Executive Compensation: How to Negotiate & Manage the Compensation Process

The 2017 OPEN MINDS Executive Leadership Retreat
Wednesday, September 27, 2017 | 3:30pm – 4:45pm

Bob Dunbar, Senior Associate, OPEN MINDS
Agenda

1. How To Negotiate Compensation
2. Salary Comparisons In Health & Human Services
3. Discussion
   - Ronald Morton, MPA, CBHE, Vice President, The Meyers Group
   - Joseph Niedzwiedski, CPA, Chief Financial Officer, North Central Mental Health Services
4. Questions & Discussion
How To Negotiate Compensation
“You don’t get what you deserve; you get what you negotiate”

Dr. Chester Karrass
Negotiation

- Dialogue intended to reach a beneficial outcome.
- Often conducted by one party putting forward a position followed by concessions resulting in an agreement.

Distributed negotiation: Win-Lose

Integrative Negotiation: Win-Win
Negotiation: Anxiety

- Source of discomfort for non-profit CEO
  - Care about cause/mission and not compensation?

- Source of anxiety for women
  - Female CEOs at non-profit organizations earn 8% less in salary (Guidestar 2016)
  - $500,00 pay gap over course of career.
  - “Women tend to not feel comfortable negotiating on their own behalf.” -Sara Laschever, Co-author: Women Don’t Ask: The High Cost of Avoiding Negotiation
Compensation Myths Of Non-Profit World

- **Non-profits can’t pay what for-profits pay**
  - 58% for-profit CEOs earn over $150,000 per year.
  - 35% non-profit CEOs earn over $150,000 per year.
  - Comp Vision: “With increased demand for talent, we see more cross-over of executives and compensation practices between tax-exempt and for-profit organizations.

- **Non-profits don’t pay bonuses**
  - Comp Vision “Typical tax-exempt CEO receives a base salary and a bonus opportunity which is prevalent in three-fourths of such organizations”

- **Benefits and perks are minimal in non-profits**
  - Frequently benefits and perks are better at nonprofits. Health, retirement, CEO perks
Non-Profit CEOs Must Possess High Level Management & Financial Skills

- **Visionary**: capacity to lead organization to new places essential to mission accomplishment and organization sustainability.
- **Board administration/support**: advises and informs.
- **Program/service delivery**: oversees design, marketing, delivery, and quality.
- **Human resources management**: manages increasing diverse staff in conformance with personnel policies and laws/regulations.
- **Financier**: understands cash flow, operating statements, audits, revenue generation, budget development and management, fund raising.
- **Strategic alliances**: increasingly providing leadership beyond own organization as result of merger, acquisition, collaboration with other organizations.
Impediments To Negotiation Market Competitive Compensation

- Non-profit “old school” thinking
- Organization tradition
- Time may not be right.
- Reasonable: IRS and community perspective
- Lack knowledge, competencies, organizational structure.
How To Negotiate “Reasonable” Compensation

- Take a “win – win” perspective
  - “I deserve reasonable compensation!”

- Identify and Communicate Your Strengths/Contributions
  - Financial performance improved as result of fund raising, grant writing, new contracts, increased billing, decreased days accounts receivable, cost reduction.
  - Strategic plan goals and objectives obtained.
  - Organization has developed and operated new quality and financially successful programs/services as a result of merger, acquisition, and/or internal business development.

- Prepare: Know Your Market
  - What do other CEOs earn at similar organizations – nonprofit and for-profit? (Guide Star, Charity Navigator, Open Minds, trade associations)
  - CEO compensation increases corresponding to organization’s budget in total but not as percent of organization budget compared to CEO compensation.
  - CEO compensation varies by city/region
  - Determine what “need” and what “want” and prioritize!
Salary Comparisons In Health & Human Services
Non-Profit CEO Compensation By Revenue

<table>
<thead>
<tr>
<th>Revenue</th>
<th>Mean Compensation</th>
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<tbody>
<tr>
<td>$50,000,000</td>
<td>$289,000</td>
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<tr>
<td>$10,000,000</td>
<td>$175,000</td>
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<tr>
<td>$5,000,000</td>
<td>$141,000</td>
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<tr>
<td>$500,000</td>
<td>$60,000</td>
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</table>
Compensation By City & Region

National Average Non-Profit CEO Compensation = $109,000

<table>
<thead>
<tr>
<th>City</th>
<th>Percentage Change</th>
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<tbody>
<tr>
<td>New York</td>
<td>+59%</td>
</tr>
<tr>
<td>Washington</td>
<td>+42%</td>
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<tr>
<td>Las Angeles</td>
<td>+39%</td>
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<tr>
<td>Indianapolis</td>
<td>-1%</td>
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<tr>
<td>Atlanta</td>
<td>-23%</td>
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Regions With Highest Salary

<table>
<thead>
<tr>
<th>Region</th>
<th>Salary</th>
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<tbody>
<tr>
<td>Northeast</td>
<td>$148,000</td>
</tr>
<tr>
<td>Mid-Atlantic</td>
<td>$142,000</td>
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<tr>
<td>Pacific West</td>
<td>$125,000</td>
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Regions With Lowest Salary

<table>
<thead>
<tr>
<th>Region</th>
<th>Salary</th>
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<tbody>
<tr>
<td>Southwest</td>
<td>$114,000</td>
</tr>
<tr>
<td>South</td>
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<tr>
<td>Midwest</td>
<td>$109,000</td>
</tr>
<tr>
<td>Mountain West</td>
<td>$102,000</td>
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</tbody>
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Health Care Executives Compensation

- Salaries are soaring as organizations look for qualified executives capable of leading increasingly complex organizations.

- Most significant pay increases to health care executives:
  - Qualified to navigate path from pay for volume to pay for value.
  - Facilitating strategic alliance (merger/acquisition/consolidation) resulting in a larger and more complex organization.
  - Taking on more risk based contracts.

- Increasing incentive based compensation tied to evolving value based payments and emphasizing following metrics:
  - Access to care
  - Cost effectiveness of care; e.g. cost per unit of service
  - Quality of clinical care
  - Client experience/satisfaction
65% Of All Executives In The Health & Human Services Make Less Than $150,000

<table>
<thead>
<tr>
<th>Salary Ranges Of Health &amp; Human Services Executives By Position Type</th>
<th>Total - All Executives</th>
<th>Manager/Supervisor/Director</th>
<th>C-Suite</th>
<th>CEO</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than $100,000</td>
<td>25%</td>
<td>75%</td>
<td>38%</td>
<td>21%</td>
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<tr>
<td>$100,001-$150,000</td>
<td>40%</td>
<td>20%</td>
<td>29%</td>
<td>42%</td>
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<td>$150,001-$200,000</td>
<td>21%</td>
<td>5%</td>
<td>19%</td>
<td>22%</td>
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<tr>
<td>$200,001-$250,000</td>
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<td>0%</td>
<td>5%</td>
<td>8%</td>
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<td>$250,001-$300,000</td>
<td>3%</td>
<td>0%</td>
<td>5%</td>
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<tr>
<td>Over $300,001</td>
<td>4%</td>
<td>0%</td>
<td>5%</td>
<td>4%</td>
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58% Of For-Profit CEOs Make Over $150,000 Per Year – Compared To Only 35% Of Non-Profit CEOs

CEO Compensation In 2016 – By Organizational Profit Status

Profit Status

- Less than $100,000
- $100,001-150,000
- $150,001-200,000
- $200,000-250,000
- $250,000-300,000
- Over $300,000

Percent Of Executives

- For-Profit
- Non-Profit
At Organizations With Revenue Below $10 Million, 84% Of Non-Profit Health & Human Service CEOs Make Less Than $150,000 – At Organizations With Revenue Above $10 Million Only 38% Of CEOs Make Less Than $150,000

<table>
<thead>
<tr>
<th>Revenue Range</th>
<th>Less than $100,000</th>
<th>$100,001 - $150,000</th>
<th>$150,001 - $200,000</th>
<th>$200,001 - $250,000</th>
<th>$250,001 - $300,000</th>
<th>$300,001 - $400,000</th>
<th>Over $400,000</th>
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<td>52%</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>$5,000,000 - $9,999,999</td>
<td>8%</td>
<td>26%</td>
<td>37%</td>
<td>44%</td>
<td>31%</td>
<td>15%</td>
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<td>$10,000,000 - $24,999,999</td>
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<td>37%</td>
<td>44%</td>
<td>31%</td>
<td>15%</td>
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<td>$25,000,000 - $49,999,999</td>
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<td>24%</td>
<td>31%</td>
<td>35%</td>
<td>11%</td>
<td>24%</td>
<td></td>
</tr>
<tr>
<td>Over $50,000,000</td>
<td>25%</td>
<td>10%</td>
<td>15%</td>
<td>35%</td>
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Hospital & Health Care Compensation Service
Salary & Benefits Report 2015

- Survey respondents 51% for-profit and 49% non-profit
- CEO salary = average $326,615, 75th percentile $447,100
- Salary increases with health care organization budget.
  - Up to $10 million: Average salary $131,385
  - Up to $20 million: Average salary $179,399
  - Over $20 million: Average salary $241,345
Health Centers CEO Salary*

- Salary at 50th percentile = $164,937
- Average minimum salary = $130,351
- Average maximum salary = $203,898
- Bonus = average $18,027
  - 41% eligible to receive bonus
  - Criteria: financial performance, productivity, client satisfaction.
- Total compensation = average $184,352, 75% $216,749
- Experience = CEO 11 years and healthcare 24 years.

*Health Center Salary & Benefits Report 2016/2017
Behavioral Health Salary

**Midwest State Community Mental Health Trade Association**

- Average base salary = $195,800
- Salary increases with size budget:
  - Less $19 = $185,800
  - More $40 = $219,000

**National Trade Association**

- Average base salary = $209,450 (5.6% increase 2016)
- Total compensation (base, bonus, pension, auto) average = $249,393
- Salary increases with budget size and varies by region.
- Bonus: 49% CEOs eligible and average bonus $29,240 (13% of base)
Other Non-Profit CEO Compensation Increasing

Percentage of Nonprofit CEOs Earning $100,000 or more
- 2009: 51%
- 2016: 75%

Percentage of Nonprofit CEOs Earning $200,000 or more
- 2009: 8%
- 2016: 15%

Skills Most Associated with Increased CEO Compensation
- Leadership
- Business Strategy
- Team Leadership
Benefits Other Than Salary

1. Health, life, disability
2. PTO
3. Auto
4. Retirement: Plan and planning
5. Long term care insurance
6. Club membership
7. Professional Dues

1. Deferred compensation
2. Technology = lap top, cellphone
3. Education
4. Quality Work Life/Flex time/Telecommuting
5. Sabbatical
6. Golden Handcuffs
Executive Benefits Other Salary

- Hospitals and Healthcare
  - Cell phone - 68%
  - Car - 21%
  - Licensure - 9%
  - Professional association - 7%

- Behavioral Health Care
  - Professional dues - 81%
  - Lap top - 81%
  - Cell phone - 76%
  - Auto - 52%
  - Long-term care - 24%
  - Club membership - 19%
Questions/Discussion
OPEN MINDS helps over 180,000 industry executives tackle business challenges, improve decision-making, and maximize organizational performance every day. See how our market intelligence can help your organization at www.openminds.com.

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Addiction Treatment • Social Services • Intellectual & Developmental Disability Supports
Child & Family Services • Juvenile Justice • Adult Corrections Health Care