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Skyrocketing CEO Pay Raises Questions for Charities

By Pablo Eisenberg

The New York Public Library gave hefty salary increases to its president, Paul LeClerc, and several other top officers last year. At the same time, financial troubles necessitated other budget-saving moves, including cutbacks in its tuition-assistance program for employees.

Although the library receives substantial government money, it provided little information to the donors or the rest of the public about the compensation packages given to its senior-ranking leaders or the reasons it made the choices it did.

The New York Public Library example raises troubling issues that are becoming more and more apparent at organizations across the country: Excessive compensation packages, the lack of public information and accountability, the actions of nonprofit trustees, and the rapidly growing inequity between burgeoning CEO salaries and benefits and those of other employees.

The total compensation provided to Mr. LeClerc has grown to $813,345, an increase of more than $221,000 from the previous year. His pay package included a salary of $464,170 — $108,000 more than the year before — deferred compensation, retroactive salary increases, and a housing allowance of $136,110, even though Mr. LeClerc owns his apartment.

In 2005 the library hired three top staff members at salaries that were substantially higher than those of the people they replaced. Mr. LeClerc and a few other officers had received "further enhancements to their compensation," according to *The New York Times*, but it was unclear what those perks were because the library has not disclosed that information.

A library board member who serves on the compensation committee told the newspaper that the steep increases in pay were necessary to meet the demands of the marketplace and keep Mr. LeClerc at the library.

The decision was based in large part on the analysis by a paid consultant of compensation packages at comparable institutions. Yet it is clear that this yardstick is arbitrary; many "comparable" institutions are paying their CEO's much less, while others are paying much more.

The Chronicle's latest study of compensation found that out of 26 leaders of big museums and libraries, Mr. LeClerc's salary was the 10th highest.

The rapidly escalating compensation packages among nonprofit organizations appear to have no end. That is evident from the salary surveys conducted annually by *The Chronicle of Philanthropy* and its sister publication, *The Chronicle of Higher Education.*

Among their findings:

- Presidents of 112 of 853 higher-education institutions made at least $500,000 in the 2004-5 academic year. Forty-two of those chief executives were heads of public colleges, an increase of 19 over the previous year.
- Four foundation executives received more than $700,000 in compensation in 2005, while 17 other leaders of large foundations received $500,000 to $700,000.
- The median salary of social-service executives was $197,208 — meaning half made more and half made less — while the median pay for heads of health charities was $351,366. At youth-services groups, the median was $238,684.

To facilitate, and possibly at times to disguise, the large increases for their CEO compensation packages, nonprofit boards have increasingly resorted to payments beyond direct salaries: deferred compensation, bonuses, housing allowances, and other benefits. *The Chronicle of Philanthropy* reported that of the 304 nonprofit groups that provided data for 2005, 40 gave their chief executives bonuses as part of their compensation packages, many of them worth at least $50,000. (More details from *The Chronicle*'s survey are available online at http://philanthropy.com/stats.)

Leaders of nonprofit compensation committees typically explain that trustees have approved CEO compensation packages because top talent is scarce and institutions are increasingly poaching chief executives from other nonprofit organizations.

Nonprofit recruiters also cite competition from business, the pressure from boards to hire outsiders with big reputations and star quality, and the growing expectations of corporate pay scales by current nonprofit leaders.

Whatever happened to good old-fashioned merit increases for jobs well done? Once again, nonprofit groups seem to be adopting a corporate feature that seems more geared to inflating compensation packages than rewarding outstanding performance.

Many of those rationales do not hold up. Most high-level nonprofit executives love their work and the mission of their organizations. They are not in their jobs to become millionaires. They appreciate the nonmonetary benefits of nonprofit life: the opportunity to serve the public, especially people in need, and to be a part of social and institutional changes.

Yes, they want to be reasonably well compensated, but most would not exchange their lives at academic institutions, libraries, museums, environmental groups, nonprofit hospitals and clinics, or social-service organizations for a position on Wall Street or in a corporation.

And it is clearly the case that it doesn't require $500,000 or more to obtain a terrific foundation CEO. The lack of leadership in the foundation world is testimony to the lack of correlation between high pay and superior performance.

For executives who do seek much greater compensation or business-style pay scales, let them join corporate America. Such executives are not irreplaceable. Plenty of good people can fill their shoes. Nonprofit organizations are for people who believe in nonprofit values and for trustees who understand the difference between business and charity.

The attitude of trustees at large, established nonprofit organizations are part of the problem. Many of them are either very wealthy, highly paid professionals or corporate executives who believe that high salaries reflect the importance of the CEO position rather than the quality of the executive.

They hire consultants, often from corporate backgrounds, to recommend compensation packages based on the pay scales of comparable institutions, regardless of the financial position of their nonprofit organization and whether a substantial increase in the chief executive's pay is warranted. Search firms, of course, often find it in their self-interest to promote candidates at high salaries, so that their commissions can be enhanced.

The nonprofit trustees who approve big salaries need to explain to the public why they have decided such compensation is fair. But too many nonprofit boards, especially those that oversee large organizations, seem reluctant to provide what should be public information to donors, clients, and the general public.

That is certainly the case at the New York Public Library. When *The New York Times* asked the trustees to comment on the library's compensation practices, all but one refused to comment. Even David Remnick, an excellent reporter and editor of *The New Yorker*, who knows the importance of digging out the facts, refused to comment on how he and other board members made compensation decisions.

Some nonprofit officials maintain that no board member, except the chairman, should be expected to respond to queries by either the news media or the public. They say that trustees may not be conversant with details of the organization's operations, such as budgets, staff compensation, and charitable programs. And, they note, many trustees want to retain their privacy and remain inaccessible to the public.

That view is misguided. Trustees have the responsibility to oversee the policies and finances of their nonprofit groups and, in this capacity, to protect the public interest. If they aren't familiar with the details of their organizations, they shouldn't be trustees. If they are not willing to be accessible to the public, they should volunteer somewhere else.

The most lamentable aspect of the current, mad scramble for higher executive compensation is that it is both creating a yawning salary gap between the top nonprofit officers and the rest of their staffs — similar to what is found in business — and failing to develop young future leaders from within nonprofit organizations.

The growing disparity between nonprofit CEO pay and other employees is not a healthy development. It does not lead to the institutional teamwork and collegial spirit that John Gardner, the founder of Common Cause and head of major government and nonprofit institutions, called the essence of good leadership. It tends to emphasize the celebrity status and sense of entitlement on the part of CEO's. And it is not a draw for bright young future leaders, who tend to dislike hierarchical and top-down work situations.

The nation may well have a scarcity of outstanding, tough nonprofit leaders — people with vision, zeal and courage — but plenty of talent can be found throughout the country. Nonprofit board members and search firms, however, often don't know where to recruit such people. They rarely look at potential leaders within their organizations, preferring outside candidates they believe have stature and star quality. Trustees, as well as staff members, don't concern themselves with making certain that their organizations recruit and develop young leaders who can become their future CEO's.

Isn't there somebody at the New York Public Library who could take over if Mr. LeClerc were to leave because he isn't getting the salary he wants?

If the answer is no, the library, with its nearly 2,000 employees, has not done a good job of developing future leadership. The same is true of other nonprofit institutions that are struggling with the problem of retaining and recruiting top leadership. To the extent that a charitable organization develops a growing number of young, capable potential leaders, it will find the pressure for ever-growing exorbitant compensation packages diminishing.

Nonprofit board members have an important role to play in making certain that the pay of chief executives is in line with reasonable standards of nonprofit, not corporate, compensation.

Nonprofit staff members also should put pressure on their boards to adopt fairer salary scales, ones that do not channel so much of the personnel costs to the top. Pressure from Congress, the Internal Revenue Service, the state attorneys general, and charity watchdog groups could help bring some more sense to the growing problem of excessive executive compensation.

If not, nonprofit values and traditions may fall by the wayside in favor of a system where money rules and salary inequities abound.

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