MINUTES OF THE SEPTEMBER 9, 2013, COMPENSATION AND HUMAN RESOURCES COMMITTEE MEETING

The Compensation and Human Resources Committee (“the Committee”) of the Smithsonian Institution Board of Regents held a meeting on September 9, 2013, beginning at 11:00 a.m. at the Smithsonian Institution Building in Washington, D.C. Participating were Committee Chair Patricia Q. Stonesifer* and members Ambassador Barbara Barrett*, and France A. Córdova*. Representative Xavier Becerra and Senator Thad Cochran were unable to participate.

Also present were Secretary G. Wayne Clough, Chief of Staff to the Secretary Patricia Bartlett, Associate Director of the Office of Human Resources (OHR) Gregory R. Bettwy, Inspector General Scott Dahl, OHR Director James D. Douglas, Senior Writer-Editor for the Office of the Regents Barbara Feininger (recorder), Chief Financial Officer Al Horvath, Deputy Under Secretary for Finance and Administration John K. Lapiana, General Counsel Judith Leonard, Liaison to Representative Becerra Grisella Martinez*, and PricewaterhouseCoopers (PwC) consultants Bruce Clousure, Heather O’Neal, and Suzanne Polan*.

CALL TO ORDER

Ms. Stonesifer called the meeting to order. She commented on the full agenda and thanked members for their participation.

APPROVAL OF MINUTES

The Committee approved the draft minutes of the May 6, 2013, meeting without modification.

VOTED that the Compensation and Human Resources Committee approves the minutes from their meeting of May 6, 2013.

CALENDAR YEAR 2014 COMPENSATION

Ms. Stonesifer reviewed issues related to calendar year (CY) 2014 compensation.

Operating Environment Update. PwC consultant Bruce Clousure updated the Committee on important market and regulatory conditions that might impact the Smithsonian’s compensation review. Mr. Clousure said that comparable non-profit and executive compensation rates increased approximately 3 percent increase in 2013, and are anticipated to do so again in 2014. With regard to functional positions, organizations are focused on development, investment, retail, and media and digital positions, and those areas may see more growth than other functions. The use of incentive compensation is trending upwards in investment and retail areas.

With regard to regulatory issues, Mr. Clousure reported that in spring 2013 the IRS completed a review of higher education compensation. Important “takeaways,” he said, include the need for organizations to carefully assess the comparability of groups used for peer analyses, as well

* participated by teleconference
as the need to carefully document the rationale for comparability selections. Executive compensation continues to garner media and IRS attention. New York State, he noted, has been the most aggressive state in its regulation of non-profit executive compensation. Noting that New York may be the harbinger of future regulatory guidelines, Ms. Stonesifer asked if Smithsonian compensation practices fall within New York State’s standards. Mr. Clousure said the Smithsonian’s peer comparison process is well-vetted and well-documented, and demonstrates good governance practices.

2014 List of Disqualified Person Positions. The Committee agreed with the recommendation of staff regarding the list of Disqualified Persons positions for 2014. The following motion was adopted:

VOTED that the Compensation and Human Resources Committee adopts the proposed 2014 list of Disqualified Persons.

2014 Investment Incentive Payouts. Ms. Stonesifer thanked Mr. Horvath for the development of an incentive structure for certain Office of Investments (OI) staff. She commented on the strong performance of the portfolio in 2013, adding that it outperformed its benchmark by over 5 percent. Committee members reviewed the payout calculations in the meeting materials. There were no changes in the number of qualifying staff, and Mr. Horvath confirmed that each possesses decision-making authority and deploy the asset allocation guidance provided by the Investment Committee.

2014 Decision-Making Levels. Ms. Stonesifer reminded the Committee that, in the past, the full Board reviewed and approved over 220 individual compensation decisions each year. Since 2008, the compensation review and approval process has been refined: more approval authority is now delegated to the Secretary, and responsibilities between the Committee and the full Board are delineated and in keeping with conservative board best practices. Ms. Stonesifer noted that the 2014 decision-making levels recommended by staff are similar to those adopted in 2013. The full Board will review compensation recommendations for 15 positions, and the Committee will review and approve all other disqualified persons and certain investment officers. With the exception of the Inspector General and the Director of the Office of Equal Employment and Minority Affairs, all are Trust-funded positions. Mr. Bettwy noted that the Board’s compensation review will include decisions for two additional employees, both of whom are in the Office of Investments. The Committee agreed with the recommended decision-making levels for 2014, and adopted the following motion:

VOTED that the Compensation and Human Resources Committee adopts the 2014 decision-making levels.

2014 Updated Compensation Philosophies. Proposed updated compensation philosophies for Federal and Trust executives for compensation year 2014 were presented for review. Secretary Clough discussed the environment in which Smithsonian salaries are being determined. He expressed concern about the inequities between market-based salaries, which are going up an average of 3 percent; internal Federal or Federal-equivalent salaries, which remain frozen; and the Smithsonian’s ability to hire and retain talented staff. Dr. Córdova suggested that annual
compensation review materials refresh the Regents’ understanding of the differences between the Smithsonian’s Federal- and Trust-funded positions. She also proposed that the materials clarify that any Federal salary increases will be retroactive to the effective date the Federal government increases its pay scales. The Committee approved the following motion:

**VOTED** that the Compensation and Human Resources Committee adopts the 2014 Federal and Trust compensation philosophies.

**2014 Comparable Data.** PricewaterhouseCoopers (PwC) Consultant Heather O’Neal presented a labor market–based competitive total remuneration analysis for 11 Smithsonian job families. The same approach, noted Mr. Bettwy, has been successfully applied for the past five years. The Committee agreed with the recommended compensation justifications and adopted the following motion:

**VOTED** that the Compensation and Human Resources Committee adopts the 2014 comparable sets.

**Updated Compensation Timeline.** Ms. Stonesifer presented the overall timeline of the 2014 executive compensation process and noted that the executive compensation process is proceeding on schedule. Dr. Córdova noted that the entire Board participates in annual performance appraisals of the Secretary and the Chief of Staff to the Regents. Led by the Board Chair, the appraisals will inform compensation recommendations.

**COMPENSATION ISSUES FROM MAY 2013 COMMITTEE MEETING**

**Smithsonian Tropical Research Institute Pay Bands Increase.** Ms. Stonesifer reminded the Committee of its May 2013 discussion about increasing the pay bands for Smithsonian Tropical Research Institute (STRI) employees, provided that Congress approves the funding request. The Office of Human Resources was asked to prepare an analysis of the impact of the 2012 pay increase on the attrition rate of STRI employees. The analysis showed that the 2012 pay increase lowered the STRI attrition rate to approximately 16 percent, down from a yearly average of 25 percent. Ms. Stonesifer noted that the overall turnover rate in the Panamanian economy is high, which creates intense competition among employers for skilled employees.

Mr. Douglas provided the context for the proposed pay bands increase. He explained that the spike in attrition rates was the result of the transition, for new local employees, from the traditional Federal system to the Panamanian employment system in 2000, when the Panama Canal treaties were terminated. Since that time, the gap has widened between pre-2000 salaries, which were grandfathered into the transition, and compensation for new hires. Since that time, the highest attrition rate has been for new hires, even though employee surveys demonstrate high satisfaction with working for STRI.

The proposed compensation increases for non-grandfathered employees, explained Mr. Douglas, were determined by comparing STRI employees’ compensation against those for comparable positions at the U.S. Embassy in Panama. Because STRI’s high attrition rate was
successfully staunched by a 2012 pay increase, staff proposed an exception to the Federal salary freeze for STRI employees in calendar year 2013.

Ms. Barrett suggested that the proposed motion be revised to clarify the parameters of the proposed pay increases. The Committee approved the amended motion.

**VOTED** that the Compensation and Human Resources Committee approves an exception to the calendar year 2013 salary freeze to permit the Smithsonian Tropical Research Institute to increase its pay bands and provide salary increases for its below-market local-hire employees in calendar year 2013 with those increases not to exceed 10 percent unless specifically approved by the Secretary.

**Smithsonian Enterprises Long-Term Incentive.** Ms. Stonesifer reminded the Committee that, when hired by Secretary Clough, Smithsonian Enterprises (SE) President Chris Liedel was asked to begin modifying SE short- and long-term incentive plans. The Secretary, she noted, proposed the engagement of a compensation consultant to help develop a holistic SE incentive proposal. Secretary Clough said the objective of the incentive plan will support SE’s ability to move into new areas, and said that the structure of the final plan is being refined as Mr. Liedel clarifies the areas of future focus. The Committee concurred with the Secretary’s suggestion that the evaluation of individual efforts be conducted externally by PwC.

**GENERAL UPDATES**

**Certification Update.** Ms. Stonesifer congratulated Mr. Douglas and Mr. Bettwy on achieving provisional approval from the Office of Personnel Management (OPM) of the Smithsonian’s senior-level performance management system. Mr. Bettwy explained that the provisional certification will require an updated request to OPM in July 2014. In addition, the Smithsonian must demonstrate that its compensation system distinguishes between levels of performance, and must carefully monitor rating distributions and cash compensation for Federal executives. Ms. Stonesifer noted OPM’s proposed increase in Federal senior-level salary and compensation limits, provided the Federal salary freeze is lifted. She asked about the potential impact on new hires should the limits be reduced in the future. Those salaries, said Mr. Bettwy, would be reduced.

Mr. Douglas commended Mr. Bettwy’s performance in guiding the Smithsonian’s senior-level performance system through OPM’s review. The process, noted Ms. Stonesifer, included the submission and revision of nearly 20 fiscal year 2012 executive performance plans and the incorporation of some policy changes.

**Early Retirement and Buyout Update.** Ms. Stonesifer noted that an early retirement buyout opportunity had been extended to the Smithsonian’s Federal employees the previous week. Mr. Douglas explained the opportunity will provide up to $25,000 to eligible employees and said that over 100 requests for information had been received since the announcement. When the early out opportunity was offered in the past, he said, about 500 requests for information were typically received, of which approximately 100 employees exercised the early out option.
Mr. Bettwy commented on the process of educating staff about the retirement process, noting that OHR typically processes about 50 retirement estimates each year. Ms. Stonesifer said that, although the early-out opportunity might allow the Smithsonian to avoid involuntary terminations, it is possible that talented staff might leave. Dr. Córdova noted that an early-out opportunity previously offered at Purdue University required the approval of an employees’ supervisor.

**DIVERSITY**

Ms. Stonesifer introduced the discussion on diversity at the Smithsonian by stating that diversity is everyone’s responsibility, not just that of the Office of Equal Employment and Minority Affairs (OEEMA) and OHR. OEEMA has overall responsibility for tracking and reporting on employee diversity and OHR supports overall diversity recruitment with various Smithsonian organizations, each of which is responsible for final hiring decisions. She asked the Secretary and Mr. Douglas to review the current status of, as well as challenges to, increasing diversity in the Smithsonian workforce. Dr. Córdova asked that the Secretary and Mr. Lapiana provide an update on this discussion to the Executive Committee at its September 10, 2013, meeting.

Secretary Clough outlined several initiatives undertaken by the Smithsonian to improve the diversity of its workforce. Under Secretary for History, Art, and Culture Richard Kurin spearheaded a successful effort to increase the number of Latino on staff by providing funding to hire seven curators across Smithsonian museums whose work will focus on the contributions of Latinos to American history, art, and culture. One of the curators, he noted, organized a Smithsonian American Art Museum exhibition on the contributions of Latino art to American culture; the exhibition will open in October 2013. Also, Director of Communications and External Affairs Evelyn Lieberman hired a full-time Spanish language media consultant who has notably increased the engagement of Spanish-speaking audiences. The first-ever Asian Pacific American exhibition recently opened, and the new head of Office of Fellowships and Internships (OFI) is making a concerted effort to expand the number of minority participants. Such efforts, said Secretary Clough, will help increase the perception of the Smithsonian as an employer of choice for minorities.

Mr. Douglas reminded the Committee that it had requested a more detailed breakdown of Smithsonian workforce demographics. The meeting materials included data on the diversity of new hires in fiscal year 2012. He said that the analyses demonstrate that while the Smithsonian’s workforce is reasonably diverse, more work needs to be done across the Institution to recruit and retain a diverse workforce. Two areas drew more attention: the lack of diversity among senior-level staff and the underrepresentation of Latinos across the Smithsonian.

Efforts to increase diversity at the Smithsonian are being supported three ways: institutional outreach designed to make the Smithsonian an employer of choice among underrepresented groups, cooperative efforts within the Smithsonian, and institutional consciousness-raising. Mr. Douglas cited examples of outreach initiatives, such as the distribution of information cards at recent Museum Day events across the country. Cooperative efforts include the creation of a
Diversity Task Force to develop collaborative initiatives to improve outreach to underrepresented groups in a systematic way. Members of the Task Force include directors from OEEMA, OHR, OFI, the Accessibility Program, and Smithsonian Affiliations. Institutional consciousness-raising efforts are being led by OEEMA and OHR, who are working with units to encourage workforce planning that supports the development of a diverse workplace. The Secretary’s Executive Diversity Committee “sets the tone” about the importance of diversity. Mr. Douglas cited the efforts of OFI Director Eric Woodard as a creative and successful example of cultivating and retaining a diverse workforce.

He noted that the upcoming buyout might offer opportunities to expand the diversity of the workforce. An electronic performance management system will be updated and implemented in the next year. The new system will reinforce the importance of diversity when reviewing directors’ performance elements and standards. The Office of Chief Information Officer also is involved in efforts to support the diversification of the workforce, and is developing a user-friendly tool to support targeted recruitments, among other things. Seeking out diverse applicant pools should be required in scope-of-work agreements with contract search firms. The Smithsonian, said Mr. Douglas, also could take better advantage of the Trust system’s flexible hiring authority for non-competitive hires. Constraints include the hiring requirements of the civil service system and limited funding.

Ms. Stonesifer said that applicant pools should represent the nation and/or the skill base that the Smithsonian needs. Reflecting on the analyses in the meeting materials, she encouraged a closer analysis of the application process, with special attention given to the process of identifying qualified and then referred applicants. Commenting on the “takeaways” from the analyses, Ms. Stonesifer said that the Smithsonian’s diversity issues are specific, not general. Mr. Douglas agreed that the demographics of executive staff are not diverse, and that Latinos are underrepresented across the Institution.

The Smithsonian’s workforce, said Ms. Stonesifer, can and should reflect the diversity and the talent of the nation. She noted that improving diversity “writ large” is often more challenging than focusing on one or two specific goals on a yearly basis. Outreach and recruiting, retention, and promotion efforts will increase the Smithsonian’s diversity. The Secretary noted that a significant number of employees first enter the Smithsonian as interns, and that supporting a diverse population of interns will advance overall diversity efforts in the long term. It is promising, he said, that programs such as the Palmer Leadership Program demonstrate a more diverse population than that seen in the current Smithsonian workforce.

Ms. Martinez asked if the Smithsonian had considered hiring an outside consultant who specializes in diversity. Mr. Douglas said that, although a consultant has never been engaged for this effort, the Secretary’s Executive Diversity Committee regularly meets with specialists from other organizations, such as the Office of Personnel Management, who share their strategies to improve diversity.

Ms. Stonesifer suggested the performance goals for the Office of Protective Services include increasing the number of Spanish-speaking guards on the security force. Going forward, Ms.
Stonesifer asked that annual reviews report progress on increasing senior-level diversity and better representing the Latino population, including outreach, retention, and promotion efforts. The Secretary said that measures of progress should include the Smithsonian’s efforts to better reflect the American population through its programs and exhibitions. The Smithsonian’s user base, noted Ms. Stonesifer, is changing and so should its ways of disseminating knowledge.

The next substantive discussion on diversity will occur in late spring 2014. Mr. Bettwy said that more data will be available at that time to support the discussion; Ms. Stonesifer asked that a report on strategies be included at that time. Ms. Barrett asked for interim progress reports on the development of strategies.

The Committee agreed that the October 2013 full Board meeting include a 15-minute presentation on diversity. Feedback from the full Board, said Ms. Barrett, might provide helpful insights and tools, as well as include Representative Becerra.

**ADJOURNMENT**

The meeting was adjourned at 12:40 p.m.

Respectfully submitted,

Patricia Stonesifer
Chair