed the program for Pine Street. "We've invested a tremendous amount trying to scope out what makes it work. We've interviewed more than 250 coaches, looking for the ones that we thought would be most effective within Goldman Sachs. Exposing the right inside senior people to individual one-on-one work with the right outsiders is an important leverage point in developing their leadership skills."

About 50 MDs were being coached at any given time, each engagement lasting from four to a maximum of nine months. Seeing high profile executives with coaches had a powerful impact Friedman noted, "A Management Committee member will come into a meeting and say, 'Please pay no attention to the individual in the back of the room. That's my coach, who will be observing me in this meeting.' Nothing is more powerful than hearing a senior leader say that. 'Oh, this guy's got a coach? Wow.'"

Every executive who wanted coaching needed approval from their global division head, and everyone in the program worked toward specific developmental objectives approved by their direct manager. To reduce potentially sensitive political obstacles, all coaches were external, not Goldman employees. Additionally, the content of coaching sessions was not tied to executive compensation or promotion decisions.

Part of the argument to create Pine Street in the first place was to help facilitate the rapid expansion of the firm by accelerating the growth of its leaders. Informal mentoring was still important at Goldman, but as the firm grew exponentially (see **Exhibit 5** for growth in employee numbers) Pine Street's move to supplement traditional approaches with additional resources was an obvious solution. In the words of one long-time observer, coaching "filled a gap that was created by the gradual diffusion of a mentoring legacy inside the firm. Ten or 15 years ago at Goldman, most rising stars had an informal teacher, a coach, a mentor to help that individual develop. When the firm grew all of a sudden and went through the IPO, you ended up with a 20,000-person organization, and that legacy was diluted."

Involving Clients (2001–2002)

During 2001 and 2002 period, Wall Street experienced one of its worst bear markets in recent history. Landauer recalled this difficult period as a real test for his fledgling office inasmuch as traditional wisdom argued that one of the first line items to cut during tough financial times was training and development:

> Goldman Sachs cut way back on most businesses during this time, and many support functions were restructured as well. We were brutally careful on costs and everything was bare bones. And Pine Street ended up being protected and preserved. Hank Paulson and the firm's leadership deserve a lot of credit. They made a decision that they were going to do this and they stuck with it, through one of the toughest period in recent times on Wall Street.

Surviving this "gut check" infused Pine Street with a new found confidence to take some risks. When they weren't directly involved with executing the high-profile PSLP and continuing to operate programs initiated in 2000, Pine Street's lean staff (about eight people at this time) set about breaking the mold by reaching out to clients.

The idea of inviting external clients to internal leadership development initiatives was a concept Steve Kerr expanded from GE. Pine Street managers had been trying to find a way to get the most commercially-minded Goldman managers to participate in their programs and realized that one way to get their attention was by getting their clients' attention. Goldman Sachs University also opened up a number of their product programs to clients with great success. Not only did this provide an opportunity for relationship building over an extended period around a substantive topic, but as a result of the training, clients were better educated as buyers of GS offerings.

About Pine Street's initiative to include clients in its programs, Schwartz recalled, "It was a smart move, and the results were excellent." Client participants were grateful to join and brought their enthusiasm and knowledge to class. Goldman participants appreciated the added perspective. As one pointed out, clients for the most part "are better at this stuff than we are. We're just investment bankers, but we've got some of the best clients in the world. They are leaders in their business and as such are leaders in thinking about leadership issues. So what better way than to bring them into a classroom where you can learn from them?" But the benefits of client participation ran even deeper. A senior leader explained the beauty of this novel insight:

> Regrettably, nothing here stays credible for very long unless you do it with clients. The cool people here do not want to be associated with something for very long unless it has some commercial attribute, and enthusiastic client feedback on the experience validated Pine Street for the skeptics. Pine Street holds these client sessions on a regular basis now. And we have the same cast of characters, including some of the most commercially driven people in the firm. They do it once for 60 clients; it goes so well they bring in a different group of 60.

Not surprisingly, the opportunity to invite a client quickly became one of the most powerful tools for convincing some of Goldman's highest-profile leaders to attend a Pine Street event. Paired with their Goldman Sachs relationship managers, most clients were not only honored to attend, but many external attendees were also willing to discuss their reactions (see **Exhibit 6** for Selected Client Comment on 2004 Pine Street Programs). Alison Mass, a Partner who co-headed the firm's Financial Sponsors group, offered an explanation: "Leadership training of this quality is something no other investment bank offers clients. It's different than the usual client entertainment you do outside normal work hours. It's different than going to a Yankees game or taking their family to *The Nutcracker*. It's helpful to them as individuals, helpful to their companies, and enhances your relationship with them as you work together on the program." One relationship manager explained the logic this way:

> I spent five and half hours with my client one–on-one. My relationship with her is much stronger as a result of that interaction than it would ever otherwise have been. It would have taken me five years to get the same amount of quality time with that client. So it was an ingenious way to get us to bond with our clients. She was a captive at Goldman Sachs for a day where it's Goldman Sachs Day, and she's going to walk away from it feeling fondly about it. This is a competitive advantage for us. Not everybody offers something similar to this. And so if the client comes away from it feeling they learned something new, and they spent a day with Goldman Sachs, and they realize the resources that we made available to them, they have to have the feeling that we are a place that is a great partner for them to grow their business.

Pine Street staff never invited clients themselves; extending actual invitations was left up to relationship managers. One Pine Street Staff member explained the process this way:

> You are a high performer at Goldman Sachs, invited to attend one of the prestigious Pine Street programs where we have our CEO teaching, our vice chairman teaching, world-class external experts teaching. But we also suggest you invite one of your key clients. You'll find superstar investment bankers, who would never step away from the desk for anything, spending a whole day with a client in the program, because they know they'll strengthen their client relationships.

Client programs were seen primarily as an additional opportunity to serve Goldman's clients and deepen personal relationships. Said one Goldman manager, "Hopefully we learn a little bit more as well. Any time you have concentrated time with your clients it's helpful, but we do not use these sessions as business opportunities." Goldman managers did consider carefully which clients to invite. Some were simply large and important customers for which such attention was expected. Others were invited if Goldman Sachs knew that the client could clearly benefit from the course material being offered.

Client programs were a particular hit with some of Goldman's most commercially-minded managers. According to participant feedback, clients found the experience valuable as well:[10]

- "The action oriented bent to this program is extremely valuable and unique…[There are] several things I will put to use immediately."
- "I found it extremely valuable and hope that we will be able to send delegates in the future. I was left with a very positive impression of Goldman Sachs, the culture and people. You are an organization with exceptional talent working hard to ensure it is fully realized."
- "It is clearer to me now how Goldman Sachs is able to attract and retain the level of people I have interacted with across all segments of the company. The time and energy commitment to the leadership process is very impressive."

Pine Street's focus on clients wasn't limited to formal programs. Almost from the start, Pine Street offered **Individual Goldman Sachs Client Meetings**. Typically this took the form of Steve Kerr accompanying a line leader on a client visit. One leader described the offering this way:

> The approach from the relationship manager is that Goldman Sachs has gotten very serious over the last few years about leadership development. We've got this group called Pine Street that is doing both leadership development and more internal consulting type services with people at Goldman. We occasionally make available to favored clients the chance to have similar meetings with them, and if you would be interested, we'd be happy to explore that possibility with you.

For those who find this type of offering "unusual" for an investment bank, Pine Street staffer Daisy Wademan, who worked as an investment banker before joining Pine Street, explained,

> A client who has a good relationship with an investment bank tends to look to that firm—and to the relationship manager they work with—for more than just financial advice and execution. A good relationship manager becomes his or her clients' *advisor*—an all-purpose, go-to problem solver. In the context of 'client service first,' the individual Pine Street visits make a lot of sense. We're putting another Goldman Sachs resource at our clients' disposal.

As more and more Goldman managers (and clients) gained experience with Pine Street offerings, they began to push for content that was tailored to their specific business needs. The move away from one-size-fits-all was fine with Pine Street managers, as Kerr explained:

> To say you're going to run a program just for MDs is the same as saying you're going to run a program for brown-eyed people. You can do it, it's not against the law, there's an objective test to see who has brown eyes, but when they're all in the room, what are you going to teach brown-eyed people? Other than the title, they don't have anything in common. There are MDs here who boss nobody; they're very good at selling or trading or advising. Then there are MDs here who manage hundreds of people. What do you teach both groups that is not totally bland? Instead of saturation bombing, you can smart bomb. Focus on people with common problems, not common titles. Say you're a new manager. We'll teach you hierarchical leadership. Then you manage many people, so then we teach you management across time zones, management across countries. First time as a co-head? We've got a module for you.

During this period, the inaugural PSLP began to wind down and was succeeded by the **Pine Street Business Leadership Program**. This marked the start of specific programs for discrete audiences rather than one size fits all. The Business Leadership Program focused specifically on how to grow and lead a business. This program was eventually extended to clients in 2002.

Action Learning (2003–2004)

By 2003, Pine Street offerings had grown to the point where staff began to organize them in terms of five core practice areas: Leadership Programs; Leadership Acceleration; Leadership Advisory Services; GS Culture, Networks, and MD Community; and GS Client Services (see **Exhibit 1** for a detailed list of offerings in each area). According to Landauer: "That was an important step in our development. We gave specific individuals responsibility for specific practice areas. We started to think more about clusters of offerings rather than one-off training programs. The client piece was a discrete bucket, culture and networks was a discrete bucket." In addition to adopting a more formal structure, by 2003 Pine Street staff had also codified a set of internal governing principles (see **Exhibit 7** for a detailed description), which represented the group's attempt to embody the same principles of leadership which it taught in its programs.

As Pine Street evolved, so did its commitment to offer content focused on actionable, business-relevant best practices. According to Landauer:

> This is one of the fundamental dilemmas of leadership development: all of the research shows that training programs aren't very effective at developing leaders. And yet when you look at what most firms do and where they put their resources, most of it is invested in traditional classroom training programs. We quickly adopted a different approach. That's the main story of how Pine Street has evolved, from devoting nearly all of our resources to training programs, to branching more broadly into other types of learning initiatives. By 2003, none of the new initiatives that we invested in was a training program.

From the start, Pine Street's charter mandated a focus on developing Goldman's most senior leaders, its Managing Directors (MDs). However, by 2002 many leaders were concerned that Goldman was losing some of its finest Vice Presidents (VPs). As a result, several Management Committee members asked Pine Street to expand its scope to include high potential VPs. In addition to including selected VPs in client programs, Pine Street launched perhaps its most ambitious program yet, its **VP Leadership Acceleration Initiative (LAI)**. LAI was a 12-month action learning program designed to accelerate the development of a select group of 90 top-performing VPs. This initiative included job-based stretch assignments, intensive developmental feedback, systematic relationship building/networking, and training on key leadership skills as well as selected commercial topics (see **Exhibit 8** for a detailed description). The following year, Pine Street launched a similar initiative for its core audience, the **MD Leadership Acceleration Initiative** (see **Exhibit 9** for a detailed description). Similar to the program for VPs, the MD program was a 9-month action learning initiative designed to accelerate the development of a select group of 40 MDs. Its core objective was to prepare them for broader leadership responsibility at the firm through one-on-one executive coaching, individual action plans, participation in Executive Office taskforces, and small-group sessions with senior leaders.

LAI programs were a real stretch for the Pine Street staff, as well as the participants. One recalled his experience working on two LAI projects over three or four months this way:

> One was a project within my own business on sales force integration. The other was a research project with a colleague on changes within global investing—potential for unbundling, regulatory changes relating to soft dollars, and how to optimize secondary equities sales in the world of electronic trading. Both were interesting and time consuming. For the next round, I recommended considering one rather than two projects. Time wouldn't be diluted trying to manage both, but could be concentrated on one.

For Pine Street staff, locating a continuous stream of meaningful action learning projects and enlisting committed line leader sponsorship was a much greater challenge than planning a traditional classroom training event for 130 participants. When asked if such an intensive approach to leadership development was economical, Landauer replied:

> That's part of our strategy, to offer deeper, richer, more intensive offerings to a smaller number of leaders as designated by division leadership. It's a strategic choice: you either try to outfit an enormous expedition that will get everyone a certain distance up the mountain, or you decide to take a smaller group of people up a to a higher level. We've chosen the latter, and it's critical to ensure that we are investing in the people designated by the businesses. We're under pressure to make a difference to Goldman Sachs, not to fill huge numbers of seats at training programs.

Another resource-intensive way that Pine Street attempted to "make a difference" during this period was by launching a suite of internal consulting products. Pine Street had always offered "one-off" consultations to Goldman Sachs leaders. However, in 2003 Pine Street staff member Rajeev Peshawaria spurred the group to formalize this service into a cluster of offerings targeted at individual managers and their teams. By 2005, **Leadership Advisory Services** consisted of small workshops (ranging from two to 20 people at a time) covering the following topics:

- *Jump Start*: Accelerates a leader's transition into a new business by identifying issues and opportunities shared by leaders and their teams.
- *Optimizing the Co-Headship*: Improves effectiveness of new co-head relationships through individual discussions around proven best practices.
- *Establishing a Vision & Strategy*: Defines the strategic direction of a business through a practical approach.
- *Business Planning/Aligning Roles & Responsibilities*: Translates vision and strategy into a tangible business plan through a working session that charts specific projects, action steps, and roles and responsibilities.
- *Team Effectiveness*: Resolves people and process issues impacting business performance.
- *Cultural Integration*: Advises on critical steps involving cultural integration pre- and post-transaction following interviews with key leaders of both organizations.

Pine Street team member Jennifer Riessen, recalled initial reactions to this unusual offering: "Leadership Advisory Services was a new idea of working with leaders in their own businesses and on their own issues. . . Helping leaders with real problems. No one necessarily imagined that Pine Street would help with that. But when leaders are focused on success, they are receptive to leadership and organizational oriented topics that add value to their own businesses." Through its constantly evolving suite of Leadership Advisory Services, Pine Street provided "just-in-time" targeted assistance to leaders and their teams when they needed it the most. According to Riessen, "Leaders are more open to 'being developed' when learning is driven by real-time challenges."

In addition to in-house consulting, Pine Street designed specialized programs for individual businesses and their clients, **Customized Goldman Sachs/Client Programs**. One example was a program created for client hedge fund managers. By 2005, some hedge funds had grown to the point of becoming alternative asset management organizations, but many of the people running them had limited experience building businesses and managing people. Their talent lay in generating investment returns. Dean Backer, who worked closely with major hedge fund clients, described how Pine Street helped make Goldman Sachs relevant to these important clients:

> We offer a program specifically for hedge fund managers that helps them think about how to manage and grow their business, how to think about compensation structure and retention. Our clients truly get value out of that guidance and expertise. In a world where you want to be relevant to your clients, to be differentiated, it gives Goldman Sachs professionals who are on the franchise side of the business another way to do that.

The **Goldman Sachs/HBS Nonprofit Program** was an example of how Pine Street explored novel contexts within which to pursue its leadership development mandate, and a characteristic example of how the group enlists line leaders to help design and execute the initiative. Since many senior Goldman leaders also served on boards in the nonprofit sector, Pine Street partnered with the Goldman Sachs Foundation and HBS faculty to create a customized program designed to improve GS MDs' effectiveness as board members. David Dechman and Chuck Harris, two members of the Pine Street Board highly experienced in the not-for-profit world, worked with the group in designing the program, and also helped market it to MDs across the firm. At the first HBS program itself, faculty included John Whitehead, John Thornton, and a panel of highly experienced Goldman Sachs leaders discussing best practices in nonprofit board service. This program became an annual Pine Street offering and was expanded to include Goldman Sachs clients as well. The construct of line leaders serving in design, execution, and faculty roles was critical—for this initiative and others—in continuing to engage busy, often- skeptical MDs in Pine Street programs.

While action-oriented and customized offerings grew significantly during this period, Pine Street's more traditional leadership programs were increasingly refined to target specific populations of leaders at critical points in their careers. Pine Street's flagship program for MDs, formalized in 2004 as **Leadership Excellence I** (see **Exhibit 10** for a detailed program agenda), targeted managers who were preparing for critical career transitions. A new leader of a local team in New York or Hong Kong would attend Leadership Excellence. This program targeted relevant developmental assistance just at the point where leaders were most receptive to hearing the message.

Reaching Out (2005)

After six years, an indication of Pine Street's maturity was its increased integration in Goldman's culture and broader organization. Landauer, promoted to MD at the end of 2004, reflected on this evolutionary process:

> We're now becoming more integrated into the fabric of Goldman Sachs. At this point, we're asked to do a lot of projects together with other groups, which I think is a good thing and a sign of progress.

One example of this trend was in how Pine Street partnered with the Executive Office to help design the **Chairman's Forum**. Landauer explained:

> Hank Paulson and John Rogers wanted to convey to all Managing Directors how important it was for them to show leadership and take accountability with respect to business judgment and the firm's reputation. We worked with the Executive Office to understand the objectives, and then helped design the video-based case studies and interactive discussions which formed the core of the program. The key was engage the audience on this topic, rather than simply talk at them. Although the Chairman's Forum was not a Pine Street Program, we were able to help in creating a design and methodology through which Hank could interact directly with every MD of the firm. It was a huge commitment from Hank, who spoke at 26 sessions around the world in the first six months of 2005.

Not only did Pine Street help design the Chairman's Forum, but in 2005, the group also, worked with the firm's Partnership Committee to organize a series of events specifically targeted to strengthen the **Culture, Networks, and MD Community**. These included roundtable discussions at periodic dinners hosted by leaders from throughout the firm. The common goal was to encourage leaders to discuss key topics in the business while strengthening the Goldman culture and critical networks across the firm. Annual MD and partner orientation programs every other year had similar impact. The MD orientation was one of the few global opportunities for the large MD cohort to gather in one place. Every other year a new partner class was chosen. For example, in 2005, there were 330 partners in a firm of 21,000. Partner orientations were a way to reinforce the feeling that they were indeed part of something very special. Some sessions were focused on the history of the partnership, largely through stories told by current and retired partners about the outstanding leaders and defining moments of the firm. Other sessions focused more on the present day, and the role and responsibilities of the partners in helping drive the businesses and strengthen the culture of the firm.

Not only was Pine Street extending its reach within Goldman, but it was also expanding operations overseas. By 2005, virtually all programs available to leaders in New York were also available in London, Hong Kong, and Tokyo. Pine Street staff worked hard to ensure that global content was culturally appropriate. Kerr argued: "We should be offering development that is culturally sensitive. We shouldn't be imposing the U.S. model. We should have great local talent to run operations in Singapore or Paris, not Americans who don't speak the language. It should be locally led, the content should be globally relevant to specific locations."

Paul Choi, who leads Pine Street's efforts in Asia, added, "We have translated content into both Chinese and Japanese for our people in Asia. The local environment also influences the topics we teach. For example, given the very rapid pace of change in Asia, we have emphasized topics related to leading change, and adapted this content to the specific context in Asia." Six years after its inception, Pine Street had come a long way. Its programs were more customized, client-focused, action-oriented, integrated and global. But how do you measure the cumulative impact of this "more systematic approach" to developing leaders? How do you know if it's working?

Assessing Pine Street's Value

Pine Street marked a significant shift in the way that Goldman Sachs thought about the establishment of market leadership. Historically, I think we were known as a fast follower, a world class adopter, always doing it *best --not first. Our people have always been our most important competitive advantage. It was critical that we be at the cutting edge in the leadership development of such valuable assets. Pine Street ushered in a new era of being first and being innovative while still continuing to be adaptive.*

—Suzanne Nora Johnson, Vice Chairman

The Challenge of Measuring ROI

Measuring the impact of leader development interventions was a perpetual challenge. As one manager said: "We're big on measurement. Everyone is big on measurement. But given the amount of noise in the equation, to isolate the Pine Street variable may not be possible, and in any case it is probably not worth investing tons of mental energy on." Pine Street managers did track all participant comments, but in the end, another asserted, "You can't measure the return on Pine Street. That's ridiculous. It's like being healthy. Statistically I could find out that if I exercise and eat right I might live 2.1 years longer, but in the end I don't need that information to realize the benefits—I know them, I feel them, and you know them too." Kerr put it another way: "If one manager makes a great decision or avoids a bad one, you've paid for a whole program."

Recognizing the difficulty of justifying Pine Street's impact quantitatively, everyone was keen to point to the program's positive word-of-mouth. As one Pine Street manager said:

> The business units think there's a return on Pine Street. We hear it all the time: "It improved our business. It built our relationship with so-and-so critical client. It builds better relationships. I can't point to the specific piece of business, but it helped us do business with them generally, I want to do more." That's the buzz out there. We hear a lot about deals that are in the works.

Vice Chairman Bob Steel, who became an Advisory Director to the firm in early 2005, offered another useful metaphor: "How do you know you've got a hit record? They play it on the radio. You can get someone to play the record once, but if no one cares about it or likes it, the radio stations won't play it. If it isn't valuable, people won't think it's valuable, and this is a pretty discerning crowd."

The first survey of program participants, conducted a few weeks after the March 2001 debut, found that 45% of MDs viewed Goldman Sachs' formal training opportunities favorably. In 2003, this proportion rose to 50%. In 2005, when MDs rated both training classes and leadership development programs, 71% of the MDs who responded to the survey (representing 75% of the entire MD population) rated them favorably.

Most Pine Street programs cost relatively little to run—one manager estimated that a single program might cost no more than a traditional golf outing for an important group of clients. One reason that Pine Street was so inexpensive was its labor productivity: As an office, Pine Street had maintained its small size and flat organization despite quintupling its workload. There was virtually no increase in staff until 2005, when several junior people were hired to help support the load.

The flat organization was not just a byproduct of a small staffing budget. Pine Street also sought to model the same leadership principles maintained by the larger firm, and its structure simply reinforced those principles. Said Kerr: "We're trying to be a little miniature organization of what we're trying to teach everyone, to walk our talk." This included empowering even the most junior staffer to make executive-level presentations, if that individual was most knowledgeable about the issues. Several executives noted that Pine Street staff had blossomed when given opportunities for leadership. "The Pine Street team is pretty small, and it leverages this place immensely well. It's not physical leverage but psychological leverage," explained Kerr. "If it didn't feel as though Pine Street always had to prove itself, always justify what it was delivering, I'm not sure it would be quite as focused and effective at what it does." (See **Exhibit 7**, Pine Street's Internal Running Rules).

Reaffirming Company Culture

Company culture was modeled not only in Pine Street's internal workings, but in its developmental offerings as well. Hank Paulson's Chairman's Forum for MDs was one formal way to facilitate the dissemination of Goldman culture worldwide. In 2005, Pine Street worked with the Executive Office to help organize sessions of 40 MDs each around the world. As John Rogers recalled:

> Paulson manages to touch each and every entity with the issues of accountability and leadership. At the heart of it remain business judgment and the responsibility of MDs for the oversight and direction of their people. Hank begins with a discussion of reputation, and is followed by two video-based case studies on ethics. After case discussion, Hank adopts the metaphor of a compass to discuss Goldman's values. Obviously, true north is integrity, so what does this mean and what questions do you ask yourself to reinforce integrity? Other major categories include communications. Do your people feel too intimidated to tell you about a situation? Do you create an environment that encourages them to come forward? The next is leadership by example. Are you yourself actively engaged here? The last one is called "trust but verify," or "don't assume." And Hank discusses examples of his own good and bad judgments. This discussion generates the notion of yellow flags, the things that should raise caution. I'm not sure we could have executed all that without Pine Street.

Improving Communication and Building Relationships

Whether they had participated in the earliest MD training sessions or in a more specialized seminar, most Pine Street attendees felt that the experience had bridged distances between colleagues. Participants were reassured and inspired by seeing that their colleagues were as committed and capable as they were. As one manager put it:

> I walked away from the program with a reaffirmation of how close to the businesses and the clients the senior-most leadership at this firm really are. That was very positive for me to see. Second, I thought it was extremely helpful to have the ability to connect with a group of 20 or 25 people like me. Part of working is about having confidence in your peers' abilities, and having trust that you know and can work with each other. It's reaffirming that these are some of the very best at what they do in the world. They know as much about their business as I know about mine. That creates comfort, trust, and credibility.

Realizing the extent to which they shared similar challenges built a feeling of connectedness. Vice Chairman Kaplan echoed these sentiments:

> At its best, Pine Street is a reflective experience for attendees; discussing how to handle various types of difficult issues. It gives business leaders a chance to step back, get a better perspective, compare notes with colleagues and ask themselves key questions: What do I do under pressure? Do I look at my business with a clean sheet of paper? Do I coach my people? The investment banking business is chaotic and constantly changing. To be effective, a leader needs to learn how to get perspective on the business and see their situation more clearly. Pine Street gave business leaders a chance to step out of the daily chaos and focus on what they needed to do differently.

Differentiating Goldman Sachs

The enthusiasm for client participation, both internally and among clients, suggested that Pine Street had also succeeded in defining itself as a partner to clients and as a standout among investment banks. Clients remembered Pine Street (and Goldman Sachs) as a source of value, however unquantifiable. As Kaplan pointed out, that recognition helped deepen the client's connection to Goldman: "It's a way to give the client something unique that will help develop our relationship. It is another element of the 'value package' that Goldman Sachs brings to clients. It gives our clients a reason to say, 'Gee, I could use somebody else for this deal, but I'm going to use Goldman Sachs because of the overall value they bring me.' In an increasingly commoditized world, Pine Street provides clients with something meaningful that they can't get from one of our competitors."

It was relatively easy to see that this message was getting through. Kerr recounted feedback relayed from a client to his Goldman Sachs relationship manager:

> "I had always felt that Wall Street is made up of people with a lot of degrees trying to figure out ways to take other people's and companies' money." That was his perception until he attended a two-day Pine Street seminar for clients. After that meeting, his perception of the industry did not necessarily change, but his perception of Goldman Sachs changed significantly. His comment was, "Goldman Sachs gets it. They went out of their way to help educate me and others on how Goldman Sachs adds value and how as a client I can take advantage of their services not only to help my company but also my career."

Challenges

This is a cynical organization, and it's an organization that is so focused commercially that if it thinks that something is superfluous, it has no patience for it. If it doesn't see a direct correlation between what Pine Street does and making this place more commercially effective, it'll forget about Pine Street in a nanosecond.

— A Goldman Sachs Managing Director

Staying Fresh

Pine Street programs and personnel sought to demonstrate continuous improvement. "If Pine Street becomes perceived as declining in quality or repetitive, then I think it will probably go away," warned one leader. Suzanne Nora Johnson, who took responsibility for Pine Street as board chairman in 2005, singled out the need for fresh, relevant content as a critical hurdle to overcome if Pine Street's quality was going to continue at its high level.

By 2005 a large number of people within Goldman Sachs had already been through Pine Street programs. Business-unit leaders had been asked to nominate many of their high performers to Pine Street programs. What follow-ups could or should be added? One Pine Street staffer noted, "We need to keep it fresh and new and interesting." Abby Cohen, Goldman's chief investment strategist, captured the essence of this conundrum:

> What could derail Pine Street is getting stale. What do you do for the encore when people have already been through the training? Are you going to put them through the same program again? What is critical is to continually freshen the offerings by recognizing new challenges as they arise. For example, one recognized challenge is the large number of co-heads here. That's an unusual structure and an appropriate thing for Pine Street to be dealing with. The other

thing is that we are truly a multi-national firm. When we work on projects, we do so with people in different time zones and cultures.

Given the increasing scope of Goldman Sachs' global reach, this represented a significant challenge (see **Exhibit 2** for revenue and earnings growth by region).

Staying Relevant

Closely related to the need to keep Pine Street offerings fresh was the equally important need to keep them relevant. Kaplan explained the problem with a sales analogy:

> The Pine Street guys had lots of good reasons why managers should want to spend a day at one of their events. Their thinking went, "This is a great car, you should want to buy it!" I was not sure that Pine Street really understood the needs and perspectives of potential attendees. As a result, when potential participants were saying, "I don't want that car. It doesn't fit my needs," Pine Street's response was, "But you should want the car. Look at all the stuff it does." My argument to Pine Street was that they had to do much more work understanding the needs of their customers and then tailor the program to fit those needs.

To Steel, the consequences of irrelevance were perfectly clear:

> We talk about Goldman Sachs being a culture, but let's face it, it's an economic relationship that we have. If Goldman Sachs doesn't earn any money, we're not going to end the day singing songs around the campfire and come back the next day with a warm glow. In the end, people need to believe that this will help them do better at the firm and with their career or as individuals. They have to believe that. It's got to be about doing better at your job and being recognized as being better.

With this perspective in mind, Pine Street managers held a battery of interviews with program participants and division heads. The goal was to better understand current needs. To have the greatest impact, Pine Street managers had learned to anticipate division needs and position themselves to offer solutions, as one manager explained:

> We have to stop imposing stuff and treat the Goldman Sachs divisions like clients. We have to call on them. We have to get on their calendar and go see them, "What can we be doing better? What's on your mind? What would be interesting?" It's just like me calling on Merck. Merck does not exist to produce investment banking revenue. They don't really give a hoot what I'm interested in. And so when I'm really doing my job well I go and I get them to talk, and I just shut up and listen. They're clients. We should listen to them and create things that are good for them.

An even more integrated role might help make Pine Street more relevant and more impactful, argued Suzanne Nora Johnson: "Pine Street should be providing value in the succession-planning process. High-potential leaders who attend programs return to their line organization often without follow-up. Pine Street is not yet used as a vehicle for talent identification or evaluation back to the line or the HCM organization. The Pine Street Board of Directors has worked to make Pine Street programmatically and commercially relevant but it has the opportunity to enhance the utilization of our people more broadly in the firm."

Staying Viable

Of course, for Pine Street the leadership development initiative to survive, its internal staff and culture had to remain viable as well. The demand for increasingly specialized programs with high faculty-client ratios placed a great deal of stress on Pine Street's low headcount and limited budget. Pine Street's first program reached 1,000 people. Subsequent programs reached far fewer. Landauer estimated that one program had reached just 120 to 150 people over a cumulative three years of operation. This kind of specialization made it hard for Pine Street to take advantage of economies of scale. It was fairly easy to run the same program 10 times, but more difficult and costly to tailor programs for individual audiences. The question was: Could existing Pine Street resources meet increasing demands and still maintain its valued image of "lean and mean"?

While there was obviously a limit to what Pine Street could do given its size, there were also cultural reasons for not expanding the organization. As one staff member described Pine Street, "We are a small group of people working in partnership with a lot of people with strong credibility because they work on the line. I would hope that it remains a small shop of training professionals like we are now who will continue to pair up with line leaders who sit on the Pine Street Board. I would hope that what it doesn't have to turn into is an institution that requires having a huge number of training professionals." According to one team member, Pine Street was seen as "a consulting group with a reputation as a third party able to go into [Goldman Sachs] businesses and have them share everything with us. We look to help teams become more effective, whether in people skills or business strategy. The knowledge that our work will be completely anonymous within the organization is very important to helping us do our job."

Others worried that staff turnover would result in the loss of critical institutional memory. As yet, no key players had departed, even though several had worked at Pine Street since its very first program. The roles of chief operating officer and business unit manager were formalized in 2003, but no clear career path yet existed either within or through Pine Street.

Staying Valued

In addition to satisfied participants, the ongoing commitment of Goldman Sachs' senior leadership was among the most critical factors sustaining Pine Street and its mission. Yet Landauer felt that in that success lay Pine Street's biggest challenge. "Our biggest challenge is to continually renew the spirit and methodology of line partnership with a new group of people," he said. "This sense of partnership is the biggest distinguishing characteristic and life blood of Pine Street. The best available people would have no impact here without that partnership." Rogers agreed, pointing out the tenuous nature of maintaining such a partnership:

> Pine Street has two levels of protection: its own board and the Partnership Committee. And then of course it comes back full-circle to the Management Committee, which wanted it created in the first place. But if you had a program that was filled with incompetence or wasn't meeting its objectives or generated negative client feedback, I can assure you it would have been gone in 10 seconds.

Senior leadership commitment to Pine Street had been demonstrated repeatedly, and manifested itself in several ways. At the organization's inception, Goldman's most senior leaders made their commitment clear in a way that sent a strong signal to the rest of Goldman Sachs: leadership training was a priority, and Pine Street was to be valued by participants and non-participants alike. As one MD remembered, "The program kickoff was hosted by Lloyd [Blankfein], and it was very clear to me that this program was something meaningful and had the full sponsorship of the Executive Office. I was encouraged to see that level of participation and time spent in the program by our Executive Office members. Not everyone can say they just spent an hour with Hank Paulson, the CEO of Goldman Sachs."

One way Pine Street has managed to mitigate this risk is by creating and sustaining a credible and active advisory board. The Pine Street Board connected Pine Street to the firm's senior leadership and businesses. As such, it played an advisory role for Pine Street managers and helped link them closely to the constantly evolving developmental needs of Goldman's business leaders. Staying "in touch" was important, but in the end, according to Steel, the real litmus test was commitment: "Management has to remain committed. There's a difference between bacon and eggs. The chicken is involved but the pig is committed. You want people who are committed to Pine Street, not just involved."

For all its impact to date, Schwartz said, Pine Street remained an "unnatural appendage" to the firm. "Probably the greatest risk is that Pine Street might not be viewed as central to the core strategy of an investment banking business or a trading business. As an appendage, Pine Street would always be at risk of being cut in a difficult market or a restructuring environment." The departure of high ranking supporters over the years had thrown Pine Street's future in doubt on more than one previous occasion. Landauer recalls a particularly difficult period in 2003 when many of Pine Street's original champions had moved on:

> Thornton had left midway through 2003 and John Thain announced his retirement at the end of 2003 to go to the NYSE. That was an important moment because together with Hank Paulson they were founding fathers and sponsors. We had already lost Mark Schwartz. We faced a real challenge in maintaining a robust executive office partnership and senior line sponsorship without these people. It wasn't clear who was going to take over for them. We were really lucky at the beginning of 2004 that Rob Kaplan stepped in. He was heading the Partnership Committee and offered to head the Pine Street board as well.

Staying valued over a long period of time would take more than "luck" if Pine Street hoped to survive the natural turnover of senior leadership sponsors.

Staying Focused

One way for Pine Street to nurture senior-level commitment was to remain focused on what those leaders truly valued. George Parsons, an executive coach at Goldman Sachs, noted:

> The real beauty of Pine Street is that it only focuses on developing senior and managing-director talent. It has a fairly narrow mission, which has been its genius. It only has to focus on that group. Pine Street works because the people who run it pay a lot of attention to their internal customers. They stay close to the leaders who consume the service. They spend a lot of time listening to them, and that's been going on from the very beginning. As long as they continue that practice, the future will remain bright.

When Kaplan stepped up to lead the Pine Street Board in 2004, "staying focused" was his number one message. Landauer recalls his first formal meeting with Kaplan:

> His view was that "nobody understood what Pine Street does." He thought that people were confused and that our offerings were all over the map. We of course didn't feel that way, but upon conducting a set of interviews with senior leaders, it turned out that he was more right than wrong. He forced us to prune and rationalize our offerings and put them together in a more coherent way. He said, "I care a lot about what Pine Street does, but even I don't understand it. Everything needs to be very clear and simple, or no one will take the time to

figure it out." We learned that we need to stay focused on our highest priorities, communicate better, and stay closer to our customers and clients, continually checking for understanding.

Kaplan also sought to maximize Pine Street's value by focusing the organization on providing only those services that no other part of Goldman Sachs could provide. "If someone else in the firm can do it, you're going to have to explain to me why Pine Street does it. Pine Street should be focusing only on those high value activities that only it can do. If an activity flunks that test then that time should be spent on something more valuable." On the basis of this test, Kaplan had seen Pine Street end its sponsorship of a popular program of invited speakers. Pine Street also relinquished responsibility for MD performance review training. Course offerings were also redefined; marginal distinctions between programs were eliminated and nomenclature was simplified to make sure Pine Street content was easily understood by its clients.

Looking Ahead

As the Pine Street Board meeting got underway in May 2005, its members considered these challenges and more. How might unanticipated changes in the marketplace impact its mission? Could Pine Street retain critical senior sponsorship in the face of natural turnover in the Executive Office? How could such a unique initiative, now five years old, convincingly maintain its aspirational image among MDs and partners now that all of them had been touched by its programs in some way? How would such a small group continue to attract, retain, and grow its own talent? As Pine Street programs rolled out across Europe and Asia, how would Goldman Sachs' executives reconcile their desire to maintain a common culture and shared language of leadership with the need to adapt material to local norms? Whatever position one took on any of these questions, the fact remained that Goldman Sachs was, in the words of one seasoned insider, "a culture where what you did yesterday doesn't matter much. The question every day is 'What have you done for me today?' This is a very, very demanding place."

Exhibit 1 Evolution of Pine Street Offerings, 1999–2005

PINE STREET

Evolution of Pine Street

YEAR	1999	2000	2001	2002	2003	2004	2005
Geographic Scope	**New York**	**New York**	**New York**	**New York**	**New York**	**New York, London**	**New York, London, Hong Kong, Tokyo**
Major New Initiatives	• Working group develops Pine Street "blueprint" and delivers to MC	• Pine Street Leadership Program (development of) • Executive Coaching • Master Classes	• Pine Street Leadership Program (development and execution) • Individual GS Client Visits	• Pine Street Leadership Program (execution) • GS/Client Business Leadership Program	• VP Leadership Acceleration Initiative • GS/HBS Nonprofit Program • Leadership Advisory Services (launch)	• MD Leadership Acceleration Initiative • GS/Client Senior Leadership Program • Customized GS/Client Programs	• GS Assimilation Coaching • Global Partners' Meeting* • Chairman's Forum* • Global Rollout of Leadership Excellence Programs • Global Rollout of GS/Client Programs • Optimizing the Co-Headship
Key Programs		**ALL PROGRAMS** • Executive Coaching • MD Orientation • Performance Review Training • Master Classes	**ALL PROGRAMS** • Executive Coaching • MD Orientation • Pine Street Leadership Program • Pine Street Business Leadership Program • Performance Review Training • Individual GS Client Meetings	**ALL PROGRAMS** • Executive Coaching • MD Orientation • Pine Street Leadership Program • Pine Street Business Leadership Program • Performance Review Training • Individual GS Client Meetings • GS/Client Business Leadership Program • Ascend Women Client Initiative**	**LEADERSHIP PROGRAMS** • Pine Street Business Leadership Program Performance Review Training **LEADERSHIP ACCELERATION** • VP Leadership Acceleration • Executive Coaching • GS/HBS Nonprofit Leadership Initiative **LEADERSHIP ADVISORY SERVICES** • Leading Change • Aligning Reward Systems • Team Effectiveness • Jump Start Business Planning/Aligning Roles and Responsibilities • Succession Planning '04 **GS CULTURE, NETWORKS, AND MD COMMUNITY** • MD Orientation • MD Non-Comp Benefits **GS CLIENT SERVICES** • GS/Client Business Leadership Program • Individual GS Client Meetings • ascend Women Client Initiative**	**LEADERSHIP PROGRAMS** • Leadership Excellence 1 • Performance Review Training **LEADERSHIP ACCELERATION** • VP Leadership Acceleration • MD Leadership Acceleration • Executive Coaching **LEADERSHIP ADVISORY SERVICES R** • Leading Change • Establishing Vision & Strategy • Team Effectiveness • Jump Start • Business Planning/Aligning Roles and Responsibilities • Merger Integration • Succession Planning '05 **GS CULTURE, NETWORKS, AND MD COMMUNITY** • MD Orientation • Partner Orientation • PS Speaker Series • Partnership Committee Support **GS CLIENT SERVICES** • GS/Client Senior Leadership Program • GS/Client Business Leadership Program • Individual GS Client Meetings • GS/HBS Nonprofit Leadership Program • Customized GS/Client Leadership Programs -FICC-Structured Products Group • ascend Women Client Initiative**	**LEADERSHIP PROGRAMS** • Leadership Excellence • Pine Street Master Classes **LEADERSHIP ACCELERATION** • VP Leadership Acceleration • MD Leadership Acceleration • Executive Coaching **LEADERSHIP ADVISORY SERVICES** • Leading Change • Establishing Vision & Strategy • Team Effectiveness • Jump Start • Business Planning/Aligning Roles and Responsibilities • Merger Integration • Optimizing the Co-Headship **GS CULTURE, NETWORKS, AND MD COMMUNITY** • MD Orientation • Partner Orientation • GS Assimilation Coaching • Global Partners' Meeting* • Partnership Committee Support • Chairman's Forum* **GS CLIENT SERVICES** • GS/Client Senior Leadership Program • GS/Client Business Leadership Program • Individual GS Client Meetings • GS/HBS Nonprofit Leadership Program • Customized GS/Client Leadership Programs -FICC-Structured Products Group -Hedge Fund Business • ascend Women Client Initiative

* In collaboration with Executive Office **

** In collaboration with Global Leadership & Diversity

Goldman Sachs

Source: Pine Street document, Goldman Sachs.

Exhibit 2 Goldman Sachs Financial Data, 2002–2004—Segment Operating Results

(in millions)		As of or For the Year Ended November 2004	2003	2002
Investment Banking:	Net revenues[a]	$ 3,374	$ 2,711	$ 2,830
	Operating expenses[b]	2,973	2,504	2,454
	Pretax earnings	$ 401	$ 207	$ 376
	Segment assets	$ 4,759	$ 4,867	$ 4,555
Trading and Principal Investments:	Net revenues[a]	$ 13,327	$ 10,443	$ 8,647
	Operating expenses[b]	8,287	6,938	6,505
	Pretax earnings	$ 5,040	$ 3,505	$ 2,142
	Segment assets	$358,137	$250,490	$246,789
Asset Management and Securities Services:	Net revenues[a]	$ 3,849	$ 2,858	$ 2,509
	Operating expenses[b]	2,430	1,890	1,562
	Pretax earnings	$ 1,419	$ 968	$ 947
	Segment assets	$167,957	$147,647	$103,436
Total:	Net revenues[a]	$ 20,550	$16,012	$ 13,986
	Operating expenses[b,c]	13,874	11,567	10,733
	Pretax earnings	$ 6,676	$ 4,445	$ 3,253
	Total assets[d]	$531,379	$403,799	$355,574

Source: Goldman Sachs 2004 Annual Report, p. 104.

[a]Net revenues include net interest and cost of power generation.

[b]Operating expenses include depreciation and amortization, including the amortization of identifiable intangible assets.

[c]Includes the following expenses that have not been allocated to the firm's segments: (i) the amortization of employee initial public offering awards, net of forfeitures, of $19 million and $212 million for the years ended November 2004, November 2003, and November 2002, respectively; (ii) net provisions for a number of litigation and regulatory proceedings of $103 million and $155 million for the years ended November 2004 and November 2003, respectively; and (iii) $62 million in connection with the establishment of Goldman Sachs Gao Hua Securities Company Limited, an investment banking and securities venture in China, for the year ended November 2004.

[d]Includes deferred-tax assets relating to the firm's conversion to corporate form and certain assets that management believe are not allocable to a particular segment.

Exhibit 2 (continued) Goldman Sach Financial Data, 2002-2004 - Geographic Information

	As of or For the Year Ended November		
(in millions)	**2004**	**2003**	**2002**
Net revenues:			
United States	$ 12,932	$ 10,040	$ 8,633
Other Americas	28	231	352
United Kingdom	4,335	3,610	2,991
Other Europe	887	427	479
Asia	2,368	1,704	1,531
Total net revenues	$ 20,550	$ 16,012	$ 13,986
Pretax earnings:			
United States	$ 4,761	$ 3,105	$ 1,850
Other Americas	(6)	217	293
United Kingdom	497	610	525
Other Europe	487	90	173
Asia	1,121	658	624
Other[a]	(184)	(235)	(212)
Total pretax earnings	$ 6,676	$ 4,445	$ 3,253
Employees:			
United States	13,278	12,786	12,511
International	7,444	6,690	7,228
Total employees	20,722	19,476	19,739

Source: Goldman Sachs 2004 Annual Report, pp. 105, 107.

[a] Includes the following expenses that have not been allocated to the firm's segments: (i) the amortization of employee initial public offering awards, net of forfeitures, of $19 million and $212 million for the years ended November 2004, November 2003, and November 2002, respectively; (ii) net provisions for a number of litigation and regulatory proceedings of $103 million and $155 million for the years ended November 2004 and November 2003, respectively; and (iii) $62 million in connection with the establishment of Goldman Sachs Gao Hua Securities Company Limited, an investment banking and securities venture in China, for the year ended November 2004

Exhibit 3 Leadership Development Advisory Committee Members, November 1999

Head of Goldman Sachs Europe and Management Committee member
Head of Goldman Sachs Asia and Management Committee member
a senior leader in Equities
Head of Human Capital Management (HR)
COO of Global Investment Research
a senior leader in Equities
Asset Management
Controllers Office
Training and Development
Training and Development
Private Wealth Management

Source: Goldman Sachs.

Exhibit 4 Key Findings of Goldman Sachs Strategy Committee Benchmarking, 1999

Senior Management Focus and Accountability

Senior time and focus is spent on people development issues. It is very striking how many senior people see the "people thing" as a critical issue they cannot delegate.

- Jack Welch (GE) devotes approximately 50% of his time to people development issues.
- Andy Grove routinely leads Intel's new hire orientation.
- Twice a year Scott McNealy (Sun Microsystems) asks each of his direct reports: "What are you doing for your own development?" and, "What are you doing for my development?"

Leaders feel they are fighting a "war for talent" which is critical to the company's success

- Intel focuses significant resources on defining and marketing superior employee value propositions in order to capture more talent share.

CEO's hold their senior managers accountable for talent development

- At McKinsey, every Director has people development responsibilities, success at which influences compensation.
- John Chambers (Cisco) holds his top 200 leaders accountable for developing their staff.

Taking a Systemic Approach

Developed a leadership model by reviewing strategy and assessing high performers

- Arthur Andersen, BP Amoco, Dell, GE, IBM, Intel, Lloyds TSB, McKinsey, Motorola, Shell UK and Sun Microsystems have a clearly defined leadership competency model.

Structured succession planning process, focused on high risk or high reward

- BP Amoco, Cisco, Intel, Shell UK, and Sun all focus extra effort on high-potential pools.
- GE devotes enormous energy moving people into key jobs that maximize high reward for high-risk type of assignments.

Link development to reviews and rewards

- Intel's practice of "constructive confrontation" is often a key part of the development review process.
- PWC is developing a formal planning process that links professional development, employee reviews, career advancement and rewards and recognition.
- GE annually reviews all employees. Welch and a few other senior executives visit the 12 operating units to conduct one-day personnel reviews. At each site, they focus on the top leadership and pair people with job assignments that link to key rewards.

Relentless and disciplined execution

- GE devotes enormous energy to match key managers with jobs in a process called "Session C" that consumes nearly a month of Jack Welch's time each year.

Focus on High-Potential Leadership

Careers of select high-potential groups, managed by senior committees or CEO

- At BP Amoco, the CEO, HR Director, and six of the top business leaders oversee development of senior leadership.
- Lou Gerstner (IBM) works closely with the director of Global Executive and Organization Development to develop key leaders.

Rigorous, objective assessment based on company definition of leadership

- BP Amoco, GE, and Shell UK's assessment processes are an integral component of senior leadership development.

- All LG Group employees are required to take and pass one of six levels of promotion examinations. People that fail an exam remain in the incumbent grade for another year.

Flexible pool—people move in and out of program

- Lou Gerstner (IBM) is very involved in the development of his Senior Management Group, he adds new people and deletes others from his group at least twice a year.

Aggressively manage out bottom quintile

- GE annually ranks their people on a scale from A to F. Performers that fall into the bottom quintile are typically pushed out the door.

Selective use of executive education

- Sun Microsystems favors a "concierge" approach to education for their senior group. This includes tailor-made developmental job assignments and committee work.

Use of Non-Training Initiatives

- GE provides high-potential managers with full-time assignments to destroy a particular GE business.
- BP Amoco is in the process of deploying a new Executive Education initiative for the top 250 leaders. This initiative will focus on macro issues (geopolitical, sociopolitical, and environmental).
- Intel focuses on non-programmatic developmental levels: on-line tools/systems, communication, work with intact teams, consulting assessments, and "environmental supports."
- Sun does an increasing amount of training with intact work teams (25% of total training in 1998 vs. 2% in 1995).

Bias towards Use of "Real Work"

Move away from traditional classroom model

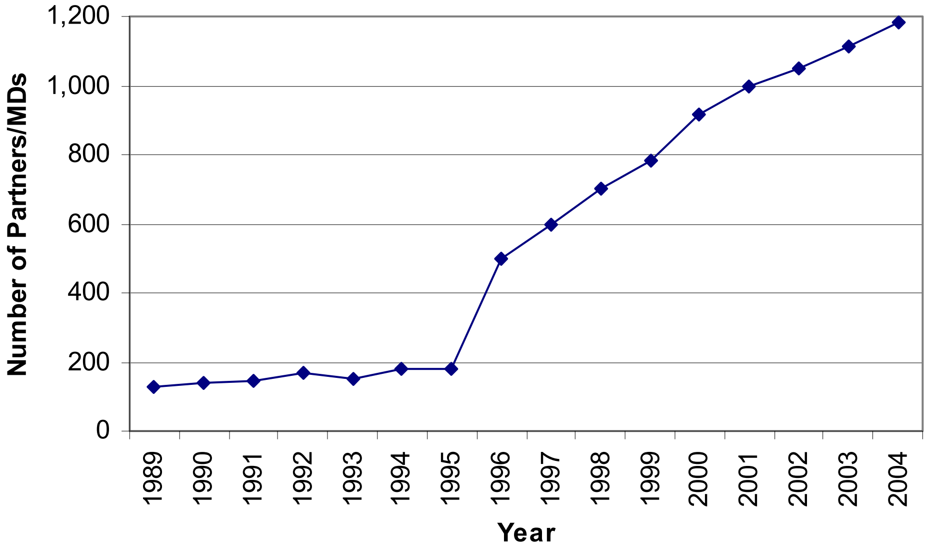
- At Lloyds TSB, development programs for senior executives include various "charity projects" and a "UK Development Consortium" which involves the London Business School, along with benchmarking visits to other organizations.
- Technology plays a critical role at Arthur Andersen. It is a key enabler in supporting a number of key processes that are essential to organizational success: continuous learning, change, knowledge sharing, and improved performance.
- Dell believes in "stealth learning," a process that blurs the lines between development, training, information and job aids. They aim to make employees unaware that they are being trained; education occurs as they are solving business needs.
- Motorola plans to deliver at least 30%–40% of its training via technology by 2002. Networked-based learning is a critical part of their strategy.

Use of real projects/issues as focus for learning sponsored by CEO/Executive group

- At BP Amoco, action learning is used informally and consistently. It is CEO-driven; John Browne selects six people to work on a project with him on issues he considers key.
- At IBM, each global cross-functional team spends approximately 20%–30% of their time, in addition to daily responsibilities, solving large-scale organizational issues assigned by the Chairman.
- At Shell UK, action learning is seen as an important part of the development of high-potential managers. High potential managers are asked to be members of value creation teams and one particular project resulted in the establishment of a new business unit.

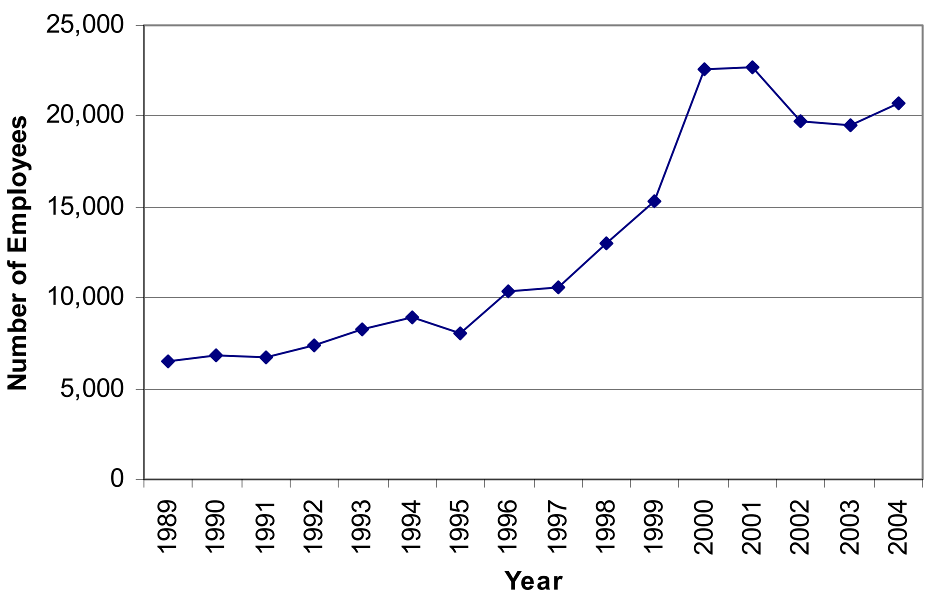
Source: Excerpted from Goldman Sachs Training and Development Group, "Best-in-Class Benchmarking Overview," November 3, 1999, pp. 4–7.

Exhibit 5a Goldman Sachs Number of Partners and Managing Directors, 1989–2004



Source: Casewriter compilation via Factiva, accessed July 11, 2005.

Exhibit 5b Total Number of Goldman Sachs Employees, 1989–2004



Source: Casewriter compilation via Factiva, accessed July 11, 2005.

Exhibit 6 Selected Client Comment on 2004 Pine Street Programs

CLIENT C "I enjoyed the line up of speakers very much. I took careful notes that I hope to refer to for months and years to come."

CLIENT D "Generally quite excellent. Appreciated the focus on practical enhancements. Also appreciated keeping the focus on the relatively few things that can be acted upon in the near term. Nice mix of attendees as well. Liked Building internal credibility, and contact with an executive at GS with new business management experience."

CLIENT E "I thought the speakers were very interesting and kept the audiences attention. Also, they consistently attempted to apply their points to real day to day life. . . ."

CLIENT F "Overall a very good program with good content and speakers. The Business Leadership content was a good topic that we can all benefit from. The external speakers were very good with related information to the topic and yet very entertaining.

CLIENT G "The outside guest speakers greatly enhanced the value of the program. It was good to get multiple outside perspectives."

CLIENT H "I thought the program was highly successful in three principal areas. First, I thought the mix of participants from different industries and specialties was terrific in that it generated a diversity of viewpoints and stimulated discussion. Second, the combination of tactical, pragmatic topics with more strategic, global discussions allowed the program to change scale and focus and maintain participant interest. Third, the speakers you employed were terrific; very engaging and offing very interesting perspectives. Obviously, the tactical topics are things one can pick up and use immediately. The more strategic leadership concepts are things that, upon reflection and applying to ones specific situation, are longer-term value add's and need to be viewed critically over time."

CLIENT I "A good mix of internal GS folks and external experts. It was a good idea to get away from our normal jobs and, in a more relaxed atmosphere, with our peers, discuss relevant issues affecting our careers and lives. I was very pleased with the program and it exceeded my initial expectations. The memory expert (I don't remember his name—just kidding) provided some very relevant insights."

CLIENT J "It is clearer to me now how GS is able to attract and retain the level of people I have interacted with across all segments of the company. The time and energy commitment to the leadership process is very impressive. The Personal Traits of Leaders and the GS Vice-Chairman discussion were the two most useful and directly applicable portions of the program"

CLIENT K "I thought the speakers were all very good and a good mix of internal and external speakers. What I especially appreciated was the practical nature of the talks, here was information one could take home and use."

CLIENT L

CLIENT M "The program was an excellent mix of practical advice and vision about leadership. The group exercises and participation opportunities were excellent tools for quickly developing a group bond. All in all, I came away feeling that the program was a good investment of time away from the office and it helped me think about how I can improve my performance. I also met some really great people. Most useful to me were sessions in which successful leaders shared their views on traits and provided some anecdotes etc. They were really excellent."

CLIENT N "I would rate the program a 5 and will hopefully have the opportunity to recommend others at [my firm] for participation in the future. Overall, I liked the mixture of content and speakers, which held my interest throughout.…insights on leadership credibility will no doubt be very useful in the future."

CLIENT O "Great range of topics and presentations on leadership development and management skills, career management, risk taking, market analysis and communication. The program provided tangible examples of leadership in action as well as a framework to help further develop my leadership skills. I found the sessions on Leadership Credibility, Leading Growth and Innovation, Personal Leadership and Reaching Your Potential to be most enlightening and helpful for further developing my potential as a leader within my organization. The speaker's personal experiences resonated with issues/problems I am encountering within my organization and challenged me to take responsibility for leading change."

CLIENT P "The material was interesting and useful and distinctive relative to what I see from other sources. The program could be shortened to one day by dropping the economics/market info and be even more efficient in terms of value relative to time commitment."

Source: Pine Street document, Goldman Sachs.

Exhibit 7 Pine Street's Internal Running Rules

1. We work very hard to practice what we teach. In particular, we seek to operate smoothly across boundaries (divisional, regional, business unit, firm/client) and in a non-hierarchical manner.
2. We never slow a project down, except when necessary to improve the quality. If our client wants to do something tomorrow, that's when we do it. We regularly seek input to improve the quality of our work, but we make every effort to avoid excessive meetings, postings, and consensus-building. (We keep in mind that sometimes "consensus" means: disagree and commit.)
3. We never refuse requests to help. When it doesn't make sense for us to do something, we help identify someone who can do the job.
4. We search for opportunities to work with individuals from other parts of the firm. Sometimes this takes the form of a formal partnership, but we also benefit from "resources in place", i.e., people whose primary responsibilities lie outside Pine Street, but care enough about some Pine Street project to work with us on it. We also welcome opportunities to run pilot sessions of our programs within one division or region before rolling them out firmwide.
5. Each of us spends nearly all his/her time working on projects and programs. We have a very flat organization and strongly believe in empowering people -- giving them considerable operating freedom and expecting them to ask for help when they need it. All of our team members lead projects. Senior people regularly work for, and report to, more junior team members.
6. Any member of the team can speak for Pine Street and can commit Pine Street to a project or a completion date, and that commitment will always be honored.
7. We support and encourage all team members, regardless of their level or years of service, to develop a particular area of expertise.
8. We seek to balance the tendency to leverage each person's expertise with our effort to expose team members to new products and interests. We believe that most people have the good sense to sign up for things they are capable of doing, have the time for, and ask for help when needed.
9. We share credit. When someone leaves a voicemail about a completed piece of work, it is usually to give credit to another team member for a job well done. We also see to it that whoever does the work gets formal recognition for that work (and gets to make the presentation, no matter to whom).
10. We work hard to develop each other both formally through an advocate structure and less formally from on-going apprenticeship, feedback from the team, and the advice of the broader Goldman Sachs community.

Source: Pine Street document, Goldman Sachs.

Exhibit 8 VP/ED Leadership Acceleration Initiative

Objectives:

1. Accelerate the development of a select group of high-performing future leaders, primarily through on-the-job learning

2. Facilitate relationship-building among future leaders of GS

3. Increase exposure of participants to senior leadership

Target Audience: High performing individuals at the VP/ED

Design: 12-month initiative incorporating job-based stretch assignments, shadowing, developmental feedback, network and formal learning on key business and leadership tops. The participants' managers also play a key role in coaching their VP throughout the initiative.

Sponors: Suzanne Nora Johnson (Global), Lisa Shalett (Americas), Stuart Rothenberg (Americas), Ron Lee (AEJ), Isabelle Ealet (Europe), Rumiko Hasegawa (Japan)

Key Components	Activity
Action Planning	Participants identify key developmental objectives and a specific plan to accomplish them
Job-based Development/ Stretch Assignments	Participants gain broader perspective of the firm and expand their network by taking on stretch assignments: All participants take on a within-business assignment which represent a stretch or expanded activity within their current role that is challenging and developmental for the participant, as well as important to the business A group region-wide or firm-wide project is also assigned to help solve broader issues for the firm A Shadowing program allows participants to expand their view of a particular business or individual by shadowing a senior leader of the firm for a set period of time
Relationships/Feedback/ Coaching	Managers guide, coach and support participants throughout the initiative (includes identifying within business stretch assignment, action planning, developmental review delivery and ongoing coaching and mentoring) Senior leaders of the firm host discussions to get to know the participants, expose them to the issues of their respective businesses and share career advice
Training	Participants attend a two-day Global Convergence and periodic regional Pine Street sessions to address individualized development needs as identified on action plans. Initiative culminates with a Closing Event

Source: Pine Street document, Goldman Sachs.

Exhibit 9 MD Leadership Acceleration Initiative

PURPOSE

To accelerate the development of a select group of high-performing MDs as they prepare for positions of increased leadership responsibility

PROGRAM OBJECTIVES AND SUPPORTING ACTIVITIES

1. Develop Leadership Skills

- Get individual feedback and ongoing coaching from a top Pine Street Executive Coach
- Develop personal action plan focusing on developmental needs through stretch assignments
- Attend select Pine Street leadership sessions

2. Build Knowledge of Key Firm Issues and Businesses Outside Your Own

- Address issues critical to the firm in small-group taskforces; report findings to Executive Office or Divisional Leaders
- Attend briefings where leaders of the firm's major businesses discuss current issues and opportunities
- Expand view of a particular business/committee by engaging with senior leaders or firmwide committees

3. Broaden Relationships Among Your Peers and Senior Leaders

- Work side-by-side with your peers on taskforces
- Participate in focused individual and group discussions with senior leaders

Source: Pine Street document, Goldman Sachs.

Exhibit 10 Goldman Sachs—Leadership Excellence I Program Agenda, Wednesday, July 13, 2005

8:00 am	Breakfast/**Registration**
8:30 am	**Opening** Remarks Michael Carr, Co-Head, Global Industrial and Natural Resources Group
8:45 am	**What Leaders Do** Michael Carr
9:45 am	**Break**
10:00 am	**Strategies for Growth** Tim O'Neill, Senior Strategy Officer
11:30 am	**Break**
11:45 am	**Leading Change** Steve Kerr, Chief Learning Officer and Head of Pine Street
1:15 pm	**Lunch**
1:45 pm	**Panel Discussion: Developing Your People Via Effective Feedback** Steve Feldman, Head of Global Real Estate Josephine Linden, Regional Manager, New York Private Wealth Management Rich Silvestri, Pine Street Executive Coach *Moderator:* Daisy Wademan, Pine Street
2:45 pm	**Break**
3:00 pm	**Motivating Your People** Tony Smith, Managing Director, Leadership Research Institute
4:30 pm	**Break**
4:45 pm	**Enhancing Your Power of Influence** Steffen Landauer, Managing Director and COO of Pine Street
6:00 pm	**Closing Remarks** Steffen Landauer

Source: Pine Street document, Goldman Sachs.

Endnotes

[1] This section draws heavily upon Boris Groysberg, Scott Snook, and David Lane, "Leadership Development at Goldman Sachs," HBS case No. 406-002 (Boston: Harvard Business School Publishing, 2005), and Boris Groysberg, Sarah Matthews, Ashish Nanda and Malcolm Salter, "The Goldman Sachs IPO (A)," HBS case No. 800-016 (Boston: Harvard Business School Publishing, 1999) For more on the firm's history and growth, see Lisa Endlich, *Goldman Sachs: The Culture of Success* (New York: Knopf, 1999).

[2] Books were matched when the distribution of maturities of assets and liabilities were equal.

[3] Goldman Sachs, 1999 Annual Report (New York: Goldman Sachs), p. 4.

[4] This section draws upon Groysberg, et al., 1999. For more on the firm's history and growth, see Lisa Endlich, *Goldman Sachs: The Culture of Success* (New York: Knopf, 1999).

[5] Ibid., p. 235.

[6] Ibid., p. 236.

[7] See Groysberg, et al., 1999, p. 11.

[8] This section draws upon Boris Groysberg, Scott Snook, and David Lane, "Leadership Development at Goldman Sachs," HBS case No. 406-002 (Boston: Harvard Business School Publishing, 2005).

[9] David Wells, "A Masterclass in How to Be an Insider," *Financial Times*, February 12, 2004, p. 8.

[10] The quotes cited come from Pine Street, "GS Client Feedback on 5 Fall '04 Pine Street Client Programs," n.d.