

## **SoE Prologue to the Supplemental Compensation Guidelines**

Approval to pay supplemental compensation hinges on **three things**.

**First**, the activity must be one that is considered appropriate for supplemental compensation. Such activities are listed in Section I of the supplemental compensation guidelines.

**Second**, the individual undertaking the activity must be approved for supplemental compensation. This is described in Section II of the guidelines.

**Third**, the unit seeking to pay for the activity must be granted permission to pay supplemental compensation. The Professional Education Program in the School of Engineering and the Sloan School's Executive Education Program have blanket approval to pay supplemental compensation, provided they adhere to the guidelines. Certain international initiatives, e.g. SUTD and Skoltech, are also permitted to pay supplemental compensation, provided they adhere to the guidelines, and do not have to seek approval each time they wish to pay supplemental comp. A list of the programs that not named in the supplemental comp guidelines but *have* approval to pay supplemental compensation appears below.

**Only the Provost** can grant a unit permission to pay supplemental compensation, whether the unit seeks to pay supplemental compensation on a one-time basis or on an ongoing basis.

In the absence of prior approval (of the activity, the individual and unit), requests for approval to pay supplemental compensation should be sent by the unit seeking to pay the supplemental compensation to that unit's senior officer. If the request is for one-time approval and the individual to whom the unit seeks to pay supplemental compensation is from a different area, that other area's senior officer must be consulted. If the senior officer(s) endorses the request, it should be forwarded to the Provost's Office for final approval.

### **Programs Pre-Approved to Pay Supplemental Compensation using the Supplemental Comp Guidelines**

(Other than the programs already listed in the Supplemental Compensation Guidelines)

CTL's international initiatives with Zaragoza, Colombia and Malaysia as well as several an executive ed course entitled, "Supply Chain Management: Driving Strategic Advantage".

Master of Transportation in Logistics (Supply Chain Management)

NSE's executive ed courses in Reactor Technology, Nuclear Operations Risk Management and its Emerit Nuclear Education Course (currently defunct). Currently seeking permission to pay supplemental compensation for new course designed for the leaders responsible for building new nuclear energy programs around the world.

CTL - Zaragoza

MIT Portugal Program

Skoltech

SUTD

MITx

KFUPM

MIT/MITEI China Low Carbon Energy Leaders Program (May 2015)

CTL – Luxembourg

CTL - China

February 3, 2016

**MIT Compensation Guidelines for Special Activities and Programs**  
**Effective July 2012**

**I. Special activities and programs for which MIT faculty members and other eligible individuals at MIT may receive supplemental compensation (and that must be reported as compensated activity on the Outside Professional Activities form).**

Teaching and associated activities (as defined later in this document) in:

- Executive/professional education programs that have been approved by the Provost;
- Special courses offered under the auspices of the Sloan Executive Education program and the Professional Education program in the School of Engineering;
- Auxiliary programs in support of degree education (language workshops, etc.). (Normally, these are activities that are externally funded, and/or that occur during the summer months.);
- in the summer for the Sloan Fellows, Leaders for Global Operations, System Design and Management, and Masters in Finance;
- the SDM certificate program (other than teaching in for-credit subjects) during IAP; and
- the Sloan Executive MBA Program during the academic year and summer terms

Teaching, hosting fellows, institution building and associated activities (as defined later in this document) in international initiatives that have been granted explicit approval by the Provost to pay supplemental compensation;

Other initiatives approved by the Provost and, in limited circumstances, strategic developmental activities pre-approved by the Dean of the School;

Contributions to Technology Review (i.e., writing print or on-line stories);

Re-use of Digitized Materials

For programs approved for supplemental compensation by the Dean or Provost, as described in this document, the academic dean or dean's designee may establish the procedure for the review of supplemental compensation requests.

For programs and activities not already approved by the Provost, approval for supplemental compensation by the Provost must be obtained in advance of the work to be performed.

MIT faculty members and staff members may not receive supplemental compensation for teaching and related activities conducted during the academic year in MIT degree programs, except for the Sloan Executive MBA Program.

Supplemental compensation is not available for research activities.

**II. The following appointees are eligible for supplemental compensation, assuming the activity has been approved for supplemental compensation and** provided the number of days of compensation (or activity) is within Institute guidelines regarding consulting privileges:

- Faculty
- Adjunct Professors, Associate Adjunct Professors, Professors of the Practice and Associate Professors of the Practice
- Senior Research Associates/Scientists/Engineers
- Senior Lecturers
- Principal Research Associates/Scientists/Engineers

No one may approve his or her own supplemental compensation. Individuals may not authorize themselves or members of their family to undertake activities that will provide them with supplemental compensation. When a unit responsible for a program or activity works to engage the services of an individual outside that unit's school, the unit should seek approval in advance of the activity from the individual's department head, center or lab director, or academic dean, or senior officer. Supplemental compensation for an academic dean must be approved in advance of the activity by the Provost.

Staff who may otherwise not have consulting privileges may receive supplemental compensation for participation in programs if their full-time equivalent appointment is less than 100%. In such cases, such individuals are eligible to receive one day per week of compensation for each 20% full-time equivalent reduced level of appointment (for example, an appointment of 80% would provide for one day per week of supplemental compensation, an appointment of 60% would provide for two days per week of supplemental compensation.)

On an exception basis, non-research staff with full-time appointments may be eligible for supplemental compensation related to their participation in the above noted programs only if they have obtained special approval in advance of the activity from the relevant department head and academic dean.

### **III. Rates of compensation**

The rates described in this document represent maximum rates of compensation. By agreement with the faculty members involved, lower rates may be used. In unusual circumstances, the relevant academic dean, with approval from the Provost, may establish alternative compensation arrangements, e.g. an administrative supplement.

The policies are also applicable for individuals performing such work who do not hold an MIT appointment; exceptions to such arrangements must be approved in advance of the work by the Dean.

In addition to the requirements for advance approval described above or included in the footnotes to the tables that follow, if any program or activity is likely to entail paying any individual more than \$46,000 in supplemental compensation per engagement, it must be approved in advance of the activity by the dean of the school in which the faculty member holds his or her primary appointment.

• **MIT non-degree executive/professional education programs:**

Normally, supplemental compensation for teaching, (program) faculty directing, program development, curriculum development, case writing, project mentoring and coaching will follow the guidelines presented below. Teaching sessions are normally 90 minutes each. Teaching rates include any time required for routine preparation of content and materials for the Teaching Sessions.

Teaching Rate per Session (normally four sessions/day)	<p>Domestic non-degree executive programs (hosted in US and Canada): up to \$2,300/session. *, **</p> <p>International non-degree executive programs (hosted outside the US or Canada): up to \$3,000/session*, **</p> <p>*For two-day Sloan programs, additional compensation of \$300 per incremental participant above 80 may normally be added per course</p> <p>** An exception up to 10% may be considered when justified on a market-adjustment basis, by the academic dean or the dean's designee</p>
Faculty Director Fee <sup>1</sup>	<p>Normally up to \$1,500/day*</p> <p>* varies depending on level of effort, and involvement in program delivery</p>
Program Development, Curriculum Development, Case Writing, and Attending another faculty's session	<p>With prior approval by the academic dean or dean's designee, up to \$6,000 per eight hours</p>
Coaching Fee <sup>2</sup>	<p>Normally, up to \$500/ Session</p>
Project Mentoring	<p>Up to \$750 per 90-minute session, normally up to \$3,000 per project team</p>

<sup>1</sup>The normal Faculty Director (FD) fee of \$1,500/day covers recruitment of faculty, coordination of sessions, and participation in introduction and closing sessions; the fee may be higher if the FD is more actively involved in program administration and delivery. Any FD fee above \$3,000/day must be approved by the Dean in advance and reviewed by the Provost annually. FD fees may only be paid when a program involves two or more faculty. Faculty Directors may receive daily FD fees in addition to teaching fees, even if the total compensation per day exceeds \$9200.

<sup>2</sup> Coaching is typically performed by non-MIT faculty. It typically is for individuals or teams, and may be conducted in person or remotely. Example 1: In the MIT Sloan Open Enrollment “Entrepreneurship Development Program” entrepreneurs are engaged to coach teams preparing for their final business plan presentations. Example 2: Leadership development coaching based on the Sloan Leadership Model for students in the MBA and Sloan Fellows Programs conducted by Senior Lecturers and consultants.

In exceptional cases, it may be possible to receive compensation for course-related activities other than those noted above provided the activities proposed for supplemental compensation on an exception basis are part of an existing collaboration (that is, a signed partnership or collaboration agreement). All such payments must be approved in advance of the work by the Provost.

- **International Initiatives**

When the Provost approves the payment of supplemental compensation for an international activity, the rates of payment for participation in an international program (excluding MIT non-degree international executive education programs as outlined above) are shown in the table below. There will be no supplemental compensation for travel days.

In exceptional cases, it may be possible to receive compensation for course-related activities and other related international activities other than those noted below provided the activities proposed for supplemental compensation on an exception basis are part of an existing collaboration (that is, a signed partnership or collaboration agreement). All such payments must be approved in advance of the work by the Provost.

Teaching Rate per session (normally four sessions per day), to include all routine preparation	International non-MIT degree programs: up to \$2,300/session
Program and Curriculum Development and Case Writing	Normally, up to \$6,000/day with prior approval by the academic dean or dean’s designee
Institution building <sup>3</sup> (including faculty development, curriculum sharing, seminars, advisory activities)	\$3,000 per day
International faculty fellow (IFF) and Visiting Fellow hosting <sup>4</sup>	Up to \$5,000 per IFF per term

<sup>3</sup> It is possible for a faculty member to receive (additional) supplemental compensation for teaching on the same day he or she receives the fee for non-teaching activities other than program or curriculum development. In this case, the fee will be pro-rated. For example, if a faculty member teaches one session in a non-MIT degree international program and participates in institution building for the remainder of the day, the payment would be up to \$4,550.

<sup>4</sup>An MIT faculty member serves as the advisor/mentor to the faculty member from international collaborating institution. The faculty advisor/mentor offers guidance to the IFF in areas such as curriculum development and pedagogy. The faculty shares approaches to education and learns from the IFFs about various aspects of education from the institution they represent.

- **Degree Program teaching during the summer: Sloan Fellows, LGO, SDM and Masters in Finance; and degree teaching during the academic year and summer for Executive MBA**

Individuals teaching during the summer for the Sloan Fellows, LGO, SDM, and Masters in Finance program may be paid from \$1,000 up to \$2,300 per teaching session (this rate may be adjusted on a year-to-year basis with the approval of the Provost), or as part of the regular teaching load. There are normally four teaching sessions per day.

Individuals teaching during the academic year and summer for the Executive MBA degree program may be paid up to \$2,300 per teaching session. There are normally four teaching sessions per day.

This rate for teaching in Sloan programs will include routine preparation of content and materials. An exception up to 10% may be considered when justified on a market-adjustment basis, by the Deputy Dean for Faculty.

In exceptional cases, it may be possible to receive compensation for course-related activities other than teaching (e.g., program directorship, module directorship, entirely new curriculum development, attending other classes for coordination) at the rate of up to \$6,000 per day. All such payments must be approved in advance of the work by the academic dean or dean's designee.

Project mentoring and coaching may be paid up to \$750 per 90-minute session, up to \$3,000 per team.

#### **IV. Payment of Supplemental Compensation is arranged as follows:**

When one MIT department or program seeks the engagement of an individual from another MIT department or program, approval for supplemental compensation is customarily obtained from the individual's home department before the work is performed, except in the case of SoE faculty teaching in PE.

After the unit for which the work is to be done has obtained prior approval for supplemental compensation from the individual's home department, as needed, the unit for which the work is done should initiate the payment through the individual's department.

Requests for supplemental compensation for activities other than teaching must include an invoice or equivalent document detailing the terms of engagement, and the nature of the work performed.

No incremental benefits are paid in connection with supplemental compensation.

#### **V. Reporting of Compensation**

Those who receive supplemental compensation must report it as compensated activity in their annual report of outside professional activities.

Days of outside professional activity will normally be computed based on sessions / four or total compensation /\$6,000; or when other rates are used, the proration for OPA days for this effort will be computed on the basis of the rate per session times four (for example, if the agreed upon rate is \$2,300 per 90-minute session, then OPA days will be computed as total compensation divided by \$9,200). Another algorithm may be used, with the approval of the relevant academic dean and the Provost.

#### **VI. Compensation for re-use of Digitized Materials**

We recognize the growing opportunities afforded to our non-degree executive/professional education and international activities by leveraging our investment in the preparation of educational materials through the production of digitized products. Payments will be made as royalties for re-utilization of such digitized educational materials as covered in the document "Sharing of Revenues from Educational Materials Used in Professional/Executive Educational Activities" dated June 2005 and appended to this document.



# Sharing of Revenues from Educational Materials Used in Professional/Executive Educational Activities

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June 2005 (revision 2.5b)

## EXECUTIVE SUMMARY

### Purpose

Professional/executive education furthers MIT's overall educational mission "to contribute to society through excellence in education, research and public service." It showcases our excellence and leadership in research and education, impacts professional practice, and fulfills our mandate to provide lifelong learning opportunities to alumni and other professionals. It also provides important feedback regarding the quality and relevance of our education and research activities, and it facilitates the integration of industry knowledge into MIT teaching and research.

The purpose of this document is to outline the policy for sharing of revenue from reusable educational materials in non-credit professional/executive educational activities. This policy will form the basis for explicit voluntary agreements between the faculty (who provide the content) and MIT (the Institute, the School/Department, and the business unit that develops and delivers the content). The objective is that the development of a clear, rational, and uniformly applied policy will help promote these activities and the productive participation and collaboration of all involved.

### Scope

This document proposes a model for sharing of revenue from the use and/or reuse of (primarily digitized) educational materials in MIT's professional/executive educational activities. These activities are non-credit offerings that involve significant use of MIT resources and/or name and/or ongoing involvement of MIT in their development and use. Such activities are generally not part of the faculty's normal teaching duties, and the time directly spent by the faculty in these activities is typically compensated in the form of supplemental compensation as part of their outside professional activities. The policy proposed here considers the sharing of revenue derived from the value added to professional/executive educational offerings that involve the use/reuse of educational materials.<sup>1</sup> The present policy complements the existing supplemental compensation guidelines for direct faculty time, and these together are subject to MIT's conflict of interest and commitment stipulations already in place.

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<sup>1</sup> Excluded from this are materials that are already openly/freely available, such as OCW, or whose IP does not belong to the faculty.

## Recommendation

The School of Engineering and Sloan School of Management recommend a simple Institute-wide revenue sharing policy that will apply uniformly across MIT, and across programs/activities that exploit reusable educational material in various forms. The policy provides the necessary incentives for the business unit to operate as an enterprise with objectives in terms of program growth, efficiency, and cost management that are aligned with the Institute, the School/Department, and the faculty, in a transparent way.

The key aspects of the proposed policy are:

1. For each program or activity involving reusable educational materials, a determination will be made up front of the attributed value<sup>2</sup> of those materials as a fraction of total revenue of the offering.
2. A standard share (30%)<sup>3</sup> of the attributed value will be set aside for revenue sharing.
3. This revenue sharing/royalty pool<sup>4</sup> will be distributed through the TLO to the faculty, the School/Department, and to MIT, according to the time honored 1/3-1/3-1/3 rule. Where multiple faculty or multiple schools/departments are involved in the creation of the materials, the respective 1/3 shares are to be distributed in a proportionate or mutually agreed manner.

*We emphasize again the voluntary nature of the agreements between the faculty and MIT for which the present policy forms a basis.*

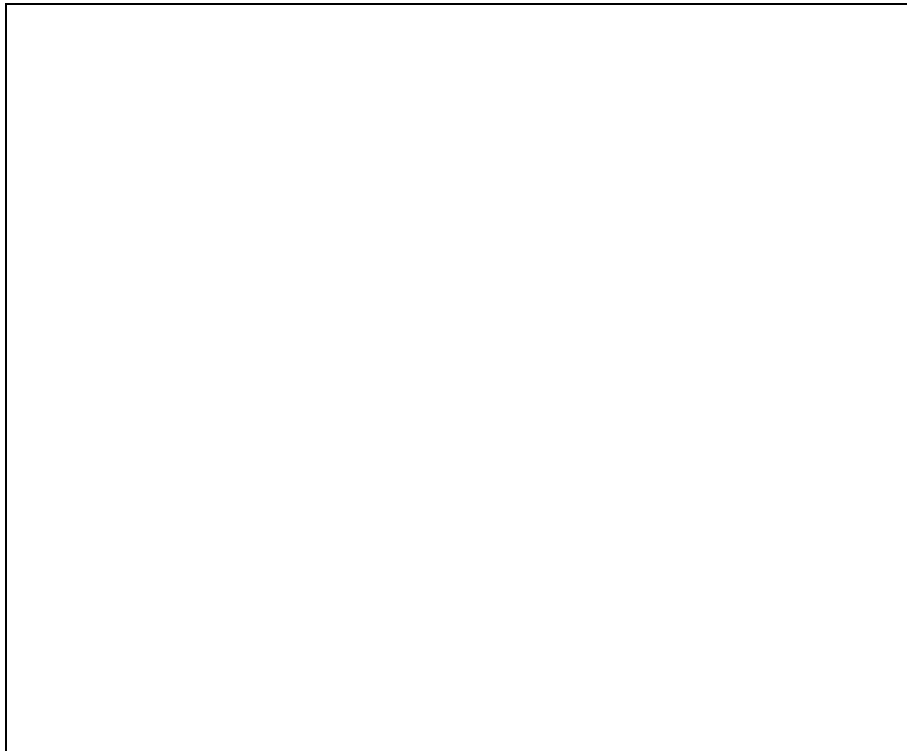
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<sup>2</sup> Appendix II describes how this value is determined.

<sup>3</sup> This percentage is to be reviewed periodically by the Provost and adjusted accordingly.

<sup>4</sup> Less a fee to TLO of 5% of the pool.

Schematic of the proposed policy for sharing of revenue from educational materials.



***APPENDIX I: TYPES OF PROFESSIONAL/EXECUTIVE EDUCATIONAL ACTIVITIES***

Professional/executive educational activities by faculty that are not part of their normal teaching duties<sup>5</sup> fall into several broad categories in terms of their implications for IP and revenue sharing:

I. MIT non-credit offerings

- Significant use of MIT resources
- Significant use of MIT name
- Ongoing involvement of MIT (in development, marketing, etc)
- Typically compensated in the form of supplemental compensation with time counted as part of faculty outside professional activities

II. Faculty offerings not directly related to MIT

- No significant use of MIT resources
- No significant use of MIT name
- Part of faculty outside professional activities
- Institute and School policies regarding conflict of commitment (still) apply<sup>6</sup>

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<sup>5</sup> We do not consider MIT credit courses offered on campus or on-line since these are normally “on-load”/internal activities, although supplemental compensation may be paid for these activities during, for example, the summer term.

III. “Traditional” textbooks by faculty

IV. Major MIT programs operating under special MIT arrangements and approvals, e.g., SMA, and other large custom education programs that are treated as part of the normal teaching load.

Each of these categories has its own guidelines and requirements/process for approval.

The subject of this memo is the principles and policies for sharing of revenue from the use and/or reuse of educational materials<sup>7</sup> developed and/or used under category I above.

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<sup>6</sup> In addition to the Institute’s Conflict of Interest/Commitment regulations, individual Schools may have their own supplementary rules and regulations regarding these conflicts.

<sup>7</sup> These commonly include video taped lectures, and multi-media presentations and educational tools, but also include educational materials such as tests, problem sets, workbooks or other print material not considered to be textbooks.

## **APPENDIX II: ATTRIBUTED VALUE AND ROYALTY DISTRIBUTION**

The royalty distribution for digitized materials is calculated based on the value attributed to these materials. Attributed value can be equal to, or less than the gross revenues, depending on the type of program or offering.

Value attributed to educational materials

***The value attributed to digital educational materials will be determined as follows:***

1. If educational materials are sold on a stand-alone basis (a “pure sale”), assessment of their market value as a basis for revenue sharing is straightforward: it is simply the gross revenue.<sup>8</sup>
2. In the case of blended programs (see Appendix III) where reusable materials are combined with face-to-face teaching and possibly online discussion groups and other third-party involvement and materials, and the value is included in the overall value of the program, the business units will establish the value attributed to the educational materials up front based on arms-length assessment of market value of comparable direct sales or offerings, typically on a per unit basis and/or the centrality of the reusable material to the core course content.

### ***Royalty distribution***

The 30% royalty distribution is to be shared among the faculty, School/department, and the Institute according to the time-honored 1/3-1/3-1/3 (faculty-school-institute) rule.

In the case of an offering that involves reusable educational materials created by multiple faculty members, an equitable revenue sharing model must take into account the portion of the offering that should be attributed to each faculty up front. In most cases, this can be established in an objective and mutually acceptable way.

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<sup>8</sup> Defined as actual dollar revenues received by MIT (e.g., when a discount is applied, the discounted price is the gross revenue; or in the case where the business unit chooses to enter into a distribution agreement with an external organization, gross revenues are revenues returned to MIT under that agreement).

### **APPENDIX III: KEY DISTINCTIONS RELATED TO THE SHARING OF REVENUE FROM EDUCATIONAL MATERIALS**

In developing a revenue sharing model for the use/reuse of educational materials a number of key issues were addressed. The following distinctions inform this policy:

#### **A. *Blended programs vs. programs involving only reusable materials***

- Professional/executive education programs may involve a combination of face-to-face teaching, educational materials which might be reusable, as well as third party elements (e.g. facilitation, coaching, moderating of on-line learning, etc). The compensation to faculty for face-to-face activity and curriculum development is currently covered by supplemental compensation guidelines, but there are now no established compensation guidelines regarding the reusable materials.
- A compensation scheme must be able to accommodate the full spectrum of combinations, ranging from the traditional 100% face to face teaching to an essentially revenue sharing publication mode, taking into account possible third party inputs as well. Given that MIT already has an “input-based” compensation scheme in place for contemporaneous activities (supplemental compensation for face-to-face sessions, curriculum development, and program directorship), we propose to retain it for that component. The issue at hand is to devise a (separate) revenue sharing scheme for the reuse of educational materials that is desirable and workable in terms of fairness, incentives, simplicity, and broad applicability.
- The value attributed to the educational materials reflects the risk, development costs, and indirect costs of the business unit, allowing it to generate a reasonable net surplus on average over time. It must be in line with normal commercial terms that faculty might encounter if they exploit their educational IP outside of MIT (subject to conflict of commitment provisions).

#### **Cost Recovery**

- Under this scheme, development costs are recovered through the residual going to the MIT business unit, an “indirect recovery model”.<sup>9</sup> A key advantage of the indirect recovery model with regard to development costs is its simplicity. Development costs do not need to be carried forward for each product, and complex allocations of joint costs can be avoided. Another advantage is that it provides strong incentives to the business unit to control

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<sup>9</sup> The business unit should be distinguished from a production or development unit such as AMPs that may perform services on a cost (plus) basis. The business unit sets product and marketing strategy and provides the risk capital for specific products or programs.

development costs and eliminates the ability of the business unit to “pad” these costs with unrelated/unnecessary expenditures, thus removing a major source of friction with faculty and, consequently, reducing the demand for information by the faculty as well.

***Enterprise model for the (MIT) business unit***

- The revenue sharing model should help provide the proper incentives to the MIT business unit(s) (e.g. SoE’s Office of Professional Education Programs, SSM’s Office of Executive Education) that works with the faculty to develop/market these materials, as well as the faculty, towards efficiencies, effectiveness, quality and competitive best practices. In this regard, an “enterprise” model is preferred over traditional cost-plus or need-based budget models that apply to many core MIT functions. By enterprise model, we refer to the situation where the business unit receives revenues, covers costs, and returns the residual contribution (with appropriate sharing with the Institute and faculty) rather than receiving some markup on its costs.

***Fiscal treatment of revenue sharing from educational IP***

Revenue sharing from educational IP must be segregated from regular and supplemental compensation for faculty tax purposes and from Institute educational and research activities for reasons of tax and sponsored research base management.

- It should go to faculty as 1099 income and should be treated as income from educational IP by MIT. This suggests taking the “distribution” off the top of any external engagement and channeling it through the TLO, which in turn would distribute the 1/3’s to faculty member, school/department, and Institute. Since the Institute would be receiving a 1/3 share in such cases, the receipts by the Schools under this structure would not be subject to a further sharing with the Institute. This also requires that the amount to be distributed can be calculated “up front” and not be subject to ex post adjustments.
- It is our understanding that the TLO would be willing to process such distributions for a fee of 5% of the distribution value.