

## Some Informal Notes on Compensation Programs for Faculty and Senior Academic Leadership

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The reputation of a university is determined primarily by the quality of its faculty. One cannot emphasize strongly enough just how competitive the current faculty recruiting (and retention) environment has become, and how intense the pressure has become on department chairs, deans, and executive officers to maintain faculty quality.

Some challenges faced by leading public research universities:

- The competition among the leading research university has become what economists would characterize as a “winner-take-all” market. A great faculty enhances institutional reputation,...which enhances the ability to attract more great faculty and resources,...which enhances the institutional reputation relative to its competitors,... and so on, until only Harvard and Stanford remain standing. Put another way, the rich get richer, and the poor get devoured.
- The impact of the booming equity market of the 1990s on the endowments of private universities, coupled with the meltdown of state economies during the early 1990s and then again during the past few years, has opened up a 20% gap in faculty salaries between the leading private and public universities—the largest gap in three decades.
- This is aggravated by the predatory behavior of several of the private universities, which tend to build their faculty through lateral appointments of established faculty members (i.e., raiding other institutions) rather than developing them through the junior ranks from within. Here, at the top of the food chain is Tyrannosaurus Harvard; but

several of the other Ivies (Princeton, Yale, Columbia) are almost as bad, tending to feed on the public research universities, weakened by state budget cuts and ponderously constrained by public regulations (e.g., sunshine laws).

- The large public research universities face a particular challenge, since to fend off a raid by a rich private university, they may have to make a counter-offer that destabilizes other faculty members, stimulating them to look elsewhere to determine their own market value. Faculty retention during a period of limited resources can create a culture in which faculty come to believe that the only way to get a good raise or promotion is to demonstrate their worth on the open market, putting them in play for raids.

Some challenges particular to the University of California:

- UC campuses are located in some of the most expensive communities in America (UCB, UCLA, UCSF, UCSD, UCI, UCSB, UCSC,...), characterized by unusually high housing costs (or considerable commuting distances).
- UC continues to be hobbled by an obsolete faculty salary system (i.e., the “ladder” or step system), which can require considerable creativity in cobbling together a competitive offer, leading to the ironic situation that not only are most of the top faculty “out-of-step”, but, indeed, most faculty on some campuses are outside the system (e.g., 80% at UCLA). Most modern faculty compensation systems are strongly market driven, allowing considerable flexibility to recognize the very high degree of market differentiation among academic disciplines and faculty roles.
- UC is characterized by an unusually complex compensation structure, with the dual authority of strong faculty governance in determining salaries and promotion that operates in parallel to the usual academic

administrative organization. Again, this requires very considerable creativity in recruiting and retention efforts.

- The UC defined-benefit retirement program and unusually generous post-retirement health care benefits stand apart from most of higher education, creating an extremely unbalanced compensation program. While a simplistic solution would be to put all new hires into a defined contribution plan such as TIAA-CREF (e.g., a 10% UC match against a 5% employee contribution) and reallocate the savings into more competitive salaries, the fact that the current pension plan is fully funded suggests this transition would be very expensive. (Although if IBM and most other Fortune 500 companies can do it, UC probably could do it as well in order to align itself with the marketplace.)
- The University of California is probably the most complex and highly decentralized university system in the nation, with numerous world-class campuses, each characterized by a unique culture and facing unique challenges. Yet it tends to operate without clear guidelines and operating principles to guide department chairs, deans, provosts, and chancellors facing complex hiring and recruiting decisions, a particularly serious burden for new academic leaders hired from outside the system.

Consequences:

- There is a great deal of “ad hoc-ing” at all levels of the UC system, as academic administrators attempt to cope an increasingly competitive faculty recruiting and retention environment without adequate guidelines or policies and burdened by obsolete practices.
- As a result, an overly complex system of compensation has evolved, accumulating all the political barnacles of unusual practices that have accumulated over the years and now bubble up occasionally in the media, e.g.,

- Using accumulated severance bonuses to ease people out rather than golden handcuffs to hold them fast (a practice that “walks and talks” like a deferred compensation scheme, although it does not seem to comply with the “at risk” requirement for tax-deferred treatment).
- A variety of ad hoc mechanisms to accommodate recruiting challenges such as housing costs (e.g., moving allowances, mortgage assistance, university housing, etc.)
- Attaching actual dollars to forgone benefits such as vacation and sick leave (which most institutions simply assume disappear if not used).
- One-time agreements to augment pension commitments for senior administrators (apparently used in the early 1990s).
- Inadequate oversight (or judgment) concerning expenditures of senior leadership, particularly at the chancellor level where public gaffs can be particularly disconcerting (e.g., “dog runs”).

At least at the system level, there is some concern that the combination of the current political environment and UC’s status as the “deep pockets target of choice for litigation” has created an over-reliance of the advice of legal counsel, compensation consultants, and others far removed from the trenches of actual faculty recruiting and retention. Here it is important to keep in mind that the compensation practices common in business or private universities sometimes to disaster in public institutions. Instead, UC administrators (and regents) need to listen very carefully to those who are on the front lines fighting to recruit, reward, and retain the outstanding faculty critical to the University’s quality and reputation.

What might department chairs, deans, provosts, and others tell you?

1. While adequate compensation is important in faculty recruiting, the real keys are:

- The presence of world-class colleagues
- Outstanding students
- Great facilities
- Workload and service responsibilities that allow time for scholarship
- And a “dowry” to help them get their research up and going (which can run into the millions of dollars in the laboratory sciences)

An institution rarely attracts or loses an outstanding faculty member because of salary. Rather these other factors are where the key negotiations occur.

2. Furthermore, since many top faculty members make more from outside than from their faculty salary, policies governing academic leaves, consulting, intellectual property, and technology transfer can become important.

3. Global market comparisons of faculty compensation can be very deceptive. The marketplace tends to function at the microscopic level of individual faculty, specific academic areas, and faculty roles rather than at the macroscopic level of institutions. The recruitment of a world-class musician is totally different than that characterizing a laboratory-based nanotechnologist or first-amendment scholar. This market differentiation is rarely captured by faculty compensation market studies at the institution level.

So much for the faculty. What about senior academic leadership, at the level of deans, executive officers, chancellors, and presidents? While executive search consultants love to stress the importance of competitive compensation (after all, that is how many of them set their fees), one should be very skeptical of just how important compensation is at this level. Instead,

- Believe it or not, most senior academic leaders are rarely lured by the dollars. To be sure, a competitive salary is viewed by some candidates as a measure of how much you want them. But it is rarely the deciding factor.
- Far more important is the challenge, opportunity, and prestige of building a top-ranked academic program.
- Many candidates are seeking new opportunities because they have been blocked by the narrowing pyramid of the academic hierarchy in their own institution.
- Some are after wealth and fame, but NOT from the university, but rather from outside their academic appointment through corporate boards, national commissions, or other opportunities.
- Some actually view academic leadership as a “higher calling”, with emotional rewards and satisfaction that simply cannot be quantified in terms of compensation.
- In fact, some actually have acquired a sense of loyalty to a university and view such assignments as a duty of service. (And UC’s own very positive experience in selecting leadership from within is adequate testimony to this loyalty factor.)

If you think this sounds crazy, just look at the list of institutions with the highest executive salaries. Usually these are places you have to pay people to go, not at the very best institutions!

One more caution here. While it is the case that some public universities use their fund-raising foundations to supplement the salaries of senior leadership, this is usually provided as a payment for their development responsibilities. It is quite another matter entirely to solicit private support specifically to bring senior leadership salaries up to market levels. Not only does such a practice run into

optics problems (remember, we are now in the post-Abramoff era), but it can start a public university down a very slippery slope where institutional integrity could be compromised by conflict of interest.

In summary, then, the incredible pressure on department chairs, deans, provosts, and chancellors to recruit and retain outstanding faculty in such a hypercompetitive marketplace, coupled with the challenge of recruiting top-notch senior leadership, demand adequate resources and flexibility, but within guidelines that are:

carefully crafted,  
transparent,  
well-understood,  
broadly accepted, and  
rigorously observed and implemented.

...something the University of California currently does not appear to have at present...

So what are the minimum essential requirements of modern faculty compensation programs? Of course, these are highly dependent on institution traditions, values, and character and hence are difficult to generalize.

Perhaps the best approach is to just tell you how we try to do it at Michigan (since we have encountered and learned from most of the mistakes experienced by other public research universities).

## An Example: The University of Michigan

The University of Michigan faculty and senior leadership compensation system is very simple, highly flexible, and entirely determined by the marketplace:

Market driven: Each department chair or dean is given the flexibility (within budget constraints) to adjust salaries to meet the marketplace characterizing each faculty member as an individual. All compensation is merit- and market-based, with no cost-of-living or other across-the-board adjustments.

Simplicity: Compensation is kept as simple and transparent as possible, avoiding deferred, incentive, and one-time compensation actions as much as possible, and utilizing a standard TIAA-CREF defined contribution retirement program (5% employee, 10% university).

Accountability: All academic administrators must be prepared to backup their compensation decisions with evidence of merit-, market-, and/or equity considerations (including outside offers).

Transparency and Optics: All compensation is fully disclosed, including the release of all employee compensation by name and appointment (“What you see is what they got...”). Furthermore, all compensation agreements and decisions are made with an assumption of eventual public scrutiny. (Chairs and deans are warned to imagine that any decision they make will eventually appear on the front page of the Detroit Free Press.)

Other Factors: Although chairs and deans have considerable flexibility in negotiating other elements of the package necessary to attract or retain faculty (e.g., moving, housing, laboratory space, research assistance, teaching and administrative loads), these packages are shaped by standard practice guidelines and monitored at the level of the provost. The same is true for early retirement or severance negotiations.



As an example of guiding compensation philosophy, during the 1990s (on my watch) we set the following goals:

1. The average compensation for full professors at the University of Michigan was set at the top of all public universities.
2. However, the best faculty members at Michigan were compensated at levels comparable to those faculty members of comparable quality in similar fields at the best public and private universities.
3. The average compensation for assistant professors and associate professors was set to be the highest among public and private universities in the nation, since Michigan's tradition was to develop faculty from within rather than recruit at senior ranks through raids, and hence we needed to make certain we were recruiting the very best junior faculty.
4. Deans and academic executive officers were compensated at levels comparable to the best public and private universities.

We used annual department-by-department surveys of faculty recruiting and retention experience (a so-called "ebb and flow" analysis) to monitor the success of the program.