

## 6. APPOINTING AND REMUNERATING SENIOR STAFF

6.1 Whilst the involvement of the governing body in most of the areas addressed in this volume is normally at one or two steps removed from practice on the ground, the appointment of the head of institution and determining his or her remuneration and conditions of service (and sometimes those of other senior staff) are areas where it is directly involved.

*"Appointing the next vice-chancellor will be just about the most important thing that this governing body does, so we have to get it right"*

**CHAIR OF A UNIVERSITY GOVERNING BODY**

### Appointing the head of institution

6.2 There are several useful guides to good practice in this area. Universities UK has produced two, one on the legal aspects of recruitment and selection<sup>28</sup> and a second on best practice for recruitment to senior roles in higher education<sup>29</sup>. In addition, Hefcw have produced a helpful good practice checklist for governing bodies and remuneration committees covering senior staff pay, severance arrangements and remuneration committees' practice<sup>30,31</sup>. The second UUK Guide sets out seven good practice principles for the recruitment process:

- Clearly identify the essential and desired criteria required to fulfil the duties of the post and judge each candidate against them.
- Be consistent and objective in the way it gathers, judges and records evidence on each candidate against the criteria identified.
- Seek to select from a diverse pool of candidates.
- Ensure that everyone involved with the selection understands and implements robust standards in equal opportunities.
- Ensure that none of the selection processes, methods or arrangements unfairly disadvantages any individual applicant or potential applicant.
- Give all applicants a clear understanding of the institution and what is expected of them.
- Leave a positive image of the institution with unsuccessful candidates.

6.3 Typically most governing bodies will establish a special group to undertake the appointment of a new head of institution, perhaps with members from the remuneration committee. It may also have external advisers. The opportunities for input by individual governors may be limited, and in most HEIs are likely to exist only for lay members. Nonetheless it is imperative that all governors have confidence in the process.

6.4 Identifying essential and desired criteria is critical to successful recruitment - there needs to be absolute clarity about the qualities the new head of institution will need. This will involve a frank assessment of where the institution is, where it wants to be, and what is necessary to take it there. On these issues there should be consultation with the whole governing body. Where senior appointments go wrong (and they do, to the disappointment of all involved) it is frequently because this groundwork has not been done, and the candidate who 'looks best' on the day is appointed rather than the one who is best able to take forward the institutional strategy.

<sup>28</sup> Pensions for UUK, (2004), A guide to discrimination law and recruitment, selection and appointment

<sup>29</sup> UUK, (2004) Appointing senior managers in higher education: a guide to best practice

<sup>30</sup> Hefcw Audit Service, (2006), Review of the Remuneration and Severance Governance Processes for Senior Staff at Higher Education Institutions in Wales,

<sup>31</sup> See also the 'Reward and Senior Pay Toolkit, produced by ECC Ltd at [www.ecc.ac.uk](http://www.ecc.ac.uk)

- 6.5 It is now common practice for HEIs to engage executive search agencies ('headhunters') although this remains controversial. Despite their advantages, it is vital they are carefully selected and thoroughly briefed about requirements, with the HEI remaining firmly in control of the process. In particular, research indicates that women continue to find themselves at a disadvantage when seeking promotion or appointment to the highest levels of management in higher education. Therefore, search consultants must be fully briefed on an HEI's equal opportunities policy and its statutory equality duties. The Office of the Commissioner for Public Appointments (Ocpa) has produced two useful documents addressing the issues arising when such agencies are used for public sector appointments<sup>32</sup>.
- 6.6 The actual selection process will usually be led by the chair of the governing body, but it is increasingly common for shortlisted candidates to be asked to make presentations to the whole board (or at least the external members). Typically the selection methods for senior staff in most HEIs are very traditional, and have often been in the past - frankly - poor. Few institutions use approaches that are the norm in other sectors, such as selection centres, and governors could do much to encourage the use of more effective techniques.
- 6.7 A governing body should ensure that the recruitment and selection arrangements for other senior appointments are also carried out effectively. Quality assurance can be achieved in a variety of ways, for example:
- The receipt of a brief professional biography of each person appointed to a senior role.
  - Independent governors acting as members of appointment panels for senior roles.
  - Annual reports from the HR or staffing committee on the qualifications of new appointees to senior roles during the previous twelve months.

*"The biggest challenge is defining your role as vice-chancellor. You don't actually have a job to do... and that's incredibly difficult to get used to."*

**PHIL HAMMOND, VICE-CHANCELLOR OF SHEFFIELD HALLAM UNIVERSITY: SPEECH OF THE ANNUAL CONFERENCE OF THE AUA, APRIL 2008, REPORTED IN THE, 10 APRIL 2008**

### Supporting the head of institution

- 6.8 The responsibility of the governing body does not end with the appointment of a new institutional head, and there is an ongoing need to provide support, particularly in the early stages of appointment. The role of the head of the institution (like that of the CEO of any large organisation) can be a very lonely one, and a relationship based on mutual trust with governors (particularly the chair of the governing body) is essential. This is a difficult balancing act: being open and honest, but - in the interests of good governance - avoiding the relationship being too 'cosy'. Some heads of institution find it helpful for their own development to identify a mentor or to work with an executive coach.

### The remuneration committee

- 6.9 The governing body must establish a remuneration committee, including the governing body chair, at least three other lay members (who may be coopted) and the lay treasurer (where the office exists). At least some - ideally all - members should have relevant HR or senior staff management expertise. The head of institution is frequently also a committee member, and if not should attend the meetings, except where his or her own remuneration and performance are considered.

<sup>32</sup> Ocpa, (2005), Review on working with recruitment consultants in the public appointments process, OCPA, 2003 and Making Public Appointments - a guide for recruitment consultants

- 6.10 The scope of the committee varies - but in most HEIs it includes:
- Determining the remuneration and conditions of service of the senior team.
  - Reviewing the performance of the head of institution (and usually other senior team members) and determining annual salary awards.
  - Approving the severance payments of the head of the institution and usually of other senior staff.

In some HEIs the committee it is concerned only with the remuneration of the senior team, where as in others it may be all staff in a certain category (the professoriate) or above a given salary figure. This latter (and broader) remit may involve several hundred remuneration decisions, which may be dealt with by subcommittees.

- 6.11 In general, the role of the remuneration committee is probably rather under developed in most HEIs, and typically it does not play the proactive and strategic role that is increasingly the case in the private sector. This may at least partly be because of potential confusion in responsibilities between it and an HR committee.
- 6.12 The degree of authority delegated from the governing body also varies. In some HEIs, the board retains the authority to approve the recommendations of its remuneration committee. In HEIs where the remuneration committee has fully delegated authority, the committee's decisions are simply reported to the board, but in these instances the governing body should approve a remunerations policy which sets out the parameters within which the remuneration committee will operate.
- 6.13 It is important for the governing body to retain oversight of the remuneration committee's operations, given the potential political sensitivity of its decisions. The report by the Hefcw Audit Service of a review of the remuneration and severance governance processes for senior staff in Welsh HEIs<sup>33</sup> summarises the potential damage that could result from weak governance processes in this area:
- Adverse publicity and a negative impact on the institution's reputation.
  - A loss of stakeholder confidence.
  - Worsened employee relations and reduced staff morale.
  - Higher costs with no obvious benefit.
  - The loss of key staff to other institutions or employers.
- 6.14 Very careful thought should be given to the arrangements for determining senior staff remuneration - at least 10% of academic staff in the higher education sector fall into the senior staff category (including the professoriate)<sup>34</sup> which represents a very significant investment: the political consequences of getting it wrong can be severe. It is important that arrangements are transparent, fair, consistently applied, and meet equality and diversity requirements. Self evidently all boards should take affordability into account when making remuneration decisions, not least to instil confidence in their stewardship of public funds.

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<sup>33</sup> Hefcw Audit Service (2006) op cit

<sup>34</sup> HESA 2006/07 Staff Record

## What governors should expect from the remunerations committee

- 6.15 As the investment, both financial and political, in senior staff remuneration is considerable, the first thing governors should expect is a remunerations policy that ensures a strategic view of senior staff pay. The governing body itself should assume responsibility for this, and not delegate it to the remuneration committee. A remunerations policy will usually set out:
- How it will assist the HEI in achieving its strategic objectives.
  - The guiding principles in operating the policy (for example, fairness, transparency, consistency, clarity in decision making and reporting).
  - The scheme of delegation to the remuneration committee.
  - The composition of the remuneration committee.
  - The roles the remuneration committee will consider (eg the head of institution only, other senior staff, etc).
  - The frequency of remuneration reviews.
  - The data that the remuneration will take into account (internal and external).
  - The basis on which reviews will be conducted (for example, self-submissions, input from managers, appraisal records).
  - How the components of pay will be identified (cost-of-living awards, performance related elements, market-related elements).
  - How performance will be measured and the evidence to be used.
  - What, if any, account will be taken of non-financial benefits.
  - The parameters within which awards may be made (with reference to affordability).
  - How decisions will be recorded and reported.
- 6.16 A governing body must ensure that an HEI meets its statutory equality duties (see Chapter 5) including ensuring that its pay and grading systems are compliant with equal pay principles (Chapter 7). Whilst implementation of the Framework Agreement has been a significant step towards resolving equal pay anomalies, senior staff were, by and large, excluded from this exercise. It is important, therefore, that HEIs:
- Include senior staff in all equal pay reviews that are conducted.
  - Diagnose the causes of any pay anomalies that are identified.
  - Take action to remedy pay anomalies that cannot be justified.
- 6.17 Governors should also expect their board and the remuneration committee to have a policy on market supplementation, which allows for a rapid response to market pressures without distorting the arrangements for determining basic pay. Such a policy will also help to ensure that the perceived 'market rate' is not paid unnecessarily. Market supplements should be underpinned by robust, equality proofed, data that demonstrates the business case for their application; they should be kept under regular review and, if necessary, withdrawn when conditions change.

*"To be honest, the governing body probably doesn't know as much as it should about how the remuneration committee goes about its work. There's a feeling that it's all a bit too sensitive to discuss"*

**LAY GOVERNOR**

## Reviewing senior staff performance and performance related pay

- 6.18 Many remuneration committees and governing body chairs find this a difficult area. Therefore, by definition, it is a difficult area for the governing body as a whole. A key issue is the extent to which institutional and individual performance can be separated, but this should be attempted for two reasons. First, it can happen that the head of institution performs well but that institutional performance does not meet expectations. Second, there has been a trend for some years for heads of institution to enjoy proportionately larger salary increases than the majority their staff. Having a clear answer to the question 'in what ways has the institution benefited directly from the performance of this individual?' allows above average pay increases - if appropriate - to be justified more easily.
- 6.19 Of course, a remuneration committee will usually want to benchmark senior staff remuneration against appropriate comparators. These should be chosen with care, or an HEI may pay more than it needs to attract and retain good staff. There is a variety of benchmarking data, the most useful being the annual CUC survey on heads of institutions' remuneration (which is confidential to the chairs of governing bodies). The THES also publishes annual data<sup>35</sup>.

## Severance arrangements

- 6.20 Severance can be controversial, and there is always a temptation for HEIs to pay more than they have to in terminating a contract. The CUC Guide states: "if considering severance arrangements for senior staff, the remuneration committee must represent the public interest and avoid any inappropriate use of public funds. The committee should be careful not to agree to a severance package which staff, students and the public might deem excessive. Contracts of employment for senior staff should specify notice periods of not more than 12 months and should not provide for pension enhancements".
- 6.21 Fortunately, comparatively few senior staff leave in such circumstances, but a severance payment policy approved by the board is helpful in ensuring consistency and accountability. All of the funding councils have produced guidance on severance arrangements and, at the very least, the policy should include formal adoption of the relevant guidance. Hefcw recommends that a policy should include the following elements:
- How to apply the funding council guidance.
  - Which staff are covered by the policy.
  - Which body is responsible for reviewing and approving severances.
  - The scope for discretion in individual cases, and who may exercise it.
  - Financial and management criteria to be applied.
  - The value for money test.
  - Legal and contractual constraints.

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<sup>35</sup> See [www.timeshighereducation.co.uk](http://www.timeshighereducation.co.uk)

### Self-challenge questions

- Does your institution have a remunerations policy for senior staff? Does it cover all the areas suggested in 6.15?
- As a governor, are you clear about the role that the remuneration committee should play?
- Have senior staff at your institution been included in an equal pay audit? Is the governing body satisfied that remuneration arrangements for senior staff have been equality proofed?
- Does your institution have a severance payment policy? If not, should one be introduced?

### A GOVERNOR'S DILEMMA 6:

Every year the Times Higher Education newspaper produces a list of the salaries of heads of institutions, and as a governor you feel you should read it. For several years now, the head of your own institution seems to be very well paid by comparison with those in similar HEIs. You tentatively raised this informally last year with the chair of your governing body, and were told that the remuneration committee had looked at appropriate comparators and had taken particular circumstances into account. However, you remain slightly uneasy, although it's not an issue you feel very strongly about. What actions - if any - might you take?