

Globalization of Investment Banks Based on Comparative Case Studies: The Case of CITIC Securities and Goldman Sachs

Mingjun Ma^{1,a,*}

*¹Money Banking and Finance, University of Birmingham, B15 2TT, Birmingham, United Kingdom
a. MXM1477@student.bham.ac.uk*

**corresponding author*

Abstract: The need of efficient management systems for success is highlighted by the globalization of investment banking, which is being driven by market liberalization and technology improvements. Both Goldman Sachs and CITIC Securities make interesting case studies because they have different histories, approaches, and market positions that illustrate how the dynamics of the global financial system are changing. Investment banking globalization's dynamics, impacts, and strategies are explored through a comparative analysis of CITIC Securities and Goldman Sachs. This research employs qualitative methods, examining organizational structures, revenue sources, market presence, and management mechanisms by collecting market analysis, annual reports released by the two investment banks, and some pieces of literature on the topics researched. Findings reveal CITIC Securities' domestic focus and regulatory challenges contrasted with Goldman Sachs' global reach and operational flexibility. Strategic recommendations emphasize enhancing CITIC Securities' international presence and revenue diversification for sustained growth and competitiveness in the evolving financial landscape.

Keywords: Investment bank, Globalization, CITIC

1. Introduction

1.1. Research Background and Significance

The globalization of investment banking, driven by technological advancements and market liberalization, underscores the importance of effective management systems for success [1]. CITIC Securities and Goldman Sachs serve as compelling case studies, each with unique backgrounds, strategies, and market positions, reflecting the evolving dynamics of the global financial landscape.

Understanding how management systems influence the globalization strategies of investment banks holds significant implications for practitioners, policymakers, and scholars. Insights derived from this comparative analysis can inform strategic decision-making, regulatory frameworks, and academic discourse in the fields of finance, management, and international business.

1.2. Literature Review

Empirical findings on the worldwide investment banking industry confirm that this field of banking comprises numerous aspects and the uses of various instruments by firms to meet market challenges. The specific focus is posed by the authors like Jones and Zeitz where the regulatory environments are brightly emphasized as they govern the internationalization patterns of Financial Institutions by highlighting the legitimate significance of regulatory arbitrage and compliance costs [2]. Lastly, Porter has also established the notion that differentiation and cost leadership are the components of the success, as these hold true for international and domestic markets [3]. Thus, having references in your positions is useful in this case to provide the competitive advantage for CITIC and Goldman Sachs.

1.3. Research Contents

This research seeks to compare the business systems employed by CITIC Securities and Goldman Sachs in navigating the challenges and opportunities presented by investment banking globalization. The research will adopt a qualitative approach, utilizing comparative case study methodology. Data will be gathered from academic literature, financial reports, and industry publications.

2. CITIC Securities

CITIC Securities, established in 1995, stands as one of China's leading investment banks, renowned for its comprehensive financial services and extensive market presence [4]). With a robust focus on both domestic and international operations, CITIC Securities has strategically positioned itself as a key player in China's evolving financial landscape.

2.1. Business Operations and Revenue Streams

CITIC Securities, a prominent player in China's financial landscape, boasts a comprehensive suite of financial services spanning various segments of capital markets. Among its core offerings are advisory services for initial public offerings (IPOs), equity financing, mergers and acquisitions (M&A), debt issuance, securities trading, asset management, and fund custody. This diversified portfolio enables CITIC Securities to cater to a wide range of client needs, from facilitating corporate fundraising through IPOs to providing strategic guidance in complex M&A transactions.

However, it is notable that a significant portion of CITIC Securities' revenue is derived from securities trading fees, particularly within the domestic stock market [5]. According to CITIC Securities, the company's market value is 3,130 yuan in 2021, with operational income of 76.52 billion yuan and profit of 23.1 billion yuan. Domestic business income makes up 90% of total revenue, with overseas income making up 10% [6]. This emphasis on brokerage services underscores the prevailing trend among Chinese investment banks, where earnings from secondary market transactions constitute a substantial portion of overall profits. By leveraging its expertise in securities trading and maintaining a strong presence in the domestic market, CITIC Securities solidifies its position as a leading brokerage firm, capturing opportunities arising from the vibrant activity within China's capital markets.

2.2. Market Presence and Globalization Strategy

While CITIC Securities predominantly generates revenue from its domestic operations, the firm has been strategically advancing towards globalization despite encountering regulatory and bureaucratic hurdles. Notwithstanding these challenges, CITIC Securities has demonstrated considerable progress in extending its international presence through various strategic initiatives.

One such initiative involves forging partnerships and joint ventures with foreign entities to access new markets and enhance its service offerings. For instance, CITIC Securities established a joint venture with CLSA, a renowned Asian brokerage and investment group, to expand its footprint in Hong Kong and other international markets [7]. This collaboration enables CITIC Securities to tap into CLSA's extensive network and expertise while leveraging its own resources and market insights.

Furthermore, CITIC Securities has actively pursued strategic alliances with global financial institutions to bolster its capabilities in cross-border transactions and advisory services. An example of this is CITIC Securities' partnership with Citigroup, which aims to enhance its investment banking capabilities and facilitate cross-border deal-making for Chinese and international clients [8].

3. Goldman Sachs

Goldman Sachs, established in 1869, epitomizes the epitome of global investment banking prowess, renowned for its unparalleled expertise in advisory services, capital markets, and asset management [9]. With a rich history and a diverse portfolio of clients worldwide, Goldman Sachs stands as a dominant force in the international financial arena.

3.1. Diversified Business Portfolio and Revenue Generation

Goldman Sachs, a global financial powerhouse, boasts a multifaceted business portfolio spanning diverse sectors within the financial industry. The portfolio of the firm incorporates investment banking, in which it acts as an adviser and arranges the mergers and acquisitions (M&A), initial public offerings (IPO) as well as debt and institutional investors financing. Selective securities institution, Goldman Sachs is involved in markets' making, trading and brokership in broad array of asset classes which are equities, fixed income securities, currencies and commodities integrity [9].

To enumerate, the other major business venture of Goldman Sachs is investment management, which offers a number of products and services for institutional and individual investors, including mutual funds, hedge funds, private equity, and wealth management services [9]. Moreover, the firms' service for retail clients is provided by consumer banking division where numerous financial products and services are offered including lending, savings, credit (VISA Equity card), wealth management services [9].

3.2. Global Market Penetration and Operational Flexibility

With a prominent financial institution such as Goldman Sachs, the bank has built an excellent reputation on a nearly global scale, having a commanding presence in prime financial cities worldwide including New York, London, Hong Kong and Tokyo [10]. As for Goldman Sachs, the informational function of advisory services covers the sphere of strategic transactions, such as mergers and acquisitions (M&A), money raising initiatives, equities and bonds sales, and the debt restructuring area.

For instance, Goldman Sachs has been a cornerstone in the mergers such as the M&A transactions that involve corporate mergers divestitures and joint ventures across different industries in the global market [11]. Moreover, the specialty investment banking service of the firm plays a significant role in IPO, secondary offering and other odd events, contributing to worth enhancement and market expansion for its clients. Along with the firm's unceasing determination to provide pristine service and bespoke solutions, it is no wonder that Goldman Sachs maintains its number one status as one of the world's most sought-after investors and advisor.

4. Comparison of CITIC and Goldman Sachs

4.1. Business Model and Revenue Sources

While both CITIC Securities and Goldman Sachs operate as investment banks, their business models and revenue sources exhibit notable distinctions. CITIC Securities relies heavily on domestic operations, with a significant portion of its revenue stemming from securities trading fees within the Chinese stock market. In contrast, Goldman Sachs maintains a more diversified revenue stream, with a substantial proportion derived from advisory services related to IPOs, M&A transactions, and structured finance deals on a global scale.

As shown in Figure 1, CITIC Securities, in 2021, the operating income is 76.52 billion yuan, the profit is 23.1 billion yuan, the company's market value is 3,130 yuan, the domestic business income accounts for 90%, overseas income 10% [6]. By comparison, Goldman Sachs will have revenue of \$59.34 billion in 2021, profit of \$216.3, company market value of \$109.5 billion, and international business accounts for more than 40% of Goldman Sachs [12].

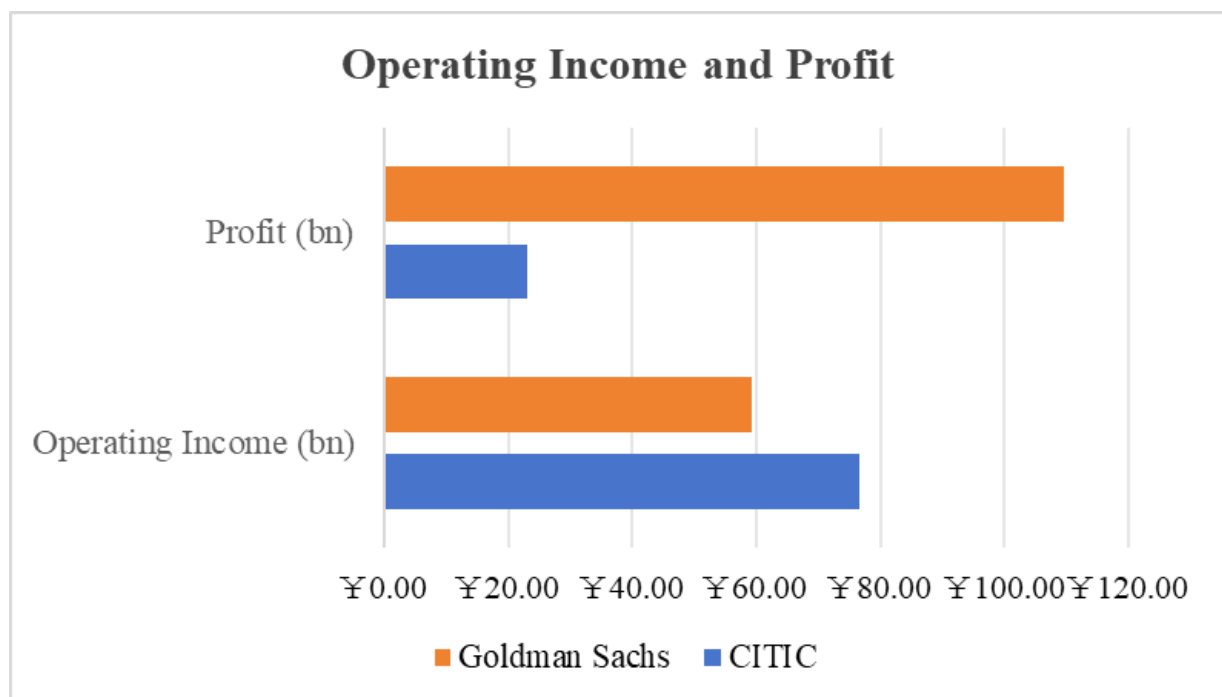


Figure 1: Operating Income and Profit

4.2. Market Presence and Globalization Strategy

As shown in Figure 2, CITIC Securities' market presence is primarily concentrated within China, where it garners over 90% of its revenue from domestic operations [6]. Although the firm has endeavored to expand internationally, its globalization efforts face challenges due to regulatory constraints and bureaucratic procedures inherent in the Chinese financial system. Conversely, Goldman Sachs boasts a formidable presence in major financial centers worldwide, leveraging its extensive network and industry insights to serve multinational corporations, governments, and institutional investors across the globe. The firm's strategic alliances and partnerships enable it to penetrate diverse markets and offer a wide range of financial services to a global clientele.

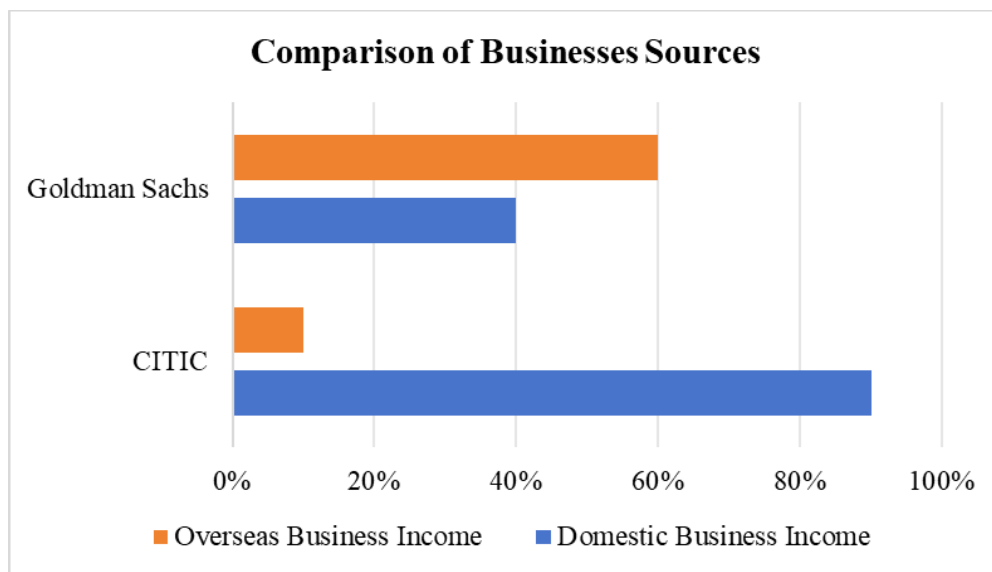


Figure 2: Comparison of Businesses Sources

4.3. Management Mechanisms and Operational Flexibility

A significant differentiator between CITIC Securities and Goldman Sachs lies in their management mechanisms and operational flexibility. The main difference between the two investment banks in the process of global capital operation comes from the management mechanism. CITIC Securities is a state-owned company. The Ministry of Finance owns 100% of CITIC Group Corporation, the business's parent [13]. It needs approval from China's financial and regulatory authorities to complete the process of global capital operation. Therefore, the process of capital globalization of CITIC Securities will be limited, and the international business income will not be too high.

In contrast, Goldman Sachs, as a private entity, enjoys greater autonomy and flexibility in its operations, enabling it to swiftly adapt to market dynamics and capitalize on global opportunities. A built-in flexibility enables Goldman Sachs to be a vigorous competitor in the fast-changing environment of the global financial markets by swiftly and precisely executing any strategic programs to pursue.

4.4. Recommendations

In view of the struggles CITIC involves confronting with its globalization activities, the company is recommended to introduce some strategic plans and productivity to boost the business growth worldwide and achieve the diversity in its income. Initially, CITIC Securities can search for the methods of improving regulatory environment via improving regulatory processes and reducing bureaucratic procedures of the country's financial markets system [14]. Through an active involvement with regulatory authorities and pushing for reforms that will ensure that cross-border extension is seamless and operation effective, the company can ease the market entry and running it. Furthermore, the company by making links with the world partner institutions in finance and other organizations, accesses and opens up new markets, extends services as well as lastly, reduces the regulatory barriers. CITIC Securities' cooperation with already influential players from major financial centers will enable it to discover crucial market details, get a direct link to critical markets, and help to assimilate needed expertise needed to achieve a successful international expansion [15].

Additionally, CITIC Securities should use international securities trading as an incipient step and address this narrowness in revenue sources besides the domestic securities commission charges. This

could range from advisory meetings for IPOs, M&A deals, structured finance deals, both local and foreign, to be scaled up. This includes a range of advisory services such as IPOs, M&A transactions, and structured finance deal as they happen both locally and internationally. CITIC Securities with its in-depth understands of the market and coverage can take advantage of the cross-border deals and serve the requirements of the multinational companies that may change frequently. Likewise, allocating resources to the development of talent and building an appreciable pool of people with global expertise can boost CITIC Securities' competitive edge and real capabilities in competing in the global financial field [16].

5. Conclusion

A comparative study of CICC and GS not only reveals their differentiation, but also the missions of investment banks to cope with globalization. While both enjoy equal opportunities and obstacles, CITIC Securities' operations are suffocated by the capital market regulatory constraints and its domestic revenue streams base, whereas Goldman Sachs enjoys the greater expended operational room as a private company and enjoys the privilege of the markets beyond the geo-boundaries. Through applying well-placed proposals that are aimed at expanding international footprint and next revenue sources, banks could adapt to the rapidly changing economic environment and become a pioneer of profitable global investments to guarantee the sustained growth and competitiveness.

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