

## Chief Executive Remuneration: How to get it right

The question of Chief Executive pay is a loaded one: how do charities find the best person for the job, ensure the job is as attractive as a private sector job that may be able to pay more and use its funds in the best possible way?



Recently this has been an issue that has come under increased scrutiny with a number of stories in the press:

- The Sun newspaper [led the charge](#) – asserting that the [Alzheimer's Society](#) had 'blown' half of the donations it receives on staff. This includes Chief Executive Jeremy Hughes earning a salary between **£130,000** and **£140,000**.
- The newspaper listed various other 'big earners at good causes', including the chief execs of [Cancer Research UK](#) and the [NSPCC](#) earning **£230,000** and **£162,000** respectively.

Despite the apparent trend of big charities offering larger remuneration packages to the upper echelons of their staff, a few high profile examples don't reflect the reality for the majority of the VCS.

The [Third Sector Research Centre](#) has conducted the most comprehensive [research to date](#) of salaries above **£60,000** per annum in charities.

- They found that **only 5%** or so of charities have incomes greater than **£750,000**. Only around **3%** of charities with income below that level pay anyone £60,000 or more.
- The research ultimately found that the proportion of staff in the sector receiving salaries of **£60,000** or more is considerably lower than in the private or public sectors.

The question remains as to whether it is justifiable that CEOs of big charities receive large salaries. Should someone who is running a charitable organisation be able to earn more than the Prime Minister?

It can be argued that attractive salaries have to be offered in order to attract the best candidates from other sectors, who are often in charge of hundreds of staff and budgets that run into tens or hundreds of millions of pounds.

However, it is also reasonable to suggest that when someone is donating to a charity they expect 100% of their donation to go to that particular cause if it hasn't been made clear otherwise. (You can read more about the above in a full length feature '[Negative Press and the VCS: Is it all Doom and Gloom?](#)')

Charities have been advised, in a [report by the NCVO](#) (National Council for Voluntary Organisations), to publish full details of senior executives pay in order to maintain public trust as reported in the [Guardian Voluntary Sector Network](#).

The report, a product of an inquiry into charity chief executive pay, suggests that despite legally having to provide an indication of the number of staff in pay bands over £60,000, charities need to go further to earn the public's trust.

Listed below are some of the key points to come out of the NCVO report:

- Remuneration policy should reflect the charity's values – those with an income of more than £500,000 are encouraged to consider the use of remuneration ratios. The report says the multiple between the highest and median pay is the most reliable measure to assist in their approach to pay.
- Name and numbers – the report recommends that charities publish a remuneration statement explaining their pay strategy and stating the individual remuneration of their highest-paid staff by position and name. Charities who have a gross income of more than £500,000 should accompany such a policy with a summary of arguments used by the board of trustees to justify the amounts involved and how they reflect the charity's ethos.
- Two clicks away – to make this information accessible, and not just within their annual accounts, the inquiry suggests that charities display this information online, and no more than two clicks from their homepage.
- Main factors – trustees need to consider many points when setting pay including: the purposes, aims and values of the charity, beneficiary needs, impact on overall pay structure of employees, skills required, the sustainability of the charity and the likely impact on the views of beneficiaries, donors, funders, volunteers and so on.
- Caps are impossible to implement – it is not possible to cap or benchmark salaries as there are too many different types and sizes of charities, says the report.
- Value is important – charities need to consider the esteem and value derived from employees working for a charity when setting remuneration levels.

### What does it all mean for my organisation?

If your organisation is setting chief executive pay for the first time, it is worth thinking about the above points. Some further helpful tips are:

- Ensure you write up a clear job description
- Search for similar job descriptions on job sites and find out how much the pay is – is yours much higher?
- Think about the size of your organisation – is the pay in proportion?
- Be transparent about who sets the pay – the trustees should be setting the level not the CEO.

At every stage of an organisations life, there must be checks and balances. It is important to know how good a job the CEO is doing and be able to justify the salary paid:

- Do you have an appraisal system in place?
- How is performance defined?
- How do you define impact?
- How do you report on this/communicate with stakeholders?

Remember, where possible:

- Offer greater transparency
- Gather sound benchmarking data
- Act proportionately according to organisation structures, hierarchies, your Mission and your values
- Create a culture of robust appraisal ideally with whole board involvement
- Keep communication lines with stakeholders open and direct
- Use your judgement – Does it compare? Is it affordable? Is it reasonable?

## Useful Resources

- NCVO - [Report of the Inquiry into Charity Senior Executive Pay and guidance for trustees on setting remuneration](#) (2014)
- Third Sector – [Chief Executive Pay](#) (Various Articles)
- Civil Society - [Top 100 charity chief executives earn average of £167,000](#) (September 2015)

## Support

If you would like any support with this or any other issues please contact the Development Team at Community Southwark: [development@communitysouthwark.org](mailto:development@communitysouthwark.org) or 020 7358 7020.