



*DHR International*

## **NONPROFIT PRACTICE**

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### **DHR International**

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*Strategic Compensation*

# **Strategic Compensation for Nonprofits**

*Competitiveness*

Determining fair and competitive compensation for nonprofit executives is a delicate process.

Most nonprofit Board members and executives understand that it involves methodical benchmarking, thorough budgeting, skillful negotiation and careful consideration of other internal and external factors, many of which are beyond the nonprofit's control.

*Fair and Reasonable*

DHR's Nonprofit Practice has developed significant expertise in this area. We help nonprofits improve their organizational effectiveness by creating best practices in nonprofit compensation.

*Executive Retention*

Our team has years of demonstrated experience providing compensation expertise to numerous organizations nation-wide, including cultural organizations and educational nonprofits.

*Intermediate Sanctions*

## Compensation Consulting

### Market Competitiveness

The compensation of executives at top nonprofits has risen dramatically over the past decade. Although the rate of increase began to slow in 2004, organizations that wish to retain their high-performing executives should be aware of the market rate for nonprofit executives; moreover, nonprofits are also competing with the for-profit sector for top employees. In an attempt to narrow the gap in nonprofit and for-profit pay, nonprofit compensation packages have become more complex than ever--- with frequent use of bonuses, deferred compensation, supplemental insurance plans, and allowances for housing, cars, education, and more. But complexity yields new problems and can invite increased public scrutiny.

### Intermediate Sanctions Compliance

Since 1996, Congress has given the IRS new means to punish individuals who receive excessive compensation from nonprofit organizations. And never has public scrutiny, not to mention legal action, been more intense. In addition to the significant damage done to the nonprofit's reputation, Board members are personally liable if a nonprofit executive's compensation is determined to be excessive. Of course, the overcompensated executive receives penalties, too---up to 200% of the compensation.

*Here are a few guidelines to help ensure compliance:*

1. Ensure that no conflicts of interest exist among committee members and those for whom they are determining compensation, and confirm this in writing.
2. All committee members should be satisfied that compensation of senior executives is "reasonable." This is accomplished through benchmarking of comparable organizations as well as historical information.
3. Provide documentation of the determination process, verifying that this analysis was completed prior to the compensation decision.

## Trend Analysis

Many published surveys utilize quartile analysis, or evaluation of the median and percentiles; however, compensation decisions are much more complex than simple quartiles suggest. We utilize a combination of trend analysis and quartiles, and we examine these results based on a variety of performance criteria, including budget size, levels of private and public funding, mission, etc. For example, the chart below demonstrates trend analysis using operating revenues to aggregate compensation data. For most nonprofits, there is typically a positive correlation between operating budget and CEO compensation (that is, as budget size increases, the CEO compensation also increases). In the example below, the CEO at organization “A” may be under compensated.

### Example: Trend Analysis of Nonprofit Compensation



# Strategic Compensation

## *How the Nonprofit Practice Can Help Your Organization with Compensation Issues*

The Nonprofit Practice can help your organization navigate through what can be a time-consuming and difficult process. Typically, the Nonprofit Practice's compensation studies include a mix, as needed, of the following consulting services:

- Independent analysis of market trends and best practices in nonprofit compensation, including specific forms of compensation such as retention tools, performance bonuses, etc.
- Overview current compensation practices at the organization.
- Research and discussion of the organization's goals for future compensation practices.
- Research and develop a highly targeted benchmarking study. Our analysis of this information goes far beyond the standard quartile analysis, also including our fine-tuned methodology of trend analysis.
- Work with the Compensation Committees to structure competitive and "reasonable" pay for senior executives.
- Annual updates to ensure on-going compliance and competitiveness

## Trend Analysis

*For more information on the Nonprofit Practice and Compensation Consulting, please contact:*

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### **The Nonprofit Practice**

DHR International's Nonprofit Practice is headquartered in the New York/New Jersey region under the leadership of James Abruzzo, Managing Director. With over 25 years of consecutive experience, James is one of the most senior consultants to nonprofit institutions in the U.S. The Nonprofit Practice team is comprised of industry specialists who have spent their entire careers working with nonprofit organizations and are strategically positioned throughout the country. Our clients are performing arts organizations, centers, and schools, arts, science and history museums, zoos and aquariums, social service and international development organizations, foundations & educational organizations.

### **DHR International**

Established in 1989, DHR is among the "top five" retained executive search and strategic consulting firms in the US. Headquartered in Chicago, the firm's practice model provides clients with the reach and resources of a major firm combined with the specialized expertise and personalized service of a boutique firm.