Pearl Meyer

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Defining a Company's Culture



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Transcript

Aalap: There's not one organization that can fully say that they understand their culture inside and out. I think the reason for that is culture, for most people, is a gut reaction. It's something that is a life form in and of itself, and you feel it, you emote it. What I think is imperative for the board to do in conjunction with management is put processes around it to understand when you go from ... When you're on the right path to then deviating from that particular right path.

Melissa: There was a study that you had pulled out when we were doing the research on this particular report around employees understanding the culture and the values of the

organization. Do you remember that?

Aalap: Yeah, it was about 15 percent that-

Melissa: Of employees who understand a company's culture and values?

Aalap: More it was, I think it was like 15 percent of employees felt that their leaders had alignment to the cultural values.

Jan: See, it's interesting because you talked about culture being a gut feel. When I think about how I would define culture: at a top down level, culture is mission, vision, values, priorities. From a bottom up perspective, culture is a collection of activities and choices.

Aalap: Your experience.

Jan: It is the sum collection of how everybody in the organization acts every day. What choices do they make? I can do A or I can do B. If, collectively, we all choose A, then A is our culture.

Aalap: Right.

Jan: You wonder, at that point ... When I hear somebody say or when I see a report that say, "Only 15 percent of employees feel like their leadership buys into that culture," that suggests to me that the rest of employees say, "Yeah, I see what's written on the wall, our mission statement written on the wall, but it's not what is see my management team actually doing every day."

Aalap: That goes back to this whole question that we have and directors face all the time, is business strategy an achievement of results more or less important than culture and leadership development?

Jan: Here's a third rail: how much do comp consultants make it worse by creating incentives that are focused on those results?

Melissa: There is such a push externally for metrics to be formulaic so that A plus B equals C, so that they're understandable to shareholders and institutional investors, and proxy advisory groups that we've come to this full conclusion that it has to be revenue or it has to be-

Jan: It has to be a P&L metric.

Melissa: It has to be a P&L metric so that I can say, "We achieved X, it fell at Y, therefore my payment was Z." Again, to your point, those are look back, lagging metrics.

Aalap: Right.

Melissa: If you look back and you say, "What are the steps? What are the leading types of things we need to do to get to a level of profitability of X?" I call it the treasure map. If you

follow the treasure map well enough, you'll find the milestones, you'll find the very specific objectives that are leading, not lagging, to help you get there, to be able to be profitable. If we paid a little bit more attention to those and you used those maybe as incentive metrics as well to help drive the longer term, then maybe we would have a different position. That is not where we're at today.

Aalap: I would say is that as independent advisors, we understand the external pressures. We understand the internal pressures on results. It is incumbent on us to push back on both of those and introduce some metrics around leadership development, linking it back to the cultural values of the organization.

We just went too much over to one side of the spectrum and forgot about the human element of compensation design and how that actually can encourage the proper culture.

About the Authors

Jan brings 30+ years of executive compensation and governance experience, advising boards and management on strategic human capital decisions tied to long-term value creation.

Aalap specializes in executive compensation strategy—governance, pay-for-performance, and incentives—helping companies align business, people, and compensation strategy for effective programs.

About Pearl Meyer

Pearl Meyer is the leading advisor to boards and senior management helping organizations build, develop, and reward great leadership teams that drive long-term success. Our strategy-driven compensation and leadership consulting services act as powerful catalysts for value creation and competitive advantage by addressing the critical links between people and outcomes. Our clients stand at the forefront of their industries and range from emerging high-growth, not-for-profit, and private organizations to the Fortune 500.