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Corporate Culture and the Board

Joann Lublin, who covers corporate governance and executive compensation at *The Wall Street Journal*, published a high-profile piece this week on the board and culture and she highlighted the National Association of Corporate Directors' Blue Ribbon Commission report, "Culture as a Corporate Asset," which I am proud to have contributed to. Over the past many years, Joann and I have had occasion to talk about management issues and I think she is right to cover this important board resource, based on the vast and diverse experience of more than 30 directors, executives, industry advisors, and academics.

However, not to be overly pedantic about this subject, I do take some issue with the headline: "After Uber, Boards Wake Up to Company Culture."

Certainly, Uber and quite a few others whose stories we now know well, are in the spotlight. Many boards are rightly feeling a wake-up call to get a deeper sense of their company's culture and how to build governance processes around that, largely due to the incredibly high-profile reputational risk that poor culture now poses, and the potential impact on stock prices.

But I don't believe this is an issue that has sprung up overnight. Whether formalized or not—and in many cases not—the best and most successful boards, directors, and managers have always broadly and intuitively understood the power of a culture and its impact on their business. I spoke with many of them just this week at the NACD Global Board Leaders' Summit and have seen this firsthand as an advisor to hundreds of boards.

The compensation committee has historically been the "personnel committee," focused on ensuring an adequate talent pipeline that could support and grow the future company. There are and have been forward-thinking directors who understand how innovation, culture, workforce management, and long-term value creation come together and they also understand the incredibly powerful opportunity for incentive compensation to communicate messages about desired results. The overwhelming public and regulatory focus on the pay of the top few executives, as evidenced by the advent of the say-on-pay vote, over the past several years has distracted committees from a focusing on the overall "cultural health" of their companies—a much greater risk to shareholder value than a few years of less than perfect alignment between executive pay and investor returns.

There's no doubt the role of the comp committee is evolving and market forces are going to demand its charter become more formalized and accountable around corporate culture (although this evolution may also occur with the full board). I believe going a step further and moving toward deliberate goal-setting and rewarding on *how* things are accomplished, not just *what* things are accomplished, could provide some of the needed structure and pay

off for everyone. And perhaps provide the *Journal* with more positive headlines.

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.