論　稿

Challenge by Goldman Sachs Group in the Competitive and Mature Market

競争・成熟市場におけるゴールドマン・サックス・グループの挑戦

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Summary

This research study observed a price change of S&P 500 index for 65 years to analyze market maturity in comparison with Kotler's sales life cycle curve. It also observed ROE ratios of five U.S. banks such as J.P. Morgan Chase, Morgan Stanley, Citigroup, Bank of America, and Goldman Sachs to grasp overall characteristics for 16 years. A result of the observations yielded a downward trend from 1999 to 2008 and a horizontal trend from 2009 to 2014, divided by the financial crises as a quantitative and qualitative change in the materialistic conception of history. This research study also involved a survey to identify Goldman's management strategies, such as improvements of leadership, organization, and business segment structures to enhance the company's profitability by mainly analyzing disclosure documents such as form 10-Ks and annual reports of Goldman Sachs Group from 1999 to 2014. This research study involved extraction of key business strategies from the management's messages to shareholders in every annual report. Trading was a core competence for Goldman Sachs, whose strength related to Blankfein's careers and its HR policies, and so forth. He also evaluated sustainability of the core competence. Finally, the article includes consideration of sustainable trading should be.

1. A Point of View and Methodology

The return on equity (ROE) has become a popular ratio to measure corporate profitability recently. Goldman Sachs Group (Hereinafter referred to as “Goldman Sachs,” “Goldman,” “the company,” “the firm,” “it” or “they”), which is a major U.S. bank, has attained top-level numbers of the ratio since 2004, as seen in Figure 3. Surprisingly, the company has attained first place on the ROE ratios among the U.S. major banks, such as J.P. Morgan Chase, Morgan Stanley, Citigroup, Bank of America, and Goldman Sachs, seven times from 2004 to 2014. Concerning Figure 3, Goldman was able to maintain top place for a couple of years recently, while differences in ROEs among peer banks have been characteristically narrowing during the same period. This research study raises the following questions to be resolved: Why could Goldman maintain the top ranks during the period? and why have ROE ratios of the five other banks been converging within a narrow range in recent years?

2. Introduction to Goldman Sachs

Goldman Sachs was originally an investment bank in the U.S. In its disclosure document, the firm introduced itself as follows:
Goldman Sachs is a leading global investment banking, securities and investment management

firm that provides a wide range of financial service to a substantial and diversified client base that includes corporations, financial institutions, governments and high-net-worth individuals. (Form 10-K of The Goldman Sachs Group, 2014)

According to the document, the firm had four major business units, such as investment banking, institutional client service, investing and lending, and investment management (Form 10-K of The Goldman Sachs Group, Inc., 2014). Moyer and Chaudhuri (2012) described Goldman's business trading and investment-banking arms as a traditionally strong business unit for the company. The company was established in 1869 ("Goldman Sachs Group: Who We Are," 2015). In September of 2008 in the wake of the so-called Lehman Shock, the two remaining independent U.S. investment banks, such as Morgan Stanley and Goldman Sachs, became holding companies overnight (The timeline: How it all happened, 2008). According to Goldman's website, the company introduced itself as a global investment banking, securities, and investment management firm that provided a wide range of financial services ("Goldman Sachs Group: Who We Are," 2015).

In a July 2009 Rolling *Stone* article, Matt Taibbi used a powerful anthropomorphized image of Goldman Sachs as "a great vampire squid" (Freund & Jacobi, 2013). The firm seemed to be considered as one of aggressive banks, for better or worse.

3. External Environment Surrounding Goldman Sachs

3.1 The U.S. Market

Figure 1 shows price changes of the S&P 500 Index (hereinafter referred to as "S&P 500," "the index," or "it") for 65 years. One of the U.S. statutory stock exchanges NASDAQ (2015) stated the widely held common stocks in the Index are used to measure the general performance of the U.S. market. McGraw Hill Financial introduced to the index as follows:

> The S&P 500® is widely regarded as the best single gauge of large-cap U.S. equities. There are over USD 7.8 trillion benchmarked to the Index, with Index assets comprising approximately USD 2.2 trillion of this total. The Index includes 500 leading companies and captures approximately 80% coverage of available market capitalization. (McGraw Hill Financial, 2015)

The Index captured 80% of its total market cap, and it reflected the industries, such as information technology, financial, energy, industrials, consumer staples, consumer discretionary, materials, utilities, and telecom services, in the U.S. economy (S&P 500 Factsheet, 2010, as cited in About News, 2015). Thus, it represents evaluation of not only the U.S. large caps and stock market, but also the U.S. economy.

In Figure 1, the Index had been fairly increasing from the 1950s to the beginning of 2000, although experiencing some bumpiness.

The early 2000s appeared to be a threshold period for change of growth pace. After the period, the slope of the index price change has become nearly horizontal level with the two deep bottoms, such as Iraq War crash, and Lehman Shock. According to Kotler's curves that analyze the relationship between sales and profit life cycles (Figure 2.), sales curve steeply increases in growth period, and then reaches a plateau area in the first half of maturity period. It sets to decline in the second half of the period. In comparison with Kotler's curves, the price movement of S&P 500 index after around 2000 appears to suggest that the U.S. stock market and its economy has entered into maturity period as Kotler's sales life cycle curve indicates.

On the other hand, S&P 500 prices have been going up since 2010, and reached a new record in 2014. It was partly due to market conditions, including asset selection to stocks under ultra-low-interest-rate environment in the U.S., and asset flight from emerging markets for a risk aversion by international investors. The index is always replacing its component companies whose market value had been lowering below a certain level with the new ones. According to S&P Dow Jones Indices (2015), index membership eligibility for a company with multiple share class lines is based on the total market capitalization of the company, including all publicly listed and unlisted share class lines, if applicable. The replacement seems to partially contribute to

Figure 1. S&P 500 index price change for 65 years.

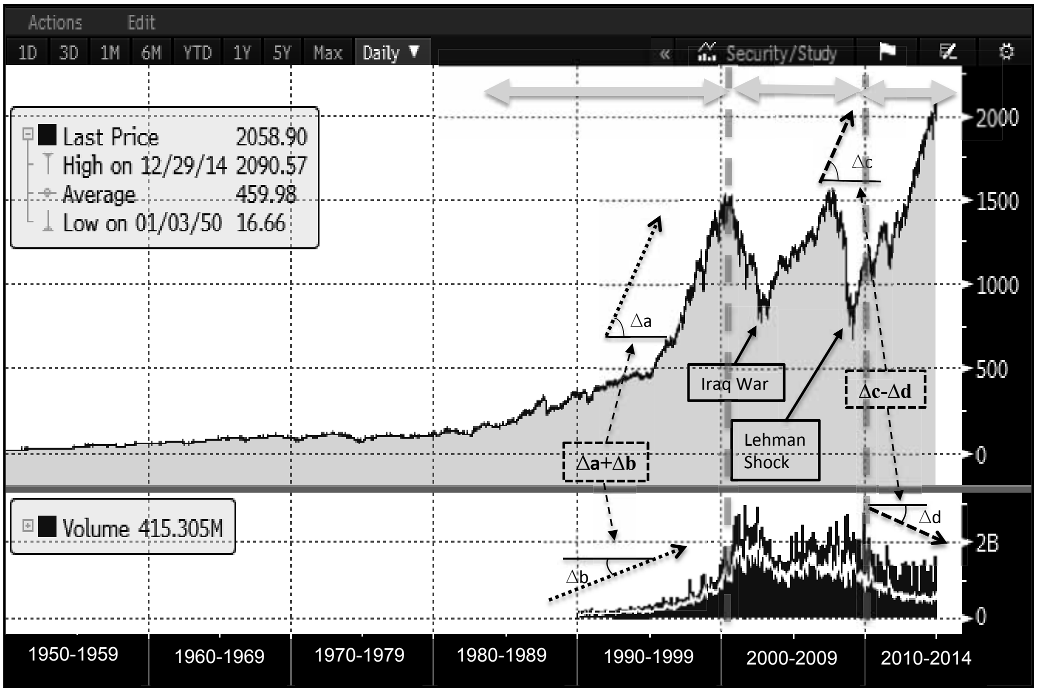
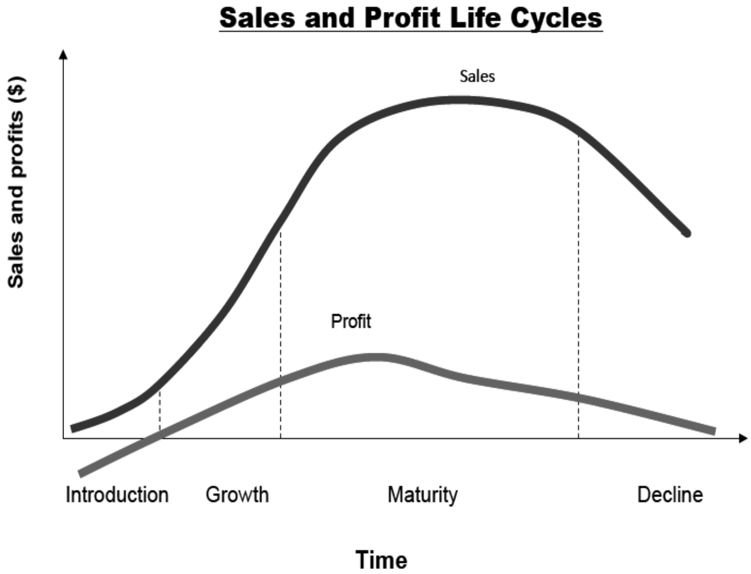


Figure 2. Sales and Profit Life Cycles



Source: P. Kotler (2003) "A Framework for Marketing Management"
Note. A Framework for Marketing Management, by P. Kotler, 2003. Upper Saddle River, NJ: Pearson Education. Copyright by Pearson Education, Inc.

upward trends, and buck against overall maturity.

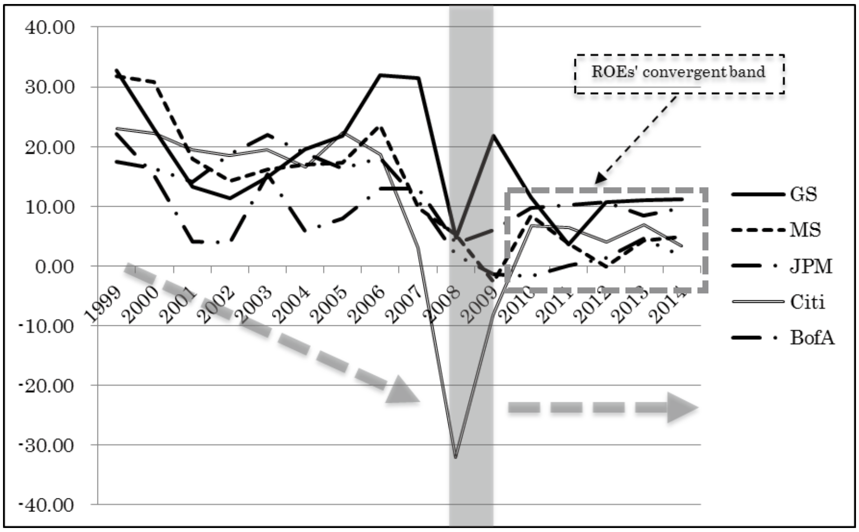
Further importantly, trading volume has been gradually decreasing from around 2010, while index prices have been going up during the same period. Commission income, including primary and secondary markets, generates from the following formula: Income = Valuation × Volume × Commission Rate. Therefore, the above phenomenon appears to offset profitability of the rally.

As a result, this author is convinced that the recent rally never implies a breakoff of maturity for the U.S. economy. The economy, including the financial sector, seems to be in a period of maturity. Major businesses of the U.S. banks are mainly composed of commercial banking, investment banking, brokerage services, trading, and asset management. Commercial banking seems not to be highly profitable in a period of maturity, as it is a low economic growth time, while other businesses also appear to be affected by economic maturity. In addition, those banks have been conducting international activities, and global integration of the world's markets has been in progress at the same time, and the state of other economies has influenced the price movement of the index. The relationship between the world economy and the index, to some extent, is never totally unknown.

3.2 Profitability of the U.S. Five Banks

Figure 3 is an analysis that charted return on equity ratios of the five major American banks from 1999 to 2015 in the page 5. While

Figure 3. Analysis on change of ROEs of the U.S. major banks.



Note1. GS= Goldman Sachs Group; MS=Morgan Stanley; JPM = J.P.Morgan Chase; Citi = Citi group; B of A = Bank of America
Note2. From "Historical data: S&P500 from 1949 to 2000," by Bloomberg, 2014, Retrieved from http://www.bloomberg.co.jp

all ratios of the banks started from their peaks in 1999 respectively and every bank's ROE came to its second peak in 2005 or 2006, they had common trends as follows: (a) All the ROE lines were declining from 1999 to 2002; (b) the banks had a one-time recovery in 2003, but lost it the following year (2004); (c) the period between 2005 and 2006 was another recovery phase for the banks' profitability; (d) the banks hit deep bottom in either 2008 or 2009 respectively; and (e) their ROEs were becoming horizontally rocky from 2010 to 2014.

The movement of their ROEs consisted of two large trends between a traditional period: first, a rougher trend on profitability of the five banks was lowered from 1999 to 2008 while ROEs of 2005 and 2006 partially bucked against the trend. Second, all lines of the five banks' ROEs had formed a convergent band within the range from 0.00 to around 10.00 from 2010 to 2014 as the overall trend changed from downward to horizontal. The years of 2008 (the Lehman Shock) and 2009 (European Debt Crisis) were a transitional period. In Goldman's annual report, Blankfein pointed out that market profitability of the industry has been changing after consecutive financial crises (Goldman Sach's Annual Report, 2010). Based upon the ROE lines, the five banks fell into two groups as follows: (a) Goldman, JP Morgan, and Citigroup, all of which bottomed out in 2008 (Lehman Shock). The second group (b) consisted of Morgan Stanley and Bank of America, which reached their bottoms in 2009 (European Debt Crisis). Either investment banking or commercial banking business at the five banks seems to have suffered from subdued growth since the series of financial crises occurred.

As a result, two crises, such as Lehman Shock and European Debt Crisis, appear to have made the large U.S. banks change qualitatively in the aspect of profitability. The banks entered a period of low growth after that. Chairman and C.E.O. of Goldman Sachs Lloyd Blankfein suggested in 2010 that lower revenues and more subdued growth forecasts were causing some to question whether the industry was undergoing secular change (Goldman Sachs' Annual Report, 2010). In comparison with Kotler's profit life cycle curve that shows the relationship between sales and profits, and time frames as a basic law (Figure 2), the industry seems to have been entering into a period of maturity.

3.3 Regulatory Reinforcement after Financial Crises

According to Goldman's annual report of 2010, the Dodd-Frank legislation and liquidity requirements under Basel 3 are two of the more significant outcomes from the recent focus on enhancing financial stability (Goldman Sachs' Annual Report, 2010). After the Lehman Shock, the U.S. government enacted the Dodd-Frank Wall Street Reform and Consumer Protection Act (Hereinafter referred to as, "Dodd-Frank Act"). The law aims to prevent another AIG from becoming too big to fail (Amadeo, 2013) such as banks and so forth with regard to several risk management requirements including a liquidity requirement and capital adequacy requirement (KPMG Japan, 2015).

The law basically prohibits bank holding companies, and so forth, and certain of their affiliates from proprietary trading or sponsoring or investing in hedge funds or private equity funds under the Volker Rules ("Summary of Dodd-Frank," 2010). In response, Goldman liquidated substantially all of the positions that had been held within Goldman Sachs Principal Strategies, its long/short proprietary trading desk (Goldman Sachs' Annual Report, 2010). The firm also liquidated the position that had been held by Global Macro Proprietary Trading Desk, which traded in the fixed income markets (Goldman Sachs' Annual Report, 2010).

The Dodd-Frank Act protects homeowners in real estate transactions by requiring they understand risky mortgage loans (Amadeo, 2013). Goldman has assumed a market maker and underwriter in the mortgage securitization market to provide liquidity to primary and secondary markets (Goldman Sachs' Annual Report, 2010). As the market maker, the company has assumed risk created through client purchases and sales (Goldman Sachs' Annual Report, 2010). Goldman Sachs (2010) insisted that such risk taking was fundamental to the company's role as a financial intermediary. As stated in the Goldman Sachs' Annual Report (2010), "In this way, we are able to serve our clients and to maintain a robust client franchise while prudently limiting overall risk consistent with our financial resources" (p. 8).

"The timeline: How it all happened" (2008) stated that Morgan Stanley and Goldman Sachs, the two remaining independent U.S.

investment banks, become holding companies overnight. The nine largest U.S. banks, including Bank of America, Citigroup, and JP Morgan accepted more than $12.5 billion as part of the government's package (The timeline," 2008). In this context, the five U.S. banks, including Goldman Sachs appear to have been subject to universal banking regulation by Basel and Fed similarly. The company pointed out that the increase in the cost of capital has been joined by a corresponding rise in the cost associated with an institution's scale (Goldman Sachs' Annual Report, 2012).

Blankfein wrote concerning regulatory reform after the crises, which appeared to increase costs for banks as follows: "In many of our conversations, clients have expressed concern about the impact their businesses may experience, including new margin requirements, potentially less market liquidity, wider spreads and less available, more expensive inventory" (Goldman Sachs' Annual Report, 2011, p. 5).

In comparison with the U.S. five banks' ROE trends (Figure 3), the above-mentioned regulatory events are significant for declining and converging ROE ratios since 2010. Sharpe (2010) indicated that we should weigh the profitability concerns of the firms and their right to freely engage in financial enterprise against the dangers posed to the greater public and the capital market from the realization of systemic risk in thinking about regulation. Reinforcement of regulation provoked a dialectical qualitative change in the light of materialistic conception of history, such as production power (profit) and production relationship (banks and government regulators). In the U.S. banking industry, governmental regulation has increasingly influenced the profitability of banks.

4. Analysis on Goldman Sachs' Strategies

Leadership

For more than 16 years, Goldman Sachs has had two CEOs, such as Henry M. Paulson, Jr. from 1999 to 2005 and Lloyd C. Blankfein from 2006 (The Goldman Sachs Group's form 1-K, 2005 and 2014). Goldman's ROE bottomed out in 2002, and had been improving from the next year. Blankfein joined the company's management as its president and chief operating officer in April 2002 (The Goldman Sachs Group's form 10-K, 2003). Before his assumption of the president and COO, he had been responsible for the Fixed Income, Currency, and Commodities Division (FICC), and the Equity Division since 1997 (The Goldman Sachs Group's form 10-K, 2003). He had experience heads of those divisions that conducted trading business.

Prominently, along with improvements of its ROE from 2003 and its net revenues of trading and principal, investment doubled to $10,443 mil from $5,249 mil. The numbers had been steeply increasing until 2007 (Goldman Sachs' Form 10-Ks, Inc., 2002-2007). Blankfein appears to have strengthened trading as one of major profit centers for the firm during the period. Characteristics of Goldman's leadership are perceptible in the section of the "Executive Officer of the Goldman Sachs Group, Inc." of its form 10-Ks, which listed executive officers and their businesses in charge. The number of executives has slightly increased from nine board members in 2009 to 10 in 2014 to maintain effective management, while business has been expanding favorably as total net revenues have nearly tripled to $34,206 mil in 2014 from $12,641 mil in 1999 (Goldman Sachs' Form 10-Ks, 1999-2014). It is obvious that company had maintained efficiency of its management during the period.

Goldman Sachs assigned a head of human resource to a member of the board in 2001. He continued to be the member until 2007. This deployment coincided with the growth period of Kotler's profit life cycle. The firm (2012) stated that strength of its business has always been defined by the quality of its people and its performance-driven culture. It appears to particularly attach importance to HR policies for enhancing its business profitability.

Goldman (2014) stated that technological innovation would continue to be important and was likely to increasingly become a differentiator amongst competitors and a potential driver of new or incremental revenues. But it has never assigned a head of the IT department as a member of the board after separation of a board member who was responsible for the department since 2005. The company developed GSTrUE platform, which pioneered the offering and trading of privately placed securities, bringing the liquidity of an exchange with the flexibility of a private placement, and suggested GSTrUE would be integrated into The PORTAL Alliance – an industry-wide platform for the trading of unregistered securities (Goldman Sachs' annual report, 2007, p.4-5).

Financial service largely relied on information technologies. In this point, computer system development is still important for the industry members, including Goldman. Goldman Sachs pointed out that technological innovation would continue to be important and was likely to increasingly become a differentiator amongst competitors and a potential driver of new or incremental revenues (Goldman Sachs' annual report, 2014).

On the other hand, computerized high frequency trading, in general, inclines to level volatility to repeat high-speed offsetting transactions in the market. The company stated, "Our principal investing business experienced a particularly difficult year, given the significant decline in equity values. But the quality of our portfolio has allowed us to perform better than recent equity market declines would suggest" (Goldman Sachs' Annual Report, 2008, p. 4). Those comments suggest the importance of volatility for trading, which is the company's traditional main business. With the development of computerized high frequency communication, trading is likely to represent a conflict of interest within its trade function.

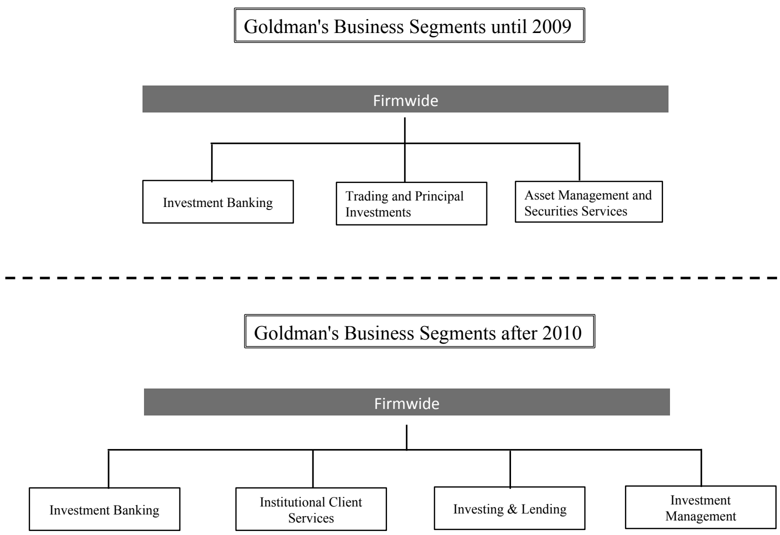
The company has assigned two executives who were in charge of international business, Asian business in particular since 2011 (Goldman Sachs' Form 10-Ks, 2011- 2014). The company explained, "While growth rates have slowed, we continue to see important opportunities in a number of emerging economies, and we believe that our on-the-ground presence and local expertise bodes well for our prospects there" (Goldman Sachs, 2008). Goldman Sachs (2014) insisted that the company was particularly well-positioned for growth in cross-border activity given its global footprint. It added that demand for funding and capital remained highly correlated to economic growth and broader corporate activity (Goldman Sachs' annual report, 2010). On its management strategy, international business appears to be more important for Goldman Sachs than IT development in the recent years. Management of the company is likely to have recognized the emerging market growth as profitable in the progress of enhancing maturity of trading methods, including high frequency trading.

Compliance has been always important for the firm because it has assigned multiple executives who were in charge of compliance issues (Goldman Sachs' Form 10-Ks, 1999-2014). This deployment of compliance executives into the board members seems to have characteristically related its business strategies in the banking sector which was strongly regulated by the government. Especially, regulation has affected banks' profitability since the crises.

5. Organizational Strategy-- Business Segment Strategy

Goldman Sachs drastically restructured its business segments in 2010. According to its form 10-Ks, the company had three business segments, such as Investment Banking, Trading and Principal Investments, and Asset Management and Securities services until 2009

Figure 4. Change of business segments before and after 2010.



Sources: Goldman's, Form 10-Ks, 2009-2010

(Figure 4). In 2010, Goldman reclassified those three business segments into four segments: Investment Banking, Institutional Client Service, Investing and Lending, and Investment Management (see Figure 4).

The company reallocated individual business divisions which had been formed as three business segments until 2009 and then reorganized into four business segments after 2010 (Goldman Sachs' Form 10-Ks, 2009, 2010). Characteristically, Goldman has established two new business segments, Institutional Client Services, and Investing & Lending, among the four new business segments since 2010. According to its form 10-K of 2009, Trading and Principal Investments business segment had three divisions, such as FICC, Equities, and Principal Investments (Goldman Sachs' Form 10-K, 2009). On the other hand, its form 10-K of 2010 showed that Institutional Client Service business segment contained Fixed Income, Currency and Commodities Client Execution, including market-making functions for those products, Equities, including market making functions for equities, and Securities Services (Goldman Sachs' Form 10-K, 2010). Form 10-K also showed the Investment & Lending business segment contained Industrial and Commercial Bank of China Limited (ICBC), Equity Securities (ex. ICBC), Debt Securities and Loans, and consolidated investment entities (Goldman Sachs' Form 10-K, 2010). By organizational analysis, Goldman seems to have reallocated the business divisions' functions of Trading and Principal Investments of 2009 to those of Institutional Client Service and Investing & Lending business segments of 2010.

In its Form 10-K of 2010, the company retroactively recalculated net revenues by business segments of 2008 and 2009 to newly allocate them to the new four business segments, such as Investment Banking, Institutional Client Services, Investing & Lending, and Investment Management, and so forth. Table 1 shows the comparison of net revenues by business segments between the previous business categories and the existing

Table 1. Net Revenue Comparison List

(Mil. $)

Until 2009	2008	2009	2008	2009	After 2010
Investment Banking	5,185	4,797	5,453	4,984	Investment Banking
Trading and Principal Investments	**9,063**	**34,373**	22,345	32,719	Institutional Client Services
			-10,821	2,863	Investing & Lending
			11,524	**40,566**	◀--- (Sub-total)
Asset Management and Securities Services	**7,974**	**6,003**	**5,245**	**4,607**	Investment Management
Total	22,222	45,173	22,222	45,173	Total

Sources: Goldman's Form 10-Ks, 2009 and 2010 ones. In comparison between numbers of Trading and Principal Investments in 2008 and 2009 under the Until 2009 column, and their counterparts, such as total numbers of Institutional Client Services and Investing & Lending in 2008 and 2009 under the After 2010 column, the latter numbers exceed the former ones respectively (11,524 > 9,063 in 2008s, and 40,566 > 34,373 in 2009s).

In addition, numbers of Asset Management and Securities Services in 2008 and 2009 under the Until 2009 column decrease to those of Investment Management in 2008 and 2009 under the After 2010 column (i.e., 7,974 < 5,245 in 2008s and 6,003 < 4,607 in 2009s). By financial resource analysis, it is recognizable that resources of Trading and Principal Investments business segment, and partial resources of Asset Management and Securities Services business segment were allocated to Institutional Client Services and Investing & Lending business segments respectively. In this context, Goldman Sachs appears to have transferred all its trading business resources to both Institutional Client Services and Investing & Lending business segments.

In *The International Financial Law Review* ("The Timeline," 2008) reported that Morgan Stanley and Goldman Sachs, the two remaining independent U.S. investment banks, became holding companies overnight in September 2008. It seems to have been like the strategic placing arrangement of go stones for the two investment banks to join the U.S. bailout program. The nine largest U.S. banks accepted more than $125 billion as part of the government's bailout package in the wake of entry into bank holding companies by Morgan Stanley and Goldman Sachs ("The Timeline," 2008).

The ROE ratios of Morgan Stanley, Citigroup, and Bank of America in Figure 3 were negative in 2008. On the other hand, JP Morgan Chase and Goldman Sachs managed to maintain positive levels of the above ratios in 2008 (Figure 3). Looking at the ROE ratios during the bailout period, Goldman Sachs, which was one of traditional investment banks, was unlikely to have been on the brink of bankruptcy or dangerousness to a run on a bank unlike other banks, which were suffering from the financial crises at that time.

According to Goldman's annual report of 2008, to become a bank holding company (BHC) was done to allow Goldman Sachs to address market perceptions that placed a premium on the value of oversight by the Federal Reserve Board and to be able to access a broader set of funding alternatives (Goldman Sachs' annual report, 2008). Fry (2010) pointed out that Goldman Sachs was "forced" by the Federal Reserve to accept a $10 billion loan from the TARP facility in October 2008. It is obvious that inclusion of Goldman Sachs into bank holding companies led to not only participation in the bail-out program by the firm, but also strategic incorporation of the firm into several banking regulatory schemes, including Dodd Frank laws and Basel rules by the government. By that, business segment and profit structures of Goldman Sachs have qualitatively changed.

Table 2 shows that change of financial importance of Goldman's business segment typically related to merchant banking, such as lending from 2008 to 2014. Goldman Sachs managed to pull its Investing & Lending business segment into the black in 2009. After the year, net revenue share of the business segment has increased to the range from 17.2% to 20.5%, except at the severest period of European Debt Crisis in 2011.

Goldman Sachs pointed out that its merchant banking business helped diversify the firm's revenues (Goldman's annual report, 2009). Table 3 shows profit margins of its Investing & Lending business segment has been strongly improving since 2012, and proved accuracy of the above comment of the company. On the other hand, Goldman's ROE line (Figure 3) appears to have been incorporated into so-called the "ROEs' convergent band area" since 2010. Looking at the above increase in banking revenue share (Table 2), it seems that, along with reinforcement of regulation by Fed, Goldman's business characteristic to differentiate the firm from other banks has been weakening, and similarity among the five banks has been intensifying since then. Obviously, government regulation has helped Goldman Sachs transform to a common universal bank to generate a profit in its business segments since 2010.

Table 4 shows annual component ratios of three business segments, such as Investment Banking, Trading, and so forth (Trading and Principal Business), and Asset Management (Asset Management and Securities Services) from 2000 to 2009. In the table, the numbers of Trading, and so forth, from 2003 to 2008, and in 2009 were more than 60%, and the number in 2009 reached more than 70%. In comparison with S&P 500 Index price change (Figure 1), the market appears to have been highly volatile during those years. Additionally, the trading segment and so forth was the top-ranked profit center among the three business segments, given all the numbers of Trading and so forth; from 2000 to 2009, it surpassed

Table 2. Component Ratios of Net Revenues by Business Segments

(%)

	2008	2009	2010	2011	2012	2013	2014
Investment Banking	24.5	11.0	12.3	15.1	14.4	17.5	18.7
Institutional Client Services	100.6	72.4	55.6	60.0	53.1	46.0	44.0
Investing & Lending	**-48.7**	**6.4**	**19.3**	**7.4**	**17.2**	**20.5**	**19.8**
Investment Management	23.6	10.2	12.8	17.5	15.3	16.0	17.5
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Sources: Goldman Sachs' Form 10-Ks, from 2008 to 2014 numbers of other segments except in 2002.

On the other hand, Table 5 is a list on annual profit margins of the three business segments in the same years. The list suggests the following three features: The first point is that trading, and so forth marked high profitability (more than 40% of annual profit margins) in 2006, 2007, and 2009, and it particularly reached the highest number, 50.4%, in 2009. The second point is that the trading business segment and so forth marked a minus number (-30.3%) in 2008 when the Lehman Shock took place in the same year. Finally, all the numbers at the asset management were stable from 22.4% to 38.1%.

In comparison with Figure 3 with the list on ROEs of five U.S. banks, including Goldman Sachs, Goldman's ROE marked at the second, third, and fourth peaks in 2006, 2007, and 2009 respectively. In comparison with the price change of S&P 500 (Figure 1), the volatile market enhanced Goldman's profitability. Goldman Sachs' strength was its trading and investment banking businesses. Moyer and Chaudhuri (*The Wall Street Journal*, 2012) reported that Goldman 's traditionally strong trading and investment banking had been struggling for the past couple of years.

Blackfein appears to have been sticking to those businesses after the financial crisis. He told Goldman Sachs' shareholders, "We are pleased to report that the firm retained its industry-leading positions across our global investment banking client franchise" (Goldman Sachs' Annual Report, 2011, p. 2). After restructuring in 2010, the Institutional Client Services business segment has partially contained market-making as one of trading functions, according to Goldman's Form 10-K (Goldman Sachs' Form 10-K, 2010). In its annual report, Blankfein (2011) insisted that they had further strengthened the liquidity

Table 3. Profitability on Goldman's Investing & Lending Segment from 2010-2014

	Investing & Lending		
	Net revenues	Pre-tax earnigs	Profit Margins
	mil.$	mil.$	%
2008	-10,821	-13,540	**-125.1**
2009	2,863	-660	**-23.1**
2010	7,541	4,180	**55.4**
2011	2,142	-531	**-24.8**
2012	5,891	3,225	**54.7**
2013	7,018	4,334	**61.8**
2014	6,825	4,006	**58.7**

Source: Goldman's Form 10-Ks, 2010 to 2014
Note. From Form 10-K: The Goldman Sachs Group, Inc. Retrieved from http://www.goldmansachs.com/investor-relations/financials

Table 4. Annual Component Ratios of Business Segments

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
	%	%	%	%	%	%	%	%	%	%
Investment Banking	32.4	24.3	20.2	16.9	16.4	14.8	14.9	16.4	23.3	10.6
Trading, etc.	39.9	40.1	37.5	**65.2**	**64.9**	**66.0**	**67.9**	**67.9**	40.8	**76.1**
Asset Management	27.7	35.6	42.3	17.9	18.7	19.2	17.2	15.7	35.9	13.3
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Sources: Goldman Sachs' Form 10-Ks from 2000 to 2009

position of Goldman Sachs relative to pre-crisis levels.

Kotler (2003) defined core competency as follows: (a) It was a source of competitive advantage in that it made a significant contribution to perceived customer benefits, (b) it had a breadth of applications to a wide variety of markets, and (c) it was difficult for competitors to imitate. Accordingly, trading appears to be a core competence for Goldman Sachs that other banks cannot easily follow suit in comparison with other banks' ROEs of 2007 and 2009 (see Figure 3).

On the other hand, Table 5 shows the Asset Management business segment had been attaining relatively stable profit margins within the range from 22.6% to 38.1%. In comparison with the price change of S&P 500 (see Figure 1), the business segment represented reliable stability during the periods of volatile market. It appears to be an important business segment to stabilize Goldman's management.

Enhancement of Ethical Literacy in Mature Market:

In a mature economic society, companies must enhance ethical literacy in their economic activities to survive in intensively competitive markets. For example, most convenience stores have trash boxes inside or outside the stores in Japan. If many consumers used to throw away their trash on the roads without their ethical literacy like Japanese growth market era in 1970s, they did not go to the convenience stores to put their trash into a trash box, and never have had opportunity to buy something else to go to the convenience store for looking for a trash box at that time. This seems to have been a marketing strategy, adopted by convenience stores in the mature economic society.

In trading activities, investors can obtain profit to sell their securities at higher prices than the prices of the securities when they bought. A rise in prices largely reflects economic development, and so forth, including corporate prosperity in the growth market. In a mature market, however, economic growth is

Table 5. Annual Profit Margins of Business Segments

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
	%	%	%	%	%	%	%	%	%	%
Investment Banking	32.1	18.7	13.3	7.6	11.9	11.3	27.8	34.0	39.4	26.5
Trading, etc.	36.6	19.1	18.6	33.6	37.8	38.0	**41.5**	**42.4**	**- 30.3**	**50.4**
Asset Management	34.5	37.8	35.8	33.9	36.9	35.4	37.7	25.6	38.1	22.4

Sources: Goldman Sachs' Form 10-Ks from 2000 to 2009

weakening and limited. Investors are likely to obtain slight gains, which are derived from growth of the market, while it seems to be still effective for other factors, including speculative transactions and market volatility to influence price fluctuations in the market.

Ultimately, maximization of gains by trading in the low growth market prompts market participants to play a zero-sum game in the marketplace. It is a gamers' market that one investor's gain directly links to other investor's loss. The market cannot contribute to the sound development of economy, and it is no longer a marketplace to realize sound asset formation for people's welfare. Because human beings are social beings and unable to live alone, such investment activity to seek selfish returns generates a conflict of interest with the market for the public.

Market maturity appears to make the market change to become a buyer's market in the wake of intensive competition to seek slight profit among business competitors like banks in the financial industry. Clients tend to ask them to demonstrate high business integrity and standards in their transactions, given business conditions, including prices not so different from those of their competitors but more valuable than that of the competitors. This is the logic used to explain the relationship between the maturity of the market and enhancement of ethical literacy on economic behavior in the process of economic development of the market and economic society. In the process of becoming a mature market, ethical companies can increase their revenue and profit to be selected by consumers, and selfish, profit-seeking companies are likely to be removed from the market eventually.

Concerning financial services, financial intermediaries can charge fees linked with the value of the transactions to carry out their fee businesses, including brokerage commission business and M&A advisory business, regardless of the change of the prices. Conflict of interest between a financial intermediary and its clients may occur if a selling price is below its buying price. On the other hand, commercial banking has a strong linkage with the interest rate generally. The interest rate reflects the growth of economy, and the economic growth basically becomes weaker in a mature market.

Sharpe (2010) pointed out that, with declining profitability and an erosion of investment banking business, the firms increasingly relied on trading as a source of revenue and profit. Goldman Sachs stands in a good position because trading is Goldman's core competence. Grene (2009) reported that a Goldman Sachs Asset Management agent defined newly sustainable investment as it looked like in three to five years' time and then figured out which companies would do best in that environment. They also considered their marketing activities should be sustainable (Grene, 2009, p. 8). In this definition, the word, environment seems to mean not only natural environment in the narrow sense but also overall environment including market and society in the broad sense. In this context, sustainable trading means to avoid conflict of interest between the market and the public, and profitability of sustainable trading is attributable to the following key words: Growth, newness, diversification, niche, and long-term relationship with clients, and market economy, as a whole.

This author has already explained the relationship between growth and return, and that the growth was able to avoid a zero-sum game and conflict of interest. Goldman's management used average 17.7 times of a noun, *growth*, and a verb *grow in* their messages to shareholders before the crises from 2005 to 2007. They used the word, on average, 35.6 times of the above words in their messages to shareholders after the crises from 2010 to 2014. Overall, they seemed to have recognized the importance of growth for the company's profitability. In particular, while industry's profitability of the latter period (from 2010 to 2014) had been roughly weakening (Figure 3), they more frequently used those words than relatively strong growth period from 2005 to 2007. Goldman Sachs is likely to have understood that it had to pursue potential growth opportunities to improve its profitability. Such a profit-seeking activity was to reduce conflict of interest between their clients and the market as a whole.

Cooper and Kleinschmidt (1995) stated that new product success could result in success rate profitability. For the banking industry, trading in new products tends to do so. In general, a new successful product market appears to generate relatively high-level profit due to low-level competition. In this context, newness can reduce conflict of interest for market participants not to scramble for limited profit from low growth. Niche means "a specialized but profitable segment of the market" (Oxford Dictionary, 2003). Based upon that definition, its connection with conflict of interest appears to be very similar to that of newness.

Diversification means to pursue profitability among broader resources. Of course, the probability of conflict of interest seems to be lessening by the action. Given that Goldman Sachs diversifies its portfolio investment in growth companies or markets, the same effects of pursuing growth are anticipated as well. With regard to long-term relationships, it is generally difficult for anyone to hide something for a long time, and the longer the time, the more difficult to hide. In this context, long-term growth has sustainability to some extent. To pursue profit by an accumulation of small returns from a low growth market in the long run appears to reduce conflict of interest with the market as a whole.

Goldman Sachs pointed out in its annual report that the long-term demand for product innovation and "high touch" services remained (Goldman Sachs' Annual Report, 2013). The company's profit-seeking activities aim at exploring the following growth opportunities: "We are particularly well-positioned for growth in cross-border activity given our global footprint. And, we believe that the demand for funding and capital remains highly correlated to economic growth and broader corporate activity" (Goldman Sachs' Annual Report, 2014).

This investment strategy contains the key words about sustainability in their economic activities, such as profit-seeking activities to avoid generation of the above-mentioned conflict of interest to enhance ethical literacy. Goldman's management seems to have at least perceived the relationship between sustainable business activities and economic benefit. Therefore, sincere and faithful execution of this business strategy is to avoid or reduce conflict of interest between the market as a whole.

6. Conclusions

The U.S. bank Goldman Sachs, which was originally an investment bank, had strong performance in comparison with recently popular ratios to measure profitability. Goldman Sachs' ROEs ranked high in comparison to four other peer American banks, such as J.P. Morgan Chase, Morgan Stanley, Citigroup, and the Bank of America during the period from 1999 to 2014. On the other hand, the U.S. market economy shows signs that it has been entering into a maturity period in which to compare S&P 500 index prices with Kotler's sales life cycle curve in the long run.

Profitability of the U.S. banking industry for the 16 years that ROEs of the five banks indicated had two trends, divided by financial crises, such as Lehman Shock and European Debt Crisis. The profitability showed before the crises went downward, except for a rally period from 2006 to 2007, which occurred after the crises was in progress horizontally within a convergent band. In the wake of a series of global financial crises, the United States and European governments have reinforced regulations toward the industry to cope with fallout of the crises. Consequently, the reinforcement appears to have provoked a qualitative change for the industry's profitability in the light of a materialistic conception of history. Such a dialectically qualitative change is that a change of relationship between the banks and the government regulators (a production relationship) was attributable to changes of the banks' profitability (production power) in the 16 years' time (historically).

As part of this research study, the coincidence of Lloyd C. Blankfein's assumption of the roles of president and CEO at Goldman Sachs with the start of resilient improvement of Goldman's profitability in 2002 was identified. Before the assumption of the executive positions at Goldman's, Blankfein had experienced heads of trading-related divisions for a long time. His leadership apparently led Goldman's trading business segment to become a major profit center for the company. It had strongly performed in 2007 and 2009 respectively when other peer banks suffered severely due to a volatile market at that time (see Figures 1 and 3). Within this context, this author recognized that trading has become Goldman's core competence under Blankfein's leadership.

By comparative analyses between Goldman's business strategies, such as leadership, organizational structure, and business segments (see Figure 4, Goldman Sachs' Form 10-Ks, and Annual Reports), and its profitability (see Figure 3), this research study clarified that H.R. management and IT system development played roles to support enhancement of the core competency. The company seems to have carried out reclassification of business segments in 2010 to allocate its core competence (trading function) to several divisions to raise synergic effect.

Reinforcement of regulation after the crises triggered changes in Goldman Sachs' profit structure and its profitability from quantitative to qualitative nature. McLannahan and Noonan (2015) pointed out that structural change was being caused by regulation, which was forcing derivatives out of opaque and highly profitable private dealings on to lower-margin exchanges and centrally cleared trading. Goldman's profitability had tended to be roughly horizontal, staying within the convergent band area from 2010 to 2014 (see Figure 3). Profitability in the industry had been much of a muchness eventually. This author pointed out that incorporation of a commercial banking function into Goldman's business segments basically contributed to those trends.

Finally, this author argues that ethical literacy rises in the process of maturity of the market economy as evolution of an economic society occurs. At the same time, globalization and integration of the world's markets coincide with the process. Goldman should strengthen and activate its activities of sustainable trading to pursue the company's high profitability and avoid conflict of interest with the markets as a whole or the public in the world. Sustainable trading means to invest in businesses and markets related to the following key words: Growth, newness, niche, diversification, long-term relationship with clients, and market economy as a whole. In addition, investment in sustainable businesses and markets in the form of sustainable trading is effective as well. In the sustainable trading activities, investment in conventional companies in the mature market should be limited to playing a role to supply liquidity for the market. High performance in the mature market by Goldman Sachs may have led to the name-calling from Rolling Stones magazine: "A great vampire squid."

By the way, Blankfein announced that he had lymphoma and expected to undergo chemotherapy over the next several months (Rivera & Lucchetti, 2015). This author considered that his strong leadership has made trading become a core competence of Goldman Sachs. Successful succession of his leadership and management may be a challenge for the company's prosperity in the future.

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