Pearl Meyer

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A Flexible Organizational Structure and Positive Corporate Culture are Strategic Imperatives

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We believe it is a strategic imperative for companies to evaluate their organizational structure. Likewise, a shift in organizational structure will likely require a shift in corporate culture. Once the need for evaluation or area(s) for change have been identified, compensation can be used as a tool to support such change.

The organizational "command and control" hierarchy that many of us grew up with is increasingly outdated and may even be at odds with the new work-from-home trend. If left as-is, or at least unexamined, it represents a potential impediment to an organization's ability to grow, thrive, and deliver value to shareholders and broader stakeholders. As noted in the recently published 2020 report, "Work Has Changed," by Pearl Meyer and WomenCorporateDirectors, the traditional hierarchical model was already being tested before the pandemic as companies observed that the values of available talent pools had shifted significantly. The report cited an example of MBA programs graduating talent that increasingly had no interest in joining Wall Street, a top tech firm, or a consumer goods conglomerate, seeking instead to develop their own entrepreneurial ideas or pursue social change in lieu of more financially lucrative opportunities. This clearly has implications for how companies organize to play to the strengths of younger talent and how those workers are compensated.

The COVID-19 pandemic and the Black Lives Matters movement have reinforced the discussion of a corporation's broader purpose for all stakeholders, including employees. These crises have highlighted the importance of a flexible organizational structure and a positive corporate culture and their role in ensuring that positively impacted companies are able to meet the challenge of increasing business or negatively impacted companies are able to come out of these crises stronger and prepared to meet strategic objectives.

Thus, a flatter organizational structure that fosters more collaborative decision-making and a positive culture of continuous learning, mission, and purpose will position companies to:

- Attract, motivate, and retain employees (particularly millennials and Gen Z); and
- Develop a nimble workforce able to support growth and increase company value.

How can compensation be used to reward and encourage collaboration and a continuous learning culture? Organizations already have systems in place to provide spot cash bonuses to individuals. What if such awards were used to reward and recognize teams? Further, CEOs typically have a pool of equity pre-approved by the compensation committee each year to reward high potential employees who are not part of the annual equity award program. What if equity was deployed to recognize high performing or high potential teams? Companies could also consider peer-to-peer recognition by allowing individuals to nominate a colleague for recognition (monetary or non-monetary) each month or quarter.

There are also non-monetary ways of driving desired behaviors. For example, a continuous learning culture could be reinforced by encouraging employees to develop new skills through collaboration. Virtual skills badges could be accumulated and tracked by HR. (HR software is now available to support this.) Employees would be enriched by new opportunities for development and the company would have the opportunity to fill new roles internally based on its understanding of each employee's accumulated skills.

The board and the compensation committee have an important oversight role:

- **Evaluate corporate culture –** We have seen many recent examples where a poor culture presents a risk to organizations in the form of diminished reputation or the need to enact emergency succession planning. Boards can conduct assessments of the CEO and his or her teams' management styles, looking for opportunities to elevate those who have highly effective and collaborate approaches.
- **Encourage change, if necessary –** The evaluation of the corporate culture may reveal areas for change. Perhaps a non-financial measure in the annual incentive plan can be adopted to increase management's focus on the key issues. For example, an S&P 500 company measures "employee enablement" as a three-year measure tied to performance share units. The measure evaluates "efforts to enhance processes and tools to make it easier for employees to perform their job responsibilities." A portion of the annual bonus tied to individual objectives for the CEO could also be used to encourage the CEO to take the initial steps towards evaluating culture and making change. The board may also be able to effect change solely through oversight. Management can be responsive to the board by providing regular, quantitative updates demonstrating progress on a quarterly or annual basis.
- **Ask management to provide details of a human capital management plan as part of the annual discussion of the strategic plan –** Evaluate the "talent supply chain." Identify gaps or areas for improvement to support the business objectives over three to five years.
- **Encourage management to leverage technology –** Look for opportunities to deploy best-in-class, technology-based solutions for retraining and development programs, labor forecasting models, and the total rewards strategy. Many have already adopted new platforms to support connectivity in a work-from-home environment. Technology can be further leveraged to support internal initiatives.
- **Perform a self-assessment –** How does the board's organizational structure, policies, and practices demonstrate alignment with what it is asking management to do?

Conclusion

Stakeholder capitalism no longer appears to be a passing fad. The principles raised before the pandemic and Black Lives Matter continue to have resonance. A flexible organizational structure and positive corporate culture are strategic imperatives. Companies unwilling to change hierarchical structure may not be able to sustain themselves in the future. Employee values have changed. Organizations must be responsive to that change to attract, motivate, and retain the best and brightest and to continue to deliver value to shareholders.

About the Author

Jane Park is a managing director at Pearl Meyer. With nearly 20 years of experience, Jane advises

public and privately-held clients on executive and non-employee director compensation issues. Her work is focused on pay governance, incentive plan design, pay-for-performance alignment, compensation benchmarking, proxy analysis, and special programs for IPO and M&A transactions.

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