

## *Executive Compensation*

### **Sample #1**

*This simple policy delegates responsibility for managing the performance review and compensation determination process to a committee that will work with an external consultant.*

The bylaws of XYZ establish a compensation committee that has general oversight of the organization's human resource plan. Specific duties include yearly evaluation of the chief executive of the organization.

A competent salary survey is used to benchmark compensation for the position utilizing [industry-specific reports] and other studies. The committee meets independent of the chief executive to discuss performance relative to the position description. During these deliberations, the committee also considers input obtained from other board members, staff, professional advisors, grant recipients, and other informed community leaders.

Once a consensus is reached regarding performance, a similar discussion is held concerning compensation relative to annual benchmark and established objectives.

The committee presents its findings and recommendations, in an executive session without the chief executive present, to the full board for review and approval.

The committee and/or the board chair (a member of the committee) then meet with the chief executive to discuss and document strengths, weaknesses, and goals for the upcoming year. Compensation for the upcoming year is also discussed and documented.

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## *Executive Compensation*

### **Sample #2**

*This comprehensive policy, most suited to larger, more complex institutions (in this case, a university), delegates authority, specifies responsibilities, and outlines a process for determining executive compensation.*

## **COMPENSATION**

### **1. Authority**

- 1.1 The board has the authority to hire, employ, and compensate such personnel as are needed to provide a well-coordinated system of higher education.
- 1.2 **Compensation Policy.** The board retains the authority to establish compensation guidelines for annual increases and the principles and standards for distribution except as noted below. The personnel committee of the board shall be responsible for making a recommendation regarding distribution of salary increase funds. The financial affairs committee of the board shall be responsible for making a recommendation about funding of the annual increase.
  - 1.2.1 **Role.** The executive committee is a permanent committee of the board. Among the responsibilities and authority of the executive committee is that relating to executive compensation. This committee is responsible for the hiring and evaluation of the principal administrators of the university. The committee reviews compensation practices and programs for principal administrators, provides leadership in this area, and upholds the tax-exempt status of the university. The executive committee reports its determinations to the full board.
  - 1.2.2 **Composition.** Executive committee membership is appointed as specified in the bylaws.
  - 1.2.3 **Duties and Responsibilities**
    - 1.2.3.1 Review and approve cash and noncash compensation policies and programs applicable to principal administrators. For purposes of this policy, the university considers all employees who fit the IRS definition of "disqualified person" to be included in the principal administrator category.
    - 1.2.3.2 Take all reasonable and prudent steps to comply with tax-exempt status to ensure that no part of the university's net earnings inures to the private benefit of any individual or group of individuals.

- 1.2.3.3 Establish and periodically review the university's executive compensation philosophy to ensure that the policy appropriately supports the university's purpose and mission, attracts and retains key executives at a reasonable cost, and enhances the mission and purpose of the university.
- 1.2.3.4 Act on behalf of the board in setting executive compensation policy and making decisions with respect to the compensation of principal administrators by reviewing the annual base salary levels and performance evaluations.
- 1.2.3.5 Establish reasonable compensation levels on a position-by-position basis by
- Assessing the nature and scope of each principal administrator position
  - Assessing the basis for which compensation is paid to individuals holding such positions including unique background, experience, personal skills, exceptional performance, additional duties and abilities, and challenges facing the organization that require the use of such attributes or skills
  - Obtaining appropriate and comparable compensation market data including data from the following:
    - Similarly situated organizations, both for-profit and tax-exempt, for functionally comparable positions
    - The availability of similar specialties in the geographic area
    - Independent compensation surveys by nationally recognized independent firms
- 1.2.3.6 Document the basis for the determination of the reasonable compensation, including performance evaluations and market data.

1.3 The board retains the authority to approve compensation agreements contained in collective bargaining agreements.

1.3.1 The board delegates to the employee relations committee the responsibility to recommend compensation proposals for faculty or staff engaged in certified collective bargaining.

## **2. Delegation of Authority to President**

2.1 The board authorizes the president, in consultation with the administrative board, to establish a job evaluation system and compensation policies. These

shall comply with state and federal legislation, and shall be established and implemented to promote the goals of internal equity, reward for meritorious performance, effective recruitment, and retention of faculty and staff.

- 2.2 Pay Ranges.** The board authorizes the president to establish a set of pay ranges and classification assignments for PATs (professional, academic, and technical), academic administrators, extension educators, and operating staff. The university's human resource director shall be responsible for establishment and maintenance of the pay program. Pay levels and ranges if applicable for faculty salaries shall be set by individual institutional authority, unless covered by collective bargaining obligations, subject to review by the president.
- 2.3 Supplemental Pay Policies.** The board authorizes the president to establish compensation policies relating to hours of work, work in excess of a regularly classified and compensated work day, holiday pay, shift differentials, and policy for payment of hourly and other nonstatus employment.
- 2.4** The board authorizes the president to make administrative adjustments as defined below. Such responsibility shall be delegated for administrative purposes to the university's director of human resources.
- 2.4.1 Definition.** An administrative adjustment is a salary increase that may be granted by the university's director of human resources, upon the recommendation of the chief campus personnel/human resources officer, when such an adjustment is necessary:
- To compensate for an administrative error,
  - To conform to other provisions of the compensation program, or
  - Because it has been otherwise demonstrated to be in the best interest of the university.
- 2.5** The board authorizes the president to establish compensation policies for personnel actions including promotion, transfer, demotion, and reclassification.

### **3. Executive Compensation Policy.**

The executive committee of the board shall review and approve the compensation policies and programs of principal administrators.

- 3.1** The policy of the university is to provide direct compensation programs that reflect the relative size and type of education curriculum of the university in the segment of higher education institutions of which it is a part and which accomplish the university's mission and tax-exempt purpose without causing any part of the university's net earnings to inure to the private benefit of an individual or group of individuals.

- 3.2 The committee will accomplish this policy in the following manner:
- 3.2.1 Determine the relevant market data for the principal administrator position it reviews by obtaining reliable and comparable data from published surveys of both tax-exempt and for-profit organizations focusing on data from comparably organized institutions with similarly sized budgets.
  - 3.2.2 Develop a target base pay range built off the median of the market data.
  - 3.2.3 Set base salary by considering both market data and each individual's background experiences, skills, and meritorious contribution.
  - 3.2.4 Set salary increase reassessments based on external equity, internal equity, and/or merit.

#### 4. Procedures

- 4.1 The committee shall execute the policy as follows:
- 4.1.1 In order to be eligible for any general or merit increase, a principal administrator must have at least [six] months of service in the position as of the effective date of the increase.
  - 4.1.2 A principal administrator, who has more than [six] months of service, but less than [12] months, will be eligible for prorated general or merit increases. Equity increases may be awarded as appropriate.
  - 4.1.3 The appointment letter for new principal administrators should include the foregoing information regarding eligibility for salary increases.
  - 4.1.4 Actual base salary for an individual relative to the target pay will be determined upon recommendation of the president. These recommendations shall be consistent with the above principles.
- 4.2 The committee may also reference other published surveys on occasion and shall document the reason and purpose of consulting such other surveys.
- 4.3 **Appointment Information.** The committee shall review and recommend all principal administrator appointments, changes in title, acting, or interim appointments. The written confirmations of employment, which are considered notices of appointment rather than contracts, shall be reviewed and approved by the board chair and the university general counsel prior to issuance.

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## *Executive Compensation*

### **Sample #3**

*This sample outlines the organization's compensation philosophy and acceptable sources for comparable pay.*

## **EXECUTIVE COMPENSATION POLICY**

### **Program Philosophy and Objectives**

XYZ's primary objective is to provide a reasonable and competitive executive total compensation opportunity consistent with market-based compensation practices for individuals possessing the experience and skills needed to improve the overall performance of the organization.

The organization's executive compensation program is designed to

- Encourage the attraction and retention of high-caliber executives.
- Provide a competitive total compensation package, including benefits.
- Strongly support and further transition to a "pay for performance" culture through the use of incentives for key employees.
- Reinforce the goals of the organization by supporting teamwork and collaboration.
- Ensure that pay is perceived to be fair and equitable.
- Be flexible to reward individual accomplishments as well as organizational success.
- Ensure that the program is easy to explain, understand, and administer.
- Balance the need to be competitive with the limits of available financial resources.
- Ensure that the program complies with state and federal legislation.

### **Program Market Position**

While XYZ focuses on comparable nonprofit organizations in our area to benchmark pay, we also understand that the market for executive talent may be broader than this group. Market information from two additional market segments, private foundations, and published not-for-profit compensation surveys may be used as a supplement.

In addition, XYZ may also collect other published survey data, when appropriate, for for-profit organizations for specific functional competencies such as finance and human resources.

Together with data from the comparable local organizations, data from these market segments are used to form a "market composite" to assess the competitiveness of compensation.

In general, XYZ positions total compensation, including benefits, at the median of the market. Programs are designed to be flexible so that compensation can be above or below the median based on experience, performance, and business need to attract and retain specific talent.

## **Governance and Procedures**

XYZ's executive compensation program is administered by the compensation committee of the board. The compensation committee is responsible for establishing and maintaining a competitive compensation program for the key executives of the organization. The committee meets as needed to review the compensation program and make recommendations for any changes to the board, as appropriate.

The compensation committee commissions an annual review by an independent consulting firm to evaluate the organization's executive compensation program against the competitive market. The evaluation is reviewed in the spring of each year and is intended to ensure that the compensation program falls within a reasonable range of competitive practices for comparable positions among similarly situated organizations.

Following this review, the committee reviews and approves, for selected key executives, base salaries and annual incentive opportunity adjustments, and objectives and goals for the upcoming year's annual incentive plan. The committee reviews and recommends to the board salary approval and incentive awards for the chief executive.

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