TOPIC: USM Executive Compensation Philosophy

COMMITTEE: Organization and Compensation

DATE OF MEETING: August 22, 2017

SUMMARY: The report from Sibson Consulting on Executive Compensation and Governance recommends that the USM BOR adopt an executive compensation philosophy that outlines the goals and desired objectives of the USM executive compensation program, compensation elements, peer group, pay positioning, etc. The attached document has been shared with the USM presidents and is submitted to the Organization and Compensation Committee for review and approval, which should include a decision on the aggregate percentile target for compensation.

ALTERNATIVE(S): The Committee could choose not to approve the document or they could suggest changes to it.

FISCAL IMPACT: No direct fiscal impact at this time.

CHANCELLOR’S RECOMMENDATION: The Chancellor recommends that the Committee accept the USM Executive Compensation Philosophy.

COMMITTEE ACTION: DATE: August 22, 2017

BOARD ACTION: DATE: 

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USM Executive Compensation Philosophy

1. Core Values
   - One of the nation’s leading systems of public higher education, the University System of Maryland (USM) offers the students we serve affordable access to educational and research excellence; directly supports our state economic growth through workforce development, research and technology transfer, and the production of an educated citizenry; and meets our obligation to the taxpayers by promoting efficiency, transparency, and accountability.
   - In addition, the USM provides vital community service and contributes immeasurably to Maryland’s quality of life.
   - The USM values our workforce—whether in faculty, staff, administrative, or leadership positions—and seeks to create a positive, dynamic work environment that is supportive of its employees and their families.
   - A critical element in meeting these aspirational goals is the recruitment and retention of a highly qualified, talented, and diverse executive team. Recruitment and selection of executives should utilize best practices targeting candidates of the highest caliber. Success in this area necessarily requires the thoughtful composition of executive search committees. In addition, a program of succession planning ensures that employees of high ability are identified, prepared, and retained in the USM.
   - Compensation increases are tied to regular evaluations of individual performance, in addition to other factors including, but not limited to, state finances.
   - To that end, USM developed an Executive Compensation Philosophy that establishes the principles under which USM recruits and retains executive talent.

2. Executives
   - The executive compensation strategy covers the following executive positions.
     - Chancellor
     - Presidents
     - Vice chancellors

Note: Faculty and staff compensation have long been governed by other policies and procedures.

3. Compensation
   - USM offers competitive compensation packages to attract and retain the very best executive talent.
   - While USM offers competitive remuneration, the value of being part of the USM community and experience is of notable importance in the overall attractiveness of USM
employment. Executives are attracted to and work at our institutions and the System Office to:

- Support the impactful missions and execute the innovative strategic plans of the individual member institutions and/or the USM, as applicable.
- Shape and model the future leaders through interactive, high level teaching and learning environments that also advance the state’s economic growth and enrich its culture.
- Work in an environment that promotes world-class research that benefits the state and nation.
- Work with colleagues at the epicenter of some of the most challenging and innovative higher education initiatives. The USM’s national leadership in the effectiveness and efficiency movement, combined with our efforts in academic transformation efforts, our focus on translational research and technology transfer and our success in developing regional higher education centers all add to our overall professional appeal.

- The above efforts are further enhanced and supported by the ethic of “systemness” that permeates the USM. By working together, leveraging our resources, and using economies of scale, we strengthen our ability to have a broad-based, positive impact.

4. Elements of Compensation

USM offers a variety of compensation vehicles to attract, retain, and recognize executives in an appropriate and reasonable manner.

- Base Salary: Salary is the primary vehicle through which compensation is delivered:
  - Salary provides a competitive foundation for pay and reflects the individual’s role, superior skills and abilities, potential for career advancement, experience, and performance.
  - However, salary increases are not automatic but rather are based on several variables including performance, internal equity considerations, market factors, and other issues. In addition, as a public system of higher education, USM is directly impacted by state budgetary and financial conditions when making salary decisions.

- Fringe Benefits: Executives are generally provided with the same fringe benefits that all university employees receive. These benefits are competitive with comparison markets and include health, dental, prescription insurance, a competitive leave program, tuition remission and waiver benefits, and life and disability insurance for employees and their families.

- Retirement Benefits: USM provides retirement benefits for its executives through State pension plans, an optional retirement plan, and various supplemental retirement plans.

- In addition to the benefits listed above, executives may receive select additional benefits and perquisites including housing and vehicle benefits.
• Annual Incentives: Currently, USM does not have a broad-based annual incentive program for executives. However, based upon market circumstances and evolving practices, compensation for certain positions may include compensation elements such as performance incentive funding and deferred compensation.

5. Comparison Markets

• For executive positions, USM competes and recruits nationally for talent across both private and public institutions, as well as internally for candidates identified through succession planning. In addition, the University may consider talent from outside of higher education as the situation warrants.
• In determining executive compensation, the USM examines and compares compensation data from institutions across the United States. Appropriate peer institutions are established for each USM institution based on similarity of institutional mission, Carnegie classification, enrollment, total budget, and other factors. This comparison market is a mix of primarily public institutions; however, a few private institutions are considered in select instances. In addition, the complexity of the president’s role within the context of the specific institution is a critical factor to be considered.
• The Organization and Compensation Committee is responsible for the development of the comparison market(s), and for its regular review, which may change the comparison markets from time-to-time.

6. Pay Positioning

• In the aggregate, USM targets pay to competitive rates at the XXth percentile (TBD) of the comparison market as defined above.
• Pay positioning for individual executives will vary based on their skills, knowledge, experience and performance levels as illustrated below.


7. Goal Setting and Performance Measurement
USM strongly believes in a high-performance culture that is supported and modeled by its executives. Compensation must be linked to performance.

- The Organization and Compensation Committee, subject to the Board of Regents, is responsible for determining performance expectations and evaluating the performance of the chancellor and determining resulting compensation actions.
- The Organization and Compensation Committee and the chancellor, subject to the Board of Regents, are responsible for determining performance expectations and evaluating the performance of the presidents and the vice chancellors, and determining resulting compensation actions.

To that end, the establishment of expectations and performance evaluation methodology for the chancellor, presidents and the vice chancellors will, as appropriate:

- Utilize a standard framework for goal setting and reporting; the framework should allow for system-wide and/or institution-specific metrics.
- Set and communicate job and performance expectations and ensure shared understanding of expectations and accountabilities, including behaviors and competencies.
- Develop goals that align with system-wide and institutional strategic directions and objectives.
- Provide feedback mid-year and annually on progress against goals, and areas for growth and development.

At the executive level, performance is evaluated mid-year and on an annual basis. In addition, a 5-year review is conducted for new presidents. Annual and other evaluations may appropriately include an assessment of performance trends over a longer period.

Compensation increases are awarded primarily based on annual performance as determined by the performance assessment. However, other factors may be considered including the state’s financial condition, assessments of performance over a longer period, equity and retention concerns and the competitive market.

8. Program Administration

- Primary responsibility for the executive compensation program is shared among:
  - The Board of Regents
  - The Organization and Compensation Committee
  - Chancellor

- The Organization and Compensation Committee reviews and recommends the compensation of the presidents, chancellor and vice chancellors subject to Board of Regents approval.

- Compensation decisions should be supported by governance tools and processes as provided in Appendix I.
9. Communication / Transparency

- Communication about performance expectations, individual performance evaluations, and compensation will be transparent and foster understanding among the parties involved regarding their roles and desired outcomes.
- The Chair of the Board of Regents is responsible for communicating compensation decisions and rationale to the chancellor; the chancellor is responsible for communicating compensation decisions and rationale to the presidents and the vice chancellors.
- In communicating compensation decisions and rationale, USM will ensure that those communications draw linkages between system and/or institutional success, performance measures, and individual compensation decisions.
- Compensation decisions should be well-justified and clear to both internal and external constituencies.

Appendices:

Program administration tools and programs

- Guidelines for goal setting
  - Includes standard framework for goal setting and reporting
- Guidelines for performance evaluation
- Guidelines for compensation decisions
  - Includes benchmarking analysis/peer compensation data
  - Includes tally sheets/total compensation statements
- Guidelines for 5-year presidential reviews
- Annual calendar/standing agendas
- Succession planning program
- Guidelines for chancellor, presidential and vice chancellor searches

Appendix: Current benefits offered at USM