Benchmarking leads to a dynamic of constant growth in university leaders' pay

Based on an analysis of ten years of pay data, **Michael W. Gmeiner, Richard McManus** *and* **Adelina Gschwandtner** *shed light on the complex process used to determine salaries for top university executives in the UK and show how benchmarking against peer institutions drives growth in pay packages for Vice Chancellors (VCs).*

Vice Chancellors oversee all aspects of university strategy and operations as the top executive; however, their sizable compensation has faced mounting criticism in the context of rising student fees and debt. We aimed to quantify the role of benchmarking in VC pay growth, where it is often cited by university representatives when discussing remuneration packages. Using LASSO (Least Absolute Shrinkage and Selection Operator) regression, we identified performance measures and peer institutions most strongly tied to salary changes for each institution.

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The LASSO method is an augmented version of ordinary least squares that allows for the identification of a unique set of parameters for each university that are strongly associated with VC pay, allowing us to determine the relevant institutions for benchmarking purposes. The advantage of this is that we are not estimating a single equation of the determinants executive pay and assuming it applies to the full population of universities, but allowing each university to prioritise different factors. As not for profit institutions, there is not a clear single financial metric that provides insight into the performance of a university. Some may prioritise student recruitment, others widening participation, others research, and so on. The use of LASSO allows for each university to be treated separately, providing more insight into how higher education institutions work and the prevalence of benchmarking.

Our results revealed extensive benchmarking, with 51% of schools weighing VC pay at peer institutions as the primary driver of salaries. Benchmarking was even more prevalent among lower-paying universities. Critically, we found that lower-paying schools tend to benchmark upwards against better-compensated VCs at more prestigious universities. Meanwhile, higher-paying VCs benchmarked against schools with lower executive compensation. However, this downward adjustment was less pronounced. On average, VC salaries at schools in the bottom pay quartile (the lowest 25% of universities by VC pay) were benchmarked to peers earning £84,000 more. Those universities in the top-quartile benchmarked to schools paying VCs £45,000 less on average. This asymmetric pattern contributes to rapid pay growth overall as salaries ratchet upwards. Just 5% of universities used concrete performance metrics like research quality or student demand as the main criteria for VC pay. Even when performance was considered, the specific measures differed widely across institutions.

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When we test for asymmetric benchmarking in panel specifications (including all institutions in one population estimate) similar results are found. For universities who pay less than the average, there is evidence of a clear reversion to the mean with their pay ‘catching up’ to the average. Furthermore, for universities in the top quartile (the top 25% of universities by VC pay), no reversion to the mean is estimated and the opposite is the case; for these institutions, if the population average increases, their pay is estimated to increase even more, maintaining their relative position. These results confirm the core finding that institutions asymmetrically benchmark against competitors.

Our paper also ran simulations which showed that symmetric benchmarking, with salaries moving proportionally up or down in the direction of the mean pay level, would maintain stable compensation growth. Conversely, asymmetric benchmarking leads to runaway VC pay inflation over time. Intuitively, there is a race to the top with those on lower pay accelerating up to the average, and those on higher pay looking to maintain their distance from the average. This leads to an acceleration in remuneration beyond that which is possible for non-executive positions, where such benchmarking is not prevalent. The findings highlight shortcomings in using opaque benchmarking practices without clear performance accountability. When benchmarking dominates, pay can become detached from actual outcomes and ratchet ceaselessly upwards.

A possible solution could be regulatory reforms requiring universities to pre-commit to performance measures tied to pay and disclose VC peer groups used for benchmarking. Tying pay decisions directly to publicly stated performance goals could curb unchecked compensation growth. Symmetric benchmarking against average pay levels would also prevent the inflationary effects of upward bias; concrete performance accountability is the most direct solution.

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Regulation of remuneration committees in private companies varies across countries, but there is a global trend towards increased transparency and accountability. Many countries have established guidelines or codes of conduct to govern executive pay, emphasising the need for a clear link between performance and rewards. One common regulatory practice is to require companies to disclose detailed information about executive pay in their annual reports, allowing shareholders and the public to scrutinize the decision-making process.

Rather than chasing higher salaries at peer institutions, university boards should develop rational pay frameworks based on their schools' specific goals (analogous to CEO compensation often being tied to stock price). And they must justify pay in the context of clear progress on those objectives. While subjective benchmarking enables unjustified pay hikes, performance pay demands evidence. Greater transparency and symmetrical benchmarks would help rationalize high VC compensation. Lasting change requires moving beyond benchmarking alone to better align pay with actual contributions.

This post draws on the author's article, Keeping up with Academic Jones': Benchmarking and University Vice Chancellors' Pay in the UK, published in Higher Education Policy.

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