

Best Practice Helps to Allay Ethical Concerns

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American philanthropy has been in the hot seat this year. In addition to fallout concerning college presidents' salaries and perks, the Chronicle of Philanthropy has documented the widening gap between the pay of chief executives at nonprofits and that of other workers at these organizations, mirroring the trend in the corporate sector. Although that differential in the academic sector is still nowhere near the spread in the business world, where CEOs on average make more than 400 times the typical worker's salary, the discrepancy remains a question mark in the minds of donors.

As the Chronicle of Philanthropy further reports, the salaries of CEOs of nonprofits rose by 16 percent from 1998 – 2003, after adjusting for inflation, while wages of other workers in these organizations rose by just eight percent. In fact, this compensation issue has become so widespread that the Senate Finance Committee and IRS are now involved, examining the salaries of nonprofit executives as part of a broader look at implied abuses in the nonprofit sector. We can and should be concerned when pay seems "too charitable."

While there are some rational explanations for this growing pay gap, none of them really addresses the public perception that its tuition and philanthropic dollars may be misspent.

On the positive side of the ledger, there is already evidence that many college boards of trustees are scrutinizing expenditures and presidential perks as part of the presidential search process, something we – and many of our colleagues – have long advocated.

Often, the "devil is in the details" of the contractual process.

Many ethical lapses are rooted in absent or ambiguous contracts; it is essential that contracts include not just the obvious – salary, benefits, and retirement benefits – but also many items that may be overlooked and later come back to haunt organizations and volunteer leadership. These include deferred compensation, insurance, faculty rank and tenure (in academe), a presidential residence, vacation and sick leave, memberships and entertainment, outside service on boards and consulting, and a retirement or exit strategy.

In addition, recent headlines have emphasized the need for nonprofit boards to exercise with greater intensity their essential fiduciary responsibility to the institutions they serve. Too many have been content to be fundraisers and advocates, without ever serving as the critical "check" on institutional spending and finances until negative publicity forces them to act. It is a hopeful sign that many universities and other boards are forming audit committees and scrutinizing accounting procedures.

Fortunately, there are many resources available to educational organizations and volunteer boards needing guidance on contractual related issues, including two Washington, DC-based organizations; the American Council on Education (ACE) and the Association of Governing Boards (AGB); and for two-year colleges, the American Association of Community Colleges.

In addition, the Council of Independent Colleges (CIC) in Washington, DC, among others, is urging its member institutions to embrace accountability and increase the use of legitimate measures of educational effectiveness. Promising nongovernmental instruments measuring student engagement in the process of

learning, including the NSSE (National Survey of Student Engagement), are already widely in use. Moreover, a newer instrument, the Collegiate Learning Assessment (CLA), measures cognitive growth; that is, how much students have learned between their freshman and senior years. Both the CLA and NSSE show that all types of institutions – public and private, small and large, selective and minimally selective – can foster highly productive institutional performance by using these measures.

In today's volatile climate in which higher education leadership is under the microscope of legislators, families, and funding sources, as well as the media, it is prudent not only to avoid suspected impropriety in the management of university resources, but to proactively implement sound and ethical practices to avoid even the appearance of misuse.

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