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Why Today's Board has to Examine Issues of Company Culture

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A company's culture exerts undeniable influence on corporate performance across every measure. A positive culture has the power to drive innovation and growth, weather disruption, and attract and engage customers and employees, while a negative culture can stifle constructive dissent, exacerbate problematic issues, and could drive some of your best people out of the company.

Many recent high-profile corporate scandals show that once a culture is compromised, the impact is rarely limited to the executive ranks. However, it's not just reaction to the few headlines that should drive a board's closer look at culture. The very real interplay between culture, leadership strategy, and business strategy is the proactive call to action.

Factors like globalization and the pace of technological change, innovation, and disruption are fundamentally changing the way companies operate. To be successful, it's imperative that corporate culture aligns with and support the business strategy. It's in this climate that we explored the idea of leadership and the role a board plays in fostering a healthy, productive and strategy-aligned corporate culture. We conducted in-depth interviews with more than two dozen global directors and conducted a survey of board members from U.S. and multinational companies. This information and our experience working with hundreds of boards collectively informed our recent report, The Visionary Board at Work: Developing a Culture of Leadership.

Most boards, in the course of their normal oversight and governance, focus on C-suite succession planning to some degree and spend considerable time working with management to understand the company's business strategy. They are presented with the processes and people that are put in place to support this strategy and are likely presented with tools like talent profiles and skills matrices to use in determining whether the leadership team can ultimately deliver the desired results. Unfortunately, these talent profiles and skills matrices rarely explore whether the management team has the cultural traits that align with the realization of the business strategy.

A challenge for boards is that culture is difficult to define, and how it plays into the success or failure of a team or a business strategy can also be nebulous. One scenario is a company at a crossroads between the old and the new: its traditional "cash cow" product lines are in the early stages of decline, but its new products have yet to generate substantial revenue. A management team with the appropriate balance of risk tolerance and adaptability, which is a function of that team's culture, is most likely to plot the right course. A team that has shown tendencies to be inflexible, which can be appropriate at times, may not be the best team to lead during a time of significant change. Certainly, the board's oversight role can help with execution at times and when absolutely required, but that's not a sustainable organizational structure. The boards with an understanding of the cultural composition of the management team will have deeper insight into the viability of a given business strategy.

Our discussions revealed that visionary boards are volunteering to “partner” with members of the management team to fine-tune strategy and plans. While the idea is not to have directors draft business strategy, in the course of working with individual executives and asking probing questions that help properly vet the program, directors can at the same time gain insights to the executive’s thinking and approach. This not only provides the board with a more intimate understanding of the strategy planning process but also affords better personal understanding of the management team and can provide a basis for assessing and guiding the culture.

Boards are refreshing their approach to guiding strategy and making changes to their own composition and team culture. As new directors come on board, we believe one of their most important tasks is this kind of partnering—working toward a parallel understanding of strategy and culture, and how these interplay in the people who are charged with making the strategy happen. If the entire board is engaged in this exercise, the group will have much greater insight into future performance capacity, and what changes may be needed to increase this capacity.

About the Author

Melissa Means is a managing director at Pearl Meyer with over 20 years of experience. Melissa’s areas of expertise include executive and non-employee director compensation, designing, implementing, and communicating total compensation strategies, pay for performance alignment, and short- and long-term incentive compensation programs. She works closely with boards and management teams in addressing issues including governance practices, executive transitions, succession planning, and aligning pay with business strategies. Melissa specializes in working with firms ranging in size from small, private and pre-IPO organizations to large multi-national companies across many different industries including materials/industrials, consumer, healthcare, information technology, and biotechnology. In being in the boardroom most days with different clients, Melissa also helps provide context to boards on group behavioral interactions among the board and with management.

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.