Goldman Tries to Put a Halo on Bonuses

Time
By Stephen Gandel
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Goldman Sachs is doing its best to prove that what's good for them is good for the rest of us. But image consultants and corporate-compensation experts say the Wall Street firm's recent moves won't quell the growing anger against the world's most profitable bank.

"You really have to prove to people you are different," says Peter Firestein, a corporate-reputation consultant and author of the book *Crisis of Character: Building Corporate Reputation in the Age of Skepticism*. "They haven't done enough to make people believe their profits-first DNA will change."

In its latest move to rebuild its reputation, Goldman will reportedly require its executives and top managers to donate a portion of their bonuses to charity. Goldman already has a program to promote voluntary giving by the firm's partners, which was started two years ago. The new program would expand the program to more of the firm's employees, and set a mandatory floor for charitable giving. While it's rare for a company to force its employees to donate, lawyers say it is perfectly legal. Bear Stearns, which was swallowed by JPMorgan Chase at the beginning of the financial crisis, used to have a similar plan.

A Goldman Sachs spokesman wouldn't comment on how much of their year-end pay Goldman employees would be required to donate, or even if the company had officially adopted the new charity plan.

Few firms have taken as much of an image hit in the wake of the financial crisis as Goldman Sachs. Once seen as one of the best-run companies in America, in the past year more and more people have come to view Goldman's outsized profits as a product of backdoor dealings and market manipulation. AIG's former CEO Hank Greenberg recently blamed Goldman for bankrupting the insurance company. (Goldman, not surprisingly, does not concur with Greenberg's version of events.) Goldman received $12.9 billion when the government bailed out the insurer. Goldman has also been accused by critics of making large profits by betting against mortgage bonds the investment bank put together.

The proposed charitable-giving plan is already getting a warm reception by at least one group: Goldman's own rank and file. Top Wall Street recruiter Gary Goldstein says he has been hearing about the plan for some time now, and says the reaction from Goldman employees has been positive.

"Goldman's reputation has been tarnished," says Goldstein. "If it is something that can elevate the stature of the firm in the public eye, then I think people are all for it."

Nonprofits, too, are likely to cheer the plan. Bradford Smith, who is the president of philanthropy-research firm Foundation Center, says Goldman's move could help service organizations at a time when many are struggling to raise funds. "Ideally, you would hope rich

people would voluntarily share their wealth," says Smith. "But Goldman is leader in the corporate world, and if others follow, this could be a needed windfall for nonprofits."

But others say the charity plan is likely to fall short of its assumed goal: reversing a slide in Goldman's public image. That's because the amount the program is likely to generate in donations will be dwarfed by bank bonus payouts. In the next week or so, Goldman and other large financial firms will hand out an estimated $140 billion in 2009 bonuses. Goldman alone is expected to enrich its employees by $18 billion. The large bonuses have drawn scrutiny because they are being paid at a time when the unemployment rate is 10% and many Americans are suffering financially. What's more, many Americas believe Goldman and others only survived because of taxpayer support, and now are unfairly profiting from the government bailouts.

On Monday, New York attorney general Andrew Cuomo asked eight large banks to turn over data on their expected 2009 bonus payouts. President Barack Obama is considering leveling a fee on financial firms to help the government recoup the costs of last year's bank and auto bailouts. FDIC officials, too, are considering charging banks that pay a large portion of their executive compensation in bonuses a higher fee for its deposit insurance. The U.K. recently adopted a 50% tax on bank bonuses.

Under the old Bear Stearns plan, top executives were required to donate 4% of their bonuses to charity. For Goldman, that would mean a charitable donation of just over $700 million. And that's if every employee is forced to participate, which is not likely to be the case. Still, even $700 million would be far less than the $12.9 billion Goldman received when AIG was bailed out by the Federal Government. And it's a fraction of what Goldman has been making in the market at a time when the government is spending trillions to support asset prices. In the third quarter alone, Goldman raked in nearly $100 million a day in trading profits. In all, the firm is expected to have earned $12 billion in 2009.

"This is window dressing," says Brandon Rees, who is a deputy director in the office of investment at union AFL-CIO. "Unless they are required to give up 50% of their bonuses this is a meaningless exercise."

What's more, Goldman executives are already big donors, and that hasn't done anything to stop its slide in public opinion. Under the firm's voluntary-giving plan, which was started just before the firm handed out bonuses two years ago, Goldman's top executives gave about $130 million to charity in 2008. Goldman's own foundation, which it funds with corporate profits, has about $200 million in it, making it one of the largest charity trusts in corporate America. Indeed, a plan announced a few months ago by Goldman to give away $500 million to promote loans to small businesses was widely met with skepticism.

Lastly, according to Harvard law professor Allen Ferrell, who has studied corporate giving, where Goldman employees donate may matter as much as how much they end up contributing to charity. And a look at past donations suggests that Goldman and its employees will have to do a better job of choosing their charities if they hope to get the maximum image boost. Among the roughly 450 nonprofit organizations that Goldman employees donated to through the voluntary program in 2008 are some of the nation's most élite private schools. One of the largest recipients

of Goldman money in 2008 was New Jersey private school Rumson Country Day School. Also on the list are Choate Rosemary Hall, Lawrenceville and Spence. Top colleges got their share of Goldman largesse as well. Harvard, Stanford Graduate School of Business, the University of Pennsylvania and the University of Chicago all got over $150,000 in donations from Goldman employees. "Corporations have to be careful to avoid the appearance of special access in return for charitable giving," says Ferrell. "If the public sees that, it can hurt the company's image, not help it."