



Management Consulting to Independent
and International Schools Worldwide

LITTLEFORD & ASSOCIATES
— GLOBAL ISSUES | LOCAL SOLUTIONS —

Board Governance | Head Compensation | Mentoring Heads | Faculty Compensation & Evaluation | Fundraising | Leadership Transitions
Safe Harbors Compliance | Executive Searches | Financial Management | School Climate & Morale Issues | Marketing | Strategic Planning

NEVER IGNORE HEAD COMPENSATION PLANNING

Posted on December 4, 2019

Littleford & Associates has helped boards benchmark the compensation for thousands of school heads worldwide since 1983. Many of these schools retain us annually or every few years for this purpose.

Heads already under contract and who are feeling secure in their position still greatly appreciate the opportunity to have their compensation package benchmarked externally by a professional employed by the board. (Littleford & Associates works only for boards, not heads.). The process makes them feel valued, and it feels like a marriage renewal ceremony as board members have the opportunity not only to talk about compensation, benefits and tax elements but to understand and appreciate the head on both a professional and personal level.

Heads who are about to be hired or were just hired also appreciate a formal benchmarking to ensure that their new contracts reflect their value in the marketplace. Internal hires often are hired at a level below that of those in the external marketplace. This is because they probably have not been actively looking. While an internal hire has the advantage of not having to move, change schools for children or a job for a spouse or partner, even an internally appointed head wants to know that he/she is not being taken for granted. Boards should be aware that an internal appointee will soon discover, by attending conferences and networking, where his/her package falls. If that package is well below market, there is a chance that that head may feel some ill will and may want to renegotiate soon.

Boards often find the data available on head compensation confusing and this is understandable. Online surveys are unreliable; and higher-paying heads are reluctant to disclose the full details of their package whereas lower-paying heads are more apt to do so in order to gain information. In the US, IRS Form 990's are available in the public domain but they are often 2-3 years out of date and the level of detail in the reporting varies widely. Finally, one has to pay a substantial annual fee to Guidestar.com in order to gain access to additional information that requires interpretation that comes with experience.

Up to 25% of US heads do not report on the 990 forms due to the separation of church and state, i.e., they claim to be under the auspices of a religious organization. A number of US school heads



Management Consulting to Independent
and International Schools Worldwide

LITTLEFORD & ASSOCIATES
— GLOBAL ISSUES | LOCAL SOLUTIONS —

Board Governance | Head Compensation | Mentoring Heads | Faculty Compensation & Evaluation | Fundraising | Leadership Transitions
Safe Harbors Compliance | Executive Searches | Financial Management | School Climate & Morale Issues | Marketing | Strategic Planning

are paid by a related foundation, not by the school itself. Up to 25% of a head's package may not be reported on the IRS Form 990 because the IRS has overlooked some types of compensation that heads receive.

Heads are expected to retain good staff and to reach contractual agreements for all teachers on a timely basis. Boards need to do the same for heads/executive directors. Yet boards tend to overlook head compensation and contract renewal until the last few months before the head's contract comes to an end. That is unwise for both the head and the board because if the new compensation terms are not agreeable to both sides, then there is not enough time for a successful search outcome for the head or for the school.

Head Compensation: Patterns of Behavior

From our work on this topic worldwide, some noteworthy patterns and trends have emerged.

The region of the world does impact head compensation. For example, US independent schools pay among the highest salaries in the world. Canadian independent schools, except those in Vancouver or Toronto, pay substantially less than US independent schools.

The highest paying regions outside of North America are first the Far East, especially China, Taiwan, Japan and South Korea, followed by the Middle East, especially the UAE and Saudi Arabia. Europe pays salaries just slightly less than the Middle East and East Asia. Latin America does not pay especially well except for a few very well-known schools in Brazil, Mexico, Peru, and Chile. Most schools in Africa (outside the Middle East) pay below all of these other areas.

Often long-term heads are paid less than newer heads UNLESS the board has in fact benchmarked the head's compensation through an outside consultant and has done so recently. This is because heads tend not to be their own advocates very effectively once they have been "captured" over time, i.e., served for many years.

Women are still paid about 25% less than their male counterparts. Assertive heads are paid more than self-effacing ones. While neither of these patterns is fair, they are typical.

Large schools do not necessarily pay more than small schools. Highly endowed schools or with major capital reserves and assets do not necessarily pay more than less well-endowed schools.

The single most important factor affecting a head of school's compensation tends to be the occupation (and therefore the pay) of those board members deciding the head's compensation. Specifically, the highest paid heads tend to be those who have at least one key board member on the compensation committee who is a CEO, venture capitalist or investment banker as they tend to look at the head/director as adding value to the bottom line.



Management Consulting to Independent
and International Schools Worldwide

LITTLEFORD & ASSOCIATES
— GLOBAL ISSUES | LOCAL SOLUTIONS —

Board Governance | Head Compensation | Mentoring Heads | Faculty Compensation & Evaluation | Fundraising | Leadership Transitions
Safe Harbors Compliance | Executive Searches | Financial Management | School Climate & Morale Issues | Marketing | Strategic Planning

Board members who are professionals (which most are) such as doctors, lawyers, accountants, diplomats, etc. tend to want to pay a head of school less aggressively, in part because THEY tend to be paid more modestly. Why should a head be paid more? Many times I have heard board members say: “Well, obviously I chose the wrong profession!” However, given the short tenure of heads and the frequent firing of heads worldwide, it is not always such an enviable profession.

Often board members ask for a “formula”, i.e., how much differential should there be among a teacher’s salary and an administrator’s salary and the head’s base salary? There is no consistent pattern worldwide but we have observed a slight pattern. If you take the highest paid teacher and double that salary you get to the salary of the highest paid administrator OTHER THAN the Head. If you take that person’s salary, double it and add: tuition, housing, deferred compensation, a club membership, car (and sometimes driver) and certain other benefits, this will get close to the head’s package. Heads often have a better medical plan and retirement plan than other employees if that differential is legal in that country. In the US, a better retirement plan is taxable to the head and a 457(b) or a 457(f) non-qualified deferred compensation plan is the way to provide greater retirement benefits. There are many heads, now working in the for-profit international school worldwide and for nonprofits in major US cities, who are making close to \$1.0 million or more. In the for-profit school realm, a number of heads also have stock options.

Termination Clauses: Heads Be Wary

“Termination for cause” should be narrowly defined as dismissal for illegal behavior, gross misconduct or other similarly substantial issues. This clause should NOT include vague terminology such as “insubordination”, “failure to meet stated goals” or other soft language. Invoking this clause could affect the head’s severance negatively.

Heads often misunderstand the termination “not for cause” clause. Many heads in good standing with a history of performance may have contracts longer than 2 or 3 years. Those contracts, however, almost never actually provide a payout of the full contract value if the termination occurs with more than 18 to 24 months left on the contract. The norm is 12 months’ notice or 12 months of continued service. Eighteen months is the outside limit of that notice for most schools.

Conclusion

Heads are responsible for executing the school’s mission. Long-term heads leave legacies. Short-term heads leave power vacuums. There is an absolute connection between long-term board members and long-term chairs and between long-term chairs and longer term heads, and with that comes a more consistently delivered mission and a stronger financial picture over time. The time to assess head compensation is probably now.