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Banking on Change: Author Jonathan Knee Dissects A Changed World of Investment Banking

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Banking on change

Author Jonathan Knee dissects a changed world of investment banking

The Accidental Investment Banker was an accidental best seller for author Jonathan Knee, and he regaled a Center for the Arts audience on Oct. 25 with the story of the book, how it came to be published, and the anything-goes atmosphere of modern investment banking about which he wrote.

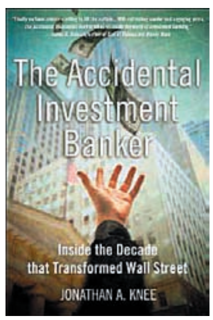
His talk, co-sponsored by UB Law School and the University’s School of Management, was titled “Is Investment Banking a Profession?” He answered that question early on – “The concept of a profession is still very, very meaningful to the legal community and is still meaningful to parts of the investment banking community, although I think the notion of a profession as such is not as ingrained in the investment banking culture” – and then proceeded to tell the story of *The Accidental Investment Banker.*

“Writing is a much more integral part of legal training than business training,” said Knee, who is senior managing director of Evercore Partners, a New York City investment management and advisory firm. “Learning how to tell a good yarn is probably among the most important skills that anybody in either of those professions can learn.”

But, he said, “the difference between writing a thousand words and writing 100,000 words is monumental. A hundred thousand words is a big deal, and I never thought that I had a story that was worth that many words. But being an investment banker for over a decade, and watching several generations of people enter and leave the business, I was really struck by just how little the people who think they wanted to be investment bankers knew about what investment bankers do.

“I decided I could write a history of investment banking that used my story, of dropping into the business accidentally right at the beginning of the boom-and-bust period at the two most prestigious investment banks, as a way to tell that part of a history that would be more accessible and meaningful to a general audience.”

Knee had worked at the old-line investment banking houses Goldman Sachs and Morgan Stanley. He also teaches media mergers and acquisitions and strategic management of media at the Columbia University Business School.



The book was published by Oxford University Press, an academic publisher. But a New York Times reporter got hold of a review copy, Knee said, and wrote a piece for the newspaper’s Sunday book review section. The review, he said, compared his book to *You’ll Never Eat Lunch in This Town Again*, a Hollywood expose, and *The Devil Wears Prada*, which skewered the fashion industry. For *The Accidental Investment Banker,* the rest was history – it shot up to No. 34 on the Amazon best-seller list, and sold a phenomenal 35,000 hardcover copies.

The story, Knee said, is of a very conservative traditional business undergoing rapid change. At the old-line banking houses, he said, “the culture of client loyalty and integrity, you could not believe it if you heard it today. The idea was not just that you were joined at the hip for life, but you had an obligation to the public. There were whole classes of industries they would not underwrite because they did not think it was appropriate for the public to own stock in those industries, such as gambling, and advertising agencies.”

Then a series of culture changes in the 1980s and ’90s rocked the investment banking community. The merger-and-acquisition business entered into investment banking, creating partnerships with “previously unwelcome clients.”

Then investment banking houses began to deal in junk bonds. “Who issues junk bonds? A lot of people you wouldn’t take public,” Knee said. Again, the industry’s ethic of protecting the public was eroded.

Finally, he said, the “big jump” came when investment bankers moved from acting as agents, connecting corporations with capital, toward investing their own money in an attempt to make exponential returns. Today, he said, at some firms traditional investment banking represents less than 10 percent of the business at some firms; the rest is investing its own assets.

“During the boom,” Knee said, “companies that could not have otherwise gotten a meeting at Goldman Sachs or Morgan Stanley a few years earlier were being sold to the public. People on the commitments committee (which decides what to invest in) stopped asking, ‘Should we underwrite this start-up company?’ and started asking, ‘Can we?’ The fundamental choice is, do I lower my standards or do I lower my market share? Nobody failed to lower their standards, and lower them dramatically.”

The same danger threatens the legal profession, he said: “Once short-term revenue maximization becomes the way you are judged, it is very hard to maintain a culture.”

But to the students in the audience thinking about the profession, he had these words of encouragement: “There is no other job like investment banking in terms of giving you access to and the ability to influence decision makers. I would submit that CEOs are a lot more important than your average congressman or bureaucrat. CEOs run villages that are called companies, some of which have hundreds of thousands of employees and have great impact on the world around them.”