

## Business Culture and the Rewards System

### AUTHOR



**David Swinford**  
*President and CEO*

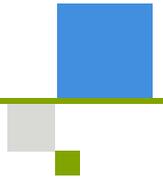
Take a look at the business section of any publication today and it's clear: discussions of corporate culture have leapt from the pages of academic commentary to the agendas of directors across the world. Between the coverage of misdeeds at Wells Fargo & Co. to reported gender bias and workplace toxicity 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.

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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 the Author

David Swinford, President and Chief Executive Officer, joined Pearl Meyer in 1998. Dave works closely with boards to link compensation with business and leadership development strategies in order to build and maintain strong executive teams that create value over the long term. He provides a strong focus on developing performance standards, balancing retention with pay for performance alignment, and compensation-related corporate governance issues. For more than 35 years, Dave has worked with boards and management teams in all major industries.

## About Pearl Meyer

Pearl Meyer is the leading advisor to boards and senior management on the alignment of executive compensation with business and leadership strategy, making pay programs a powerful catalyst for value creation and competitive advantage. Pearl Meyer's global clients stand at the forefront of their industries and range from emerging high-growth, not-for-profit, and private companies to the Fortune 500 and FTSE 350. The firm has offices in New York, Atlanta, Boston, Charlotte, Chicago, Houston, London, Los Angeles, and San Francisco.



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## **NEW YORK**

570 Lexington Avenue, 7th Floor  
New York, NY 10022  
(212) 644-2300  
newyork@pearlmeyer.com

## **ATLANTA**

One Alliance Center  
3500 Lenox Road, NE, Suite 1708  
Atlanta, GA 30326  
(770) 261-4080  
atlanta@pearlmeyer.com

## **BOSTON**

93 Worcester Street, Suite 100  
Wellesley, MA 02481  
(508) 460-9600  
boston@pearlmeyer.com

## **CHARLOTTE**

3326 Siskey Parkway, Suite 330  
Matthews, NC 28105  
(704) 844-6626  
charlotte@pearlmeyer.com

## **CHICAGO**

123 N. Wacker Drive, Suite 860  
Chicago, IL 60606  
(312) 242-3050  
chicago@pearlmeyer.com

## **HOUSTON**

Three Riverway, Suite 1575  
Houston, TX 77056  
(713) 568-2200  
houston@pearlmeyer.com

## **LONDON**

Collegiate House  
9 St. Thomas Street  
London SE1 9RY  
+44 (0)20 3384 6711  
london@pearlmeyer.com

## **LOS ANGELES**

550 S. Hope Street, Suite 1600  
Los Angeles, CA 90071  
(213) 438-6500  
losangeles@pearlmeyer.com

## **SAN FRANCISCO**

1390 Market Street, Suite 200  
San Francisco, CA 94102  
(415) 651-4560  
sanfrancisco@pearlmeyer.com

**For more information on  
Pearl Meyer, visit us at  
[www.pearlmeyer.com](http://www.pearlmeyer.com) or  
contact us at (212) 644-2300.**