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Business Culture and the Rewards System

Take a look at the business section of any publication today and it's clear: discussions of corporate culture have leapt from the pages of academic commentary to the agendas of directors across the world. Between the coverage of misdeeds at Wells Fargo & Co. to reported gender bias and workplace toxicity in the technology sector, the issue of a company's culture is front and center. Investors, boards, and management teams are seeing direct impacts to shareholder value, which is leading companies to pay attention to their culture without any regulatory mechanism in place encouraging them to do so. They are trying to understand the common current that runs through their organization and whether it creates an environment for value creation or an environment that hinders it.

As we noted in Pearl Meyer's contribution to the *2017 Report of the NACD Blue Ribbon Commission on Culture as a Corporate Asset*, creating a culture of performance begins with the people. It's not about formal corporate values or mission statements, nor is the culture fully represented in the leadership of the management team and its "tone at the top."

How companies evolve beliefs and procedures around hiring, retaining, developing, and rewarding a workforce—and how they implement them practically—is what defines a corporate culture at its core.

Thinking about culture in this way does require expanding one's perspective on the topic. Similarly, when it comes to aligning compensation with that culture, we have to think broadly. Constructing executive pay programs so they support the organization's long-term business strategy has become a fairly steady drumbeat, but is that executive pay program also in line with company-wide recognition and rewards systems? Ideally, it should be. A productive compensation philosophy is one that is well-known and well-understood at all levels and meets the achievement and recognition needs (both financial and non-financial) of its workforce and management team.

There are two straightforward questions a board can ask to uncover the firm's true philosophy when it comes to talent development, career progression, and compensation:

- How do people move up within the organization; and
- What can stall or derail a career?

The answers will point directly to the culture and have tremendous influence on the company's success.

Operating under the assumption that a "good" culture is the goal, in a positive environment, there is always a high level of transparency. Employees up and down the command chain understand the system, believe it is fair, and have a clear idea about how they can advance their careers. There is consistency at all levels in the kinds of behaviors that are compensated in some way and it is clear that actions which run counter to the company's values are not rewarded.

Accountability is a key part of the system. Personal performance and team and/or business unit achievements are evaluated on the basis of well-established goals and metrics. And finally, a degree of flexibility offers room to evolve strategy or take into account changing business needs or circumstances.

Perhaps what's most important for boards and management to know is that this scenario is not mythical or unattainable. There are companies well known for their vibrant, performance-based cultures and the long-term value creation that follows. What they share is a company-wide compensation philosophy that carefully tracks to their business and talent strategies. They implement programs that appropriately incentivize, but also more holistically develop talent, understanding that people are at the heart of the company's success.

The role of the board is going to evolve. Today, we are seeing a demonstrated need for greater stewardship over corporate culture. As this and other "soft" issues become increasingly important to investors and impactful to the bottom line, the compensation committee will continue to find itself in a unique and powerful position to effect change and build value for the organizations they serve.

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.