Morgan Stanley: Becoming a "One-Firm Firm"

It was the summer of 1993 and John Mack, the newly appointed president of Morgan Stanley, reflected on the challenges ahead. He felt passionately that the firm needed to change in order to stay competitive and to maintain its standing as one of the best investment banking firms. Mack's primary goal was to recapture the "value of the franchise." He wanted to encourage teamwork and collaboration across organizational boundaries. Mack knew that transforming the firm would require dramatically changing the firm's culture. Many observers, both inside and outside of the firm, wondered whether Mack could successfully change the way the firm worked and implement new management systems without tainting the entrepreneurial culture and creativity that had been the foundation of the firm's success.

Morgan Stanley History and Background

The Rise to Prominence

In the wake of the Banking Act of 1933 (The Glass-Steagall Act) that required that all banks separate their commercial and investment banking activities, six partners of the prestigious J.P. Morgan and Co. resigned their posts and formed Morgan Stanley & Co. Founded in 1935 under the halo of the venerable "House of Morgan," the new firm quickly established itself and, for 35 years, maintained a top-notch position as "investment bank to the bluest of the blue-chip companies."[1]

In 1970, the firm's 230 employees focused almost exclusively on traditional corporate finance. However, in 1971, at the behest of younger managers, Morgan Stanley launched a sales and trading operation. This foray into marketing activities was a radical shift in strategic orientation that Morgan Stanley undertook with great zeal, rapidly building a sales and trading organization that dominated the rankings for a decade.

Riding a wave of success in the mid-1970s, Morgan Stanley expanded internationally, adding offices in Paris and Tokyo at a time when other firms had not yet even acknowledged the potential of the global market. In 1975, Morgan Stanley reorganized into divisions in order to better manage the risks and future growth of the company. By 1977, Morgan Stanley had more than quadrupled in size

[1] Monroe, Ann. "Morgan Stanley's Latest Re-Do." *Investment Dealers Digest* 60(7):14-20. February 14, 1994.

Professors M. Diane Burton and Thomas DeLong and Research Associate Katherine Lawrence prepared this case as the basis for class discussion rather than to illustrate either effective or ineffective handling of an administrative situation.

to approximately 1,000 employees, with a third in sales and trading and a large percentage overseas. Morgan Stanley was an investment banking powerhouse from inception through the late 1970s that prided itself on building businesses from scratch rather than acquiring them. The firm was so powerful, and so profitable, that it could afford to pick and choose deals.[2] Entering the early 1980s Morgan Stanley was at the top of the underwriting pyramid, capitalizing on exclusive relationships with most of the Fortune 500. But while the "white shoe" bankers at Morgan Stanley rested on their laurels, other firms were on the rise.

Tough Times

In the early to mid-80s a variety of forces – market volatility, international competition, a changing regulatory environment, increasing sophistication among corporate financial executives – led corporations to move from single long-term banking relationships to multiple transaction-based banking relationships. The era of sole-managed underwriting deals and exclusive advisory relationships ended abruptly and ushered in an era of intense competition among investment banks.[3] Morgan Stanley, for the first time in history, stumbled. The firm, which had been number one in global underwriting for almost its entire life, was ranked a disappointing sixth by 1983.

While the investment bankers turned to fee-based services such as advisory work for mergers and acquisitions, the rest of the firm underwent a period of heavy investment and rapid growth. Morgan Stanley dramatically expanded its trading operations, which had historically been the long suffering step-child of the firm. The firm established a merchant banking arm where they initially invested the firm's own capital in risky, often highly leveraged, transactions, and eventually expanded into leveraged buy-outs. The firm also entered the asset management business, investing funds on behalf of institutions and wealthy individuals for an annual fee equivalent to a fixed percentage of assets under management. Needing capital to fund their expansion and diversification, Morgan Stanley sold 20% of its shares in a 1986 public offering that netted $250 million for the firm and instant liquidity for the partners.

To the firm's credit, it has always been perceived as being nimble and adept at reinventing itself to meet the ever changing demands of the financial world. As one industry commentator described:

> In the past decade and a half its predominant image has variously been that of an old-line investment bank, a bare-knuckled trading house, a leveraged-buyout shop, a mergers and acquisitions factory and an international powerhouse.[4]

A Global Enterprise

By 1992, Morgan Stanley was, by external measures, once again on top. The firm had over 7,000 employees in 18 locations generating revenues of more than $3 billion.[5] The firm had achieved tremendous success in international markets and now had over one third of its employees based abroad and derived 41% of its net revenues from non-U.S. activity. Morgan Stanley opened new offices in Seoul and Madrid, while expanding its presence in Hong Kong, Taipei, Paris, and London. This resulted in a total of seven European locations, six Asian and Pacific Rim locations, and five

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[2] Chernow, Ron. *The House of Morgan*. New York: Atlantic Monthly Press, 1990.

[3] Eccles, Robert G. and Dwight B. Crane. *Doing Deals: Investment Banks at Work*. Boston: Harvard Business School Press, 1988.

[4] Selby, Beth. 1992. "How Morgan Stanley Maps Its Moves." *Institutional Investor* 26(7):52-59, June 1992.

[5] Morgan Stanley Annual Report, 1992.

North American locations. Global headquarters were in New York City, and the London and Tokyo offices served as the centers of the European and Asian operations respectively. Operations were divided into ten divisions: Investment Banking; Equity; Fixed Income; Merchant Banking; Asset Management; Foreign Exchange; Commodities; Research; Morgan Stanley Services; and Finance, Administration and Operations. Professionals from each division were represented in all of the offices worldwide. The firm reported record earnings and was expected to do at least as well going forward.

Top Team Tensions

But, while the outside world was applauding, storms brewed inside. There were conflicts and tensions resulting from the unequal distribution of wealth among the pre- and post-IPO partners. The firm was scrambling to attain greater market share in all areas of its business in the face of stiff competition. At the same time, the firm was growing, diversifying, and globalizing which strained all of the internal systems and placed incredible demands on managers. Concurrently, the long-standing rivalry between chairman Richard Fisher, and his ally-turned-enemy Robert Greenhill (now president), had intensified. Both men had become partners in 1970 and had worked together strategically to help the firm establish its sales and trading operations. While Greenhill remained in the firm's traditional stronghold, establishing and running the mergers department, and ultimately heading all of investment banking, Fisher led sales and trading.

Historically, across all of the Wall Street firms, there are long-standing tensions and uneasy relations between investment banking and sales and trading. The businesses are radically different, demanding different skills and attracting different kinds of people. The gulf was especially wide at firms like Morgan Stanley, with a long history of excellence in the former and only a recent appreciation of the latter. As the changing environment put the two divisions on more equal footing, tension and competition between Fisher and Greenhill gradually mounted over the years.

During the rebuilding period of the late-80s and early 90s, each business unit placed enormous emphasis on managing their individual profits and losses. Some of the leaders of the newly public firm were also more interested in short term profits than in longer-term investments with uncertain rewards. Strategic differences of opinion led to bitter resource allocation battles. Within the divisions, there was pressure to focus on activities that generated divisional revenues without consideration for the impact on the firm. For example, Greenhill encouraged his bankers to focus on mergers and acquisitions advising over corporate financings. In advisory work fees were credited entirely to investment banking; whereas financing fees were split with sales and trading.

Fisher and Greenhill had squabbled for years. According to the industry press, Greenhill was "the quintessential old-style Morgan Banker – arrogant, profit-oriented, focussed narrowly on his division and on immediate reward."[6] A combination of style differences and turf battles led to disagreements over everything.[7] As the two rose to hold the top leadership positions in the firm, their inability to work together meant long delays in decision-making and an overall sense that the firm was not able to effectively respond to ever-changing demands.

In 1992, in reaction to this perceived need for the firm to make rapid decisions in a coordinated fashion, the firm's fourteen-person management committee (which met monthly) was replaced by an operating committee that met weekly. The operating committee, composed of the heads of the largest divisions—Fixed Income, Equity, Investment Banking, Asset Management, and Finance, Administration and Operations—as well as the heads of the London and Tokyo offices, was

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[6] Monroe, op. cit.

[7] Carroll, Michael. "Don't Look Back." *Institutional Investor* 28(1):36, January 1994.

ultimately responsible for daily operations and cross-divisional coordination. The committee was chaired by John Mack, a long-time Fisher protégé who had been promoted from head of Fixed Income to effectively become the firm's chief operating officer.[8]

The Wall Street press rightly dubbed Mack as the "president-in-training"[9] and described Greenhill as having been "shoved aside."[10] Mack was named to the presidency in March, assumed the position in June, and within a month Greenhill had resigned.

John Mack

John Mack grew up in Mooresville, North Carolina, a small town outside Charlotte. The sixth son of Lebanese immigrants who ran a wholesale grocery business, Mack won a football scholarship to Duke University. After graduating in 1968, he took his first job at a small brokerage firm in North Carolina, and later went to Wall Street.

In 1971, Fisher recruited Mack, a young star at F.S. Smithers, to join the fledgling Morgan Stanley sales and trading operation. Mack turned the offer down feeling that he wouldn't fit in at the "blue blood" firm, instead opting to join the bond house of Loeb Rhodes. But after only eight months, he decided he'd made a mistake and asked Fisher if the offer was still open. Mack joined Morgan Stanley in 1972 where he quickly distinguished himself as an aggressive and successful bond salesman.

Early in his career at Morgan Stanley, Mack became the protégé of Fisher—largely because they were philosophically aligned on the most important issues—even though they had dramatically different personal styles. Fisher was "self-contained" and consensus-oriented[11] whereas Mack was outgoing and assertive. Mack's hard work and strong alliances paid off as he quickly rose through the ranks. Four years after joining the firm, Mack had been made a vice president, a year later principal, and in 1979, was promoted to managing director. In 1985 he was chosen to head the Fixed Income Division.

Described as a "walk-the-halls, press-the-flesh" manager, Mack explained that his reputation came from spending his first 15-odd years on the trading floor: "I never had an office until five years ago. If I went down the hall to get a cup of coffee, I bumped into hundreds of people."[12]

Throughout his 22-year career, Mack established a reputation as a cost-cutter and a dynamic builder of new businesses. At six feet tall and 220 pounds, Mack had a presence that led some to believe he was downright intimidating.[13] "Mack the Knife" and "Darth Vader" were two of his monikers. Moreover, he made decisions fast and decisively. Mack once described his perspective:

> I move on things quickly. By putting them off, I don't think you're going to shed a lot more light.…There's always more than one story, and as I've gotten older,

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[8] Morgan Stanley Annual Report, 1992.

[9] Selby, op. cit.

[10] Picker, Ida. "Bob Greenhill Does a Swap." *Institutional Investor* 27(7):11, July 1993.

[11] Monroe, op. cit.

[12] Monroe, op. cit.

[13] Barboza, David. "Giant Wall Street Merger: Morgan Stanley's Leader, Veteran Executive Is 'Tough and Direct'. New York Times, February 6, 1997, Late Edition –Final. Section D; pg. 7; Business/Financial Desk..

I've learned there's always more than two. So I try to listen to all of them, and not react to the one that comes first.[14]

He was said to run Fixed Income with an iron fist. One former employee recalled, "You wouldn't find a salesman coming in at 8:00 a.m. and starting to read the *Wall Street Journal*. If that happened, he'd come up and say, 'I see that again and you're fired.'" He expected of them what he demanded of himself; he took pride in working long hours, in his goal-minded focus, and in constant self-improvement. From his division employees, Mack wanted honest, loyal, team players.[15] Despite his reputation, Mack defended himself: "I'm tough, but I consider myself to be fair. I judge people based on their performance and their accomplishments."[16] Mack was widely respected for his managerial talent. A colleague described him as the "Alfred P. Sloan of Morgan Stanley."[17]

A Need for Leadership

Under the unified direction of Fisher and Mack, the senior management began to recognize some organizational problems. As Neal Garonzik, former head of marketing and equities explained, "We needed to be able to serve clients in a myriad of ways and could not expect only one part of the firm to focus on them." Mack amplified, "We needed to be able to service people from A to Z, in all markets, as a team."[18]

Fisher, who had once credited the firm's strong divisional focus as the source of their success,[19] now realized that "fiefdoms" were undermining the firm's overall ability to succeed. He explained, "We want the client and the customer to think it's Morgan Stanley, not the [person or department] they're doing business with." The top team hoped that by encouraging teamwork and firmwide contributions they would foster increased cross-selling and cross-divisional collaboration.

At the same time, as the senior executives looked around to identify the future leaders of the firm — the people who would be able to effectively operate in a complex global environment and provide seamless service to a wide array of customers for a variety of finance and banking needs — they were dismayed. Rapid growth combined with a series of post-IPO "retirements" and a wave of defections following Greenhill's ouster had led to the firm having a dire shortage of leadership experience and management talent. One managing director explained, "Most people grow up trying to be great professionals, great traders, great salespeople, great bankers, not managers or leaders." Given this tradition, it is hardly surprising that for many years it was a common joke that the term "Wall Street management" was an oxymoron. But Mack was committed to changing this. In an early speech to a group of officers, he expressed his concerns:

> We have not done a good job in pushing down the importance of management and explaining what we expect from you once you become a principal on a desk or a managing director. What is required of you? Well, you have not "finished." You have further responsibilities. You have a job to do. And your job, other than making money, or building the systems that you're building, is to teach the people below you.[20]

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[14] Monroe, op. cit.

[15] Carroll, Michael. "Morgan Stanley's Global Gamble." Institutional Investor. 29 (3); 40-53. March 1995

[16] Selby, op. cit.

[17] Carroll 1995, op. cit.

[18] John Mack, presentation to Harvard Business School Finance and Investment Club, October 9, 1997.

[19] Monroe, op. cit.

[20] John Mack, presentation to the FA&O Officers Meeting, May 19, 1992.

Lack of Career Development

Morgan Stanley, for most of its history, had no formal systems for career development or performance appraisal. Performance evaluations were haphazard at best; and while feedback was supposed to be given to team members at a project's end, the system was loosely enforced. According to one managing director, Morgan Stanley had a long tradition of hiring people from the top universities, looking for "raw intellect and some basic social skills," putting them in an environment that encouraged their growth, and assuming that they were bright enough to observe their mistakes and self-correct. Recruits were essentially "hand-picked" by partners who had a vested interested in monitoring their performance over time and ensuring that they adhered to the values of the firm.

However, as the firm grew, this lack of structure was leading to managerial problems. Managers were forced to supervise more and more people. It got to the point where, according to a longtime employee, "managers no longer had the wingspan to coach and develop those below them." An associate at the time, who later rose to become a managing director, described:

> We had that one phrase that still is with us today, which is "first class business in a first class way." That sort of embodied everything, and so that was sort of the banner, the standard bearer, that was hung out there for everybody to understand, but it sort of stopped there.

Like most investment banks, Morgan Stanley had the familiar hierarchical structure of most professional service firms and an "up-or-out" promotion system. Entry level professionals, analysts, came straight from undergraduate programs, and were expected to spend a few years in the firm but then return to graduate school and earn an MBA. The first real rung on the career ladder was associate, the title held by those employees hired from graduate schools of management. Analysts, working with and supervised by associates, do much of the behind-the-scenes work of the bank, working long hours and turning around projects at a rapid pace. Associates typically work four to five years before they are eligible for promotion to Vice President. After another two to three years, Vice Presidents were eligible to be promoted to Principal. Each of these promotions entails increasing responsibility and increasing client contact. Principals are eligible to be considered for the promotion to the top rank of Managing Director after three years. At each of these promotions, the criteria for advancement had historically been individual accomplishment.

Within the firm there were no systematic efforts to monitor individual's performance or career progress. In fact, the most lasting method of tracking an individual were yearly sessions known as "round tables." Another managing director from the investment banking division described the sessions:

> There'd be one day you'd set aside, and all get together in a room. My department wasn't that big back then, it probably had 50 analysts and five of them were first-year associates. So, you get 45 people in a room and you talk about the five first-year associates. And it was really whoever wants to start. You can imagine without a data package and with some of the personalities, …if that person grabbed the mike, so to speak, that was the discussion. If some poor person who is being discussed had a bad half hour with Joe, that's where the discussion started off…
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> And you also had a kind of an 'institutional memory' phenomenon. If somebody got trashed, 45 people heard it, and that was such a reinforcing element for how that person would be dealt with for the next year in terms of assignments. You could have a situation where, as bizarre as it might sound, you would have a discussion. Fast forward for a year. The person is now a second-year associate, so there are only 40 people in the room. The first and second year associates are out of

> the room. But those 40 people, they just kind of took up the conversation from last year without a beat. Really. It happened all the time.

Developmental feedback was virtually non-existent. As one banker described from her own experience:

> It used to be that when annual review time came, you'd walk into your bosses office and he'd hand you a check. That was it. Then we got a little better and at least tried to have a conversation. My boss still pulled the ultimate cop-out, though. We'd sit down and he'd say, "You go first. Tell me how you think you've done this year." Then he would just nod and agree with whatever I said. Then he'd hand me a check.

As the divisions grew larger, the annual "round table" evaluation process was conducted by smaller, sub-divisional groups; however, there were no means for comparing the relative performance of individuals in such a way as to compensate people fairly and consistently across the firm. A senior manager described the increasing frustrations of growth:

> There were demands across the entire business and professional spectrum for scarce resources. It became more and more important to be able to put people under the same basis of comparison, so as a management matter you could talk knowledgeably and credibly, not from an anecdotal point of view, but against real data about your people versus people in other departments. And thereby, hopefully, in addition, to make a higher-quality statement as to their relative performance…Selfishly, I wanted the best and the brightest and I wanted the best and brightest to be rewarded consistently with that designation. And it was not appropriate to try to establish that anecdotally, you needed to establish that based on systematic information.

There was a great deal of dissatisfaction with the way that promotion and compensation decisions were made. There were widespread feelings that a few "zingers" shouted in a "smoke-filled room" could ruin someone's career long term and income short term.

As a result of the round-table process junior professionals, knowing that project assignments, promotions and salaries were determined by their superiors, "managed up." There was little incentive to help peers or colleagues in different parts of the firm; particularly given the frenetic pace of the business and the constant time pressure. What mattered most was making sure the people above you, in your particular division of the firm, were happy. Of course there were also benefits to currying favor with those senior managers who were especially powerful and influential.

The unintended consequences for the firm were widespread neglect of indirect and lateral relationships within the firm, and rampant subordinate abuse. Junior professionals lacked guidance and middle managers were not being trained to take the helm. Furthermore, John Mack perceived the firm to be "losing the franchise" as they operated as if they were a holding company with different divisions running independently.[21] Morgan Stanley employees were firmly entrenched in their "fiefdoms," sharing virtually no skills, information, or resources across divisions. Instead, there was a sense that divisions competed against other divisions.

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21 Carroll 1995, op. cit.

Becoming a “One-Firm Firm”

One of the first actions that Mack took as head of the operating committee was to convene a special Managing Directors conference where he and the other top managers brought managing directors from around the world together for the first time. His goal was to begin to address some of the management problems, garner support from the firm's managing directors, and begin to build cross-firm relationships. During this meeting the Morgan Stanley leadership heard a strong “collective voice.” Mack later described their message:

> There were a couple things we heard consistently: there is no strategy, there is no career development, there is no marketing, there is no communication. All these things that I’m talking about are addressing the issues that all of you have brought to this firm or brought up to this firm. The career development piece is probably the subject that comes up most often when I have my meetings with analysts or with VPs or with associates. Who is looking at my career? Where am I going to go in this firm?[22]

Although early in his career he had been as separatist as anyone, Mack wanted to see the company integrate its functions, improve service, reduce costs, and spread ideas through teamwork. Both Mack and Fisher emphasized how Morgan Stanley had to invest in its assets while focusing its attention on the long-term view. Fisher opened a meeting of the firm’s managing directors with the following comments:

> We made some bad decisions in the 80s. They were not made in bad faith. They were made because the individuals making them thought it was the right thing to do. But they were incorrect, and it took us down the wrong path in certain important ways. We got away from teamwork as we put more and more pressure on short-term performance, on business line accounting, on any number of things that in some ways were essential to build a business. Pieces of that we couldn’t have gotten to where we are today without, but nevertheless we have to fix the negatives of that frame of mind. And the principal one is to get back to try to help each other, to have everyone realize, certainly at the managing director level, that it is not possible to prosper individually or in a business line if the entire firm is not doing well. So teamwork is an absolutely critical part of it, and we’ve got a lot of work to do on it.[23]

A New Vision

According to Fisher and Mack, Morgan Stanley would be making investments in top employees, in technology, and in new geographic locations, even if it they were not expressed in the bottom line right away, because it positioned the firm for the long run.

According to Mack, changing the firm’s values would help attract and retain top quality employees:

> To get the right people, you’ve got to have the right values. We need to be able to attract the best people and keep them. I believe that the people who come to

[22] John Mack, presentation at a Special Managing Directors’ Session, October 4, 1993.
[23] Richard Fisher, opening remarks, Special Managing Directors’ Session, October 4, 1993.

Morgan Stanley don't just want money, they want a career. They want to be challenged and they want to be part of a team.[24]

At this meeting Fisher and Mack unveiled the firm's new mission statement:

Our goal is to be the world's best investment bank and the Firm of choice for our clients, our people, and our shareholders.

We will succeed by meeting the global needs of our clients — both providers and users of capital — at a level of performance which is exceptional. This commitment to add maximum value will be characterized by extraordinary effort and innovation, and by conducting ourselves with absolute integrity.

Morgan Stanley's people are the source of our competitive advantage. We will distinguish ourselves by creating an environment that fosters teamwork and innovation, by developing and utilizing our employees' abilities to the fullest, and by treating each other with dignity and respect.

The mission statement, in combination with a broader vision Mack and Fisher constructed became known as the "One-Firm Firm."

Early Change Initiatives

The concept of a "One-Firm Firm" had emerged from the recognition that great opportunities dwelled at the intersection of different divisions. It was also born out of the swelling career-related concerns of junior employees, a growing lack of consensus and unity among the managing directors, and top management's genuine desire to show their commitment to answering those concerns. Mack undertook a number of initiatives in an effort to "shake up the culture" and facilitate cross-divisional interactions.

The firm underwent a whirlwind of reorganizations and reassignments — many of which were explicitly intended to challenge and broaden the managerial skills of the assignee. Mack also recruited former employees, like Neal Garonzik who had resigned in 1989 to found a boutique merchant bank, back to the firm. He snagged senior managers from competitors, including superstar Joe Perella from Wasserstein-Perella. He promoted people who exhibited promise. Mack built a management team of people whom he sensed could make a significant contribution to the firm, and he would hire them before committing them to a specific place in the organization. The most unusual member of Mack's new management team was Thomas DeLong, a professor from Brigham Young University. Mack had met DeLong in 1991, as they were both flying from Salt Lake City, Utah to New York City. DeLong was on his way to conduct leadership and management training sessions a Fortune 100 company. Mack was intrigued by DeLong, a specialist in organizational development, and hired him as a consultant to the firm. When Mack became president, he asked DeLong to join Morgan Stanley full-time to "bring HR to a new level." DeLong took the title " Chief Development Officer" and set about building a professional human resources management organization that he named the "Office of Development" and establishing strong ties will all members of the operating committee.

As Mack explained:

[24] Mack 1997, op. cit.

> I think that by asking Tom DeLong to join this firm, by getting Neil Garonzik from institutional equities involved in and running a marketing task force, to have Carter McClelland from corporate finance on a strategic planning initiative, all of these tie together to tell our professionals, "This is where we're going, this is where you're going, and we're concerned about your career, and we want to do whatever it takes to make sure you have the same opportunities that we have all had."[25]

Mack's passion for his work was reported to be contagious. A colleague was quoted as saying, "I think John Mack enjoys management more than anybody else who has ever run the firm."[26] Mack's enthusiasm was also revealed in his speeches and presentations which were described as "a combination of locker-room pep talk and patriotic address."[27] At the same time, Mack knew that his managing directors were not easy converts. He reflected:

> "…the managing directors are the most difficult group to convince that this firm is going to change. We're all skeptics, we're all very smart, and we can all do it better. We can all sit there, as I used to sit there, and say, "Here it comes again..."

One of the challenges Mack faced was winning over the hearts and minds of the investment bankers. As one senior banker described,

> A lot of investment bankers viewed Mack suspiciously. He came from Fixed Income. He's not from our own business. He took over. He's a forceful personality as you know. A great leader. No bullshit — between your eyes. But at the same time, after he gives it to you, he can put his arm around you and say, "Hey buddy, what are you doing this Saturday?"

DeLong echoed:

> The Investment Banking division had always been the hub of the wheel at Morgan Stanley, and now you had this salesman rising to the top. Bankers were skeptical. So, to show his commitment, John spent the good part of a year focusing on the individual needs of Investment Banking, meeting with investment bankers, finding out about their business, and meeting their clients. I've never seen such commitment and concentrated effort.

Mack was also steady and persistent in his determination to intermix the partisan directors of the different divisions. To facilitate cross-firm collaboration, divisional plans were discussed firm-wide so that everyone would clearly understand the impact on other parts of the firm and so that groups could coordinate their goals. Leaders would visit different divisions to explain more about what their actual day-to-day work entailed. In one presentation Mack told the assembled managing directors:

> It is your job to be a leader, it is your job to be a manager, and it is your job to be a producer. And you have to pass this on to the people who work for you. It's up to you to reach across to the other divisions and say to the person in Equity or the person in IBD or whoever you think was the last difficult person you had to deal with, "I don't understand your business, but I want to understand it and if I understand it then maybe I won't feel this way about you. Let's fix this problem we have between us." …It is up to this group and the group in London and the group in

[25] Mack 1993, op. cit.

[26] Monroe, op. cit.

[27] Selby, op. cit.

> Asia and the group in Chicago, to reach across divisions and talk about our business, to talk about our problems, to talk about the talented individual that we have in that division or that business unit who you think could do more, and could we move that person into another area of the firm. The firm…will underwrite the businesses, we will underwrite moving people around, we are focused on long term value for Morgan Stanley and we need your help.[28]

Some of the changes Mack initiated, those that emphasized firm-wide issues and goals rather than divisional ones, were unprecedented. For example, the firm, which had never had a formal training department, initiated a series of cross-divisional, worldwide training meetings and then subsequently offered training to all professionals in four skill areas: technical, professional, product, and management. DeLong began to examine the recruitment and hiring process in an effort to establish common themes and the Office of Development designed an orientation process that would deliver a common message to each new recruit, regardless of division. Division heads began speaking to the managing directors of other divisions. Managing director conferences brought people together from across the firm and around the world day-long sessions. DeLong traveled around the world talking to managing directors about management. Mack wanted them to know that they had the responsibility to be good managers. DeLong described Mack's "mantra" as "You are going to be evaluated on the kind of manager you are." No longer could they operate on the assumption that "we're brilliant, we'll figure it out, we don't need a process, we just have to produce."

Socially, Mack wanted people to feel comfortable with each other. Smaller efforts included expanding the managing directors dining room to encourage people to meet. Mack also sponsored outside activities to get managing directors to mingle. A quarterly social dinner brought 25 to 35 managing directors and their spouses together. Mack continued to dine with junior professionals, and he encouraged all his managers to follow his example. DeLong described:

> John must have held a dinner a night for two years. He had unbelievable commitment. He'd take out analysts. He'd take out associates. He'd take out secretaries. He did not care where they were on the organizational ladder.

DeLong described the outcome of all of the change initiatives:

> People saw that Mack meant business. People said, "My gosh, all John's talking about is the one-firm firm. I think we are beginning to change the way we do business." …He lived and talked and breathed it.

Performance Evaluation, Promotions, and Compensation

Mack believed that professionals would only thrive in an environment that encouraged and challenged their creativity, initiative, and intellect. He also wanted to reinforce the firm's commitment to meritocracy and had a commitment to reward the "solid citizens" who were strong contributors and team players, as well as the more visible "stars."[29]

> Wall Street has historically had a culture where the biggest producers have always made the most money despite the fact that they are destroyers of culture and destroyers of people. You have to have the courage to stand up and fire those destructive forces.[30]

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[28] Mack 1993, op. cit.
[29] Mack 1992, op. cit.
[30] Mack 1997, op. cit.

Mack knew that there would be resistance to his initiatives. As one employee put it, "In this environment, any time we want to change behavior, it always comes down to compensation. The attitude is 'yeah, but are you going to pay me?'" Thus, to eliminate "personal agendas," Mack envisioned boosting the percentage of compensation that was tied to firm-wide success rather than divisional revenues.[31]

Revamping the Performance Appraisal System

The capstone of the change initiative was revamping the performance appraisal system. By changing the criteria by which people were evaluated, promoted and compensated, Mack and his top management team hoped to fundamentally transform Morgan Stanley's culture.

The task of creating a more formal performance evaluation process fell to a group of 15 bankers, who with the help of two members of the human resources staff and an outside management consultant, worked to devise a new system for evaluating performance that would accomplish the following objectives:

- Enhance the professional development of all professional employees
- Achieve greater objectivity and fairness, and base performance evaluation on explicit performance criteria that broadly define desired behavior
- Increase real-time feedback
- Recognize superior, long-term professional performance
- Provide the primary basis for annual compensation and promotion decisions
- Provide more substantive annual performance appraisals
- Encourage teamwork
- Increase cross-departmental and cross-divisional feedback
- Increase the consistency and confidentiality of the process

From DeLong's perspective, an immediate benefit of the system would be that it would force managers to have career-related conversations with their subordinates. But, in the process of designing and developing the system, the task force wrestled with a number of issues and challenges. One of the most salient debates was whether or not the purpose of the system was developmental or evaluative. Some task force members felt very strongly that it needed to be purely developmental, should be done "off-cycle" — in other words in a different time frame from "Year-End" when profits were tallied, annual bonuses were given, and promotion decisions were made. Others insisted that the whole point was to make compensation and promotion fair and meritocratic. As one member recounted:

> In the end, we made a pragmatic decision. Theoretically the two are distinct, but we asked ourselves, could we really engage the organization in two separate processes. The answer was, "No."

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[31] Monroe, op. cit.

The task force also faced a decision about the extent to which the performance evaluation process was tied to compensation. In the meritocratic spirit of the business, there was a sense that those who generate the most revenues should make the most money. However, the task force recognized that there would be problems if performance and compensation were tightly linked. As one managing director explained:

> In a large firm there will be many times you need to ask people to do things for the good of the franchise. If you start to pay only for commercial contribution, a lot of jobs go undone. For example, there are certain sectors that are very visible, such as high technology. There are others that are very important for the firm but not very visible, such as government agencies. This sector does not produce as much as the corporate sector. If you ask somebody who is covering Dupont to cover government agencies, he will say, 'You must be crazy. I'm a superstar here. I'm not going to do that. I won't get paid because I can't show the revenue to the firm.' So, if both are doing their job right, you want to be able to pay the person covering government agencies in line with the person that you gave the IBM account or the Dupont account.

The Challenge Ahead

As the task force struggled to redesign the performance appraisal process, and the firm was still reeling from the sudden change in power, culture, values and style, many wondered whether they were headed down the right path. As Mack consolidated power and the cultural change gathered momentum, there were some high profile resignations. Mack and his top team continued to spread the message of a one-firm firm. But, as Mack admitted:

> For the first time in 3 to 4 years I'm out of my comfort zone. I have a new job. I'm pumped up about it. There's a lot I'm still learning about it. I'm uneasy. I'm on edge. But every morning I'm pumped up because I'm not used to it and I haven't done this before.[32]

Mack and Morgan Stanley were entering uncharted waters. Only time would tell if the firm would succeed in its attempt to, once again, reinvent itself.

[32] Mack 1992, op. cit.