

How to Create a Compensation Philosophy and Policy for Your Organization

By Stan Reiff, Partner, and Kelsey Helmick, Executive Compensation Program Consultant

Does your organization have an effective compensation philosophy and policy? Have you wondered if you need to create one? A written compensation philosophy and policy can be a vital tool in creating a compensation strategy that helps your organization recruit and retain the qualified employees you need to achieve your mission.

Let's take a look at what this involves and the potential benefits.

The Elements of a Compensation Philosophy and Policy

When we provide nonprofit executive and employee compensation studies to clients, they often ask whether their compensation is “good” or “bad.” The key is to look at how the compensation aligns with the nonprofit's compensation philosophy and policy. Suppose the organization intended to pay its CEO at the 75th percentile of peers but the compensation report data shows that the executive is being paid at the 50th percentile. In that case, the compensation does not meet the organization's goals.

This is where a written document outlining your organization's approach to compensation comes in. If your organization's decision-makers haven't discussed your compensation philosophy or created a policy to guide it, this is a healthy — and vital — conversation to have and put in writing.

We recommend creating a written document that contains the following:

- **A compensation philosophy** explaining your organization's beliefs about compensation. This could include:
 - Stewardship responsibilities
 - How you will communicate with employees about their value to the organization and the work the organization is doing

- The expectations of current and potential donors
- A description of how compensation fits into your organization's total rewards structure
- **A compensation policy** that translates your compensation philosophy into specific parameters the organization will follow. This could include:
 - A percentile range for executives and employees in comparison to the market
 - Ratios that describe the maximum difference between the highest- and lowest-paid employees
 - How, and how often, market-based compensation studies will be conducted
 - How frequently the philosophy and policy will be reviewed for mission alignment
 - Which governing body will make compensation decisions

Now let's look at how your organization could benefit from a written philosophy and policy.

Four Benefits of a Documented Compensation Philosophy and Policy

There are four main benefits of having a documented compensation philosophy and policy that your stakeholders regularly review:

1. **Competitiveness.** When establishing realistic compensation in comparison to peer and market rates, it is important to determine how competitive you want to be. Most nonprofit employees understand they will likely earn less than they might at a for-profit company. But they are unlikely to be satisfied with their job — or able to meet their personal needs — if their salary is at a low percentile for their position.

Determining the desired percentile range within which all positions at your organization will be compensated creates consistency and stability for

your employees. It also allows your organization's decision-makers to set pay in a way that ensures your employees are taken care of as they work to take care of the constituents you serve.

- 2. Transparency in decision-making.** There has been a push toward pay transparency in recent years. Understandably, many organizations aren't comfortable publishing their compensation amounts during or after the hiring process due to potential unintended consequences.

But an intentionally crafted compensation philosophy that fits your organization's culture is an excellent way to let your employees, donors, and other stakeholders know how the organization manages compensation. Some organizations provide their compensation philosophy and policy document in response to employee and donor questions about how compensation decisions are made.

- 3. Governance continuity.** One of the most overlooked elements of compensation decisions is who makes them and how. In a church or other nonprofit organization led by a board of directors or elders, these groups often make compensation decisions. The members usually serve for a set term before they cycle off or must be reelected. And some organizations have compensation committees that are a smaller subset of the larger board, with fewer individuals involved in compensation decisions.

Since the members of these groups may change frequently, it is crucial to have policies and procedures that remain consistent from year to year. The intent is for the policies and procedures established by the board to outlast the members' tenure, and compensation is one of the critical areas where this is necessary.

- 4. Gateway to other important discussions.** Many of our clients find that when they begin discussing compensation, other topics that are related to compensation and affect the organization's operations and effectiveness arise. One of the biggest is organizational culture. The dynamics between leadership and managers, managers and employees, managers and other managers, and employees and other employees can be impacted by compensation, whether intentionally or unintentionally.

As we mentioned earlier, nonprofits typically are not able to provide abundant compensation, but this is a good opportunity to discuss the other elements of a total rewards structure that are already in place or

that you could add. Examples include benefits, retirement plan matching, employee assistance programs, non-cash compensation, professional development opportunities, and volunteer opportunities during paid work time.

An effective compensation philosophy and policy will document and formalize your organization's approach to compensation and provide a structured, consistent method to determine appropriate compensation as you work to attract, retain, and motivate qualified employees.

If you would like to learn more about compensation philosophies and policies or how our [nonprofit compensation studies](#) could benefit your organization, please [contact us](#). We would be honored to serve you.

Additional Resources:

[5 Common Questions About Nonprofit CEO Compensation](#)

[Planning for Success: Key Factors for Nonprofit Executive Compensation](#)

[Four Questions to Ask About Executive Compensation at Your Organization](#)

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Stan's professional experience includes over 35 years in ministry operations, public accounting, government accounting, and international missions. He provides strategic leadership of the firm's professional advisory and consulting services, including research on emerging issues in the faith-based nonprofit sector and the development and implementation of products and services in response to those needs.

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Kelsey joined CapinCrouse in 2019 and has over 10 years of experience working in and with faith-based nonprofit organizations, which has given her a passion for meaningful organizational design and intentional culture creation. Her background in applied psychology, marketing, and management inform her work with CapinCrouse clients in the areas of compensation, human resources, and organizational behavior.

About CapinCrouse

As a national full-service CPA and consulting firm devoted to serving nonprofit organizations, CapinCrouse provides professional solutions to organizations whose outcomes are measured in lives changed. For over 50 years, the firm has served domestic and international outreach organizations, universities and seminaries, foundations, media ministries, rescue missions, relief and development organizations, churches and denominations, and many others by providing support in the key areas of financial integrity and security. With a network of offices across the nation, CapinCrouse has the resources of a large firm and the personal touch of a local firm. Learn more at capincrouse.com.

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