THE AWKWARD CONVERSATION: WHAT ABOUT MY COMPENSATION?

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For most heads there is only one opportunity to ask for a better overall compensation package than what they have currently: when they negotiate their package upon accepting a new position. In other words, that is when they switch schools.

Heads have a very difficult time asking their boards to increase elements of their compensation package when they are already on the job because they are “captured”. It can be very awkward to be one’s own advocate when one already knows the “players” (the board) and one is a fixture in the community. It feels self-serving to suggest that the board or a compensation committee of the board review peer benchmarks in the marketplace and engage in a real process that enables the head to have a voice.

On the other hand, some heads (not the majority) engage an advocate, usually an attorney. This catches the board’s attention but it can appear to be an aggressive and even distasteful move.

<u>What Can an Outside Consultant Do?</u>

There are two reasons why boards turn to our Firm when it is time to offer, or renew and extend a new contract. One is to take the awkwardness out of the negotiation and turn it into a fair “facilitation” in which the head and family have a voice at the table. When this Consultant talks with board chairs about this service (since Littleford & Associates can be retained only by boards not heads), they will often begin by saying “but we have a good relationship with our head and do not want any process that might involve discomfort or confrontation.” That is exactly why the process which our Firm undertakes on behalf of the board is neither adversarial nor uncomfortable. Rather, it is a venue through which the head has a voice to articulate his/her needs and the board has a way to understand, appreciate and respond to them.

The second reason that boards hire Littleford & Associates is to benefit from the Firm’s proprietary database. In advance of the contract facilitation, we share blind data about an appropriate peer group with the Compensation Committee, and we elaborate upon it extensively in the meeting so that the Committee receives a much clearer understanding of compensation and benefit trends in the marketplace and the patterns that hold true in total head compensation. This data can be trusted to be one of the most recent and accurate available, and for US-based independent schools and nonprofits, it includes information unavailable in the public domain.

A Range of Board and Head Behaviors

Recently, the Head of the Board Support and Evaluation Committee asked this Consultant to contact their Finalist in their head of school search in order to bring the offer on the table to closure. When I spoke with the Candidate, he began to request changes to previously agreed upon terms and to escalate his other demands. The Candidate, while an experienced educator, was a first-time head of an independent school and unaware that some of his requested "upgrades" and "guarantees" were more appropriate for a long-term, proven head of an independent school. This Consultant was concerned that a protracted negotiation would undermine the good will of the Board who wanted nothing more than to make their first choice Candidate happy and secure so that he would accept the position. After educating the Candidate about reasonable expectations and norms in the independent school world for various levels of experience, this Consultant was able to barter a deal that satisfied both parties. In all such matters a modicum of trust must be in place.

In another case, a Head of a small prestigious School in the U.S. wanted her Board to hire a Consultant to benchmark her package because her responsibilities had expanded significantly as the School grew rapidly, and she was still operating under a contract negotiated several years before. Our analysis showed that schools of similar size and mission were generally providing less cash and less generous benefits overall, yet the Head was pressing for more. It was clear that this Board has enormous respect for this Head and her impressive achievements. While the Head was aware of the public relations and legal risks of her total package potentially being near "safe harbors" limits, she still could not back off her natural tendency to continue to negotiate.

Some boards appear to be "captured" by their very popular heads who seem to have an outsized influence with the board. In such cases, when the board sets compensation, it must be very careful to ensure arm's length management of contract facilitation and decision making to ensure that the package is competitive and fair to the head but also fair to the school, within its resources, and benchmarked appropriately. The optics of this information, once revealed in the public domain, is another matter for serious board consideration.

There is another Head who is at the top of his game and generally underpaid in his very competitive market. He is not someone who focuses on compensation. He does want to be paid competitively and fairly. In a recent three-year extension conversation, he asked not for a base salary increase over the three years but for two modest benefit increases. These requests were inconsequential in financial terms to the School. Yet, he was naturally surprised when the Board came back with a "split the difference" response, especially since his annual evaluations have been superlative.

The Board made a huge misstep here. It is possible that one or more Board Members felt that they had to "negotiate" the request down or the Head might think he would always get what he asked for. If this was the rationale, it was very short sighted because the response undermined at least temporarily this Head's sense of being valued by his Board. This is where hiring an outside Consultant might have helped this situation. This Consultant, even though working for the board, always speaks to the head and spouse/partner ahead of the facilitation to ensure he understands their point of view, degree of happiness, and future personal and professional goals.

In another example, a Head was experiencing challenging personal issues and tiring after many years of outstanding leadership. The Chair was a good and fair man and suggested a Skype video facilitation with our Firm involving the entire Board. This would be a delicate and difficult exercise with so many players involved. Prior to the Head joining the meeting, it was evident that a few individuals did not think there needed to be much further attention paid to the package at this time. However, once the Head spoke about his accomplishments, his goals and his family's needs, the entire board was won over by his sincerity, and honesty. Ultimately, the entire board acted with wisdom, generosity and compassion and the Head was given a fully supported sabbatical.

Finally, a Head has proven to be a star in the first three years of her first headship. Yet, after accepting the job at much lower package than the long-term predecessor had received, she began to burn the candle at both ends trying to turn the School's finances and enrollment around. She also began to network with other local school heads and found that her package was significantly lower overall than that of many of her peers. That made her feel somewhat "used." To be fair to the Board, they could not know at the time of her hiring how quickly her unique talents would change School's fortunes.

In her second and third year, the Board bumped up her base pay considerably. By the time our Firm became involved, her base salary was approaching the local market level. However, in the first three years she had depleted her savings in order to live in the location. Realizing that the Head's net worth had taken a hit, the Board gave her a significant one-time performance/resigning bonus paid over two years. The moral here is that Boards should be careful that they do benchmark the competition regularly and avoid hiring a "newbie" at a level way below market especially if that person is expected to deliver quickly on a number of key strategic goals.

<u>Conclusion</u>

At the end of the day, boards need to remember to treat heads fairly. "Fairly" means not waiting until the last minute in a contract cycle to begin discussions or engage an outside facilitator. In any case, no head ever wants to feel overlooked, unappreciated or taken for granted, and both the school and head usually need 12 to 18 months to find an alternative to each other.

Good will between the chair and the head can go very far to help ensure a fair and balanced solution. On the other hand, when the head and chair are good friends or close social partners that friendship at times may not benefit the head. A chair who is close to his/her head may feel a need to offer less so as not to appear that a personal relationship inappropriately influenced a compensation decision.

Littleford & Associates has facilitated compensation agreements for several thousand schools since 1983, often multiple times for the same school. Many of our clients retain us annually for updated benchmarks in the U.S., and international schools generally retain us every 2 or 3 years when a head's contract may come up for renewal.

Finally, it is important to remember what almost all chairs say after this facilitation: "I did not realize the power and benefit of the process itself."