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Bonuses Can Help Make Up For Spartan Executive Pay Raises

By Doug Donovan

Chief executives at the nation's biggest charities and foundations received a median salary increase of 3.1 percent in 2012, according to *The Chronicle'*s annual compensation study.

That's a smaller increase than the 3.8 percent they earned according to last year's study and half as big as the pay raises received by corporate executives. Raises of about 3 percent are what many compensation experts say are the new post-recession default for most everybody except perhaps leaders of big and fast-growing companies.

Because raises are so spartan, many nonprofit boards are seeking other ways to keep chief executives happy. Growing in popularity are performance-based bonuses and incentives, which 32.6 percent of the 313 organizations studied provided to their leaders.

Jim Zaniello, a nonprofit executive recruiter in Washington, says that even during the slow economic recovery "boards are trying to find an appropriate way to thank an executive for their services."

34 Pay CEOs $1-Million or More

*The Chronicle'*s survey was based on 2012 data provided by 118 organizations and 2011 data supplied by 195 groups. While nonprofits are required to report salary data publicly, most won't do so until they file informational tax returns with the IRS, and the vast majority won't turn in their 2012 forms until 2014.

Among the findings from *The Chronicle* survey:

- The median compensation in 2012 for CEOs at all organizations was $417,989. It was higher—$497,513—at operating and private foundations.
- Seven nonprofits reporting 2012 salaries paid their chief executives more than $1-million, as did 27 groups that provided 2011 figures. That's substantially more than the 23 executives who made $1-million or more in the study *The Chronicle* conducted a year ago.
- Twenty-two groups in 2012 reported that someone other than the CEO—typically the chief investment officer— made more money than their chief executives.

Bonuses Help

Nonprofits could never offer pay and incentives as generous as those of corporate America, where chief executives at S&P 500 firms saw median compensation rise 6.5 percent, to $9.7-million, in 2012, according to Equilar, an executive-compensation data firm.

But more nonprofits do hope to borrow a page from corporate America by offering bonus plans.

Compensation consultants and executive recruiters say more and more boards are requesting help crafting bonus plans that will not run afoul of state and federal regulators or risk public criticism.

Nonprofit boards are struggling with how to "determine the right compensation metrics" in organizations that lack the type of reporting on sales, profits, and revenue required of for-profit firms, said Sandra Pace, a compensation consultant in New York City.

Even though interest is growing, “bonus” is still “almost a dirty word” among nonprofits, says Steven Hall, a compensation consultant for charities. Part of that perception is spurred by new laws restricting in some states CEO pay at charities.

But even when boards take the steps of studying comparable pay, large salaries still attract scrutiny, especially when coupled with other perks.

Watchdog Concerns

The board at Inspiration Networks, in Indian Land, S.C., faced just such a situation when news reports last year criticized its chief executive’s pay. David Cerullo’s total compensation of $1.7-million ranks him ninth among the 27 chief executives in 2011 who earned more than $1-million.

Mr. Cerullo was paid just less than Reynold Levy, president of the Lincoln Center for the Performing Arts, which recorded $66-million in private support in 2012; and just more than James Mandell, chief executive of Boston Children’s Hospital, which received $148-million in private funds last year.

Mr. Cerullo even earned more than the $1.2-million Brian Gallagher was paid in 2012 for running United Way Worldwide, which raised $3.9-billion from private sources, more than any other organization on the list.

The Christian television broadcaster doesn’t just pay Mr. Cerullo handsomely. The group, which raised $48-million in contributions in 2011, also employs his wife, son, and daughter, each of whom earns more than $100,000, tax records show.

Melissa Prince, a spokeswoman at Inspiration Networks, would not comment about the amount Mr. Cerullo and his family members receive but noted that in the past, board members have outlined their approach to determining reasonable pay for Mr. Cerullo.

She pointed out that the board has said its compensation committee sets his pay after comparing the salaries of “cable-television network CEOs, senior media-company executives, CEOs of faith-based national ministries, and pastors of churches.”

That explanation doesn’t assuage concerns of a major charity watchdog.

Ken Berger, chief executive of Charity Navigator, said donors should be wary about supporting a charity with compensation practices that permit nepotism and that resemble for-profit payment practices.

“For the average donor, it defies common sense and it doesn’t pass the smell test,” Mr. Berger said. “It further raises questions about whether this organization is focused on the mission or is it more about lining the pockets of the founder’s family. This is so far from best practices.”

'Panda Fridays’

Inspiration Network’s tax forms also show that it provides other perks for top officials that are less controversial and sometimes necessary to recruit top talent: housing allowances and memberships to health and social clubs.

As nonprofits look for ways to keep high-performing leaders on the job, many are looking beyond such benefits and bonuses—and often for items that don’t cost nearly as much. Some are offering flexible schedules, telecommuting options, and greater managerial autonomy.

Take, for example, the World Wildlife Fund, whose chief executive, Carter Roberts, makes $561,194, *The Chronicle* survey shows.

About six years ago, the charity began closing the office every other Friday in an attempt to provide a friendlier workplace and to reduce the nonprofit's carbon footprint.

The idea, called Panda Fridays, was a huge success, and the schedule has become an invaluable recruitment tool at every level for the organization, says Elaine Bowman, vice president for human resources. "It's been really big in attracting and retaining people," she says.

Pete Smith, a compensation consultant, says such moves by organizations appeal to people in the nonprofit world, who are typically driven by mission more than by financial incentives.

"They want to solve some problem," Mr. Smith says. "For most people, they're not going to work any harder just to get a bonus."

Pay for Founders

That kind of motivation is especially common in charity founders like Kyle Zimmer.

The former corporate lawyer made a major career change when she started First Book in 1984 to oversee the distribution of books to the needy, an operation that last year raised $101-million in private support.

Ms. Zimmer, 52, has resisted raises offered by her board for years, saying she is fairly compensated at $180,000.

"My board has come to me with suggestions to elevate my compensation because they have run surveys" that show she is underpaid.

While she has refused offers for salary increases, she did accept the board's contributions to a retirement plan, a benefit the group did not have at the start.

Still, by refusing pay raises to match what is more typical for organizations of her group's size in big cities, she could be putting her nonprofit at risk.

"I find founders typically have salaries below the market. They have passed on salary raises," said Susan Egmont, a compensation consultant. "And when they leave, it can cause difficulty with the organization because it's not prepared to pay market salary."

That's why it pays to do what Ms. Zimmer has already done: name a successor. She has chosen Chandler Arnold, who earns $141,373 as the senior vice president at First Book.

Reviewing Contracts

A leader's departure is a good time for organizations to look at contracts and perks, especially ones awarded before the Great Recession, say experts.

Mr. Smith, the consultant, said one of his executive clients still has a contract from 1999 that guaranteed him 8-percent minimum raises each year, which he refused during the recession but now receives again. "They promised him hundreds of thousands more than he took," he says.

But now, he says, most boards have “very little patience or tolerance for executive perks.”

“The recession is still very much in mind,” he said. “Excessive guarantees are not there anymore.”

Retirement Plans

One thing that hasn’t changed in the downturn: a willingness to provide nonprofit leaders with strong retirement benefits.

In 2012, John Ruskay’s $3.15-million compensation from the United Jewish Appeal-Federation of Jewish Philanthropies of New York put him at the top of the list of chief executives who made more than $1-million.

The bulk of that came from a supplemental retirement plan that he became vested in two years ago at age 65. The full $2.6-million value that accrued over his 12-year tenure was reported on last year’s tax form, as required by federal guidelines, but he has received only half that sum. The other half will be distributed when Mr. Ruskay retires next year after having helped the organization raise $2.7-billion since 1999.

And Robert Mazzuca, who retired last year as leader of the Boy Scouts of America, saw his compensation boosted by a retirement payout. Mr. Mazzuca earned $1.78-million in 2012, mostly from $1.3-million in retirement benefits.

“Retirement packages have plunged in the world of for-profits,” says Mr. Hall, the compensation expert. “But in the nonprofit world, where you don’t make a big salary, you hang in there for retirement.”