

### BNY Mellon Shares the Wealth with Employees

When Congress passed a corporate tax cut set to take effect in 2018, employees and economists alike speculated about where the increase to companies' bottom lines would be directed. Would more wealth flow to employees in the form of pay increases or to investors in the form of dividends paid out or investments aimed at increasing companies' value? And would any money directed to employees go mainly to executives or be shared with employees at all levels?

Bank of New York Mellon Corporation chose a path that demonstrated concern for multiple stakeholders. The bank—which focuses on serving large banks, mutual funds, and other big investors—announced that the tax reduction would add more than \$400 million to income of \$1.13 billion. Most of the additional after-tax income would be split between increasing corporate value and paying employees more. CEO Charles Scharf, in a memo to employees, described the decision in terms of social responsibility: “We strongly believe in our responsibility to our employees to share the tax benefit from a lower tax rate, as well as to invest as much as we intelligently can to build the company for the future so we can serve our clients, communities and shareholders for the long term.”

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On the corporate-value side, BNY Mellon said it would add more to its planned investments in technology projects aimed at improving the company's future performance. Investors who had hoped the company would provide them with a more immediate benefit such as bigger dividends were disappointed, as evidenced by a dip in the bank's stock price. Other banks, including Bank of America and U.S. Bancorp, had announced they would use most of their additional income to improve returns for stockholders. However, as BNY Mellon moved into the next year with a strong financial performance, stock prices recovered and rose.

BNY Mellon's additional spending on employees took the form of an increase in entry-level pay to \$15 per hour. The increase mainly affected about 1,000 employees in the operations unit out of 52,500 employees overall. The plan was in noticeable contrast to many employers' decisions to pay one-time bonuses rather than raising pay levels.

BNY Mellon also indicated that it would continue with plans made before the tax cut. These included cost-saving efforts that would reduce the size of the workforce and consolidate it in a smaller headquarters. The company also had planned to pay dividends and buy back stock, transferring some of its value to investors.

### Questions

1. BNY Mellon used its additional profits to increase entry-level pay levels rather than offering incentive pay such as merit increases or bonuses. What advantages of incentive pay was the bank forgoing?
2. What HR-related goal might the bank meet by raising entry-level pay instead of paying a one-time bonus?

Sources: Matt Egan, “The Surprise Winners of the Bank Regulation Roll-Back,” *CNN Money*, May 23, 2018, <http://money.cnn.com>; “BNY Mellon Profit Beats on Strong Growth across Businesses,” Reuters, April 19, 2018, <https://www.reuters.com>; Justin Baer and Keiko Morris, “Bank of New York Mellon Plans to Move Its Corporate Headquarters in Lower Manhattan,” *The Wall Street Journal*, January 31, 2018, <https://www.wsj.com>; Justin Baer, “BNY Mellon to Raise Wages for 1,000 Employees Following Tax Overhaul,” *The Wall Street Journal*, January 18, 2018, <https://www.wsj.com>.