

Session 5: “*University president compensation incentives*”

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Abstract

There has been considerable attention on the costs to attend US universities, which some attribute to "administrative bloat," which includes university administration compensation. In setting compensation, universities face interesting agency problems, for example, because core stakeholders cannot observe university leadership decisions and there is no share price to help determine whether leaders take appropriate actions. To infer the potential incentives these leaders face and the degree to which compensation is affected by governance structure, we explore the variation in university president compensation and university board structure, across 263 US public and private universities. We observe that there is considerable variation in the magnitude of compensation, which appears lower for public universities and those with religious affiliation. President compensation appears higher, on average, for institutions with higher levels of and growth in student quality metrics, higher student tuition per capita, higher research grant funding per faculty member, longer president tenure, and ranked athletics program performance. We do not observe evidence that having a compensation committee affects the implied incentive weights for compensation. We do observe that placing a student on the board reduces the incentive weights associated with student quality and research funding, suggesting that students might want less leadership focus on academic performance. Finally, we observe some evidence that the probability of higher-than-expected compensation is higher for boards without compensation committees and lower for boards including student representatives. Collectively, the evidence suggests that university presidents face academic- and, surprisingly, athletic-prestige incentives, and that stakeholder representation on the board affects the weighting of these incentives and might constrain excess compensation.