

Six Tips for Negotiating a Nonprofit Compensation Package

By Thomas J. Friel, Retired Chairman & CEO of Heidrick & Struggles

One of the biggest—and sometimes most intimidating—challenges people at all levels face in their careers is negotiating a compensation package. It can be particularly difficult for senior nonprofit executives. Most executives only go through this process a couple of times in their careers. I went through this exercise hundreds of times in the process of leading executive searches and have always been amazed at how often it was needlessly done badly, both on the organization side and on the candidate side.

By following a few simple guidelines, the process can be quick, stress free, and result in a package that will satisfy both parties. Before you spend too much time in an interview process, you need at least some sense of the probable compensation range for the position. Sometimes this is obvious. Other times it is offered without being asked. Regardless, you need to determine early in the process if you and the organization are in the same range. This isn't negotiation. It is fact finding normally done prior to a second round of interviews. A simple question like "What was the previous incumbent paid?" or "What general compensation range do you have in mind?" should be enough at this point. Once this is done, any real negotiation should be deferred until the interview cycle is completed.

How to Negotiate What You Deserve

Many of us have seen Chester Karass's quote countless times in airline magazines: "You don't get what you deserve; you get what you negotiate!" So to turn this around: How can you negotiate what you deserve?

I am assuming as a starting point that you and the organization have concluded that you are right for the position. Once you get to that point, here are several tips to keep in mind during the process:

Some Myths about Compensation in the Nonprofit World

1. Nonprofits can't pay what for-profits can. While this is often true, especially for small nonprofits, many larger nonprofits do offer market rate compensation.
2. Nonprofits don't pay bonuses. Also sometimes true, but not always. Don't be afraid to ask. If others in the organization are eligible and bonuses have been paid in the past, even if not every year, you can usually get this possibility included in your package.
3. Benefits and perks are minimal in nonprofits. Again this is sometimes true, but often nonprofits can and do offer competitive benefits. Sometimes they also provide better vacation time, medical plans, flexible hours, and other things that for-profit organizations do not.

Boston

535 Boylston St., 10th Floor
Boston, MA 02116
T. 617.572.2833
F. 617.572.2834

New York

112 West 34th St., Suite 1510
New York, NY 10120
T. 646.562.8900
F. 646.562.8901

San Francisco

465 California St., 11th Floor
San Francisco, CA 94104
T. 415.627.1100
F. 415.627.4575

- Get knowledgeable
- Determine what you need, what you want, and the difference
- Seek advice and listen to it
- Avoid distractions and peripheral issues
- Take the long-term view
- Look for a win-win outcome

Get Knowledgeable

Nonprofit CEO compensation packages normally are reviewed annually against peer organization amounts. The same rule applies to other positions, but they are often more heavily influenced by internal structures and the current compensation of peer positions. The more you understand these ranges, the more leverage you have. The closer you tailor your request to what is standard, the more likely it is that the Board or CEO will agree.

Facts are difficult to dispute, so a useful starting point is the salary of the previous holder of the position. But often a better measure is what the most recent equivalent hire for a similar nonprofit received. For public charities this information is fairly well disclosed in Form 990 or other publicly filed documents. An executive recruiter should have this information readily available. If not, this is public information, but it may take a little digging. The hiring organization should be willing to make these public documents available to you if you ask for them. In most cases you are probably safe in assuming that the prior executive's package represents the lower limit, and the top player in the sector represents the upper limit of what you can achieve.

What do you need, what do you want, and what's the difference?

You will need to determine for yourself the difference between what you would love to have and what you really need to support your lifestyle.

In any negotiation there will be a number of key points, but people often get hung up solely on salary. Although it may be the most important factor, it isn't the only one, and it is almost always the one that gets the most scrutiny by Boards and even peer executives.

You can often push one or two of the other compensation components beyond the initial proposed levels, but generally not all of them. An enormous amount of value can also be gained via other benefits such as relocation and housing assistance, medical and retirement plans, flexible working hours, or an occasional leave of absence. This is where you need to do your homework and decide what is critical and what is merely desirable. Put the bulk of your effort behind negotiating the one or two items that mean the most to you and be willing to accept what is offered on the others.

Get good advice and listen to it

Normally the recruiter is the best source for advice on package components, but often peers in similar roles or other trusted advisers can be helpful. In general I find that the more expertise and experience involved the better, or at least the more fair the outcome. If someone who should know tells you that a certain amount or provision is all you can get, or that one of your requests is unreasonable, you ignore that advice at your peril!

Avoid distractions and peripheral issues.

Is a title more important to you than money? Is an extra \$10K or \$20K of salary a make-or-break issue for you on a position you would love to have?

When negotiations hang up on one issue when everything else is acceptable, it's normally because of ego and emotion. If you sense this is the case, try to find another place to make up for it or just let it go!

Take the long term view

This advice actually applies to both client and candidate. When negotiations drag, I have often asked both sides the question, "Will this issue be important in three years?" If the answer is "no" I usually advise them both to find a solution that resolves the issue over that period. Is the salary too low? You might be able to agree on a three year series of guaranteed annual increases, assuming outstanding performance. Is severance an issue? Often the solution can be a higher amount for the first year or so, then a step down to what is normal for the organization.

Sometimes in a half joking manner I have told both sides, "If this is successful, in three years this issue won't matter; and if this is unsuccessful, in three years this issue won't matter!" Most of the time there is a lot of truth in this.

One final point is sometimes overlooked by new CEOs and by candidates for other positions as well. Once the negotiation is over, you will need to run the organization or your part of it. If you did anything out of line in the negotiation, or if anything in your package is excessive, unusual, or controversial, expect problems when it comes to recruiting, managing your team, or dealing with other stakeholders.

Always keep in mind that in most cases the organization, which means you if you are the CEO, will have to raise the funds to cover your compensation and any special benefits. And you'll have to disclose them in the Form 990 and perhaps in other public documents. If you don't want to keep explaining why you got something others didn't, my experience says leave it out.

Look for a win-win solution

Each step of the negotiation needs to be conducted with the knowledge that when it's all over both sides need to work together. So my final pieces of advice would be the following:

- Let the other side win something that is more important to them than it is to you.
- Take a little less than you could.
- Take your biggest upside where everybody wins!

Compensation negotiations can be stressful; but if done with knowledge, advice, good spirit, and with the sense that a win-win outcome is possible, they can be concluded quickly and positively for all concerned.