



Office of the Secretary

Date March 3, 2008  
To Senior Trust Executives in Market-Based Positions  
From Cristián Samper, Acting Secretary *CSamper*  
Subject Unified Compensation

As part of the governance reforms, the Regents Compensation and Human Resources Committee took on the task of developing a unified compensation policy for the Smithsonian, specifically focused on trust executive compensation. Now that the initial terms and conditions of the program have been finalized by the Committee and approved by the full Board of Regents, I would like to update you on this topic.

This has been one of the most challenging aspects of the Institution's governance reform activities and one that has a personal effect on many of us. I would like to reiterate that none of these decisions were made based on individual performance or contributions to the Institution, but rather that these changes reflect a revitalized understanding of our unique role as a public trust.

#### General Background

Both the Independent Review Committee and the Regents' Governance Committee analyzed trust executive compensation in their reports and determined that the Institution needed to adhere more closely to its general philosophy of mirroring the Federal employment system, particularly in the areas of pay and leave. It is important to note that the vast majority of the Smithsonian's employees are either Federal employees or Trust employees with pay and leave programs that closely mirror the Federal system.

In terms of leave, only 35 employees out of 6,000 (roughly 0.6 percent) were not on the Smithsonian leave system. Both the Independent Review Committee and the Governance Committee strongly recommended that all Smithsonian employees be covered by the existing leave system. Beginning September 30, 2007, all of the 35 employees were transitioned to the existing leave system.

The review of the Institution's pay practices also showed that the vast majority of employees were paid in line with Federal pay guidelines. Ninety percent of the Institution's employees are on Federal pay scales or on Trust pay scales which are

identical to the Federal scales. While over 8 percent of the Institution's employees are in Business Ventures, which has a different pay structure based on pay bands, less than 20 Business Ventures employees have salaries above the Federal salary cap for Senior Level positions.

In total, less than 1.5 percent of Smithsonian employees had salaries that exceeded the salary cap for Smithsonian Federal positions, and those were the positions that were the main focus of the Independent Review Committee and the Governance Committee. Upon review of their recommendations, the Regents decided to craft a unified compensation philosophy that expanded on the harmonized policies in place for over 98 percent of the Institution's employees.

The general goals of unified compensation were to harmonize the pay and leave practices of Smithsonian Trust and Federal executives and set up specific criteria for those few instances where the practices would not be harmonized. Using PricewaterhouseCoopers as an expert consultant in this area, the Regents' Compensation and Human Resources Committee developed a comprehensive unified compensation approach.

#### Unified Compensation Program

The heart of the unified compensation program is the recognition that the Smithsonian is not like other nonprofit organizations, nor is it like other Federal agencies. Our hybrid nature requires an approach that balances our public trust nature with the unique aspects of our work that are not generally found in the Federal sector.

The overarching philosophy of our new unified compensation system is that we should strive for internal comparability between Federal and Trust executives, as we do for our non-executive employees. This translates to generally following the Federal guidelines for pay for senior level positions and only varying from them in limited instances where the job functions do not exist in the Federal sector or if there is not a bona fide candidate pool in the Federal sector. In essence, the Federal job market is the appropriate comparator market for many of our positions.

The two conditions described above were developed by PricewaterhouseCoopers and endorsed by the Regents as the determinants for whether a trust executive position will have a Federal equivalent compensation or market-based compensation. Once those tests were finalized, every Trust AE position was evaluated against those criteria. The consultant prepared their evaluation of every senior position, and the non-senior positions were reviewed by the Office of Human Resources. After much internal review and extended discussion, I made final determinations and presented them to the Regents.

Overall, only 66 positions were determined to be market based, while 38 positions will be moved to a Federal equivalent approach. All newly-created ungraded trust positions will also be similarly evaluated and categorized for pay setting purposes.

Your position was determined to be market based, and a synopsis of that approach follows.

### Market-Based Compensation Approach

The market-based approach features position-specific compensation comparable studies for specific positions, with compensation decisions based on internal salary increase and award guidelines, documented performance, and the comparable salary and total cash data. When determining comparables, the Institution will focus on nonprofit organizations and publicly-funded universities as much as possible and turn to profit organizations for comparables only in the absence of data from our target groups.

It is the Institution's general compensation philosophy for market-based positions that Smithsonian executives are determined to be competitively paid if their compensation falls within plus or minus 15 percent of the 50<sup>th</sup> percentile determined by the compensation study. Additionally, the Institution considers incumbent-specific factors when making compensation decisions, so in some cases compensation may fall outside these established parameters.

There are positions in this category for which position-specific compensation studies are not conducted. These positions include Trust executives who are not museum or research institute directors or who are in subordinate positions within organizations. For positions like those, the Institution relies on internal salary increase and award guidelines, the internal salary and compensation market, and documented performance when making compensation decisions.

It is important to me that you understand these processes, particularly as they impact you individually. I have asked Human Resources to contact you and offer to go over the specific grandfathering conditions as they relate to your salary and compensation.

### Future Steps

As we worked with the Regents on this challenging task, it became apparent that we needed to refine our designations of Trust executives in the Administratively Exempt (AE) pay plan. This pay plan currently covers a group of Trust employees ranging from research assistants to museum directors, executives and scientists, managers and staff. In order to better define the terms of conditions associated with different categories of AE employees, we will be placing each AE positions into one of the following designations:

SD - Secretary Designated positions. These at will positions will be the most senior positions in the Institution, with leadership responsibilities for major museums, research institutes, and administrative programs.

- SE - Trust Executive positions. These are Trust executive positions throughout the Institution that provide critical leadership and management but are not at the SD level.
- IL - Trust senior staff positions. These are senior non-supervisory positions, such as scientists, technical staff, and other senior positions with more technical responsibilities than management duties.
- AE - Trust junior positions outside of the graded system. These positions should occur infrequently, but would include non-senior positions closely associated with high-level policy-making or management positions, high-ranking development staff in museums, or other positions where the graded IS structure is not appropriate. Again, these should be very rare, and as part of our unified compensation approach we will be reviewing these positions to determine if they should be placed on the IS scale.

As I stated earlier, this task has been one of the most visible and challenging governance reforms as it relates to our executive ranks. I encourage you to take advantage of the opportunity to meet with Human Resources staff.

If, in the meantime, you have any immediate questions, you may contact Greg Bettwy, Associate Director, Office of Human Resources, on (202) 633-6287 or at [bettwyg@si.edu](mailto:bettwyg@si.edu).