

Presidential Compensation

A Comprehensive Guide for Higher Education
Governing Boards and Chief Executives

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Foreword

If appointing and evaluating a president are among the more critical responsibilities of a higher education governing board, then establishing compensation commensurate to the role is a complementary and complex undertaking that, by careful design, should support the board's faith and trust in its selection. It sets a well-considered standard of expectation and reward for the chief executive officer and, by extension, for the institution. As such, it is a duty that requires prudence, foresight, and the ability to manage often competing expectations in an environment where accountability and transparency are among the highest held values (and the wellsprings of an effective presidency).

High-profile reports of consternation and dissent over what is perceived to be the provision of exorbitant compensation accentuate the sensitivities and scrutiny that these decisions engender among institutional stakeholders, at times extending beyond the institution itself. In this second edition of *Presidential Compensation*, authors Thomas Hyatt and Joseph Johnston assert the importance of establishing a board compensation committee "suited to satisfying three key elements of good governance practice in this area: accountability, independence, and transparency." Board compensation committees have become far more common as a cultural shift toward greater transparency takes hold, and as governing boards acknowledge that greater openness will help to ease tensions among stakeholders of their institutions.

The authors of this new edition also explore the importance of "rebuttable presumption of reasonableness," a means of securing an appropriate result and providing a clear and justifiable rationale for board members against challenges that they have paid excessive compensation. Boards would do well to carefully assess how a reasonable person might perceive the salary and benefits awarded to the president, even as they recognize that the decision ultimately is a declaration of an investment in the institution's future. Appropriate compensation should reflect a balance of the immense demands on the chief executive and what is appropriate in the broader competitive environment in which the institution exists.

The presidency of a college, university, or system may be unlike any other organizational leadership position. It requires a nearly 24/7 commitment and

an array of talents, skills, and experiences that leaders of other organizations do not typically possess. It is not surprising that the presidency is increasingly considered less attractive by those within the academic administration, and that boards are more inclined to turn to non-traditional candidates from outside the academy to effect change—factors that are adding pressure on the selection and compensation of the chief executive.

In this environment, compensation considerations begin with an honest assessment of performance—predicted performance for new presidents, measurement against well-defined goals, and objectives for incumbents. The retention of external counsel to assist in negotiations, adherence to institutional mission, and a critical assessment of current fiscal realities also are helpful in setting compensation. And, as Tom and Joe note, benchmarking against a carefully selected group of peers and aspirational institutions ensures alignment with the current landscape, and greater understanding of how compensation might need to change over time.

In this edition of *Presidential Compensation*, the authors build on the work of Robert Atwell, who wrote the first edition. They also have benefited from the counsel of experts who generously shared their perspectives; AGB is grateful to all who have contributed to this work. The authors have provided a useful case study and an appendix that includes a number of practical tools to assist boards and compensation committees in fulfilling their fiduciary responsibilities, including a model employment agreement, recommendations for the composition and role of the compensation committee, and a checklist for development of compensation and benefits.

A new edition of *Presidential Compensation* is particularly timely. The average tenure of chief executives has been in decline for many years; succession planning is now a constant in the boardroom. These trends have magnified the importance of a board's selection, appointment, and compensation of the president. The complexity of the job itself is symptomatic of larger forces at work in American higher education, where the pressure on performance—measured by enrollment success; strong retention and graduation rates; academic quality; community engagement; workforce preparation; and financial stabili-

ty and growth—is coupled with persistent uncertainty about the value of our institutions and systems themselves. As the sector seeks new ways to respond to changing societal needs, the president will be an even more central figure, one who must envision a future and be enticed to make a sustained commitment to achieving it. The board’s capacity to retain and reward such a leader is a critical fiduciary responsibility.

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