

Reward management - We were wrong on pay

Case duration (Min): **45-60**

Human Resource Management (HRM)

Reward management**Worldwide****Case summary:**

Morgan Stanley's CEO says compensation for short-term results was a mistake, but the 'war for talent' requires high pay.

Learning objectives:

Outline the rationale behind different compensation packages.
Evaluate the link between pay and performance.

Case problem:

Compensation and pay is an important feature of human resource management. Remuneration does not simply compensate employees for their efforts but has an impact on the recruitment and retention of talented people. How then should employees be compensated for their work activity?

Investment Brokerage - National

Company

Morgan Stanley

www.morganstanley.com/

Morgan Stanley is a global financial services provider, headquartered in the United States. It serves a diversified group of corporations, governments, financial institutions, and individuals. Morgan Stanley operates in 33 countries around the world, with an approximate employee workforce of 50,000. The corporation, formed by J.P. Morgan came into existence in 1935. The main areas of business for the firm are Global Wealth Management, Institutional Securities and Investment Management. A management crisis in the late 1990s saw it lose much talent and competence. In 2008, the Federal Reserve allowed Morgan Stanley to change its status from investment bank to bank holding company.

First, if you are taking a taught management course then consult with your tutor and ensure that the case has not been scheduled into a teaching class or tutorial. If it has not:

1. Play/ read the media associated with the case. You may need to access the Internet and enter a URL to locate any video clips.
2. Attempt the Case study questions.

Consider attempting the case study as a group exercise; you could form a study group with fellow students.

3. Check the suggested answers - remember these are suggestions only and there are often many possible answers.

Discuss questions and answers with other students.

4. If you feel your answer(s) were weak then consider reading the relevant suggested readings again (also see the case study suggested references).

Title/ Media type	URL/ Media description
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John Mack: We were wrong on pay:

http://money.cnn.com/video/news/2009/10/16/n_johnmack_morganstantly_pay.cnnmoney

Film

In this film clip, Morgan Stanley's CEO says compensation for short-term results was a mistake, but the 'war for talent' requires high pay. John Mack discusses mistakes made on rewards, what the company is now doing to compensate employees and explains why compensation is an area of management fraught with difficulties.

NOTES:

Case study questions...

Action	Pre/During/After class
1 REWARD MANAGEMENT AND PAY SCHEMES: What is meant by reward management? In your answer you should identify and describe the two basic types of pay scheme. In addition, you should explain the purpose of rewards when administered within organisations- what is pay for?	During
2 COMPENSATION PROGRAMME DESIGN: Imagine you were designing a compensation/reward management system for implementation at Morgan Stanley -list the primary design criteria that would influence the structure of the system. You should also discuss the criteria to be used in determining levels of pay and compensation.	During
3 MOTIVATION, PAY AND BENEFITS: Discuss the importance of pay as a motivator; in your answer you should comment on intrinsic and extrinsic motivators and incentives (defining key terms).	During
4 PAY AND PERFORMANCE: Outline the basis of performance related pay systems and critically evaluate different forms of performance related pay-outline the arguments for and against the use of performance related pay. What mistakes are identified in the case study film clip and what recommendations are made to rectify them? Why does John Mack believe compensation is a really difficult area to get right?	During

Answers...

REWARD MANAGEMENT

Management of pay, benefits and other forms of compensation.

PERFORMANCE RELATED PAY

Payments made to employees in addition to salary, which are for specific tasks performed or targets met.

PERFORMANCE-RELATED PAY (PRP)

Pay based on merit as assessed by a performance management process.

EXTRINSIC REWARDS

valued outcomes or benefits provided by others, such as promotion, pay increases, a bigger office desk, praise and recognition.

INTRINSIC REWARDS

valued outcomes or benefits which come from within the individual, such as feelings of satisfaction, competence, self-esteem and accomplishment (see extrinsic rewards).

REWARD & RECOGNITION

Providing competitive salary and benefits to attract and retain the best people

REWARD SYSTEM

Comprehensive system of monetary and non monetary rewards provided for staff in return for the work they perform for the organization.

REWARD POWER

the ability of a leader to exert influence based on the belief of followers that the leader has access to valued rewards which will be dispensed in return for compliance.

JOB EVALUATION

A process by which job descriptions can be used to identify the rank order (or relative magnitude) of jobs in an organization.

Question/ Answer

1 REWARD MANAGEMENT AND PAY SCHEMES:

What is meant by reward management? In your answer you should identify and describe the two basic types of pay scheme. In addition, you should explain the purpose of rewards when administered within organisations-what is pay for?

Reward management- "Management of pay, benefits and other forms of compensation."
There are two basic types of pay scheme: (1) fixed level of pay whereby wages or salaries do not vary from one period to the next and (2) performance related pay
The purpose of reward management is to drive organisational performance and influence employee behaviours for effectiveness and efficiency (work quality, quantity, attitude towards customers, flexibility, learning, and creativity).

2 COMPENSATION PROGRAMME DESIGN:

Imagine you were designing a compensation/reward management system for implementation at Morgan Stanley -list the primary design criteria that would influence the structure of the system. You should also discuss the criteria to be used in determining levels of pay and compensation.

Internally equitable (relative), externally competitive and personally motivating (the system should be simple to administer)
Pay differentials (criteria determining level of pay) are often the result of differences with regard to responsibility, qualifications and performance. In some cases there may be a need to reward scarce skills (market-driven criteria).

3 MOTIVATION, PAY AND BENEFITS:

Discuss the importance of pay as a motivator; in your answer you should comment on intrinsic and extrinsic motivators and incentives (defining key terms).

Extrinsic rewards - valued outcomes or benefits provided by others, such as promotion, pay increases, a bigger office desk, praise and recognition,
Intrinsic rewards - valued outcomes or benefits which come from within the individual, such as feelings of satisfaction, competence, self-esteem and accomplishment (see extrinsic rewards).
Incentives - Devices used to reward managerial behaviour.
Researchers and practitioners tend to be in disagreement about the effectiveness of pay as a motivator. It is clear that motivation goes beyond pay. It is also clear that the compensation system not only affects motivation but work satisfaction and turnover intent.

4 PAY AND PERFORMANCE:

Outline the basis of performance related pay systems and critically evaluate different forms of performance related pay-outline the arguments for and against the use of performance related pay. What mistakes are identified in the case study film clip and what recommendations are made to rectify them? Why does John Mack believe compensation is a really difficult area to get right?

Performance related pay systems seek to reward on the basis of contribution thus benefiting employers who enjoy higher productivity and employees associated with good performance. When used properly, they reinforce appropriate behaviours and encourage a resource-based culture. One primary problem is defining performance properly so that the organisation rewards results and not simply effort. Performance appraisals are a method of reviewing the performance and potential of employees and is usually undertaken formally and systematically at regular intervals. Systems may be focused on the individual or team or even larger groups of employees. General criticisms of performance related pay include: fairness, biased managerial judgement, a budgetary rather than motivation focus, demotivation of the majority, union hostility and conflict with the team philosophy. Such systems may also reward short-term risk-taking to the detriment of longer term requirements.

Mistakes: the way we rewarded our people, too many rewarded on a short-term basis.

Recommendations: reward with equity, use claw back mechanisms.

Compensation is difficult due to the war for talent-there is a need to attract and retain employees but this must be balanced with using rewards appropriately to attain desirable results both in the short and long term.

COMPETENCE

Work related knowledge, skill or ability held by an individual

PERFORMANCE**APPRAISAL**

A method of reviewing the performance and potential of employees that is usually undertaken formally and systematically at regular intervals.

INCENTIVES

Devices used to reward managerial behavior

MERITOCRACY

Meritocratic procedures aim to make judgements on the basis of evidence of competence such as examination results or the achievement of targets.

Case study references

Cole, G A. and Kelly, P P. (2011) 'Management Theory and Practice', Ed. 7. Cengage EMEA.

Price, A. (2007) 'Human Resource Management in a Business Context', Ed. 3. Cengage Learning EMEA.