

Video Transcript: The Board's Role in Value Creation

Chris Clark: NACD's Blue Ribbon Commission Reports and thought leadership by Pearl Meyer have examined the importance and the relationship of alignment between value creation and compensation. When you throw into the mix strategy, you've got something that we'd like to explore further today. I'm joined today by David Swinford, president and CEO of Pearl Meyer, and Sara Mathew, former chairman and CEO of Dun & Bradstreet, and she's a current director on Campbell's Soup and Freddie Mac. Welcome.

Sara Mathew: Thank you.

David Swinford: Thank you.

Sara Mathew: Good to be here.

Chris Clark: I'd like to start off not with a simple question, but these are complex issues, and when you're talking about value creation, alignment, strategy, and compensation, you can go a number of different directions. Based on your experience, is there a framework that would help directors?

Sara Mathew: Setting the bar is, I believe, the single most important role as a director because that actually sets the frame and the context against which you're going to measure management. It starts with strategy, and, to me, strategy is a set of integrated choices. It's about choices about where you're going to play within a marketplace, what is your value proposition, and how do you differentiate that versus competition. Inherently, these are not financial metrics, but it is what actually determines whether or not a company is going to be successful.

If you stop with strategy, that's not sufficient. You need to be able to make the bridge over from strategy to the business model, and then make sure that that business model is going to enhance value as it stands today. Spending some time talking about the bar, talking about where is the bar for management, is really important.

Chris Clark: Thank you, Sara. David, if you do not have the right board composition, the right people, the right talent, it almost doesn't matter. It does, but can you speak to that?



Pearl Meyer

David Swinford: You can have an absolutely fabulous strategy. If you don't have a management team that is capable of executing it, you have nothing. Just like if you've got a great management team but they and the board are in disagreement on direction, or they're directionless, you're not going to create value either.

I think the board's first responsibility is to provide for the company—building and maintaining a really good leadership team. I think, after that, setting that bar is absolutely as important as Sara said it was. Holding the management team accountable for delivering, enforcing that standard of performance, is absolutely critical.

There are a lot of companies out there that have been successful decade after decade after decade, and they have two or three things that really work for them. One is they know how to grow and develop good people, so they grow from within, which allows them to preserve their culture. They have a culture of excellence, and they have an absolute unrelenting focus on operational improvement year in, year out. We're always going to do it better than we did it before. I think those things are really critical to long-term success.

Chris Clark: If a board's job is oversight and holding management accountable, and you've got these choices and metrics, how do you ... again, it's an impossible question ... how do you really hold them accountable?

Sara Mathew: The only way you'll hold them accountable is if you assess how you are doing, that is, your performance in terms of stock price, and ensure that the realized pay for senior management and the return that shareholders got was actually in sync. If the two are not strongly correlated, this is time for you as a board to step back and ask yourself, "Where did we go wrong? Did we set the bar maybe too low, or is it something else?" Almost always, it goes back to strategy.

I think it's a continuum. You can't pull anything apart. There is no bright line between these two because fundamentally strategy that cannot be executed is worthless. Execution without strategic clarity, I believe, is dangerous. That's a continuum. To execute, you need great people, so talent, team, and culture is all inextricably linked.

Chris Clark: I think that's a fair assessment. Quite simply, thank you, David. Thank you, Sara.

David Swinford: Thank you.

Sara Mathew: Thank you.