

Executive Compensation

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Presidential Bonuses, Often Secret, Are Wide Open at Some Public Universities

By MARISA LÓPEZ-RIVERA

The University of Kentucky has an evaluation system to determine the president's bonus that would make many chief executives uncomfortable: Everyone on campus can participate — the faculty, the staff, even the students.

Lee T. Todd Jr., president of the University of Kentucky, and James F. Hardymon, former chairman of the university's board, developed the system that is meant to avoid the appearance that it is a foregone conclusion that the president will receive a bonus every year. Kentucky's structure, says those who shaped it, allows for accountability while trying to solve the old problem of remaining competitive in the national market to attract the best executives. "I think bonuses might be necessary to [increase] the total compensation package to attract people," Mr. Todd says, especially at public universities.

About 60 of the 182 public-research universities that *The Chronicle* surveyed gave their presidents bonuses this year, mostly for performance and retention. Performance bonuses, like the one in Kentucky, are by far the most popular. But the way the amounts are determined is unclear at many institutions.

Private colleges do not have to report how much of the president's compensation comes from bonuses. A few details are sometimes included on the Form 990 that nonprofit organizations, including colleges, must report to the Internal Revenue Service. Sometimes, the information comes out when a president leaves an institution.

For instance, Simmons College reported that the \$2.5-million in salary that Daniel S. Cheever Jr., now retired, received in the 2005-6 fiscal year included an unspecified amount of "pay for performance" cash. Jack P. Varsalona, president of Wilmington College, received \$501,250 in salary that included an unspecified bonus. And Benjamin Ladner, who was forced from the presidency at American University in 2005 amid a scandal over excessive spending, got "incentive pay" of \$132,500 as part of his severance agreement.

The IRS is thinking of revising the 990 form to require institutions to provide a breakdown of their executive's salary, including any bonus. The institution still would not have to disclose what process the institution uses to determine the amount of the bonus. Public universities are more open about bonuses, but the way they are determined can still be hard to understand.

J. Bernard Machen, president of the University of Florida, has one of the more complex packages with four different potential bonuses: a \$75,000 one-year performance bonus, a \$210,000 three-year incentive bonus, a \$225,000 retention bonus after five years of service, and a \$400,000 retention bonus after eight years of service. In the 2006-7 fiscal year, he received the \$75,000 and the \$210,000 bonuses.

His contract says that, "assuming satisfactory services," Mr. Machen can get his bonuses. T.K. Wetherell, president of Florida State University, has the same bonus package, but he also has two clauses that could be regarded as the opposite of a bonus. If he fails to show progress on at least 90 percent of the university's goals within a 12-month period, he can lose a good portion, if not all, of his deferred compensation. If he does not make progress on 80 percent of the objectives, the university can withhold up to 10 percent of his annual base salary.

Born of Necessity

The University of Kentucky created the bonus review to get around state law, which stipulates that no state-university presidents can have a higher base salary than that of the chairman of the Council of Postsecondary Education. The council has oversight over the state's universities.

"I was willing to go with a bonus structure because I started two companies and I would always have certain parameters that I was trying to achieve and that the board wanted me to achieve," Mr. Todd says.

After Mr. Todd's first year, he received the bonus with little debate or fanfare. "It happened on the last board meeting of the year," he says.

He doubted whether he should get the bonus that year since the university was making budget cuts. "There were newspaper articles about whether this was a good time," he says, which added to his personal discomfort. He took the bonus, and, after paying taxes, gave what was left back to the university.

When Mr. Hardymon became board chairman, he and Mr. Todd put together a system that they say is intended to make the process as straightforward as possible. Both men say that their business backgrounds came in handy. Mr. Hardymon used his experience as chief executive officer of Textron Inc. to model the evaluation system the university now uses.

Mr. Hardymon admits that the system for the university could not exactly mimic the business model. "Certain modifications had to be made because this is not a business," he says. "It's run in a totally different way."

Some aspects differ little from those at other institutions.

Mr. Todd starts by writing a self-evaluation. So does M. Roy Wilson, chancellor of the University of Colorado at Denver and Health Sciences Center, who tries to measure how well he accomplished the 14 goals he and the president of the system set at the beginning of the year.

But Dr. Wilson discusses his evaluation only with the president of the system.

It Gets Personal

The process at Kentucky is about as open as it can get. Mr. Todd submits his self-evaluation — covering the 10 goals he set with the board at the beginning of the academic year — to university board members, the Faculty Senate, the Staff Senate, and the president of the student government during the spring semester.

"It's amazing how many e-mails are created from this letter that goes out from the president" with Mr. Todd's self-evaluation, Mr. Hardymon says.

His final evaluation does not just come in writing. It is done in an open forum with members of the Board of Trustees and representatives of the faculty, staff, and students in attendance.

"What I didn't realize is how personal it gets, you know, how much visibility it brings. And that's a bit of a challenge," Mr. Todd says.

Each of the 10 goals is weighted, adding up to a total of a 100. He received a 95 this year, which brought his bonus up to \$142,500. That is added to his base salary of \$294,010. He has yet to receive a perfect score since this particular process began.

The university makes the final report readily available, listing Mr. Todd's score in each of the goals.

The business characteristics have not irritated faculty and staff members at the university. "A lot of people are taking interest in it," Mr. Hardymon says. "But I have not seen anybody say 'don't do this because it's too much like a business.' "

Mr. Todd says that since state universities have to ask for money from legislators, they have to make it clear that the money will go toward appropriate goals.

"I think if you leave any lingering thoughts in their minds," he says, "about what's really going on with this bonus thing, is it really part of the job or is it just a formality ... I think that brings some questions in their minds. It could color their judgment."

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