



Management Consulting to Independent
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THE IMPORTANCE OF THE HEAD COMPENSATION PROCESS

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I. Data Gathering

In the United States and Canada (but less so for international schools) there is a plethora of data gathered on executive compensation. Some of the data is required reporting on the IRS Form 990 for the top five paid officers of a US based independent school (or other 501(c)(3) organization). However, regional associations gather the data as well. Private firms gather the data. NAIS has "stats online", and heads/directors informally share compensation data with each other (up to a point). In the international scene, regional associations ask for the data (and do not always receive it or all of it).

Littleford & Associates was the first firm in the United States and the first in the international arena to undertake data collection for head/director compensation and develop a process to work with executive and compensation committees of boards to help ensure proper benchmarking of executive compensation. Since 1983, we have done this for over 5,000 schools and over 6,000 individuals (multiple times for the same schools and different heads) and we have always achieved a conclusion that both the board and the head value.

Littleford & Associates works only for boards, not for heads, directors or paid executives, but the process that we have developed over the years has helped innumerable heads and former heads, many of whom are now in semi retirement and working as consultants themselves.

No matter who is the ultimate beneficiary of this data collection and analysis, the keys to all of this are the integrity of the data and the **process** of treating heads fairly and competitively. Boards should undertake this process regularly as part of their due diligence. In fact the new Form 990 asks specifically HOW the independent school or nonprofit determined the level of head or executive compensation.

In one recent situation with a client, and not unlike many similar cases, a Head was promoted from within the School after a national search. The Board Executive Committee began its due diligence research by looking at 990 forms, NAIS stats on line, regional and state association data and the



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data from a comparison benchmark group to which the School belongs. Naturally, the Board Committee was looking at schools of comparable size in the immediate area, with relatively new heads.

Armed with that data, the Committee made an offer to the new Head. Not having been in the external market seeking a headship, she was unsure of the competitiveness of the offer even though she wanted the job and was invested in the School and in the area. The astute Committee continued to have some questions as well. They realized that the more research they did, the more questions they had about the various forms of head compensation and how to deliver a compensation package in a tax-smart and effective way for the benefit of the Head and the School. In other words they learned what they did not know.

II. Thoughts to Consider

It is important to remember that region, size, and endowment assets have very little to do with the actual compensation earned by heads/directors. The most highly paid are men who move about every seven years, who are assertive about their pay situation and who have compensation committees dominated by CEO types and venture capitalists. The lesser paid, generally, are those heads who are more self effacing, are women, are a first time head, have stayed a long time as head at the same school, or were promoted from within. Founding heads almost (but not always) fall into the same lower paid category.

Most new heads walk in with three year rolling contracts. Many new heads also are offered non qualified deferred compensation plans as incentives to stay longer term, i.e., golden handcuffs. Age and experience can have less to do with the initial offer than the competitive opportunities that exist for the candidate of choice. Charisma and negotiation skills often trump experience.

These days many boards want heads who are experienced with marketing, financial management, fund raising or all three, in addition to an understanding of the latest in 21st century learning. They may offer some major incentives for performance based on strong financial outcomes. Heads who have such external talents tend to have more clout and potential earning power although the inside candidate comes in with the advantage of knowledge of the school culture and therefore needs less transition time.

The lower paid heads also tend to have compensation committees dominated by professionals, i.e. lawyers, doctors, accountants, etc., who are accustomed to being compensated in terms of billable hours. Does it really surprise anyone that a head/director pay package is influenced substantially by the earning power and earning pattern of the key decision-makers? It seems strange to say this but all who think about it, know it is absolutely true. A head could be running a complex large



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school, have a glowing evaluation the year before and still be paid in the bottom quartile of similar or dissimilar schools and the main reason would relate to the patterns noted above, not so much to the school's size, location, or assets.

Why is it that we give such credence to association figures that compare head/director compensation to schools of comparable region, size, assets and endowment (never performance) as opposed to the occupations of the compensation committee (the key decision-makers) and other factors? Because it seems logical even though it may not be true.

III. A Happy Ending

In the case above, both the Committee who values its newly appointed Head very highly AND the Head herself who is very loyal to the School were not entirely comfortable with the components of the initial offer.

This Consultant conducted a contract facilitation process at the Board's request. During a three hour teleconference, this Consultant provided new important compensation data; explained the Committee's existing data in depth; and reviewed current trends in the marketplace as well as current tax regulations. The Committee designed an offer to the Head based also upon the budget and needs of the School and the Head and her family's needs. The package signaled an upfront commitment to a competitive package with room for compensation growth opportunities.

The Head heard the revamped offer and felt reassured and valued. The process itself was a "marriage renewal process" of sorts, even for this long serving internal candidate.

The Committee did its work conscientiously. It was led by good intentions. It had done its own research well but knew when to seek outside assistance. The Head was fair, not overly demanding, thoughtful and supportive of the Committee's previous effort and its latest offer.

There are two points of the story. First, the PROCESS is just as important as the actual numbers or volume of data laid on the table. This is true for sitting heads, new heads, or heads about to retire.

Second, The GOAL to keep in mind is that opinions need to be valued; feelings need to be known; the consultant must work only for boards, not for heads as well; and the committee should be made up of a mix of professionals and business leaders to reflect a balance of personal compensation experiences.

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