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Is Your Comparable Compensation Data Actually Comparable?- Part 6 in a Series

BUSINESS ADVISORS, COMPENSATION STUDIES, HEALTH CARE, HIGHER EDUCATION, NOT-FOR-PROFIT

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Once the board of directors has determined who will be leading the compensation process (full board or a compensation committee) and has discussed the organization's goals and compensation philosophy, it's time to gather comparable market data. This is a crucial step to ensure that decisions are made using good information.

The IRS's reasonableness standard is a helpful guidepost: reasonable compensation is what would ordinarily be paid for like services by like enterprises under like circumstances. "Like enterprises" should be identified in order to gather the most relevant compensation data and to comply with the [rebuttable presumption of reasonableness](#). Factors to consider include:

- Mission or Category (e.g., education, health, arts, etc.)
- Size (e.g., total expenses, full-time equivalent staff, endowment size, etc.)
- Region (e.g., Pittsburgh, state of Pennsylvania, northeast region of the United States, etc.). Incorporating the region factor will take into consideration geographical differences in pay, such as the difference in compensation levels between, for instance, New York City and rural Indiana. Another consideration is whether the organization recruits only locally or has a national presence and performs job searches in the national marketplace.

Once a comparable peer group has been determined, it's important to match positions based on a functional comparison of duties. The role of chief operating officer, for example, may mean different things in different organizations. Any specific requirements for the position should also be considered, such as fluency in Spanish, law degree, etc.

Other factors to consider include determining whether length of service and experience is comparable to those serving in positions within the peer group.

The next step is to gather compensation data, which should be obtained from Forms 990 of the identified comparable peer group as well as from available compensation surveys. Check out the next post in this series for more information on where to get this data and potential pitfalls.

Schneider Downs Business Advisory Group provides compensation studies to aid organizations in understanding the market and documenting their reasonable compensation processes. Please [contact us](#) 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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