Determining the president’s compensation is one of the core fiduciary duties of a college or university’s governing board. It’s also an increasingly challenging responsibility, and missteps can be costly. A simple analogy is walking a tightrope … in the glare of a spotlight.

If a board leans too far one way, it could fail to attract and retain the best candidate, fail to pay its president fairly for his or her hard work and market value, or fail to motivate its president fully. If it leans too far the other way, a board can open itself to charges of irresponsible overspending, of favoring the institution’s leadership over other stakeholders, and possibly of providing what the IRS terms “excess compensation” (which carries some pretty hefty monetary penalties). These kinds of concerns are often voiced by those (and there are many of them) who have their own legitimate interests in these matters — the government, the press, faculty, students, alumni, parents and donors.
Due to the public availability of IRS Form 990s, on which private schools must report, and sunshine laws governing most public institutions, as well as the aggressiveness of the media in reporting on these matters, a college or university president’s compensation package is readily available for prying eyes — and it’s likely to be scrutinized in some form or fashion. Although most institutions are careful and responsible in this area and find the right balance, others have fallen off the tightrope (some in pretty memorable fashion). Each new release of The Chronicle of Higher Education’s executive compensation survey brings new schools to the forefront — not necessarily for malfeasance or neglect, but simply the sometimes eye-popping figures that come with the paying out of deferred compensation.

So how can institutions ensure that their chief executive’s compensation package holds up to scrutiny and legal and regulatory constraints? Here, we offer some tips that governing boards can use to increase their transparency and create an executive compensation plan that is reasonable, compliant with the law, befitting of the institution’s philosophy and budget, and effective at securing the best talent possible — and how human resources can help advise on these matters.

Create an Executive Compensation Philosophy

An executive compensation philosophy outlines the guiding principles and decision-making processes for establishing total compensation for the president and/or other high-ranking administrators. It articulates the fundamental goals and objectives of the board in setting executive salary and benefits. Most boards will call upon human resources to help inform the executive compensation philosophy.

Authorize an Appropriate Group to Recommend Compensation

The days when a president’s compensation could be assumed to be a private matter between the board chair and the president are long gone. When determining executive compensation, most boards now tend to use various committees — some use their executive committee; some use budget, audit or governance committees; some create an ad hoc group. However, an emerging best practice — and a growing trend because it can help ensure proper delegation of authority and a transparent, defensible process — is to have a dedicated compensation committee.

Such a committee can ensure that properly qualified board members focus on this critical and complex area in a continuing way, year to year.

The compensation committee should have its own chair, and members should include the board chair and individuals who possess industry knowledge, business acumen and/or experience in relevant areas of the law or in human resources. There should be institutional memory and leadership stature to carry out the group’s responsibilities. Employees of the institution or individuals who do business with it should not sit on the compensation committee, but the group should be able to call on human resources staff, the executive assistant to the president, inside or outside legal counsel and consultants for support.

Participate in Contract Negotiations and Set Performance Expectations Using the Institution’s Mission and Priorities

The compensation committee is a good choice for overseeing the compensation negotiation with a new president or renewal agreement for a continuing one. In either case, the committee should: 1) prepare the written contract document or have it prepared by legal counsel; 2) ensure the document is legally compliant and clear; and 3) negotiate any desired changes with the president (all of this usually requires the assistance of counsel knowledgeable in legal compliance, contract drafting, tax considerations and negotiation.)

Too much informality puts everyone at risk; therefore, a written contract that codifies basic agreements is best practice and simple good sense. At a minimum, elements should include term of appointment, compensation package (including deferred compensation), housing benefits, evaluation and review expectations and termination (grounds for termination, advance notice requirement, subsequent compensation, etc).
As for performance expectations, it is critically important for the board and president to reach consensus regarding what is to be measured and evaluated, and this should always be driven by the institution’s mission and priorities. The process will typically begin with the board asking the president to provide a draft list of annual and/or multi-year goals. It is very important that the process be clearly outlined, and it is incumbent upon the board chair to ensure that the stated goals that are approved by the board are not swayed by the potential political agendas of one or two members.

**Take Part in Evaluation and Measure Performance**
Presidential performance reviews usually take one of two forms — annual (done each year) or comprehensive (done every three or four years). The annual review focuses on the board’s and president's perspective, and the comprehensive review seeks out perspectives from other stakeholders (faculty, students, staff, alumni and others).

An important point is that it is not the primary purpose of either from of evaluation to determine presidential compensation. Evaluations no doubt bear on that task, but they more importantly serve a larger set of ends — improving the relationship between the board and the president, making the board’s expectations explicit and educating the board about the president’s work, and anticipating emerging issues. Therefore, presidential evaluation should be done not by the compensation committee, but by a small group created expressly for that purpose.

The presidential performance evaluation should be grounded in goals and expectations that have been set out and agreed to previously, and these goals and expectations need to be kept up to date (many boards call on human resources to advise on the evaluation process and tools). Discussion with the president should review the goals set the prior year, but the focus should largely be on the five to 10 priorities for the near future (in the strategic plan or in the current contract) that most require the president’s direct involvement. Discussions should also cover key relationships, the president’s development as a leader, key staffing and organizational issues, and the president’s own fulfillment, sense of strengths and weaknesses and readiness to stay or go.

This kind of assessment — without focusing on compensation — obviously will provide key quantitative and qualitative information relating to the setting of compensation. But, even so, that information is supplemented by much else before the compensation decision is made.

**Select a Defensible Peer Group and Secure Good Data**
The proper selection of comparable institutions in determining a president’s pay takes a lot of variables into account. A college or university's mission often counts, as does its religious affiliation, Carnegie classification and location. But those factors cannot be relied upon exclusively (or too heavily) when determining executive compensation. Boards should also look at variables that get at the institution’s size and programmatic complexity, its resource base, its faculty wage scale, its selectivity and the like — things like enrollment, faculty salaries, per capita endowment, faculty–student ratios, etc.

By taking into account all these variables, a large candidate group can quickly be narrowed down to a dozen or so that really look like your own institution. Once the peer group has been identified, the next step is to gather salary data for these institutions’ executives (again, many boards rely on human resources for this information).

**Fit the Package to Your Institution, Position and Individual**
An important set of considerations consists of those that might lead a compensation committee to set compensation and benefits at some point other than the middle of the range documented by salary statistics. Often — and in good faith — a board believes that there are things about a particular appointee or incumbent, position or institution that justify a departure from the median identified by benchmarking. And there usually are. Relevant questions
Executive Compensation – Don’t Go It Alone

Determining appropriate, fair, competitive, market-based pay for university presidents and other higher ed executives can be tricky. That’s why CUPA-HR and AGB Search (a subsidiary of the Association of Governing Boards) have partnered to provide the Compensation Evaluation Service (CES). Using CUPA-HR’s gold-standard data on higher education compensation, AGB Search, through the CES, provides institutions with assistance in creating a defensible peer group for executive compensation; a comparison group analysis, including average, median, minimum, maximum and salary percentiles based on the peer and aspirational groups’ reported salaries; guidance on additional considerations that should inform the approval of compensation; and more. To learn more about the Compensation Evaluation Service, visit agbsearch.com/compensation-evaluation-service.

to ask that can help triangulate a compensation package with the realities faced at your institution include:

• At what levels are faculty and staff compensated?
• How would the types and levels of compensation being considered be perceived by these and other constituencies on and off campus?
• What is the current financial state of the institution?
• What is the institution’s history and culture with respect to compensation?
• Are there institutional enhancement efforts underway serious enough to warrant increasing the individual’s compensation so as to begin closing gaps with the aspirational peer group?
• Has the recruitment or retention of individuals for the position proven particularly easy or difficult?
• Is the job to be done at the institution more or less challenging — and does it require a more or less advanced set of skills — than is typical for the position?
• Does the job entail more or less professional and/or personal risk than is typical for the position?
• Has a comprehensive performance evaluation documented an especially strong record of performance? A record of underperformance?
• How many years has the individual served in this position at this and/or other institutions? Does compensation fairly reflect years of service?
• Has he or she been underpaid or overpaid in prior years?
• Does he or she bring unusual and highly valuable strengths to the position?
• Are there components of compensation other than base salary by which the institution can more appropriately incentivize and potentially reward performance?
• How were those who previously served in the position compensated?

If these or other considerations lead to approving compensation either above or below the midpoint of the range, the rationale should be recorded.

Seek Full Board Review and Approval

Abdicating a board’s collective responsibility for setting executive compensation to the board chair or a small group of board members has proven to be a recipe for trouble (and in some instances has garnered unwelcome headlines). A board chair is the first among equals, not an executive. And even a properly charged, properly constituted, very diligent compensation committee is just that — a committee. Neither the chair nor any single committee has authority to approve compensation. The committee has the duty to offer a full written report on its analysis and recommendations to the board and to seek its approval. And it is every board member’s fiduciary responsibility to ensure that the process followed has been effective and compliant with the law and has produced an end product consistent with fair market value and common sense.

Stay Out of the Headlines

Most scandals involving excessive compensation paid to presidents of colleges and universities follow a similar pattern: Compensation is set without transparency by the president and the board chair or by a small group of board members who do not have the proper standing or authority to do so, while the rest of the board is kept in the dark. To avoid making headlines for all the wrong reasons, institutions are wise to attend carefully to how
How Can Human Resources Help Inform Executive Compensation?

There has been no shortage of news stories over the past few years about university presidents who receive large paychecks. In fact, many presidential salaries are a source of controversy, both within their campus communities and the public at large. There was a time not too long ago that a university leader’s pay was a closely guarded secret between that individual and the chair of the institution’s governing board. However, with an increase in government regulation and stricter sunshine laws, university presidents’ salaries are now easily accessible to the masses, and transparency is expected.

In most cases, governing boards are still the sole entity responsible for recruiting, hiring and setting compensation for a university president. But human resources leaders can provide valuable support, particularly in informing compensation decisions. How?

1) **By working with the governing board to create a compensation philosophy for the president’s position and for all employees of the university.** A compensation philosophy is a set of guiding principles that drives compensation and compensation decision making. The compensation philosophy for the president should be reviewed and approved by the board. Some boards reaffirm the compensation philosophy annually.

2) **By providing benchmarking data on executive compensation (including executive-only benefits and perks) at peer or aspirational institutions.** The large paychecks make the headlines, but many presidents are paid at levels that don’t compete with peer institutions or acknowledge the complexity of their positions. An easy way to access this kind of data is through CUPA-HR’s *Administrators in Higher Education Salary Survey*.

3) **By helping governing boards understand and communicate the complexities involved in managing a multimillion dollar, or even a multibillion dollar, organization with hundreds or thousands of employees and hundreds or thousands of students.**

It’s all about the data. Using reliable data to guide decisions around executive pay and benefits helps institutions maintain transparency and withstand scrutiny. By providing governing boards with data and information, HR is uniquely positioned to serve as a value-added, strategic partner.

For more resources related to executive compensation, see the Executive Compensation Toolkit in the CUPA-HR Knowledge Center (www.cupahr.org/knowledgecenter).