

Is there a correlation between US university presidential pay and performance?

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This paper scrutinises the escalating salaries of US college and university presidents (vice-chancellors, or rectors, as they might be known in other parts of the world). Some research suggests that presidential pay is largely correlated with factors that have little or nothing to do with performance and may, therefore, overstate the benefit that presidents bring to their institutions while giving too little consideration to the costs. The paper also discusses presidential pay in the broader socioeconomic context, summarises available research findings and suggests ways institutions might strengthen the link between pay and performance in order to broaden the talent pool of capable institutional leaders.

Introduction

Within US higher education, the escalating salary packages of college and university presidents (the US equivalent of vice-chancellors) claim a not trivial proportion of their institutions' resources in comparison with most other staff, and most of that money ultimately comes from the pockets of students and taxpayers.

Unfortunately, the preliminary findings from research on US college and university presidents – and their corporate counterparts – suggest that, at the very least, pay rates of top executives are largely explained by factors that have little or nothing to do with performance. This fact may not be surprising when considering that, at the upper levels of an organisation, causal relationships between actions and outcomes often become less clear and more ambiguous (Cohen & March, 1974; March, 1984). Other research suggests that lavish salary

packages for top executives can actually have a detrimental impact, damaging institutional morale and public relations, and tempting senior executives to fabricate outcomes or otherwise prioritise perception over performance (Core, Holthausen & Larcker, 1999; Harris, 2009; March, 1984; Yermack, 2006).

The rapidly escalating pay of college and university presidents, therefore, appears likely to overstate the benefit that presidents bring to their institutions, while giving too little consideration to the costs. If for no other reason, then, presidential pay merits closer scrutiny.

Socioeconomic context

Across the US, college and university presidents are facing mounting criticism over the rapid growth in their salary packages. In 2009, the *Chronicle of Higher Education* reported that 36 presidents of private (i.e., independent)

institutions earned more than US \$1 million (Stripling & Fuller, 2011a). By the 2011–12 academic year, four presidents of public (i.e. state-assisted) institutions also met that threshold (Stripling & Newman, 2013).

This growth in pay at the top has far outstripped salary gains by academic staff. Between 1997 and 2007, presidential pay grew by an inflation-adjusted 35 per cent, compared with a mere 5 per cent increase (also inflation-adjusted) for academics (Stripling & Fuller, 2011a). Worse, in 2010–11 the average salary of full-time academic staff members actually lost ground, increasing only 1.4 per cent versus an inflation rate of 1.5 per cent (June, 2011). University of Central Florida, for example, paid its president \$741,500 in 2010–11 (Stripling & Fuller, 2012), while its full, associate and assistant professors were paid on average \$116,100, \$78,700 and \$66,000, respectively (American Association of University Professors, 2011). These comparisons do not even take into consideration the pay of part-time academic staff, a fast-growing segment of the higher education instructional workforce. These workers are paid an average of \$2987 per three-credit hour course in the US (June & Newman, 2013). While this article focuses primarily on the issues resulting from the growing pay disparity between presidents and academic staff in the US, this trend may have implications more broadly. Fenton's (2014) article describes the recent resignation of three UK university vice-chancellors amid growing criticism about their pay packages. One vice-chancellor is reported to have earned twice the prime minister's salary, having received large pay increases between 2011 and 2014, while other university workers have seen a 13 per cent pay decrease in real terms since 2008 (Fenton, 2014). Disparities such as this fomented unrest across Europe, a trend that mirrors sentiments of growing disillusionment with the US.

The widening gap between top administrators and everyone else on US campuses mirrors the broader socio-economic divide that galvanised Occupy Wall Street and other protests against levels of income inequality not seen in the US since the Gilded Age (Eichler & McAuliff, 2011). In most recessions, income inequality decreased, but in the aftermath of the financial crisis (the so-called Great Recession) of 2007–08, the nation's wealth inequality has increased (Peck, 2011), earning the US the dubious distinction in 2010 of having the highest income inequality of any advanced economy (Noss, 2010; OECD, 2013). The richest Americans typically have more of their wealth invested in stocks (Alvaredo, F., Atkinson, A. B., Piketty, T. & Saez, E., n.d.), which have rebounded strongly since 2008 and helped the so-called 1 per cent pull well away

from the rest of Americans, who had more of their wealth invested in the still-faltering housing market (Peck, 2011). These factors, combined with job losses and wage pressures exacerbated by globalisation, have contributed to a 'hollowing-out of the middle class' (Jurek, 2012; Peck, 2011; Weissmann, 2012).

The growth in college and university presidents' pay somewhat parallels that of their private sector counterparts. Some corporate chief executive officers (CEOs) in the financial industry, in particular, drew public ire during the downturn for taking huge bonuses, even as their companies were being bailed out by taxpayers. College and university presidents have invited similar outrage by approaching legislatures for public financial support to stave off institutional ruin while simultaneously defending their own raises (Stripling & Fuller, 2011b).

Yet not everyone believes that escalating presidential pay is a cause for concern. Defenders note that college and university presidents still make considerably less than CEOs of comparably sized companies (Cotton, 2012; Huang & Chen, 2013). Some even argue that presidents should earn more due to the complexity of their jobs, the pressures of high expectations, and the intense market competition from other institutions and the private sector for scarce talent (Cotton, 2012; Stripling & Fuller, 2011b).

Research findings

So, are salary levels for college and university presidents too high, too low, or just right? Pfeffer and Ross (1988) analysed data on more than 600 presidents to examine what determinants (including personal characteristics and context) have impact on presidential pay. They found that institutional size, resources and Carnegie classification, as well as gender and length of tenure in position, were among the strongest predictors of presidents' pay (Pfeffer & Ross, 1988). (Carnegie classifications in US higher education refer to the extent to which an institution is ranked as high research vs. high teaching in its orientation. The higher the research ranking, the higher the pay tends to be.) Furthermore, tenure in office and the size of institutional budgets were directly correlated with presidential pay. Similarly, Langbert's (2006) analysis of presidential pay at more than 450 institutions found a strong positive correlation with expenditure per student as well as total spending, which suggests that pay structures may actually reward presidents for increasing total spending and, ultimately, student tuition fees (p. 74).

Tang, Tang & Tang (2000) analysed the salary packages of 190 university presidents in relation to additional

variables, including geographic region, Scholastic Assessment Test (SAT) scores and institutional reputation. Their study found the strongest predictors of presidential pay to be size of the institutional budget, institutional type (particularly research or doctoral institution), tuition fee levels and institutional reputation. Huang & Chen (2013) similarly found that the size of college and university presidents' salary packages is mainly associated with institutional prestige, quality of the students, overall revenue, the number of degree programs and enrolment. They found some variation between types of institutions; private institutions showed a strong correlation with size and reputation, while public research institutions showed the strongest correlation with enrolment (Huang & Chen, 2013, p. 3043). The size and enrolment variables could be considered to be a general proxy for job complexity, though the strength of this relationship is uncertain and, unless the president has been in office for a meaningful length of time, unlikely to be a performance indicator.

Langbert (2006) argues that none of the factors identified by Pfeffer and Ross (1988) or Tang *et al.* (2000) shows a meaningful relationship between pay and performance. While factors such as size of the budget and reputation might appear to be proxies for performance, they are at best imperfect measures and at worst can create negative incentives or even be manipulated. As March (1984) observes:

A system of rewards linked to precise measures is not so much an incentive to perform well as it is an incentive to obtain a good score, and it is often easier to manage the accounts of managerial or organisational performance than it is to manage the organisation (p. 57).

Unintended behavioural effects of incentives

In the corporate world, large stock options and other incentives tied to share prices can tempt CEOs to take actions that lead to short-term gains at the expense of the organisation's long-term interests (Harris & Bromiley, 2007; Harris, 2009; March, 1984). Harris and Bromiley (2007) have researched this behaviour by examining how often companies must make accounting restatements to correct irregularities ranging from the unethical to the illegal, including 'aggressive' accounting practices, the misleading use of facts, oversight or misinterpretation of accounting rules and outright fraud. They found that 'the probability of [financial] misrepresentation ... rises rap-

idly as options comprise more than 76 per cent of [CEO pay]' (p. 361).

While not-for-profit higher-education institutions lack triggers such as stock prices, they are not immune to the temptation to shade the truth in the pursuit of good scores. Claremont McKenna College, Emory University, Villanova University's law school, Bucknell University and George Washington University have all recently been caught reporting false data such as student GPAs, acceptance rates and test scores in order to boost their institutional rankings in *U.S. News & World Report* (Associated Press, 2012; Diamond, 2012; Hoover, 2012; Jaschik, 2013; Mangan, 2011). Whether or not these actions originated from the president's office, they provide evidence that such manipulation takes place, even in higher education.

Presidents can engage in other efforts to present their performance in the most favourable light – what March (1984) calls 'reputation management'. A typical strategy is to emphasise process or input metrics instead of outcomes. As March (1984) notes, 'If one can claim to have done the things a good manager should do, bad outcomes can be seen as irrelevant to evaluation' (p. 58). Presidents might, for example, tout the number of programs launched, students served, grants won, patents secured or donors courted. While the actual relationship between a president's actions and any of these outcomes may be ambiguous or virtually nil, process metrics has the advantage of being readily quantifiable and can be cherry picked to present the most positive impression of effectiveness.

Presidents may also engage in more subtle efforts to create the perception of success through personal brand building. As with a private corporation, branding involves creating positive, widespread name recognition and the perception of superior quality. Personal brand building efforts, such as interpersonal networking and media outreach, do not in themselves represent impropriety; however, particularly quirky or expensive efforts can raise eyebrows. A former president of Ohio State University earned notoriety for spending millions of dollars on lavish parties, and luxury travel and accommodation; he also spent tens of thousands of dollars of university money on bow ties and bow tie-shaped biscuits and pins, items that directly reference his signature neckwear (Bischoff, 2012), while a past president of University of Connecticut drew criticism for, among other things, purchasing life-size cut-outs of himself to be displayed around the campus (Kiley, 2013).

Langbert (2006) argues that, in general, institutions appear to make their salary decisions based not on per-

formance but on mimicry, approximating the pay rates of institutions similar to their own in type, size and region. In fact, some institutions overtly adopt this strategy. The University System of Maryland, for example, has a formal policy of setting pay for its senior administrators at the 75th percentile of peer institutions (Stripling & Fuller, 2011b). This approach yokes its pay levels to those of other institutions in a perpetually escalating bidding war. As March (1984) observes in relation to private sector enterprises, the practice is not limited to peers; institutions may also follow the lead of their aspirational peers in an effort to raise their own institutional status. Such external signals can appear to be a logical proxy for quality, given the difficulty in evaluating candidates' job performance based on the ambiguous causal relationship between their performance and organisational outcomes (Langbert, 2006; March, 1984).

The hidden costs of high presidential pay

Beyond the consideration of whether market forces rationally price college and university presidents according to their performance or create positive incentives, presidential pay may have other less quantifiable impacts worth consideration. In the language of economics, these impacts are referred to as 'externalities', secondary or unintended consequences of an action that affect third parties and are not considered when determining the action's cost.

Publicity over high presidential salary packages, for example, can have a negative impact on an institution's reputation, especially in the current economic climate. When high payouts go to presidents widely regarded as poor performers (former Penn State President Graham Spanier, for example, who was fired in connection to the Jerry Sandusky child-abuse scandal), the outrage is particularly intense (Stripling & Newman, 2013). But pay for even well-respected presidents can invite criticism when those same presidents plead for taxpayer support for their institutions (Stripling & Fuller, 2011b). This outrage has led some state legislators, particularly in California, Florida and Texas, to introduce bills to limit presidential pay (News-Press Staff and Wire, 2013; Stripling & Fuller, 2011b; Stripling & Fuller, 2012; Webley, 2013).

Even the corporate world occasionally bends in the

face of such negative public attention. Due to shareholder backlash, the practice of 'grossing up', in which employers provide executives with additional money to cover the taxes incurred on bonuses and other benefits, has lost popularity among boards of many publicly traded companies. Yet in 2010, half of the 50 highest-paid presidents of private institutions still received this kind of benefit (Stripling, 2012). Supporters may argue that it is only fair to offset taxes on benefits that presidents are compelled to accept (such as housing and cars); however, the practice risks perpetuating the image that presidents, abetted by their boards of trustees, are enriching themselves at the expense of the institutions they run. This negative image provides further fuel to growing public discontent with the spiralling overall cost of higher education and student debt burdens (Stripling & Fuller, 2011b; Stripling & Fuller, 2012; Webley, 2013).

Within the institutional community, the growing pay disparities can also erode morale among staff. At private universities in 2009 the average president made 3.7 times as much as the average full professor, and at six institutions that ratio reached 10:1. Meanwhile, most

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academic staff nationwide are seeing their own salaries lag behind inflation (June, 2011). To add insult to injury, many are also seeing the gap between their pay and that of new academic staff hires shrink (termed 'salary compression'), even to fall behind that of new hires ('salary inversion')

(June, 2011). The consequences of morale erosion can include lower performance and loss of talented individuals to other institutions.

No universally accepted standard exists for the optimal ratio between presidents' and academic or other staff salaries, and indeed, the corresponding multiples in the private sector far exceed these when stock options are part of the salary package. While presidents may view themselves as analogous to corporate CEOs, the traditional academic staff culture views the corporatisation of higher education with hostility and resents being relegated to the role of underling. As John Curtis, director of research and public policy at the American Association of University Professors, stated: 'The problem - in terms of the priority message being sent - [is] if there's such a large investment in a single individual, it negates the idea that you have shared governance, which is a basic principle in colleges

and universities' (quoted in Burnsed, 2011). Morale can also suffer when presidential pay increases and bonuses coincide with furloughs and layoffs among instructional and non-instructional staff.

Students are also protesting against what they see as the shifting of the burden for generous presidential salary packages onto them in the form of increasing tuition fees and student debt (Stripling & Fuller, 2011b). As Trotter (2013) notes in coverage of the outrage over New York University's (NYU) provision of ultra-low interest mortgages to top administrators for vacation homes:

Stories of NYUers graduating with crushing student debt are legion ... The idea that even a small portion of their loan payments is directly funding the Fire Island getaways of the School's well-paid faculty and administrators is the kind of picture that NYU probably wants to avoid (para 4).

Clearly, these campus constituencies are sensing a disconnection between their fortunes and those of the leadership. That loss of community good will has consequences that may be difficult to quantify but nevertheless have real negative impacts on higher education institutions. By failing to factor such costs into their salary deliberations, boards risk basing their decisions on inflated perceptions of the benefits a president may bring to their institution.

Recommendations and cautions

The topic of presidential pay can evoke strong emotions, particularly in the current economic climate. No one size fits all formula exists, and no approach is likely to win universal approval, yet most disinterested observers would probably conclude that there is room for improvement in the way that presidential pay packages are developed. Accordingly, the following are some very broad recommendations for future research and practice.

Langbert (2006) suggests that trustees should reconsider their strategies for setting presidential pay in order to strengthen the link between pay and performance. In light of the strong correlation he found between current presidential pay and institutional and per student spending levels, he particularly recommends creating incentives for presidents to hold down spending instead of increasing it. Langbert also recommends developing systematic measures for other vital but elusive institutional quality measures such as student achievement, academic research productivity, student engagement and talent development. If institutions across the board were to adopt these measures and disclose their metrics, it would facilitate a more rational assessment of performance.

To address the acute shortage of capable candidates that is often cited as the reason institutions feel compelled to engage in presidential bidding wars, trustees need to consider the key competencies they require in their top executive and invest more resources in developing talent from within. A deeper understanding of the job requirements could also help boards of trustees design salary packages with incentives strategically tailored to realistic and desirable outcomes. Boards must also interrogate their own preconceptions about what makes a good presidential candidate. At most institutions, Board members are predominantly white males with backgrounds in business, law or finance (Minor, 2008). These individuals are likely to have been socialised to similar norms of what good leaders look like. To the extent that other boards share similar norms and perceptions, they may find themselves engaged in a bidding war over an unnecessarily small pool of candidates. Such bidding pressure may also foster an unjustified perception that this narrow field of candidates is demonstrably superior to others and a sense of urgency that leads them to bid more than they otherwise might.

Conclusion

Getting boards to think critically about presidential pay may be a difficult proposition. To raise the issue is, after all, to criticise the way the board has been handling it. When faced with criticism of any kind, perhaps the most common human response is to resist it. If board members perceive that they are being attacked, they may react by siding with the president against their critics. The challenge in such a situation is to frame the issue in a way that does not imply blame or provoke an adversarial response. This approach holds the most potential to foster a receptive frame of mind in which board members can objectively consider the criticisms of current presidential pay practices and explore alternative approaches.

College and university presidents' burgeoning pay may possibly be justified by an as yet unproven combination of factors, including the demands of the position, job performance and market forces. The limited evidence currently available, however, suggests otherwise. Further research will ultimately be needed in order to make a more confident distinction between fact and fiction.

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