



Leadership Matters

Vol. 1, No. 5

Compensation

MAY 2004

DEAR FRIENDS:

Compensation is a tricky issue in the nonprofit sector. Most leaders enter the sector to pursue a life's calling, and it is at best an uncomfortable proposition to put a price on that personal mission. Although we sometimes call ourselves the "voluntary sector," a professional class of managers, formally trained to develop and run "social enterprises," increasingly leads charitable organizations. People are making their careers in the sector, paying mortgages and raising children on nonprofit paychecks.

The public is clearly of two minds on the issue. They want the scarce resources of most charitable institutions to leverage the greatest possible social impact which would seem to require formal management training and the salaries that such credentials command. On the other hand, they consistently cite "high overhead" as the area they would least like to see their donations support.

For the past few months, we've been talking to our members about money how much they earn, how they talk about it with their managers and boards, and how sustainable their compensation is. Through an online member survey and several focus group discussions with executive directors, HR directors, and COOs, we have formed a view of practices among our members.

While our respondents were broadly satisfied with their compensation, we see three challenges looming on the horizon: 1) the pressure on nonprofits to hold down overhead expenses while still attracting top management talent; 2) the increasing desire for robust retirement savings plans, given the aging workforce; and 3) the rising cost of health insurance and the effect that it will have on nonprofits' ability to pay competitive salaries.

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A monthly digest of lessons learned from the Bridgestar community

Bridgestar Compensation Study

How comfortable are nonprofit employees in talking with their managers or boards about compensation? Do they see their salaries as fair? Sustainable? What might be done to make their compensation more sustainable?

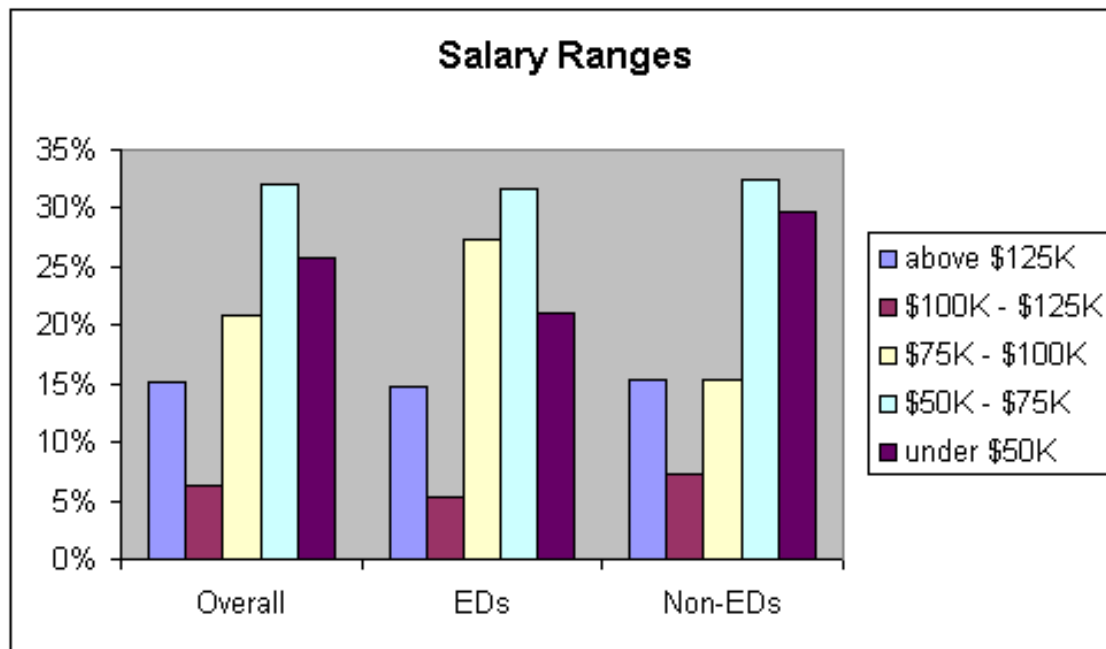
With these questions in mind, Bridgestar invited 675 members who were currently employed in the nonprofit sector to participate in an online survey regarding their perspectives on compensation practices. 206 members completed the survey in February 2004, representing a 31% response rate. 46% of respondents were executive directors, 54% were employed in other senior management positions.

While the survey responses help shape a view of prevailing practices and experiences among Bridgestar members, we do not present the findings as necessarily representative of the nonprofit sector as a whole. Nevertheless, we believe that these responses indicate some important trends.

[Read The Complete Bridgestar Article](#)

Question:

→ **How should the board determine a fair compensation package for the CEO?**



Answer:

You and your colleagues on the board could identify around 10 local nonprofits against which to benchmark the ED's compensation. You should go for organizations that are in the same budget range and have similar staffing structures. Being in a related field is also helpful. You can go to www.guidestar.org and pull the most recent IRS 990 filing for each of the 10 benchmark organizations and review the salary of the chief executive, which usually appears in the listing of the top 5 salaries over \$50k. Some CEOs hold the title of president and have their compensation listed under officers rather than employees. You will get a decent sense of whether you need to dig much deeper.

If you use this or another benchmarking method and would like to give us feedback, please email compensation@bridgestar.org. Thanks!

Do You Have A Question?

Bridgestar is building a peer network of senior nonprofit leaders. Over the next few months, you will have the opportunity to find real-world solutions from your fellow Bridgestar members. You will also have the chance to help your colleagues by sharing your own experiences. **Please look for an online survey from Bridgestar in your inbox in the next few weeks.** We'll be asking you to identify areas in which you would appreciate some advice, as well as areas in which you would feel comfortable providing ideas.

Do You Have An Answer?



Connections to articles and resources on compensation

[How Much is Enough?](#)

Jim Heskett

Source: [Working Knowledge](#) May 3, 2004

Recent estimates suggest that U.S. business organizations have attained the greatest disparity between the highest and lowest paid members of any in the world and not by just a little. A growing number of observers are beginning to argue that this can't be a good thing for employees and their morale, customers, investors, or even American competitiveness. Now a case is being made for the possibility that this may not even satisfy the deep-seated needs of those anointed with mega-rewards, especially if each successive increase only leads to an even higher expectation on the part of those obsessed with "scorekeeping," regardless of their performance.

[Chief Executive Compensation: A Guide for Nonprofit Boards](#)

Source: [BoardSource](#)

Now more than ever, nonprofits must compete for talented executive leadership. And salaries of nonprofit executives have been under increasing public scrutiny. Nonprofit boards must be able to craft a competitive salary and benefits package that not only reflects the values of the organization, but helps to attract and retain the right chief executive for the job. Chief Executive Compensation discusses the factors that affect compensation including the organization's budget and staff size, the candidate's experience and abilities, and the geographic location of the organization.

[Executive Compensation in the Nonprofit Sector: New Findings and Policy Implications](#)

Eric C. Twombly, Marie Gantz

Source: [Urban Institute](#) - December 2001

The growth of salaries and benefits for nonprofit officers has been significantly more controversial than increasing executive compensation in the corporate sector. Even government regulators have taken notice, as evidenced by the temporary regulations recently passed by the Internal Revenue Service (IRS). Related to public concern that large executive salaries are incompatible with charitable activity, these regulations allow the IRS to assess excise taxes against executives of nonprofits that provide disproportionately high or excessive compensation to their employees. However, in an economy that offers an increasing array of opportunities for executives, some scholars and nonprofit leaders suggest that charities must offer to top executives wages and benefits that are comparable with those in the for-profit sector.

[The Price of Doing Good: Executive Compensation in Nonprofit Organizations](#)

Peter Frumkin, Elizabeth K. Keating

Source: [Hauser Center for Nonprofit Organizations](#), Harvard University - October 2001

Our analysis indicates that nonprofit executive compensation is not significantly related to CEO performance, as measured either by improved fund-raising results or better administrative efficiency. This weak pay-for-performance link may be due in part to nonprofits' concern about violating the non-distribution constraint in the sector, which prohibits the distribution of excess earnings. While nonprofits may not be breaching the letter of the law, some organizations appear to challenge its spirit: We present evidence that CEO compensation is significantly higher in organizations where free cash flows is present, as measured by commercial revenues, liquid assets and investment portfolios.

[Executive Compensation: Nonprofit Organizations Face Unique Problems](#)

Source: [Kern, DeWenter, Viere, Ltd.](#)

When it comes to executive compensation, nonprofit organizations face some unique considerations not encountered by for-profit companies. Nonprofits must grapple with private inurement rules, and their compensation packages must be structured without the benefit of stock options or other equity arrangements. It is still possible, however, to reward employees of nonprofit organizations for their part in the organization's growth. To do so, we will start by examining some basic concepts of compensation in nonprofit organizations, including private inurement. Then, we will discuss some specific compensation ideas for executives.

[Nonprofit Compensation, Benefits, and Employment Law](#)

David G. Samuels, Howard Pianko

Source: John Wiley & Sons - 1998

Issues surrounding executive compensation, employee benefits, and employment law are becoming increasingly important to nonprofits. And with the recent passage of intermediate sanctions, the government has signaled that they will be watching compensation and benefits of nonprofits very closely. This timely book fills the growing need by nonprofit executives for an accessible guide to legislation, case law, and IRS regulations.



Job Posting of the Month

Citizen Schools

[Executive Director - National Network](#)

Boston, MA



Founded in 1995, Citizen Schools provides after school and summer programs for more than 1,000 students, aged 9-14, at campuses (program sites) in Boston and around the country. With a mission of educating students and building strong communities, Citizen Schools works with community volunteers and front-line educators to deliver a creative and effective learning model that addresses community needs while building student skills through hands-on experiential learning activities.

The Executive Director, National Network will proactively lead and manage the national network of 12 cities – each with tailored and complex partnerships/relationships - while simultaneously expanding Citizen Schools' national outreach to 25 cities within the next five years. This latter expansion will be achieved through: 1. Further developing the existing affiliate model, and 2. Implementing and operationalizing a new franchise model. This doubling of the national network is critical to Citizen Schools' mission, and the successful Executive Director, National Network will play an active role in driving the organization's expansion and impact toward the ultimate goal: public policy reform.

[Browse Bridgestar Job Postings](#)

[Post Your Resume with Bridgestar](#)



Board Posting of the Month

[Cambridge Family & Children's Service](#)

Cambridge, MA



Founded as the Avon Home, an orphanage for local poor children, today the agency strengthens families and serves children by offering adoption, foster care, developmental disability services, volunteer mentoring and adolescent residential services.

We are especially interested in recruiting board members who have experience with financial turnaround, property management, fund raising, strategic planning and infrastructure building in a growing organization. Previous board service and board development experience is a plus.

Year organization achieved nonprofit status: 1873

Board Size: 26

Board meets: Monthly

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