



How Nonprofit Organizations Can Ensure Executive Compensation Programs are Responsible, Reasonable, and Sustainable

Many nonprofit organizations are facing unprecedented scrutiny, financial concerns, talent constraints, wage pressures, and other operational issues. The executive talent market remains highly competitive as the demand for leadership with the necessary skills and experience to lead through such uncertain times continues to outpace supply.

These issues are placing upward pressure on executive compensation in an already competitive market. This is at a time when nonprofits are also facing greater scrutiny due to the current political environment, economic instability, reduced federal funding, and an increased focus on providing employees with a living wage.

As a result, executive compensation is front and center in many important discussions:

- With pay transparency laws requiring organizations to post salary ranges for job openings, attention is increasingly turning to how compensation is structured across all levels — including at the top. These laws not only require disclosure of salary ranges, but also heighten expectations around how executive pay aligns with organizational values. Boards and leaders must be prepared to explain and justify compensation decisions more openly.
- Government watchdogs, the media, and regulators are increasing their scrutiny of executive pay at nonprofits that contract with public agencies. Some are calling for limits or caps on compensation.
- Lawmakers, unions, and the media continue to focus on the disparity between executive pay and the average worker. While not specific to nonprofits, this highlights the dialogue around the relationship between executive and broader workforce compensation
- **Retaining skilled executives to lead in periods of uncertainty, through change and aligned with the organization values is increasingly challenging. Boards are faced with balancing retention and talent market pressures.**

While many nonprofit Boards have historically governed executive compensation in line with best practices, continued scrutiny is raising the stakes. A perception of unreasonable or unfair pay can raise compliance concerns, damage reputations, and influence donor behavior. It may also heighten workforce tensions, support union organizing and bargaining efforts, and prompt greater interest from elected officials and regulators in shaping nonprofit policy.

As such, an organization's Compensation Committee must ensure that executive pay programs are responsible, reasonable and sustainable. They must also support recruitment, retention, and performance needs in a dynamic labor market. This requires looking beyond just market competitiveness and considering the executive compensation philosophy, program, and pay decisions more broadly across multiple perspectives.

Taking a Broader View of Executive Pay

By taking a more holistic, data-driven approach, Boards, Compensation Committees, and leadership can ensure that executive rewards programs remain highly defensible and beyond reproach as market conditions evolve, new risks emerge, and organizational dynamics shift. This can include revisiting the executive compensation philosophy and program design to ensure they are backed by strong governance to support sound decision-making.

Below are several key considerations and questions to address as part of an ongoing process. This will help to align executive compensation with best practices in pay governance while also supporting recruitment, retention, fairness, affordability, and strategic objectives.

Mission

Tax-exempt organizations are responsible for showing how they serve the broader public good. Some external stakeholders have questioned the appropriateness of tax-exempt status by citing high levels of executive compensation in relation to community benefit.

While 'community benefit' is not well-defined, it calls into question a nonprofit's overarching mission, vision, and values and whether the organization effectively serves the community in which it operates. Compensation should be evaluated in the context of how well the organization fulfills its mission.

- How does the organization define if it has succeeded in delivering on its mission? Are there specific measures that should be incorporated into the performance evaluation process to ensure a positive impact on the broader communities served?
- Are there specific measures that should be incorporated into the performance evaluation process to ensure a positive impact on the broader communities served?
- Are there opportunities to incorporate other attributes of the mission in the compensation program?
- How do our compensation programs support our organization's financial health and ability to carry out the mission over the long term?

Market Competitiveness

Offering competitive compensation can help an organization to secure skilled and experienced executives. This is not just about where pay is relative to peers; it's also about ensuring that executive compensation and benefits programs are contemporary and effective in achieving their objectives. .

- Are current compensation levels aligned with the competitive position articulated within the philosophy?
- Should the compensation philosophy be segmented to articulate different market targets for different roles or functions based on their criticality to the mission?
- What mechanisms exist to regularly review and update compensation programs to maintain relevance and effectiveness?

Talent Strategy

The need for broader skill sets in today's environment has expanded the search for executives beyond the traditional nonprofit market. And, in today's tight talent market, succession and talent management plans are essential to mitigate risk, support growth, and retain high-performing leaders. Directing compensation to high performers or potential successors is critical to support long-term success.

- Does the compensation peer group reflect where the organization sources executive talent?
- Is the program designed strategically to retain high-performing executives and support succession planning?
- Has the total rewards program been evaluated to ensure it offers meaningful retention value for key executives?

Efficiency

With greater pressure on financial sustainability, organizations must look more holistically at their leadership structure to maintain operational excellence and support cost efficiency. This includes examining headcount, spans of control, and the titling/leveling distribution across the organization.

- What is the total expenditure on the executive rewards program?
- How does our overall executive leadership headcount and spend compare to peers?
- Is the leadership structure positioned for growth and efficiency? Is it aligned with the capabilities and processes needed to carry out the mission and impact the communities served?

Pay Fairness

Fair and consistent pay practices are crucial for attracting and retaining top-tier talent. . This applies to how decision making frameworks for similar skills and experience are applied for leaders in comparable roles. While this does not imply that all programs must be employed universally across the organization, it does suggest that similar guiding principles are applied to compensation decision-making.

- Has the organization conducted a structured review or analysis to assess consistency in pay decisions across leadership roles?
- How does the executive compensation philosophy align with the broader workforce?
- Are differences in peer comparisons, program design, or market positioning intentional and well understood?
- Do rewards programs deliver similar value and opportunity to leaders at comparable levels and account for the scope and impact of their roles?

Committee Transparency and Compliance

Organizations must remain actively engaged and vigilant. This includes ongoing education on sector trends and regulatory developments. It also includes reaffirming the Committee's role, evaluating its performance, and regularly updating the Board on compensation decisions, compliance initiatives, and policy changes.

- Are governance processes up to date and aligned with current regulatory requirements?

- Is there a plan for ongoing education, orientation, and performance reviews for the Compensation Committee?
- Is the full Board regularly informed of the emerging market trends as well as compensation and stakeholder decisions?

Performance

Aligning pay with performance has long been a cornerstone of executive compensation programs in the for-profit sector and is becoming more common in nonprofits. Variable pay offers a performance basis on which to provide more competitive total compensation while enhancing defensibility and sustainability. To further support defensibility, organizations should clearly define performance objectives and demonstrate a strong connection between executive compensation, organizational performance, and individual contributions.

- Should the organization introduce a bonus or incentive plan if it's not already offering variable pay?
- Does the bonus/incentive plan balance rewards for financial, operational, and strategic priorities with individual contributions and accountability?
- Do performance goals represent an appropriate degree of stretch?
- Does the plan have the right number of goals? Does executive focus get diluted with too many targets or over-emphasize certain outcomes with too few?

Conclusion

As nonprofit organizations adapt to a rapidly changing environment, executive compensation programs must evolve. This includes developing a more holistic approach that balances competitiveness, talent strategy, mission alignment, performance and fairness while making the most of limited resources.

Scrutiny of executive compensation – from the media, regulators, and other internal and external stakeholders – is expected to persist amidst ongoing financial pressures, increased competition for talent, and rising compensation levels. It's critical that executive compensation is both competitive and defensible, meaning it is governed well and clearly aligned with the organization's mission. This requires a more holistic and balanced review of multiple dimensions embedded within the Compensation Committee's ongoing process and Leadership's role in managing pay.

About C3 Nonprofit Consulting Group

C3 Nonprofit Consulting Group is an advisory services firm focused exclusively on helping nonprofit organizations unleash the full potential of their people. We partner with nonprofits to design competitive compensation and rewards programs, build equitable workplace strategies, and implement talent programs designed to propel their missions forward. C3 is here to help your workforce thrive.

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