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Nonprofit Executive Compensation: The Board's Responsibilities - Part 2 in the Series

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The board of directors, when setting compensation for the chief executive officer (and other executives, as the case may be), must weigh several obligations during the process:

Mission Responsibility

The board of directors' mandate is to guide the organization in the achievement of its mission and strategy. The board must select a chief executive officer(s) that will be, in large part, the executor of that mission on a daily basis. The compensation package offered is a vital component in attracting and retaining the best talent to lead the organization. However, the compensation package itself must be aligned to the organization's mission and strategy. A well-designed compensation package will reward achievement and provide appropriate consequences if performance lags. Ideally, executive compensation is tied to board-approved annual and long-term goals and objectives.

Fiscal Responsibility

Board members have a duty to be stewards of the organization's financial resources. Executive compensation must fit within the overall budget. Delicate balance and care must be taken to be fiscally prudent, but not at the expense of hiring the best talent possible to lead the organization in the accomplishment of its mission.

Legal Responsibility

Executive compensation should be determined after consultation with your tax advisor and legal counsel. It is crucial for board members to understand their legal responsibilities, particularly the IRS regulations regarding reasonable compensation. In fact, board members could be personally subject to legal penalties under certain circumstances if executive compensation is deemed unreasonable by the IRS. (See [Executive Compensation at Not-For-Profit Organizations](#) for additional detail.)

Schneider Downs Business Advisory Group provides compensation studies to aid organizations in understanding the market and documenting their reasonable compensation processes. Please [contact Schneider Downs](#) to discuss how we can assist you with your advisory needs.

This post is part of a series to provide best practices for nonprofit boards to determine executive compensation.

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