

## **MINUTES OF THE SEPTEMBER 26, 2011, 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 26, 2011, beginning at 11:30 a.m. at the Smithsonian Institution Building in Washington, D.C. Participating were Committee Chair Roger Sant and members John McCarter\* and Patricia Stonesifer. Committee members Representative Xavier Becerra and Senator Thad Cochran were unable to participate. Also present were Secretary G. Wayne Clough, Associate Director of the Office of Human Resources (OHR) Gregory R. Bettwy, Director of OHR James D. Douglas, Chief of Staff to the Regents John K. Lapiana, General Counsel Judith Leonard, and PricewaterhouseCoopers Consultants Bruce Clousure\* and Heather O’Neal\*.

### **CALL TO ORDER AND APPROVAL OF MINUTES**

Mr. Sant called the meeting to order at 10:00 am. The Committee approved the draft minutes of the January 7, 2011, meeting without modification.

### **REPORT OF THE CHAIR**

Mr. Sant began the report of the chair by noting that Al Horvath started earlier that day as the new Under Secretary for Finance and Administration and Chief Financial Officer (CFO). Mr. Sant noted that Mr. Horvath will play a pivotal role in much of the work the Board of Regents and its committees in that capacity.

Mr. Sant also updated the Committee on a change involving the Smithsonian’s outside compensation consultant. Carl Weinberg, the Smithsonian’s main contact at PricewaterhouseCoopers (PwC), retired, and Bruce Clousure of PwC has assumed that role. On behalf of the Committee and the Regents, Mr. Sant welcomed Mr. Clousure.

### **EMPLOYEE SURVEY UPDATE**

The Secretary provided a brief update on the results of the annual Federal employee survey conducted by the Office of Personnel Management. The Secretary noted that the survey results were not yet disseminated internally, but said that it is likely that the Smithsonian again will be ranked highly among the best places to work in the Federal government. He added that, among Smithsonian Federal employees, overall satisfaction was down slightly, and attributed the decrease to the uncertain fiscal environment and the pay freeze. Another concern was that employees were increasingly dissatisfied with promotion and training opportunities. In contrast, employee satisfaction with collaboration within the Smithsonian was “way up,” as was participation in the survey. With regard to training, Mr. McCarter suggested the PwC advise on efforts to expand and strengthen the Smithsonian’s Leadership Development Program.

\* *participated by teleconference*

## **INCENTIVE PAYMENT PROGRAM UPDATE**

Mr. Sant reminded the Committee that the incentive payment program for the Office of Investments is now in its third year. Under the program, eligible employees may, in addition to their base compensation, receive a payment consisting of two parts: the actual performance of the portfolio compared to the applicable benchmarks (quantitative) and the employee's performance appraisal as determined by their supervisor (qualitative).

Staff suggested that the Committee may benefit from preliminary information on the quantitative portion of the payout in advance of its January 2012 meeting, with the understanding that the Committee will be provided final information at the meeting. The Committee reviewed the Endowment's fiscal year 2011 performance reports and complemented staff for helping clarify a very complex payment program.

## **CALENDAR YEAR 2012 OVERALL COMPENSATION APPROACH**

Mr. Sant tuned the Committee's attention to various aspects of the approach to the compensation process for calendar year 2012.

**Federal Pay Freeze.** Mr. Sant noted that the 2011 Federal pay freeze would continue in 2012 for Federal employees, and that the Secretary is making the recommendation that it be continued for Smithsonian Trust employees as well, based on the philosophy of applying Federal pay policies to Trust employees as practicable.

Mr. Sant noted that Committee members noticed that the 2011 freeze was not absolute: awards were permitted, as were promotions and increases in pay called step adjustments. In early 2011, the Office of Management and Budget issued limits on certain types of compensation—awards, step increases, and some incentives. Mr. Sant directed the Committee to the meeting materials that outlined the limitations and the Smithsonian's application of them.

The Committee then discussed the impact and important consequences of a continuing pay freeze on the Smithsonian's recruitment and retention efforts. Mr. Sant and Mr. Clousure noted that, after having stagnated for a time after 2008, compensation in the not-for-profit and cultural sectors is again increasing, putting the Smithsonian at a competitive disadvantage.

The Secretary and Mr. Douglas briefly described the continuing, albeit limited, flexibility that Federal agencies have under the freeze to reward meritorious service.

After discussion, the Committee agreed to adopt the recommendation of the Secretary regarding the calendar year 2012 compensation freeze.

**Update on Market and Regulatory Conditions.** Mr. Clousure noted that the non-profit sector was emerging from the recession, and that PwC's research is seeing that compensation of non-profit executives is increasing by about 3 percent, with the most "movement" occurring with

investment and advancement personnel. Mr. Clousure said that PwC would use the 3 percent figure in aging market data as part of the 2012 compensation survey.

**2012 Disqualified Persons.** The Office of Human Resources provided a list of disqualified persons as defined by the Internal Revenue Service, and recommended updating the list to reflect some title changes and position mergers. The Committee briefly reviewed the list and adopted the following motion:

**VOTED** that the Compensation and Human Resources Committee adopts the proposed 2012 list of disqualified persons.

**2012 Decision-Making Levels.** Mr. Sant noted that prior to 2008, the full Board reviewed and approved about 225 individual compensation decisions each year. Since that time, the Committee has refined the Regents' approach by delegating more approval authority to the Secretary, and by delineating decision-making responsibility between the Committee and full Board.

Directing the Committee to the proposed decision-making levels in the materials, Mr. Sant explained that the Regents would, as was done in 2011, retain direct responsibility for those positions meeting the following criteria: (1) direct reports to the Board; (2) disqualified persons; and (3) any other position with a proposed 2012 salary above \$250,000 or proposed 2012 total compensation above \$275,000. Under these criteria, the Regents would make approximately 35 decisions (with 21 at the Committee level and 14 at the full Board level), with the Secretary responsible for the remainder. Ms. Stonesifer said that, although the full Board was expected to make 14 decisions, it would rely heavily on the deliberations and recommendations of the Committee.

The Committee reviewed the list and approved the following motion:

**VOTED** that the Compensation and Human Resources Committee adopts the 2012 decision-making levels as proposed by the Office of Human Resources.

**2012 Compensation Philosophies.** Mr. Sant presented the proposed 2012 Federal and Trust compensation policies for discussion and approval, noting that the Committee revised the policies in 2007 and 2009. Mr. Bettwy added that the changes now being proposed were not substantive. Accordingly, the Committee approved the following motion:

**VOTED** that the Compensation and Human Resources Committee adopts the 2012 Federal and Trust compensation philosophies.

**2012 Comparable Data Process.** With regard to the collection of comparable data upon which 2012 compensation decisions will be based, Mr. Sant explained that 2012 is an "off" year for the Smithsonian and that, assuming the Committee's concurrence, the 2011 data would be "aged," with the exception of the Secretary's comparables, which are assembled and re-examined each year. Ms. Stonesifer asked Mr. Clousure why PwC was using comparable data

from private universities when the Smithsonian's compensation philosophy counsels use of public universities instead. Ms. O'Neal explained that public university comparables are unavailable for many Smithsonian positions. In those cases, PwC looks first to the differential between the compensation of private university presidents with public university presidents and then uses that differential to adjust the comparables for those positions without public university counterparts (e.g., business activities, CFO). Mr. Sant also asked that the criteria used to identify comparables explicitly include the size of the outside organizations. Mr. Clousure assured the Committee that organizational size was taken into account and would revise the supporting documents to clarify that.

Accordingly, the Committee approved the following motion:

**VOTED** that the Compensation and Human Resources Committee approves the process recommended to identify relevant compensation data for the proposed job families from based on information from organizations of comparable size and complexity and consistent with best practices.

**Secretary-Designated "At Will" List Updates.** Mr. Bettwy noted that when the Secretary-designated "at will" class of executives (those who serve at the discretion of the Secretary) was created, certain Smithsonian Enterprises (SE) positions were not included. Since that time, the Secretary and SE President Tom Ott agreed that certain positions within SE that report to the SE President should be included in this designation, which provides designees with more limited employment action appeal rights but a slightly higher compensation cap.

**"Grandfathered" Unified Compensation Philosophy Executives.** Following the 2007 adoption of a compensation philosophy that applied a Federal pay scale to positions that previously had been market-based, 20 positions were encumbered by executives who were earning more than the Federal level. The Board agreed that these executives would be permitted to continue to earn compensation at the market rate until January 2013. Mr. Bettwy provided an update on the status of those incumbents still at the Smithsonian. Mr. Sant and Ms. Stonesifer asked the Secretary to discuss planning for potential consequences of the January 2013 end-date at the Committee's next meeting.

Before moving into executive session, Mr. Sant advised the Committee of his approval of Mr. Horvath's compensation (salary and recruitment incentive) on behalf of the Committee prior to his hiring. The Committee then went into executive session to discuss personnel issues with the Secretary.

Following the executive session, the Committee adjourned the meeting at 12:03 p.m.

Respectfully submitted,

Roger W. Sant  
Chair