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Private Higher Education: Sustaining Excellence and Building Stability in the Face of Uncertainty

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Preface: A Comprehensive View of Presidential Performance

Private higher education is navigating one of its most complex eras. Shrinking enrollments, financial strain, heightened scrutiny, and leadership turnover have converged to test not only institutional resilience but also the systems that guide, evaluate, and reward leadership itself.

This two-part series offers a unified framework for how boards can meet that challenge—by aligning how we compensate and how we evaluate presidential performance. In this first article we examine how well-designed incentive compensation can focus leadership attention, reinforce accountability, and sustain continuity. Incentives, when applied judiciously, serve as a governance tool to "pay smarter, not more."

In Part II of the series, Redefining Presidential Evaluation for Leadership Sustainability, we take the next step—moving from compensation design to performance assessment. Evaluation, we argue, must balance quantitative results with qualitative judgment to ensure that presidents are rewarded not just for what they achieve, but how they lead.

Together, these perspectives form a complete philosophy of comprehensive performance evaluation—one that links pay, performance, and leadership conduct under a single principle: governance that is fair, strategic, and sustainable.

Private higher education stands at a crossroads. Demographic shifts, tuition sensitivity, escalating costs, and growing skepticism about the value of a degree have converged to test the resilience of even the strongest institutions.

At the same time, governing boards and donors are demanding measurable results—proof that their investment in leadership translates into institutional progress.

In this high-stakes environment, the traditional model of fixed compensation and deferred recognition is no longer sufficient. If we expect presidents and senior leaders to steer through volatility and transformation, we must align how we reward them with the outcomes we expect them to deliver.

The Leadership Challenge: High Stakes, High Scrutiny

Across private institutions, the pressures are unmistakable: enrollments are declining, costs are rising, and endowments are underperforming. The average presidential tenure has fallen from 8.5 years in 2006 to under 6 years today. More than half of current presidents expect to step down within 5 years, and leadership diversity remains elusive.

In this environment, stability has become a competitive advantage. Boards need leaders who can balance financial discipline with strategic innovation—and stay long enough to see transformation through. This means compensation can no longer be treated as a passive cost; it must become a **strategic lever for continuity, accountability, and institutional value creation.**

Why Incentives Matter More Than Ever

When designed well, incentive compensation plans do far more than reward outcomes—they focus leadership behavior, reinforce accountability, and strengthen alignment between institutional priorities and executive effort. The right mix of annual, long-term, and retention incentives helps institutions balance short-term execution with long-term strategy.

There are three types of incentive plans that are often used in conjunction with one another on a spectrum over time to drive long-term strategy, alignment, and dedication.

Annual Incentive Plan (AIP): Driving Near-Term Execution: Annual incentives keep leadership teams focused on measurable progress—enrollment growth, operating performance, fundraising goals, or implementation of strategic initiatives. Typical maximum incentive opportunities range from 15% to 25% of base salary, and target between 10% and 20% of "on plan" performance tied to clearly defined performance thresholds and maximums. These plans provide focus and momentum, reinforcing that the board is attentive to execution in real time.

- **Long-Term Incentive Plan (LTIP): Reinforcing Strategic Vision:** Presidential leadership must extend beyond annual cycles. LTIPs reward multi-year results—endowment growth, campaign completion, new academic programs, institutional transformation, or student success outcomes—over 3-to-5-year horizons. They also serve as a retention tool, signaling that the institution values sustained impact and continuity.
- **Retention Incentives: Ensuring Continuity Through Transition:** Retention and deferred compensation programs are increasingly critical given leadership turnover. Structured properly, these programs reward loyalty through key milestones—campaign completions, accreditation cycles, or planned successions—while maintaining fiscal prudence and mission alignment.

Designing for Accountability and Fairness

Effective incentive systems balance clarity with flexibility. They distinguish between what leaders can control (strategy execution, expense management, advancement) and what they cannot (market-driven endowment fluctuations, legislative actions). The best plans apply judgment while maintaining transparent metrics, so leaders are rewarded for responding to uncertainty in ways that support the institution's strategic priorities.

Calibration is key:

- **Threshold:** minimally acceptable performance
- **Target:** expected or budget-level performance
- **Stretch:** aspirational achievement, reached by top performers

The (Often Less Considered) Psychology of Incentives

Compensation drives behavior—not just through numbers, but also through perception. When leaders see meaningful upside potential, they think more strategically, take ownership, and act entrepreneurially to drive stretch performance, particularly when it can lead to additional recognition or offset against lesser performing areas. But leverage must be balanced. Overemphasizing quantifiable metrics risks neglecting softer, mission-critical outcomes like faculty development or community engagement. Incentives must motivate, not intimidate.

Funding and Budgeting: Paying Smarter, Not More

The question of *how* to fund incentive compensation is as important as *what* to fund. Beyond the optics of cost, institutions must decide whether to treat incentives as a budgeted operating expense or fund them from performance above budget ("excess net income")—and that choice has real consequences for behavior, governance, and flexibility.

Two Budgeting Philosophies

1. **Funding from Net Income in Excess of Budget:** Under this approach, incentive payouts occur only when the institution exceeds its approved operating targets. The logic is intuitive: leadership shares in the upside when financial performance surpasses expectations. However, this construct can create unintended distortions. When "meeting budget" becomes the gatekeeper for any payout, leaders may resist strategic investments, defer maintenance, or take overly conservative positions to protect the bottom line. Financial results can overshadow other vital outcomes—such as enrollment stability, student experience, or mission impact—that may not yield immediate surpluses. In essence, it frames incentives as a reward for budgetary success rather than for institutional leadership in a complex environment.
2. **Incorporating Incentives into the Operating Budget:** Alternatively, some institutions treat incentive compensation as a *planned cost of leadership performance*, built directly into the annual budget and funded like any other component of compensation. This approach normalizes the idea that performance-based pay is not an optional bonus but an expected element of the leadership compensation structure. It gives boards greater freedom to weigh non-financial metrics—such as student outcomes, diversity initiatives, academic innovation, or leadership development—without being constrained by the year-end financial margin. The trade-off is optical: when incentives are pre-budgeted, payouts may occur even in challenging years, which can invite faculty skepticism if not well explained. Clear communication about the link between incentive metrics and long-term institutional health is essential to maintain trust.

Finding the Right Balance

In practice, many institutions use a hybrid approach:

- Annual incentives are *budgeted* but *earned* through a mix of financial and non-financial results, maintaining flexibility while reinforcing accountability.
- Long-term incentives are *pre-funded* through designated reserves or deferred liability accruals, ensuring multi-year commitments are sustainable without distorting annual budgets.

Boards should consider:

- Governance optics: Can you explain to stakeholders why payouts occur in a lean year?
- Cash flow predictability: Are liabilities manageable under conservative assumptions?
- Cultural alignment: Does the approach reinforce stewardship and accountability—or short-termism and budget gaming?

The goal is not to make incentive funding invisible but to make it *intentional*—integrated into a broader philosophy of fiscal prudence, transparency, and mission-driven performance. Incentives should never be viewed as windfalls, but as structured investments in the leadership continuity and focus required to navigate uncertainty.

Building a Cohesive Compensation Ecosystem

Incentive plans work best when layered and aligned:

- **Annual plans** reward progress.
- **Long-term plans** reinforce transformation.
- **Retention plans** preserve continuity.

Each should serve a distinct purpose, with transparent communication, board discretion for unforeseen events, and independent benchmarking to ensure defensibility. The result is a compensation ecosystem that connects people, purpose, and performance in a way that fosters performance gains, retention likelihood, and accountability—without drifting from mission.

The Future of Presidential Compensation

This is not about paying presidents more. It's about **paying smarter**—structuring compensation to drive outcomes that matter most for the future of higher education. Our institutions are too important to leave leadership to chance. The right incentive design doesn't just retain talent; it sustains excellence and ensures stability through uncertainty.

About the Author

Alexander is a managing director at Pearl Meyer. The former president and CEO of Yaffe & Company, he is a second-generation expert in executive compensation and has two decades' experience in the field. As the leader of Yaffe & Company, he oversaw its geographic expansion from 10 to 37 states, development of complimentary service lines, and worked with clients whose net revenues ranged from $10M to greater than $1B, allowing for a varied perspective in similarities and differences based on geography, size, and organizational design.

About Pearl Meyer

Pearl Meyer is the leading advisor to boards and senior management helping organizations build, develop, and reward great leadership teams that drive long-term success. Our strategy-driven compensation and leadership consulting services act as powerful catalysts for value creation and competitive advantage by addressing the critical links between people and outcomes. Our clients stand at the forefront of their industries and range from emerging high-growth, not-for-profit, and private organizations to the Fortune 500.