



**The Board and the CEO:  
Contracts, Job Descriptions, Evaluation of Performance  
and Determination of Compensation**

*Employment Contracts*

Nearly 37 percent (233 of 632) of the respondents' chief executives have an employment contract (Table 1). Public foundations are the most likely to have employment contracts, with 57 percent of them doing so. Approximately one-third of family, independent and community foundations use employment contracts (31.7%, 39.2% and 33%, respectively).

*Board Review of CEO Job Description*

Nearly ten percent of respondents (55 of 635) did not have a CEO. More than nine in ten grantmakers with a CEO have a job description for that individual. Eighty-six percent of those reported that their boards review the chief executive officer's job description on either an annual or periodic basis (Table 2). Nearly 60 percent of community foundations review the CEO's job description every year. Sixty-four percent of independent foundation boards do it periodically, as do 56.8 percent of public foundations. Relative to other grantmaker types, family foundation boards were less likely to review the CEO's job description, and one in four family respondents (39 of 160) indicated that the foundation had no CEO.

*Review of CEO Job Performance*

In addition to reviewing the job description of the CEO, governing boards routinely review his or her job performance. Among foundations with assets of \$500 million or more, 97.8 percent regularly review the CEO's performance, with almost all (95.5%) doing it annually. One hundred percent of community foundations with assets of \$50 million or more reviewed the CEO's job performance on an annual basis. Family foundation boards were less likely to review to CEO's performance, with 23 percent reporting that they did not engage in this practice (Table 3).

For less than half of respondents (46.8%), the full board conducts the performance reviews of chief executive officers, and an executive/management committee performs this task among 39.1 percent of respondents (Table 4). For community and public foundations, the executive/management committee was more likely to review the CEO,

and for private foundations (independent and family) the full board was more likely to conduct a review. Some respondents reported that the board chair alone is responsible for conducting the CEO's performance review. Others said that a personnel or compensation committee was responsible.

### *Determining CEO Salary*

In addition to assessing the work of the chief executive officer, governing boards determine the CEO's salary as well. More than half of respondents (55.4%, or 314 of 567) reported that the full board sets the CEO's compensation. Private foundation boards were more likely to engage in this practice than community or public foundations. Forty-five percent of community foundations and 38 percent of public foundations gave the task to their executive/management committee. For foundations with assets of \$500 million or more, almost one in four said some other entity set the CEO's compensation. In many cases this meant personnel or compensation committees (Table 5).

Twenty-one percent of survey respondents said that they do not regularly benchmark the chief executive officer's salary and benefits. This was more common among small foundations. Overall, among the 79 percent of foundations that do benchmark regularly, 71 percent reported do so annually (Table 6). The Council on Foundations' annual *Grantmakers Salary and Benefits Report* was the most popular benchmarking tool among respondents (87.4%) followed by local and regional comparisons (53.3%) (Table 7).

**Table 1**  
**Percentage and Number of Grantmakers Whose CEO Has a Written, Formal Contract**  
**or Letter of Agreement, by Grantmaker Type and by Asset Group, 2005**

Grantmaker Type and Asset Group (in millions)	Has a Contract or Letter of Agreement		Does Not Have a Contract or Letter of Agreement		Number of Respondents
	Percent	Number	Percent	Number	
<b>Community</b>					
\$250 or more	37.1	13	62.9	22	35
\$100 to \$249.9	29.6	8	70.4	19	27
\$50 to \$99.9	33.3	11	66.7	22	33
\$25 to \$49.9	27.9	12	72.1	31	43
\$10 to \$24.9	29.2	19	70.8	46	65
\$5 to \$9.9	40.5	17	59.5	25	42
Less than \$5	36.4	8	63.6	14	22
All	33.0	88	67.0	179	267
<b>Family</b>					
\$250 or more	29.4	5	70.6	12	17
\$100 to \$249.9	44.0	11	56.0	14	25
\$50 to \$99.9	34.6	9	65.4	17	26
\$25 to \$49.9	18.2	4	81.8	18	22
\$10 to \$24.9	28.6	6	71.4	15	21
\$5 to \$9.9	100.0	2	0.0	0	2
Less than \$5	20.0	2	80.0	8	10
All	31.7	39	68.3	84	123
<b>Independent</b>					
\$250 or more	48.4	31	51.6	33	64
\$100 to \$249.9	36.4	16	63.6	28	44
\$50 to \$99.9	30.3	10	69.7	23	33
\$25 to \$49.9	25.0	4	75.0	12	16
\$10 to \$24.9	42.1	8	57.9	11	19
\$5 to \$9.9	0.0	0	100.0	2	2
Less than \$5	66.7	2	33.3	1	3
All	39.2	71	60.8	110	181
<b>Public</b>					
\$100 or more	72.7	8	27.3	3	11
\$50 to \$99.9	50.0	7	50.0	7	14
\$25 to \$49.9	28.6	2	71.4	5	7
\$10 to \$24.9	71.4	10	28.6	4	14
\$5 to \$9.9	50.0	3	50.0	3	6
Less than \$5	55.6	5	44.4	4	9
All	57.4	35	42.6	26	61
<b>All</b>					
\$250 or more	42.0	50	58.0	69	119
\$100 to \$249.9	40.4	42	59.6	62	104
\$50 to \$99.9	34.9	37	65.1	69	106
\$25 to \$49.9	25.0	22	75.0	66	88
\$10 to \$24.9	36.1	43	63.9	76	119
\$5 to \$9.9	42.3	22	57.7	30	52
Less than \$5	38.6	17	61.4	27	44
All	36.9	233	63.1	399	632

**Source:** Council on Foundations, *2005 Grantmakers Salary and Benefits Report* database.

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**Table 2**  
**Percentage and Number of Grantmakers with a Job Description for the CEO and Among Those with a Job Description**  
**Whether or Not the Description Is Reviewed by the Board and If So How Frequently, by Grantmaker Type and by Asset Group, 2004**

Grantmaker Type and Asset Group (in millions)	Reviewed Annually		Reviewed Periodically		Board Does Review Description		Board Does Not Review Description		There Is a CEO Job Description		There Is No CEO Job Description		Number of Respondents
	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	
<b>Community</b>													
\$500 or more	57.1	4	42.9	3	100.0	7	0.0	0	100.0	7	0.0	0	7
\$250 to \$499.9	57.1	8	42.9	6	93.3	14	6.7	1	100.0	15	0.0	0	15
\$100 to \$249.9	61.9	13	38.1	8	84.0	21	16.0	4	100.0	25	0.0	0	25
\$50 to \$99.9	57.1	16	42.9	12	96.6	28	3.4	1	96.7	29	3.3	1	30
\$25 to \$49.9	57.5	23	42.5	17	93.0	40	7.0	3	95.6	43	4.4	2	45
\$10 to \$24.9	62.0	31	38.0	19	90.9	50	9.1	5	94.8	55	5.2	3	58
\$5 to \$9.9	59.4	19	40.6	13	94.1	32	5.9	2	97.1	34	2.9	1	35
Less than \$5	45.5	10	54.5	12	95.7	22	4.3	1	92.0	23	8.0	2	25
All	57.9	124	42.1	90	92.6	214	7.4	17	96.3	231	3.8	9	240
<b>Family</b>													
\$500 or more	66.7	4	33.3	2	85.7	6	14.3	1	100.0	7	0.0	0	7
\$250 to \$499.9	75.0	3	25.0	1	57.1	4	42.9	3	87.5	7	12.5	1	8
\$100 to \$249.9	40.0	6	60.0	9	83.3	15	16.7	3	85.7	18	14.3	3	21
\$50 to \$99.9	45.5	5	54.5	6	84.6	11	15.4	2	92.9	13	7.1	1	14
\$25 to \$49.9	66.7	8	33.3	4	75.0	12	25.0	4	80.0	16	20.0	4	20
\$10 to \$24.9	45.0	9	55.0	11	80.0	20	20.0	5	83.3	25	16.7	5	30
\$5 to \$9.9	75.0	3	25.0	1	40.0	4	60.0	6	90.9	10	9.1	1	11
Less than \$5	40.0	2	60.0	3	71.4	5	28.6	2	70.0	7	30.0	3	10
All	51.9	40	48.1	37	74.8	77	25.2	26	85.1	103	14.9	18	121
<b>Independent</b>													
\$500 or more	48.0	12	52.0	13	92.6	25	7.4	2	96.4	27	3.6	1	28
\$250 to \$499.9	33.3	4	66.7	8	85.7	12	14.3	2	87.5	14	12.5	2	16
\$100 to \$249.9	27.6	8	72.4	21	85.3	29	14.7	5	87.2	34	12.8	5	39
\$50 to \$99.9	31.3	5	68.8	11	61.5	16	38.5	10	83.9	26	16.1	5	31
\$25 to \$49.9	42.9	6	57.1	8	82.4	14	17.6	3	85.0	17	15.0	3	20
\$10 to \$24.9	42.9	6	57.1	8	93.3	14	6.7	1	100.0	15	0.0	0	15
\$5 to \$9.9	28.6	2	71.4	5	87.5	7	12.5	1	88.9	8	11.1	1	9
Less than \$5	20.0	1	80.0	4	83.3	5	16.7	1	85.7	6	14.3	1	7
All	36.1	44	63.9	78	83.0	122	17.0	25	89.1	147	10.9	18	165
<b>Public</b>													
\$250 or more	50.0	1	50.0	1	100.0	2	0.0	0	66.7	2	33.3	1	3
\$100 to \$249.9	37.5	3	62.5	5	72.7	8	27.3	3	100.0	11	0.0	0	11
\$50 to \$99.9	50.0	5	50.0	5	100.0	10	0.0	0	100.0	10	0.0	0	10
\$25 to \$49.9	62.5	5	37.5	3	100.0	8	0.0	0	80.0	8	20.0	2	10
\$10 to \$24.9	33.3	2	66.7	4	75.0	6	25.0	2	100.0	8	0.0	0	8
\$5 to \$9.9	25.0	1	75.0	3	80.0	4	20.0	1	100.0	5	0.0	0	5
Less than \$5	33.3	2	66.7	4	85.7	6	14.3	1	100.0	7	0.0	0	7
All	43.2	19	56.8	25	86.3	44	13.7	7	94.4	51	5.6	3	54
<b>All</b>													
\$500 or more	51.3	20	48.7	19	92.9	39	7.1	3	95.5	42	4.5	2	44
\$250 to \$499.9	51.6	16	48.4	15	83.8	31	16.2	6	92.5	37	7.5	3	40
\$100 to \$249.9	41.1	30	58.9	43	83.0	73	17.0	15	91.7	88	8.3	8	96
\$50 to \$99.9	47.7	31	52.3	34	83.3	65	16.7	13	91.8	78	8.2	7	85
\$25 to \$49.9	56.8	42	43.2	32	88.1	74	11.9	10	88.4	84	11.6	11	95
\$10 to \$24.9	53.3	48	46.7	42	87.4	90	12.6	13	92.8	103	7.2	8	111
\$5 to \$9.9	53.2	25	46.8	22	82.5	47	17.5	10	95.0	57	5.0	3	60
Less than \$5	39.5	15	60.5	23	88.4	38	11.6	5	87.8	43	12.2	6	49
All	49.7	227	50.3	230	85.9	457	14.1	75	91.7	532	8.3	48	580

Note: Includes only those respondents with a CEO; 55 indicated that they had no CEO.

Source: Council on Foundations, 2004 Foundation Management Survey database.

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**Table 3**  
**Percentage and Number of Grantmakers That Review the CEO's Job Performance on a Regular Basis and the Frequency with Which It Is Reviewed, by Grantmaker Type and by Asset Group, 2004**

Grantmaker Type and Asset Group (in millions)	Reviewed Annually		Reviewed Periodically		Board Regularly Reviews Performance		Board Does Not Regularly Review Performance		Number of Respondents
	Percent	Number	Percent	Number	Percent	Number	Percent	Number	
<b>Community</b>									
\$500 or more	100.0	8	0.0	0	100.0	8	0.0	0	8
\$250 to \$499.9	100.0	15	0.0	0	100.0	15	0.0	0	15
\$100 to \$249.9	100.0	25	0.0	0	100.0	25	0.0	0	25
\$50 to \$99.9	100.0	30	0.0	0	100.0	30	0.0	0	30
\$25 to \$49.9	100.0	44	0.0	0	97.8	44	2.2	1	45
\$10 to \$24.9	94.5	52	5.5	3	94.8	55	5.2	3	58
\$5 to \$9.9	84.8	28	15.2	5	94.3	33	5.7	2	35
Less than \$5	91.7	22	8.3	2	96.0	24	4.0	1	25
All	95.7	224	4.3	10	97.1	234	2.9	7	241
<b>Family</b>									
\$500 or more	100.0	7	0.0	0	100.0	7	0.0	0	7
\$250 to \$499.9	100.0	8	0.0	0	100.0	8	0.0	0	8
\$100 to \$249.9	86.7	13	13.3	2	71.4	15	28.6	6	21
\$50 to \$99.9	83.3	10	16.7	2	85.7	12	14.3	2	14
\$25 to \$49.9	82.4	14	17.6	3	85.0	17	15.0	3	20
\$10 to \$24.9	85.7	18	14.3	3	70.0	21	30.0	9	30
\$5 to \$9.9	85.7	6	14.3	1	63.6	7	36.4	4	11
Less than \$5	80.0	4	20.0	1	55.6	5	44.4	4	9
All	87.0	80	13.0	12	76.7	92	23.3	28	120
<b>Independent</b>									
\$500 or more	92.6	25	7.4	2	96.4	27	3.6	1	28
\$250 to \$499.9	87.5	14	12.5	2	94.1	16	5.9	1	17
\$100 to \$249.9	91.4	32	8.6	3	92.1	35	7.9	3	38
\$50 to \$99.9	96.4	27	3.6	1	87.5	28	12.5	4	32
\$25 to \$49.9	94.4	17	5.6	1	90.0	18	10.0	2	20
\$10 to \$24.9	93.3	14	6.7	1	100.0	15	0.0	0	15
\$5 to \$9.9	85.7	6	14.3	1	77.8	7	22.2	2	9
Less than \$5	100.0	5	0.0	0	71.4	5	28.6	2	7
All	92.7	140	7.3	11	91.0	151	9.0	15	166
<b>Public</b>									
\$250 or more	100.0	3	0.0	0	100.0	3	0.0	0	3
\$100 to \$249.9	100.0	10	0.0	0	90.9	10	9.1	1	11
\$50 to \$99.9	90.0	9	10.0	1	100.0	10	0.0	0	10
\$25 to \$49.9	87.5	7	12.5	1	88.9	8	11.1	1	9
\$10 to \$24.9	85.7	6	14.3	1	87.5	7	12.5	1	8
\$5 to \$9.9	80.0	4	20.0	1	100.0	5	0.0	0	5
Less than \$5	85.7	6	14.3	1	100.0	7	0.0	0	7
All	90.0	45	10.0	5	94.3	50	5.7	3	53
<b>All</b>									
\$500 or more	95.5	42	4.5	2	97.8	44	2.2	1	45
\$250 to \$499.9	95.0	38	5.0	2	97.6	40	2.4	1	41
\$100 to \$249.9	94.1	80	5.9	5	89.5	85	10.5	10	95
\$50 to \$99.9	95.0	76	5.0	4	93.0	80	7.0	6	86
\$25 to \$49.9	94.3	82	5.7	5	92.6	87	7.4	7	94
\$10 to \$24.9	91.8	90	8.2	8	88.3	98	11.7	13	111
\$5 to \$9.9	84.6	44	15.4	8	86.7	52	13.3	8	60
Less than \$5	90.2	37	9.8	4	85.4	41	14.6	7	48
All	92.8	489	7.2	38	90.9	527	9.1	53	580

Source: Council on Foundations, 2004 Foundation Management Survey database.

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**Table 4**  
**Who Reviews the Job Performance of the CEO, by Grantmaker Type and Asset Group, 2004**

Grantmaker Type and Asset Group (in millions)	Full Board		Executive/ Management Committee		Other		Number of Respondents
	%	N	%	N	%	N	
<b>Community</b>							
\$500 or more	12.5	1	37.5	3	50.0	4	8
\$250 to \$499.9	46.7	7	33.3	5	20.0	3	15
\$100 to \$249.9	36.0	9	52.0	13	12.0	3	25
\$50 to \$99.9	30.0	9	53.3	16	16.7	5	30
\$25 to \$49.9	37.2	16	51.2	22	11.6	5	43
\$10 to \$24.9	32.7	18	61.8	34	5.5	3	55
\$5 to \$9.9	33.3	11	60.6	20	6.1	2	33
Less than \$5	21.7	5	65.2	15	13.0	3	23
All	32.8	76	55.2	128	12.1	28	232
<b>Family</b>							
\$500 or more	57.1	4	28.6	2	14.3	1	7
\$250 to \$499.9	50.0	4	25.0	2	25.0	2	8
\$100 to \$249.9	86.7	13	6.7	1	6.7	1	15
\$50 to \$99.9	50.0	6	25.0	3	25.0	3	12
\$25 to \$49.9	56.3	9	31.3	5	12.5	2	16
\$10 to \$24.9	71.4	15	23.8	5	4.8	1	21
\$5 to \$9.9	85.7	6	14.3	1	0.0	0	7
Less than \$5	80.0	4	20.0	1	0.0	0	5
All	67.0	61	22.0	20	11.0	10	91
<b>Independent</b>							
\$500 or more	66.7	18	14.8	4	18.5	5	27
\$250 to \$499.9	62.5	10	31.3	5	6.3	1	16
\$100 to \$249.9	54.3	19	22.9	8	22.9	8	35
\$50 to \$99.9	50.0	14	25.0	7	25.0	7	28
\$25 to \$49.9	61.1	11	27.8	5	11.1	2	18
\$10 to \$24.9	46.7	7	33.3	5	20.0	3	15
\$5 to \$9.9	57.1	4	28.6	2	14.3	1	7
Less than \$5	100.0	5	0.0	0	0.0	0	5
All	58.3	88	23.8	36	17.9	27	151
<b>Public</b>							
\$250 or more	100.0	3	0.0	0	0.0	0	3
\$100 to \$249.9	10.0	1	60.0	6	30.0	3	10
\$50 to \$99.9	20.0	2	60.0	6	20.0	2	10
\$25 to \$49.9	50.0	4	37.5	3	12.5	1	8
\$10 to \$24.9	42.9	3	42.9	3	14.3	1	7
\$5 to \$9.9	60.0	3	20.0	1	20.0	1	5
Less than \$5	57.1	4	28.6	2	14.3	1	7
All	40.0	20	42.0	21	18.0	9	50
<b>All</b>							
\$500 or more	56.8	25	20.5	9	22.7	10	44
\$250 to \$499.9	55.0	22	30.0	12	15.0	6	40
\$100 to \$249.9	49.4	42	32.9	28	17.6	15	85
\$50 to \$99.9	38.8	31	40.0	32	21.3	17	80
\$25 to \$49.9	47.1	40	41.2	35	11.8	10	85
\$10 to \$24.9	43.9	43	48.0	47	8.2	8	98
\$5 to \$9.9	46.2	24	46.2	24	7.7	4	52
Less than \$5	45.0	18	45.0	18	10.0	4	40
All	46.8	245	39.1	205	14.1	74	524

Source: Council on Foundations, 2004 Foundation Management Survey database.

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**Table 5**  
**Who Determines CEO Compensation, by Grantmaker Type and Asset Group, 2004**

Grantmaker Type and Asset Group (in millions)	Full Board		Executive/ Management Committee		Audit/Finance Committee		Other		Number of Respondents
	%	N	%	N	%	N	%	N	
<b>Community</b>									
\$500 or more	50.0	4	25.0	2	0.0	0	25.0	2	8
\$250 to \$499.9	46.7	7	33.3	5	0.0	0	20.0	3	15
\$100 to \$249.9	44.0	11	40.0	10	12.0	3	4.0	1	25
\$50 to \$99.9	36.7	11	56.7	17	0.0	0	6.7	2	30
\$25 to \$49.9	46.7	21	46.7	21	0.0	0	6.7	3	45
\$10 to \$24.9	33.3	19	59.6	34	0.0	0	7.0	4	57
\$5 to \$9.9	62.9	22	37.1	13	0.0	0	0.0	0	35
Less than \$5	68.0	17	24.0	6	0.0	0	8.0	2	25
All	46.7	112	45.0	108	1.3	3	7.1	17	240
<b>Family</b>									
\$500 or more	71.4	5	0.0	0	0.0	0	28.6	2	7
\$250 to \$499.9	50.0	4	25.0	2	0.0	0	25.0	2	8
\$100 to \$249.9	85.0	17	5.0	1	0.0	0	10.0	2	20
\$50 to \$99.9	57.1	8	21.4	3	7.1	1	14.3	2	14
\$25 to \$49.9	50.0	10	20.0	4	0.0	0	30.0	6	20
\$10 to \$24.9	72.0	18	12.0	3	0.0	0	16.0	4	25
\$5 to \$9.9	87.5	7	12.5	1	0.0	0	0.0	0	8
Less than \$5	50.0	4	25.0	2	0.0	0	25.0	2	8
All	66.4	73	14.5	16	0.9	1	18.2	20	110
<b>Independent</b>									
\$500 or more	64.3	18	7.1	2	3.6	1	25.0	7	28
\$250 to \$499.9	58.8	10	23.5	4	0.0	0	17.6	3	17
\$100 to \$249.9	64.9	24	18.9	7	2.7	1	13.5	5	37
\$50 to \$99.9	50.0	16	21.9	7	0.0	0	28.1	9	32
\$25 to \$49.9	75.0	15	10.0	2	0.0	0	15.0	3	20
\$10 to \$24.9	73.3	11	13.3	2	0.0	0	13.3	2	15
\$5 to \$9.9	66.7	6	0.0	0	0.0	0	33.3	3	9
Less than \$5	100.0	6	0.0	0	0.0	0	0.0	0	6
All	64.6	106	14.6	24	1.2	2	19.5	32	164
<b>Public</b>									
\$250 or more	100.0	3	0.0	0	0.0	0	0.0	0	3
\$100 to \$249.9	27.3	3	54.5	6	0.0	0	18.2	2	11
\$50 to \$99.9	40.0	4	40.0	4	0.0	0	20.0	2	10
\$25 to \$49.9	22.2	2	55.6	5	0.0	0	22.2	2	9
\$10 to \$24.9	50.0	4	25.0	2	0.0	0	25.0	2	8
\$5 to \$9.9	80.0	4	20.0	1	0.0	0	0.0	0	5
Less than \$5	42.9	3	28.6	2	0.0	0	28.6	2	7
All	43.4	23	37.7	20	0.0	0	18.9	10	53
<b>All</b>									
\$500 or more	64.4	29	8.9	4	2.2	1	24.4	11	45
\$250 to \$499.9	53.7	22	26.8	11	0.0	0	19.5	8	41
\$100 to \$249.9	59.1	55	25.8	24	4.3	4	10.8	10	93
\$50 to \$99.9	45.3	39	36.0	31	1.2	1	17.4	15	86
\$25 to \$49.9	51.1	48	34.0	32	0.0	0	14.9	14	94
\$10 to \$24.9	49.5	52	39.0	41	0.0	0	11.4	12	105
\$5 to \$9.9	68.4	39	26.3	15	0.0	0	5.3	3	57
Less than \$5	65.2	30	21.7	10	0.0	0	13.0	6	46
All	55.4	314	29.6	168	1.1	6	13.9	79	567

Source: Council on Foundations, 2004 Foundation Management Survey database.

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**Table 6**  
**Percentage and Number of Grantmakers That Regularly Benchmark the CEO's Salary and Benefits,**  
**by Grantmaker Type and by Asset Group, 2004**

Grantmaker Type and Asset Group (in millions)	Benchmarks Annually		Benchmarks Periodically		Board Regularly Benchmarks Compensation		Board Does Not Regularly Benchmark Compensation		Number of Respondents
	Percent	Number	Percent	Number	Percent	Number	Percent	Number	
<b>Community</b>									
\$500 or more	87.5	7	12.5	1	100.0	8	0.0	0	8
\$250 to \$499.9	71.4	10	28.6	4	93.3	14	6.7	1	15
\$100 to \$249.9	95.5	21	4.5	1	88.0	22	12.0	3	25
\$50 to \$99.9	80.8	21	19.2	5	86.7	26	13.3	4	30
\$25 to \$49.9	77.8	28	22.2	8	81.8	36	18.2	8	44
\$10 to \$24.9	67.6	25	32.4	12	64.9	37	35.1	20	57
\$5 to \$9.9	68.2	15	31.8	7	62.9	22	37.1	13	35
Less than \$5	60.0	6	40.0	4	40.0	10	60.0	15	25
All	76.0	133	24.0	42	73.2	175	26.8	64	239
<b>Family</b>									
\$500 or more	85.7	6	14.3	1	100.0	7	0.0	0	7
\$250 to \$499.9	75.0	6	25.0	2	100.0	8	0.0	0	8
\$100 to \$249.9	62.5	10	37.5	6	84.2	16	15.8	3	19
\$50 to \$99.9	63.6	7	36.4	4	78.6	11	21.4	3	14
\$25 to \$49.9	76.9	10	23.1	3	65.0	13	35.0	7	20
\$10 to \$24.9	62.5	10	37.5	6	61.5	16	38.5	10	26
\$5 to \$9.9	100.0	6	0.0	0	75.0	6	25.0	2	8
Less than \$5	50.0	2	50.0	2	50.0	4	50.0	4	8
All	70.4	57	29.6	24	73.6	81	26.4	29	110
<b>Independent</b>									
\$500 or more	60.7	17	39.3	11	100.0	28	0.0	0	28
\$250 to \$499.9	64.7	11	35.3	6	100.0	17	0.0	0	17
\$100 to \$249.9	75.7	28	24.3	9	97.4	37	2.6	1	38
\$50 to \$99.9	80.8	21	19.2	5	81.3	26	18.8	6	32
\$25 to \$49.9	64.7	11	35.3	6	85.0	17	15.0	3	20
\$10 to \$24.9	85.7	12	14.3	2	87.5	14	12.5	2	16
\$5 to \$9.9	80.0	4	20.0	1	55.6	5	44.4	4	9
Less than \$5	100.0	4	0.0	0	66.7	4	33.3	2	6
All	73.0	108	27.0	40	89.2	148	10.8	18	166
<b>Public</b>									
\$250 or more	66.7	2	33.3	1	100.0	3	0.0	0	3
\$100 to \$249.9	42.9	3	57.1	4	70.0	7	30.0	3	10
\$50 to \$99.9	50.0	5	50.0	5	100.0	10	0.0	0	10
\$25 to \$49.9	42.9	3	57.1	4	87.5	7	12.5	1	8
\$10 to \$24.9	50.0	3	50.0	3	75.0	6	25.0	2	8
\$5 to \$9.9	50.0	2	50.0	2	80.0	4	20.0	1	5
Less than \$5	40.0	2	60.0	3	71.4	5	28.6	2	7
All	47.6	20	52.4	22	82.4	42	17.6	9	51
<b>All</b>									
\$500 or more	71.1	32	28.9	13	100.0	45	0.0	0	45
\$250 to \$499.9	67.5	27	32.5	13	97.6	40	2.4	1	41
\$100 to \$249.9	75.6	62	24.4	20	89.1	82	10.9	10	92
\$50 to \$99.9	74.0	54	26.0	19	84.9	73	15.1	13	86
\$25 to \$49.9	71.2	52	28.8	21	79.3	73	20.7	19	92
\$10 to \$24.9	68.5	50	31.5	23	68.2	73	31.8	34	107
\$5 to \$9.9	73.0	27	27.0	10	64.9	37	35.1	20	57
Less than \$5	60.9	14	39.1	9	50.0	23	50.0	23	46
All	71.3	318	28.7	128	78.8	446	21.2	120	566

Source: Council on Foundations, 2004 Foundation Management Survey database.

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**Table 7**  
**Resources Grantmakers Use to Benchmark CEO Salaries and Benefits, by Grantmaker Type and Asset Group**  
**by Grantmaker Type and Asset Group, 2004**

Grantmaker Type and Asset Group (in millions)	National Market Surveys		Outside Consultants		Local/Regional Comparisons		COF Salary Report		Other		Number of Respondents
	%	N	%	N	%	N	%	N	%	N	
<b>Community</b>											
\$500 or more	57.1	4	28.6	2	57.1	4	85.7	6	42.9	3	7
\$250 to \$499.9	57.1	8	50.0	7	64.3	9	78.6	11	28.6	4	14
\$100 to \$249.9	14.3	3	9.5	2	47.6	10	100.0	21	14.3	3	21
\$50 to \$99.9	7.7	2	11.5	3	42.3	11	100.0	26	0.0	0	26
\$25 to \$49.9	12.1	4	6.1	2	54.5	18	90.9	30	3.0	1	33
\$10 to \$24.9	8.1	3	5.4	2	67.6	25	94.6	35	2.7	1	37
\$5 to \$9.9	9.1	2	0.0	0	72.7	16	81.8	18	9.1	2	22
Less than \$5	0.0	0	0.0	0	70.0	7	60.0	6	0.0	0	10
All	15.3	26	10.6	18	58.8	100	90.0	153	8.2	14	170
<b>Family</b>											
\$500 or more	66.7	4	66.7	4	50.0	3	83.3	5	33.3	2	6
\$250 to \$499.9	0.0	0	0.0	0	28.6	2	85.7	6	28.6	2	7
\$100 to \$249.9	31.3	5	31.3	5	56.3	9	93.8	15	12.5	2	16
\$50 to \$99.9	9.1	1	0.0	0	9.1	1	90.9	10	27.3	3	11
\$25 to \$49.9	16.7	2	8.3	1	25.0	3	75.0	9	25.0	3	12
\$10 to \$24.9	25.0	4	6.3	1	31.3	5	100.0	16	6.3	1	16
\$5 to \$9.9	0.0	0	0.0	0	16.7	1	100.0	6	33.3	2	6
Less than \$5	25.0	1	0.0	0	75.0	3	75.0	3	50.0	2	4
All	21.8	17	14.1	11	34.6	27	89.7	70	21.8	17	78
<b>Independent</b>											
\$500 or more	48.1	13	66.7	18	63.0	17	74.1	20	18.5	5	27
\$250 to \$499.9	35.3	6	41.2	7	52.9	9	76.5	13	23.5	4	17
\$100 to \$249.9	30.6	11	25.0	9	52.8	19	86.1	31	16.7	6	36
\$50 to \$99.9	19.2	5	11.5	3	65.4	17	88.5	23	7.7	2	26
\$25 to \$49.9	23.5	4	11.8	2	47.1	8	82.4	14	17.6	3	17
\$10 to \$24.9	7.1	1	7.1	1	57.1	8	92.9	13	21.4	3	14
\$5 to \$9.9	20.0	1	20.0	1	20.0	1	80.0	4	40.0	2	5
Less than \$5	25.0	1	0.0	0	25.0	1	100.0	4	25.0	1	4
All	28.8	42	28.1	41	54.8	80	83.6	122	17.8	26	146
<b>Public</b>											
\$250 or more	66.7	2	33.3	1	33.3	1	66.7	2	0.0	0	3
\$100 to \$249.9	16.7	1	83.3	5	50.0	3	66.7	4	16.7	1	6
\$50 to \$99.9	30.0	3	0.0	0	60.0	6	100.0	10	10.0	1	10
\$25 to \$49.9	42.9	3	28.6	2	71.4	5	85.7	6	14.3	1	7
\$10 to \$24.9	50.0	3	16.7	1	66.7	4	100.0	6	0.0	0	6
\$5 to \$9.9	50.0	2	0.0	0	50.0	2	75.0	3	25.0	1	4
Less than \$5	20.0	1	20.0	1	80.0	4	80.0	4	0.0	0	5
All	36.6	15	24.4	10	61.0	25	85.4	35	9.8	4	41
<b>All</b>											
\$500 or more	52.4	22	59.5	25	59.5	25	76.2	32	23.8	10	42
\$250 to \$499.9	38.5	15	35.9	14	51.3	20	79.5	31	25.6	10	39
\$100 to \$249.9	25.3	20	26.6	21	51.9	41	89.9	71	15.2	12	79
\$50 to \$99.9	15.1	11	8.2	6	47.9	35	94.5	69	8.2	6	73
\$25 to \$49.9	18.8	13	10.1	7	49.3	34	85.5	59	11.6	8	69
\$10 to \$24.9	15.1	11	6.8	5	57.5	42	95.9	70	6.8	5	73
\$5 to \$9.9	13.5	5	2.7	1	54.1	20	83.8	31	18.9	7	37
Less than \$5	13.0	3	4.3	1	65.2	15	73.9	17	13.0	3	23
All	23.0	100	18.4	80	53.3	232	87.4	380	14.0	61	435

Note: Multiple responses possible.

Source: Council on Foundations, 2004 Foundation Management Survey database.

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**RECOMMENDED BEST PRACTICES  
IN DETERMINING  
REASONABLE EXECUTIVE COMPENSATION**

A Guidance Memorandum from  
the Board of Directors of the  
Council on Foundations



**Council on Foundations**

**December 6, 2002**

**BOARD RECOMMENDATION:** The Board of Directors of the Council on Foundations strongly recommends that when reviewing and approving executive compensation, all foundations—private and public—adopt and follow the three-step procedure set forth in the regulations that implement the intermediate sanction rules for public charities.

## I. Background

The Internal Revenue Code provides excise tax penalties that can be imposed by the Internal Revenue Service whenever unreasonable or excessive compensation is paid to high-level employees of charitable organizations.<sup>1</sup>

When examples of excessive compensation come to light, they receive considerable media attention and negatively influence the perception of foundations and other charitable organizations in the minds of elected officials, their staff members (especially on Capitol Hill) and the general public. Most frequently, the examples that are publicized involve compensation paid to the president or chief executive officer.

## II. Purpose of this Memorandum: Best Practices in Determining Reasonable Executive Compensation

Over and above any legal requirements or public scrutiny, good stewards of philanthropic resources should go the extra mile to be certain that levels of compensation are reasonable. Thus, the Board of Directors of the Council on Foundations strongly urges all foundations to take great care in reviewing and approving the total executive compensation paid to all high level employees, particularly the top executive.

Position of the Council. The Board of Directors of the Council is firmly opposed to excessive or unreasonable compensation. Even the public perception of excessive compensation can be damaging to the whole field of philanthropy.

What is reasonable compensation? Generally, reasonable compensation is defined as what similar persons in similar positions with similar duties at similar organizations are paid.

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<sup>1</sup> The self-dealing provisions under Section 4941 apply to private foundations; the intermediate sanction provisions under Section 4958 apply to community foundations and other public charities.

Common procedures. Most foundations rely heavily on salary and compensation surveys to guide them in finding a reasonable level of compensation.<sup>2</sup> It is also common for foundations to compare compensation levels with specific foundations of similar size, operations and geographic location. Some foundations contract with independent advisors to provide advice and specificity regarding reasonable compensation and benefits.

New Guidance from IRS and Treasury. For many years, the IRS could impose penalty sanctions only for excessive compensation paid to executives of private foundations. However, in 1996, Congress passed the so-called “intermediate sanction” rules.<sup>3</sup> These rules now provide similar excise tax penalties that can be applied in instances of excessive compensation involving public charities. In publishing the final regulations to implement the intermediate sanction rules, the Treasury Department set forth an important set of procedures that provide a distinct advantage and a presumption of reasonableness for any public charity that follows them. These procedures are known as the “rebuttable presumption” rules.

### III. Rebuttable Presumption Rules: Three Steps<sup>4</sup>

What is a “rebuttable presumption”? The phrase “rebuttable presumption” is a legal term used in a variety of ways. Generally, it means that if certain steps are taken, then it will be presumed that the person taking those steps acted in a certain way (fairly, reasonably, without negligence, etc.). In the context of intermediate sanctions, when a foundation (or its governing board) approves a level of compensation, the law will presume that it is reasonable so long as certain steps are taken. Under most circumstances, when the IRS challenges the reasonableness of compensation, the burden is on the foundation and the person being compensated to prove the amount is reasonable.

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<sup>2</sup> The Council’s annual Grantmakers Salary and Benefits Report covers base compensation levels for 37 positions, as of February 1. Data are collected for four grantmaker types—community, corporate, private and public. Among the privates, family foundation data are separated from independents for 10 of the 37 positions—CEO, program director, senior program officer, program officer, program associate, program assistant, grants manager/administrator, executive assistant, administrative assistant and secretary. The salary tables are made available to members on the website in August. The printed survey report, usually released in December, also covers staff demographics, tenure and turnover, salary administration, bonuses and issues specific to the CEO. Beginning with the 2000 survey, the Council is collecting and publishing benefits information annually. Topics regularly covered include benefits costs covered by grantmakers, percentage of benefits costs covered by grantmakers, types of leave offered, types of voluntary benefits offered and retirement plans (including types offered, median employer contribution and plan administration). The benefits data are presented by grantmaker type, asset group and total paid staff size. In 2005, detailed information was also collected on healthcare/dentalcare cost containment measures, medical plan features and the cost of medical plan coverage and severance.

<sup>3</sup> Section 4958.

<sup>4</sup> The rules are spelled out in Treasury Regulation Section 53.4958-6T.

The advantage of a rebuttable presumption in compensation cases is that the burden of proof shifts to the IRS. Having a presumption in your favor can often be a major advantage in a dispute or in litigation. Said another way, if the rebuttable presumption steps are followed, there is a presumption that the compensation is reasonable. However, the IRS may counter with sufficient evidence to disprove (or rebut) the presumption.<sup>5</sup>

At the time of this memorandum, the opportunity to take advantage of these rebuttable presumption procedures was available only to public charities under the intermediate sanction rules. Public charities and their governing boards are not *required* to take these steps; rather it is an option with attractive benefits if done correctly. However, the IRS is currently reviewing whether or not to amend the private foundation regulations to provide a similar rebuttable presumption under the self-dealing rules.<sup>6</sup>

What are the three required steps?

Under the regulations implementing the intermediate sanction rules, three conditions must be satisfied to take advantage of the rebuttable presumption.

1. Approval by disinterested governing board. The compensation arrangement must be approved in advance (before any payment) by the governing body of the organization composed entirely of individuals who do not have a conflict of interest with respect to the compensation arrangement (example: neither the executive whose compensation is being determined nor any of his/her family members may be present during the discussion/debate or participate in the vote).
2. Reliance on comparable data. The governing body must obtain and rely upon appropriate data as to comparability prior to making its determination. Relevant information includes, but is not limited to, current compensation surveys compiled by independent firms, compensation levels paid by similarly situated organizations for functionally comparable positions and written offers from similar institutions competing for the services of the person under consideration.
3. Concurrent documentation. The governing body must adequately document the basis for its determination concurrently with making that determination (within 60 days of the decision or the date of the next

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<sup>5</sup> The IRS may rebut the presumption only if it develops sufficient contrary evidence to challenge the probative value of the comparability data relied upon by the governing body.

<sup>6</sup> Announcement 2002-47, Internal Revenue Bulletin, 2002-18, (May 6, 2002).

meeting of the governing body, whichever is later). To qualify as concurrent documentation, written or electronic records of the governing body (such as meeting minutes) must note a) the terms of the transaction and the date it was approved; b) the members of the governing body who were present during the debate on the transaction that was approved and those who voted on it; c) the comparability data obtained and relied upon and how the data was obtained; and d) any actions taken with respect to consideration of the transaction by anyone who is otherwise a member of the governing body but who had a conflict of interest with respect to the decision on the compensation.

IV. Legal Advice

The contents of this guidance memorandum provide a summary of applicable law. Foundations are encouraged to consult with experienced legal counsel for more detailed advice. Any questions may be directed to the Council on Foundations' Legal Services & Ethical Standards department at 202/467-0466.



## COUNCIL *on* FOUNDATIONS

### **Annotated Bibliography on Hiring, Compensating and Evaluating the Nonprofit CEO**

Albert, Sheila, *Hiring the Chief Executive: A Practical Guide to the Search and Selection Process* (Washington, D.C.: BoardSource, 2000), 40 pages. This booklet walks board members through the steps of finding a new chief executive. It is designed for organizations that want a detailed overview of the search process whether they are conducting the search internally or working with an executive search firm. Topics include: replacing a founding executive; hiring an interim executive; determining salary and benefits; diversifying the candidate pool; and involving staff in the selection process. The booklet takes you step-by-step through the selection process, including creating a search committee to deciding the qualifications of an ideal candidate, screening and interviewing candidates, and making the final decision. Includes a diskette with sample forms available in Microsoft Word and text files.

Axelrod, Nancy, *Chief Executive Succession Planning: The Board's Role in Securing Your Organization's Future* (Washington, DC: BoardSource, 2002), 70 pages. A resource to assist the board in developing a leadership transition plan, whether or not you anticipate an upcoming executive search. Learn how to devise an ongoing CEO succession plan that is linked to the strategic planning, mission, and vision of your organization. Help your board prepare for the future by tying the needs of the organization into the CEO job description and CEO evaluation.

Cryer, Shelly, *Recruiting and Retaining the Next Generation of Nonprofit Sector Leadership* (a study of the missed connections among nonprofit organizations, college seniors, and offices of career services). (New York: New York University, Wagner Graduate School of Public Service, The Initiative for Nonprofit Sector Careers, January 2004). A PDF of the 85-page report can be downloaded at [www.forbesfund.org/docs/NextGenerationNPLdrs.pdf](http://www.forbesfund.org/docs/NextGenerationNPLdrs.pdf).

Mintz, Joshua and Jane Pierson, *Assessment of the Chief Executive: A Tool for Boards and Chief Executives of Nonprofit Organizations* (Washington, DC: BoardSource, 2005). Assessing the chief executive is one of the board's primary governance responsibilities and is critical to the success of the chief executive and the organization as a whole. This tool clarifies the chief executive's responsibilities, job expectations, and annual goals; captures the board's perception of the executive's strengths, limitations, and overall performance; and fosters growth and development of the chief executive and the organization. Available in online and print versions, the *Assessment of the Chief Executive* by Joshua Mintz and Jane Pierson enables your board to evaluate the

performance of the chief executive in four key areas—annual performance goals, core competencies, leadership qualities, and accomplishments and challenges. Use the results of the *Assessment of the Chief Executive* to establish goals for the year ahead, set appropriate compensation packages, and document the assessment process. Print version includes user's guide and ten questionnaires.

Quatt, Charles W., and Brian H. Vogel, *Dollars and Sense: The Nonprofit Board's Guide to Determining Chief Executive Compensation* (Washington, DC: BoardSource, 2005), 82 pages. This book explains how nonprofits of all types can increase the transparency and integrity of chief executive compensation practices as part of their stewardship of the public trust. As the authors examine important parts of the process such as board responsibilities, chief executive assessment, contracts, IRS regulations, legal standards and compensation packages, they guide nonprofit boards through the process of setting an effective chief executive compensation plan.

Shmavonian, Nayda K, "Foundation Strategies for Attracting and Managing Talent," *Practice Matters* (New York: Foundation Center, September 2003). Attracting and managing highly qualified program professionals is one of the most perplexing and persistent concerns of staffed foundations. The author describes the human resource challenges and contradictions unique to foundations, including the need to select program staff with a rare blend of talents. One of ten papers of the *Practice Matters* series available free on the web from the Foundation Center ([www.fdncenter.org](http://www.fdncenter.org)). Discussion guide also available.

*Note: BoardSource, formerly The National Center for Nonprofit Boards, may be reached at 202/452-6262 or online at [www.boardsource.org](http://www.boardsource.org).*



## COUNCIL *on* FOUNDATIONS

### Sources of Nonprofit Compensation Information

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