Full Statement of James H Finkelstein, Judith A Wilde, and Tameka Porter

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James H Finkelstein, PhD, is a Professor of Public Policy within the School of Policy, Government, and International Affairs (SPGIA) at George Mason University in Arlington, VA. Contact: jfinkel@gmu.edu

Judith A Wilde, PhD, is an Adjunct Professor with SPGIA. She also is the founder and principal of *βeta Group Consulting.* Contact: judithwilde@gmail.com

Tameka Porter, PhD, is a senior researcher at the Wisconsin Center for Educational Research within the University of Wisconsin-Madison. Contact: Tameka.Porter@gmail.com

Introduction

Thank you Chairman McCarty and Chairman Medina for the opportunity to testify at today's joint hearing regarding the outside compensation for executives who serve on corporate boards within the University of California and California State University systems.

I am James Finkelstein, Professor of Public Policy at George Mason University, the largest public university in the Commonwealth of Virginia. My colleague, Professor Judith Wilde, also of George Mason University, is here with me today. Tameka Porter, of the University of Wisconsin and Nancy Goldschmidt of the Oregon Health Sciences University, my other collaborators, are unable to join us.

Background

I, personally, first became aware of university presidents serving as corporate directors over 50 years ago. Shortly after my bar mitzvah, my father urged me to buy stock in a local company, City National Bank—later BancOne and now JP Morgan Chase Bank. The next Spring, I received the company's annual report and something called a "proxy statement." I recall seeing the then-president of The Ohio State University listed as a member of the board. Not understanding why someone at a university would be a director of a bank, I asked my father. He explained that this was a way for the community to supplement the university president's salary.

As I've learned since then, it was not that uncommon for corporations headquartered in cities such as Columbus to offer the president of their local university a seat on the board. In fact, for many years the presidents of Ohio State routinely served on the board of BancOne as well as other companies headquartered there, such as The Limited, American Electric Power, and Borden.

What once was considered a "quaint practice" has now become something much more. So, in 1998, I began studying the practice of presidents at top tier public and private universities serving as directors of publicly-traded corporations. Dr. Goldschmidt and I replicated that study in 2001. In 2010, along with Dr. Porter, we completed our third study on the topic. Drs. Wilde, Porter and I have just begun another update that will be released in early 2017.

Since the findings from our 2010 study are consistent with those from both the 1998 and 2000 studies, I'll focus on this most recent study. This study included public and private universities, most of which the 2005 *Carnegie Classification of Institutions of Higher Education* categorized as "Research Universities with high or very high research activity." These were selected by combining the annual list of the top 100 "best national universities" by *US News and World Report*[1] and the list of the top 100 universities from the National Science Foundation "Survey of R&D Expenditures at Universities and Colleges" for fiscal year 2007.[2]

We matched the names of the presidents of these institutions against boards of publicly-traded corporations using the Electronic Data Gathering, Analysis, and Retrieval (EDGAR) system of the Securities and Exchange Commission (SEC). Specifically, we used the Form DEF-14a, which is known as a "definitive proxy statement," completed in 2010. It is important to note that our studies on corporate board

[1] The sample was selected from the 2011 edition of *US News and World Report: Best Colleges Rankings.*
[2] This report was published on March 11, 2009. There is typically a 2-year lag between data reported and the reporting date. In 2010, this report was retitled the Survey of R&D Expenditures at Universities and Colleges.

service rely exclusively on these SEC filings and not on self-disclosure statements provided by presidents to their governing boards or other agencies.[3]

These SEC-required public filings not only identify those who serve as directors of the company and their roles (including the committees on which they serve), but also provide detailed information about board compensation. Proxy statements also include background information on each director, list other boards on which they serve, and companies are required to disclose any potential conflicts of interest for directors. These proxy statements also provide information allowing us to estimate the total number of meetings in which each director participates. In all, we collected data on 40 variables for each of our university presidents serving as a director of a publicly-traded corporation.

In addition, in 2010, I received a grant from the Ewing Marion Kauffman Foundation to conduct the first-ever study of contracts for public university presidents.[4] As part of this study, we interviewed the presidents of eight institutions that are members of the American Association of Universities. Our goal was to create a new data set, albeit one that is not inherently public, in a consistent manner to provide a more complete understanding of the role of corporate board service. Dr. Wilde and I will release a follow-up study this June.[5]

Our testimony today draws from these two sets of studies – (1) data from the SEC proxy statements and (2) data from interviews with presidents as part of a larger study on their contracts. The purpose of our research has not been to identify individuals, institutions, or corporations by name. Rather, using publicly available information, our goal has been to document the practice of university presidents serving on boards of publicly-traded corporations. In doing so, we hope to assist governing boards and others in generating both understandings and policies related to this practice.

Research findings

So, now to our research findings. In the 2010 update study, we identified 134 public and private colleges and universities. We found that presidents of 43 of these institutions—approximately one-third of the sample—served on one or more boards of publicly-traded corporations. As a group, these individuals served on a total of 73 boards.[6]

Here, we focus on three areas—compensation, committee membership, and time commitments. With regard to ***compensation***, we found the following.

1. The total compensation paid to these 43 university presidents for service on corporate boards was nearly $11 million (that's for just one year).
2. The average dollar value for these presidents serving as a corporate director was nearly $148,000 per year for each corporate board. For over half of these presidents, the value

[3] For example, both the American Council on Education and the Association of Governing Boards, the major trade organizations for academic executives, report on surveys sent to presidents. These are not part of our data.
[4] Ronald Forehand, Esq., Senior Assistant Attorney General, Commonwealth of Virginia, and Dr. Javier H. Beverinotti served as co-investigators for this study.
[5] Sherilyn Streicker, Esq., former Deputy Director of the Georgia State Ethics Commission is a co-investigator for this study. This study will include the 100 contracts from the original study plus the contracts of presidents from the public flagship university in each state along with the contracts of public university presidents of the American Association of Universities. This study will be released at the annual conference of the American Association of University Professors to be held this June in Washington, DC.
[6] There were 9 University of California campuses in the sample, no California State University campuses. Of the 9 UC presidents, 2 served on one corporate board each and 1 served on two corporate boards.

was approximately $163,000 per year for each corporate board. Obviously, serving on more than one corporate board would provide much more extra compensation.

3. The compensation for the boards that paid compensation varied from just under $18,000/year for each board to more than $450,000/year for each board; 22 directorships provided total compensation of more than $200,000 per year, while 4 of these paid more than $300,000 per year. More than half (48) paid more than $100,000/year per board.
4. Looking across the 73 boards on which presidents served, only eight reported that directors received no compensation of any kind.

With regard to ***committee membership***, we found that:

1. University presidents served as members of 114 committees, with most presidents serving on at least two committees for each board membership;
2. Nearly 23 percent of presidents served on the Audit Committee; and
3. About 20 percent served on the Compensation Committee.[7]

With regard to ***time***, we also estimated how much presidents devote to their corporate directorships. We found that the number of board meetings scheduled annually varied from 3 to 16. According to the proxy statements, there were a total of 540 full board meetings in this one year.

As we noted earlier, most presidents served on at least one board committee. According to the proxy statements, these committees scheduled from 1 to 14 meetings each year, for a total of 600 committee meetings.

The 43 presidents in this study, on average, participated in approximately 24 meetings of various types during the year. With this information, we estimate that, on average, a director spends approximately 12 days per year participating in board and committee meetings for each corporate board membership.

(As an aside, over the three studies, we've found that about 60 percent of the corporations were not located in the same state as the university. Almost two-thirds, however were in the same region [that is, East, Southeast, South, and so on]. About one-third of the presidents traveled across the country to attend board meetings, adding as much as two days/meeting to their time commitment.)

While we haven't engaged in systematic data collection to document this, we know anecdotally from the presidents we interviewed for the 2010 Kauffman-funded study, that they did not take annual leave for the days they spent at board and/or committee meetings. This suggests that they receive their full university salary while being paid for their board service by the corporation.

Our goal in interviewing this subset of presidents was to create a new data set, albeit one that is not inherently public. These data, collected in a consistent manner, provided a more complete understanding of the role of corporate board service. We asked each president five questions:

[7] Federal regulations require that all members of both audit and compensation committees be independent/outside directors. In the case of an audit committee, at least two members must be certified as a "financial expert." No university president serving on an audit committee was so certified.

1. The benefit to their service as president of their service as a corporate board member;
2. The benefit to the institution of having the president serve on a corporate board;
3. The benefit to the corporation of having a university president on their board;
4. The influence of corporate board service on their views of governance; and
5. The influence of corporate board service on their views of the private sector.

Not surprisingly, few presidents talked about the personal economic benefits of serving on a corporate board, although one individual was surprisingly candid in stating that his saw this as a way for his board of trustees to supplement his salary.

The presidents identified a variety of ways in which serving on a corporate board was a benefit to their institutions. These ranged from networking to gaining a deeper understanding of governance to increasing opportunities for research collaboration.

These presidents also believed that "prestige" was the primary reason that corporations want a university president on their boards. In cases where a corporate headquarters was local, presidents believed that there was a benefit in terms of establishing stronger ties to their community.

Presidents were less specific in answering the last two questions. One president told us that serving as a corporate director provided him with a better perspective of how he was likely viewed by his own board of trustees. Others told us that they learned about the differences between corporate approaches to finance and developed ideas about how their universities might benefit from these understandings.

Summary

Based on our research, we conclude that serving as a corporate director has considerable financial benefits for the individual. These include directors' fees (both retainers and payments for attendance at meetings), stock awards, and option awards. In addition, some corporations provide pension and non-qualified deferred compensation plans for directors. There may be other financial benefits as well including, for example, insurance (travel, life, and other), travel, and directed charitable giving.

In addition, we can state with high confidence that these directors, especially the independent directors, are required to make a substantial time commitment—not just in terms of attending board and committee meetings, but also in conference calls, preparation time, and travel.

Potential policy issues

To date, we have found that just over half of the presidents on corporate boards in our sample led *public* colleges and universities. This brings to mind a set of questions regarding the public's interest in these presidents' service on corporate boards.

It is worth noting that presidents of these universities are nearly always among the highest-paid public executives in a state. Based on our on-going research on presidential contracts, it is increasingly common for Tier 1 (high-level) research university presidents to have multi-year contracts with total compensation exceeding $1 million per year, inclusive of benefits, bonuses, and various perks. When the value of post-presidential appointments is included (many become highly-paid faculty members), public universities often carry future liabilities for a past president into the millions of dollars.

Most high-level public executives who are elected or appointed (for instance, governors, legislators, agency heads) are subject to restrictions on their outside business activities, ethics reviews, and strict financial disclosure requirements. In contrast, presidents of public universities are rarely subject to these limitations. In fact, over the years, we've found only one president in our studies who voluntarily reduced his annual salary by some amount as a result of remuneration from board service. In addition, we've found only one proxy statement with evidence of a public university president seeking an opinion from a state ethics commission regarding receipt of compensation for service on corporate boards.

This gives rise to a fundamental question of public policy—should these public executives be allowed to receive outside compensation beyond their state salaries? If so, then a decision needs to be made as to whether the policies governing this practice should be the purview of each institution's governing board or the legislative process.

Assuming that a decision is made to allow presidents of public universities to serve on corporate boards, we also believe that there is a set of operational questions that must be addressed. These include the following.

- Are university presidents required to obtain prior approval from their own boards of trustees?
- Are public university presidents required, like other government officials, to submit to the review of an ethics commission or similar body?
- Do universities have policies, or are they considering adopting policies, to support or regulate such presidential relationships with corporations?
- Are there boundaries for this type of participation, especially in terms of real or perceived conflicts of interest, and what should these be?
- What are the appropriate mechanisms for disclosure and assuring transparency with stakeholders?

A second set of questions deals with potential advantages and disadvantages of presidential board service for institutions. Some of these might be as follows.

- Are there reasons, beyond augmenting presidential compensation packages, to appoint presidents as trustees of corporations?
- Do such appointments benefit universities (for example, in the form of research support, funding of other university projects, consulting opportunities for presidents or faculty, or employment for graduates)?
- Are presidents who serve on corporate boards more likely to promote business practices or entrepreneurial activity on their campuses?
- Do corporations influence university programs and/or research?

Until we understand more fully the extent of presidential service on corporate boards, and the motivations of corporations for seeking out university presidents, we cannot determine whether the practice benefits or harms higher education.

We close with the following question: Are university presidents who serve on corporate boards pursuing self-interests, seeking institutional legitimacy, or both? Whatever the answer, we anticipate that presidential board service has the potential to change higher education. In response, either legislatures, state agencies, and/or boards of universities (or university systems) will need to develop policies to ensure that such service supports the missions of their institutions and the needs of society.