

TOPIC: Work Plan for Report on Executive Compensation and Governance

COMMITTEE: Organization and Compensation

DATE OF MEETING: September 6, 2017

SUMMARY: At their meeting on August 22, 2017, the Organization and Compensation Committee voted to accept the report from Sibson Consulting on Executive Compensation and Governance. As part of their work, Sibson Consulting identified peer groups for each institution and the system and collected data for each group on base salaries and other types of compensation and perquisites. The report provided an analysis on the total compensation for the top executive as compared to their peers for the system and for each institution. The analysis included percentile ranking and information on the amount of compensation that was provided in base salary, incentive compensation, and retirement and deferred compensation.

In addition, the report provided a number of recommendations as outlined on the attached document.

The committee will discuss the development of a work plan based on the recommendations in the report.

ALTERNATIVE(S): The Committee could choose not to discuss the topic.

FISCAL IMPACT: No fiscal impact.

CHANCELLOR'S RECOMMENDATION: The Chancellor recommends that the Committee discuss the development of a work plan based on the recommendations in the report.

COMMITTEE ACTION: DATE: September 6, 2017

BOARD ACTION: DATE:

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Recommendations from Sibson Consulting Report on Executive Compensation and Governance

The report included the following recommendations:

1. Develop a compensation philosophy.
 - A compensation philosophy should outline the goals and desired objectives of the executive compensation program, compensation elements, peer group, desired pay positioning, etc.
2. Streamline goal setting and evaluation approach.
 - Develop a standard template and process for goal development and performance evaluation to allow for a simpler, quicker assessment that also balances the Chancellor and presidents' needs for personalization with System's need for greater consistency. The template may incorporate scorecard/longitudinal metrics currently used at the System and longer-term strategic planning measurement.
3. Enhance governance tools and process.
 - Implement best practices in executive compensation oversight, including:
 - Expand and formalize the charter for the Organization and Compensation Committee.
 - Create tally sheets for the Chancellor and presidents to provide year-over-year detailed compensation information to regents in a consistent format.
 - Develop an annual calendar of key actions required in performance assessment and compensation administration.
 - Conduct education sessions for the Organization and Compensation Committee and/or the BOR on current topics in executive compensation and governance.
4. Conduct periodic total remuneration reviews.
 - Supplement annual base salary reviews of recently developed peer groups with regular (TBD) total remuneration assessments to ensure continued market competitiveness of the full compensation package.
5. Explore the use of incentives and or deferred compensation vehicles.
 - The use of incentive pay has been increasing across higher education and is expected to continue. Sibson Consulting estimates that currently about 20-30% of institutions provide incentives to executives, however, they are more prevalent in private institutions than public institutions.
6. Create succession planning process across the system.
 - Succession planning can help alleviate the future expected competition over scarce resources; USM can be proactive and develop a plan to help retain high performing incumbents who demonstrate top executive potential.

Other considerations

The Organization and Compensation Committee may consider reviewing current USM guidelines as follows:

1. Guidelines for five-year presidential reviews.
2. Guidelines for chancellor and presidential searches.