



*Promoting good practice
in the management and
support of aid personnel*

Trends in executive compensation in the UK voluntary sector

April 2008

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Research



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Foreword

The focus of this research – executive compensation in the UK voluntary sector – is a critical and timely issue, with broad relevance, even outside the UK. In our experience, which is global, the findings of the research should be of value equally to non-profit organizations working from North America, other parts of Europe, and Asia. Certainly for those organizations working internationally, many of the dynamics identified apply to the “headquarters suite” whether that suite is located in Washington DC, London; Johannesburg; Geneva; Melbourne; or Brussels. The research is critical because it touches on the very terms that define the sector: voluntary (versus paid); non-profit (versus profit); charity (versus gain). Further, it focuses on leadership, who are, justifiably, seen as the sign and symbol of an organization’s culture. (“Where the head goes, the body will follow.”) It is timely because it comes after a decade of ferment in the sector, and helps to clearly articulate trends which have otherwise only slowly become apparent.

The eventual outcomes of these trends are not inevitable. Market forces will be market forces, but decisions will be made by trustees, by directors, and by donors based on strategies and objectives that are specific to the organizations and missions for which they are responsible stewards. Agencies must make choices about how best to attract and retain the executive leadership they need in order to deliver outcomes that are aligned with their missions, tell the story to their increasingly complex constituencies, and perform in an increasingly challenging operating environment. In organizations with good governance and good leadership practices, those choices will be informed ones: informed by research such as this, and informed by participation in information sharing and dialogue fora like those facilitated by People In Aid. Though the research speaks to some of the implications of the increased merging and integration of the commercial, not-for-profit and public sectors, which may imply some of the “private”, closed-door practices of the commercial sector, the practices of open dialogue, open hearings, and information-sharing that has been a hallmark of the voluntary sector will continue to stand it in good stead in pursuing the common good. Research such as this is a very critical early step in that direction and we commend it to the sector.



Curtis Grund
Vice President, ORC Worldwide

Executive Summary

The operating environment in the not for profit sector is becoming increasingly complex, requiring a fundamental shift in the nature of organisations and a different calibre of leader. The well publicised trend in recent years for directors' salaries in the commercial sector, and to an extent in the public sector, to rise faster than general salaries is now being mirrored in our own sector, increasing the gap between the remuneration of board members and other staff groups.

To understand this trend People In Aid invited twenty three International Non-Governmental Organisations (INGOs), large charities from the wider UK voluntary sector, and sector experts to share their thinking on executive compensation. The purpose of the research is to look behind the benchmark salary figures and understand the critical factors that help shape remuneration philosophy and decision making processes.

The crux of the debate is the question of how well organisations can hold the tension between market forces and the ideals and principles which underpin their purpose and activities, and how this is articulated to key stakeholder groups. Whilst the research results do not suggest that organisations are rushing to jump on a bandwagon of spiralling salaries, higher remuneration to varying extents is currently the price that the majority of participants are prepared to pay, for some high impact jobs or individuals, with the skills needed to deliver results in these increasingly complex operations. It is one indicator of a massive pendulum swing over the past ten years away from what might be characterised as the days of the enthusiastic and idealistic amateur to a sector which is more focused on accountability, professionalism and measurable impact.

Remuneration is a complex area, and there is no 'right or wrong' perspective or approach to managing executive compensation. Rather, organisations would appear to sit at a point on a continuum of practice which is influenced by a number of critical factors including:

General perceptions of those working in the sector

- Rises are not uniform or continuous. In many cases one-off repositioning of executive pay is followed by a number of years of modest rises in-line with general salaries.

- The impact of upward market pressure varies considerably. For example difficulty to recruit is not uniform depending on how wide the recruitment net is being cast.
- Executive salaries are not the key concern for some organisations where middle management and above are considered more critical risks in terms of attraction and retention.
- There is no clear definition of what is meant by "the market". As organisations broaden their horizons in terms of what they do and what skills are required to do it, they are increasingly defining their own individual market(s) which are often a combination of third sector, public sector and possibly some private sector comparators.
- Transfer of skills between sectors is an important development in terms of raising performance, introducing greater professionalism and efficiency, increasing ability to cope with greater complexity in the operating environment and, increasing expectations regarding remuneration.
- An organisation's funding base has a significant impact on remuneration decisions.
- The size and contribution of organisations is demanding more complex skills and consequently increased levels of remuneration. This involves attracting talent from other locations and sectors that often already has a higher standard of living or committed outgoings than was traditionally the case.

Reward philosophy

Comparator bases that organisations benchmark against are highly variable making direct comparisons difficult. Some organisations benchmark against all sectors for some roles.

A more performance/contribution based philosophy can lead to recognising success with monetary gain as opposed to non-performance based philosophy which implies less ability to justify high pay.

Organisational complexity

Organisations in the INGO and UK voluntary sector are becoming more complex and sophisticated. They need to engage with a wider and more complicated range of stakeholders and spheres of influence and

require new and innovative leadership approaches to deliver high performance, many of which are not readily available within the sector.

Internal transformation

Attracting a different calibre of leader has, for many organisations, gone hand in hand with large organisational development projects to effect internal transformation such as acquisitions and mergers, creating a unitary global presence, major operational and process re-engineering projects and diversification in organisational activities.

Funding base

Parts of the UK voluntary sector in particular are experiencing tougher competition for funds via local authority competitive tendering processes requiring more cost focused, commercial leadership that can compete with the private sector.

Brand attraction

Brand continues to have high significance for many organisations, though not all. There is concern that over reliance on brand to suppress salaries too far could result in reducing the number of potential candidates willing or able to make long term commitments to the sector at a senior level.

Composition of the Board and Trustees

Executive boards increasingly contain individuals with a mix of voluntary sector and private sector backgrounds resulting in adoption and adaptation of a range of private sector approaches to management and remuneration.

Organisational purpose

Concern was expressed by some that paying high salaries may not be seen to align well with their organisation's purpose and strategy where this focuses on poverty alleviation, social inequality or injustice. However, 60% of participants did not have such concerns. There is an opinion that the growth of "social enterprise" has resulted in a view that values business skills as positive and hence successful pursuit of organisational values and vision become linked with commercial success. Higher pay can be seen as a result of organisational success in achieving its purpose.

Internal and external risk factors

Some participants are concerned about the impact of rising executive salaries on staff and external stakeholders, however these minority concerns are insufficient to result in widespread self imposed restraint across the sector at this point. While some individuals choose to take a voluntary reduction this should not be the assumption or normal expectation.

Summary of conclusions:

Pay comparison is becoming more sophisticated and organisations are making individual choices without specific reference to the impact on their peers in the sector. In that sense market forces are very definitely the dominant theme guiding executive compensation decisions – for now at least. Greater equilibrium may be achieved once the sector has progressed further on talent and succession management and organisations will not have to compete for every directorship. There is a genuine recognition that the sector is a special place doing highly prized work, and, whilst organisations are comfortable to justify their current levels of remuneration, there is general agreement that it cannot and should not try to emulate the pay levels of the private sector. Achieving a balance between the difficult issues of being true to the organisation's core purpose and beliefs, whilst ensuring the ability to recruit and retain the calibre of leaders needed to deliver value and high impact in the pursuit of that purpose provides both the challenge and the optimism for the future.

Introduction

Background and context for this research

The face of the UK voluntary sector has changed substantially in recent years in response to fundamental shifts in the environment which we inhabit. These contextual changes have included:

- a greater demand for accountability, both from donors and beneficiaries leading to an increased focus on governance arrangements, professionalisation and overall impact
- an increased role in delivering statutory services in the UK which creates extra demands/tensions for organisations
- substantial increases in income for the sector as a whole, up £800 million to £27.7 billion in 2004/05 compared to the previous year (NCVO Almanac 2007 pg 2-3)
- greater variety of income sources and a more prominent role for social enterprise income generation and statutory income sources secured through competitive local authority tendering within the sector
- changes in the political and economic landscape and greater insecurity on the ground for organisations working internationally, leading to more emphasis on working across organisational, geographic and cultural boundaries. Organisations in this sector are increasingly playing a facilitation role amongst and across stakeholders to enable this cross boundary working.
- greater emphasis on advocacy and campaigning alongside more traditional activities.

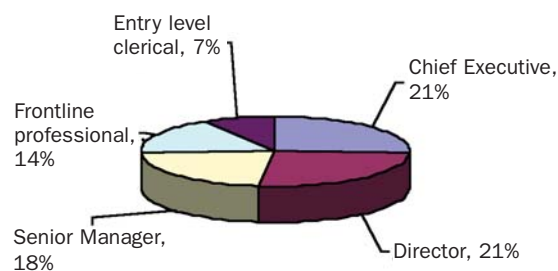
Against this backdrop the overall picture across the third sector in recent years has been one of growth and opportunity, however, this picture is not uniform and organisations face a complex array of challenges specific to them and their circumstances. The result has been highly individual responses from organisations to develop strategies to secure funds and deliver their mandates in the most effective manner for their beneficiaries/clients and their donor and supporter communities. This includes strategies to engage with stakeholders in new ways that go beyond the traditional transactional relationship. Some organisations are starting to build these communities into their organisational design and

offer a voice and opportunity to be part of driving their strategic agenda, adding further to the complexity of the operating environment. What has become abundantly clear, alongside the acknowledgement that one size does not fit all, is that failure to change and develop appropriate responses to the challenges now facing them is not an option if INGOs and voluntary sector organisations are to survive and continue to deliver increased impact to and on behalf of those they seek to serve.

As a result the well publicised trend in recent years for directors' salaries in the commercial sector, and to an extent in the public sector, to rise faster than general salaries is now being mirrored in our own sector, increasing the gap between the remuneration of board members and other staff groups.

In the four years to 2007, pay for more senior charity jobs increased faster than for other levels:

Figure 1 – 4 year increase in median pay for large charities



Figures courtesy of Oxfam based on Croners and Celre Voluntary Sector survey data

For some commentators the level of executive pay increases may, in part at least, reflect a 'raising of the bar' and increased scale, scope and impact of senior roles, along with greater professionalisation of the voluntary sector through recruitment from wider, more experienced and sophisticated markets. High salaries may thus mark a period of "catch-up" after years of suppressing senior executive pay.

The 2007/08 ACEVO survey of chief executive pay demonstrated that median pay for charity heads in England with over one thousand staff has crossed the £100,000 threshold. Heralding this as a positive development Stephen Bubb, Chief Executive of ACEVO said:

“*The sector has evolved to become highly influential, enterprising and a force for change.....As we become more professional salaries are increasing to reflect the quality of leaders in our sector.*”

Some trustees and their chief executives argue that this move is a necessary, if not inevitable response to attract and retain the level of talent capable of managing the increased complexity of the third sector environment, changing nature of risk and increased liabilities of directors along with more stretching performance targets.

Others, however, whilst acknowledging the need for some repositioning have expressed unease with these developments and argue that a growing gap between the highest and lowest paid staff sends a conflicting message to donors and beneficiaries and is inappropriate, particularly within organisations that are fighting to overcome poverty, injustice and inequality.

About this research

To try and understand these perspectives further People In Aid invited a selection of International Non-Governmental Organisations (INGOs) and large charities from the wider UK voluntary sector to share their thinking on executive compensation. The purpose of the research is to look behind the benchmark salary figures and understand the critical factors that help shape remuneration philosophy and decision making processes. In particular to:

- 1) identify the key trends within the sector;
- 2) identify the rationale and justification for 'high salaries' within the sector;
- 3) identify and consider the implications for the sector;
- 4) reflect the views and inputs from a range of stakeholders (ie not just voluntary sector organisations and INGOs);
- 5) provide analysis and comment from People In Aid.

Twenty three organisations took part via a confidential semi-structured interview with the HR Director and/or Chief Executive or nominated individual who could represent their organisation in matters of executive remuneration. What became clear is this is not a straight forward issue and there are no simple answers. Neither is there a right or wrong perspective or approach to managing executive remuneration. Organisations sit on a continuum of practice which is influenced by a number of critical factors. We have attempted to identify and analyse objectively these factors and sector trends arising from the discussions and pose questions which we hope will help stimulate further debate within organisations and more widely across the sector. This report offers a framework to help understand and review the factors that participating organisations are currently taking into account as they define their executive pay levels.

Market forces vs ideals and principles

The crux of the debate surrounding executive pay is the question of how well organisations can hold the tension between market forces and the ideals and principles which underpin their purpose and activities, and how this is articulated to key stakeholder groups.

Each board and remuneration committee ultimately has to make a judgement on how they will balance the difficult issues of being true to the organisation's core purpose and beliefs, and keeping faith with their beneficiaries, donors and staff, whilst ensuring that they can recruit and retain the calibre of leaders needed to deliver value and high impact in the pursuit of that purpose. In particular there exists huge tension between being market driven and organisational agendas which focus on poverty alleviation, social justice and equality, and humanitarianism.

This tension is perhaps most obvious and most extreme for the larger organisations and those demanding very different skills profiles and ways of working than in the past. Judgements on where to prioritise money and focus will inevitably vary over time to include branding and employer proposition, executive salaries and organisational infrastructure and efficiency, depending on where the biggest "bang for the buck" is judged to be gained. The sector has been nothing if not pragmatic during its evolution and there is a recognition that compromises have to be made. The critical question for some is where to draw the line.

This is the nature of the 'charity business' at this point in time. Indeed, the traditional idea of 'what is a charity' is being challenged as the number and range of organisations that claim charitable status or fall within the parameters of the Voluntary and Community Sector has widened to include a greater variety of organisations and service providers doing a wider range of activities and playing fundamentally different roles in society. The result has been an increase in the scope of opportunities for those wishing to make a career in this sector and in the competition for talent.

“Continuing changes in the landscape between the state, individuals and the private sector mean that traditional definitions are being tested to the limit, while collective nouns such as the VCS are becoming harder to sustain.”

NCVO in the 2007 UK Voluntary Sector Almanac, pg 9

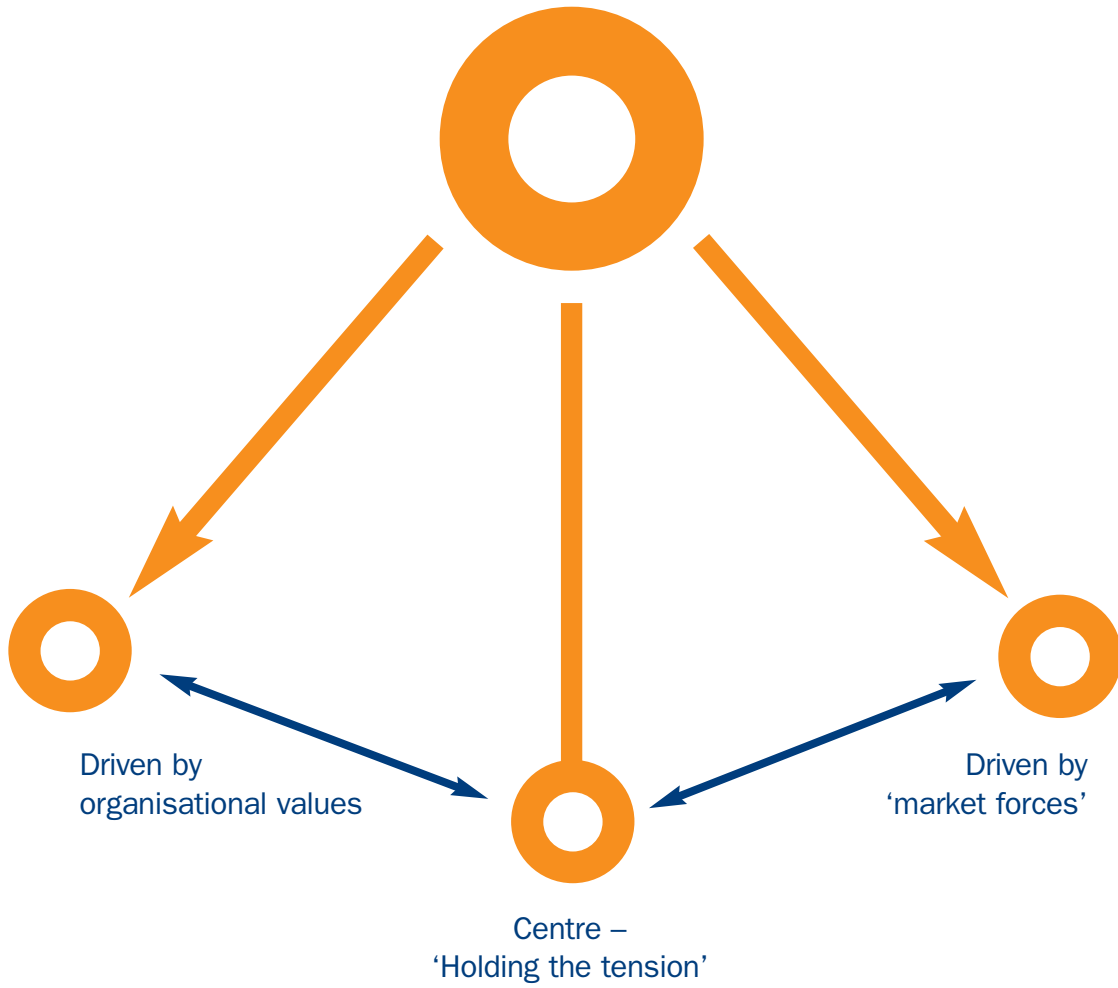
Whilst the research results do not suggest that organisations are rushing to jump on a bandwagon of spiralling salaries, higher remuneration to varying extents is currently the price that the majority of participants are prepared to pay for some high impact jobs or individuals with the skills needed to deliver results in these increasingly complex operations. It is one indicator of a massive pendulum swing over the past ten years away from what might be characterised as the days of the enthusiastic and idealistic amateur to a sector which is more focused on accountability, professionalism and measurable impact.

This shift has manifested itself through the adoption and adaptation of many approaches from the commercial world and importing of private sector skills and experience to fill a sector wide gap. Few would argue that this has not been a necessary and important development. However, it has been suggested that some elements within the sector have been enthralled by the apparent magic and mysteries of the private sector, and to an extent the public sector, with the result that skills acquired in these environments have become more sought after and prized than those that are home grown.

It has also been argued that the approaches of some of the new breed of directors, chief executives and trustees, whilst clearly focused on effective delivery and value for money for donors and beneficiaries, have not always demonstrated the simple passion for the cause that many expect, prompting a number of critical questions.

- Has the pendulum swung to its extreme position yet? (See Figure 2 page 11)
- Will it come to rest somewhere closer to its centre as the sector develops its own identity and learns to balance its inherent tensions?
- What factors are informing decision making?
- To what extent does the end justify the means?
- What is the long term impact of the "privatisation of aid"?

Figure 2 – Holding the tension between market forces and ideals and principles



Factors affecting executive compensation – key research findings

As might be expected, the findings from the participant interviews indicate a wide range of organisational experiences and responses to the issue of setting executive pay. These vary from a highly values driven perspective and concern that high salaries send inappropriate messages in terms of internal value and equality and conflict with strategies on reducing inequality, poverty and justice through to highly commercial perspectives that see high impact and effectiveness in terms of investment and return in a complex and competitive market, i.e. you get what you pay for. There is an opinion that the growth of “social enterprise” has resulted in a view that values business skills as positive and hence successful pursuit of organisational values and vision become linked with commercial success. Thus higher pay can be seen as a result of organisational success in achieving its purpose. The particular lens through which organisations view this question is affected by a combination of common factors which are examined below. Individual organisation’s solutions are determined by the combined “take” on these themes.

General perceptions and experiences of those working in the sector

- Executive salaries are rising faster than general salaries but often through one-off repositioning.** This fact has been demonstrated through public surveys over recent years. However, the majority of participants indicated that year on year annual increases of directors’ salaries have been kept in line with general salaries with one-off repositioning against the market for all or some posts at specific points based on market reviews, ability to recruit or repositioning of the role requirements. The reality may therefore not be so straightforward as a consistent and uniform upward trend. It would seem that in many cases one-off or staged repositioning of salaries in order to catch-up is the case, followed by a period of relative stability.
- The impact of upward market pressure felt by organisations varies.** All participants agreed that executive pay is an important issue but the pain being felt by organisations varies from none to extreme. Organisations that have adopted a strategy of deliberately targeting the private sector found more difficulty filling posts for salary reasons. Only four participants reported experiencing serious recruitment difficulties due to pay in the last three years. For many this was due to having no director turnover in that time and no requirement to test the market recently. For some, their brand acted as a strong attractor, and for some internal promotion is commonly used to fill senior positions. Eight participants reported that they had to reposition the salary of a vacant post in order for it be attractive in the external market. In some cases this was part of a wider pay review, in others it led to a review and market repositioning of the director group.
- Executive level salaries are not the key concern for some organisations.** Some participants reported that they are experiencing greater pressure on pay and recruitment difficulties at the level below executive director, in particular for core business specialisms such as campaigns and research, in the middle management levels and, where applicable, within their international staff cadre.
- There is no clear definition on what is meant by “the market”.** Organisations define and determine their own individual market(s) based on a combination of the nature and range of the work that they do, their size and scope, who they consider their comparators to be. Comparisons between organisations therefore need to be more sophisticated than simply looking at size or focus of activity. They involve a level of understanding of the factors influencing decision making within other organisations such as funding challenges, major organisational development activity, and governance arrangements and nature and complexity of specific executive roles, the nature of the executive board ie corporate entity or more individualistic heads of function.
- Transfer of staff between sectors is an important development.** Another trend that has muddied the waters is the increased movement of talent across traditional sectoral boundaries. Overall this is seen as a positive if not highly necessary development and 40% of participants deliberately target other sectors for specific skills during recruitment processes. Others, while not being so strategic, have still benefited from skills transfer into the sector. Whilst most individuals making such moves accept that salaries in the voluntary sector are unlikely ever to match those

in parts of the private or public sector, the lines have been blurred between where one sector ends and another begins, what skills are required to lead a large and complex INGO/voluntary sector organisation and how to value the new skills and experience that is needed and being imported from elsewhere.

- **An organisation's funding base has a significant impact on remuneration decisions.** The sophisticated and variable funding arrangements at play and competition from private companies for work that has traditionally been the preserve of the public or voluntary sector such as in the social care field, argue some organisations, mean that getting the right talent at the top of the organisation is even more important to secure survival and growth of the organisation and deliver high performance in increasingly competitive operating environments. The changing nature of the funding architecture being adopted by many European governments to international aid and development may have a similar impact on the international community.

Participant comment – general perceptions:

“The genie's out of the bottle. We live in an increasingly complex series of inter-connected markets that we can't control.”

“Top salaries are pulling away from those lower down but that's because the sort of people that we want to attract are typically more expensive and in lower supply.”

“None of us can live on fresh air – no matter how dedicated we are to the cause – private sector take up of our roles is based on their ability to afford to work for us or willingness to make a personal 'sacrifice' But I don't want to minimise the opportunity to attract the best talent.”

“There has to be some passion involved in choosing to work as a director of a charity. It isn't and shouldn't be simply a commercial transaction.”

“If you need to pay an extra five or ten grand at recruitment to receive significantly higher value further down the line it's a bit of a no-brainer.”

“There isn't a simple border line between the private, public and third sectors anymore. When we encourage mobility and sector hopping the lines get blurred.”

Key factors affecting executive compensation

Reward philosophy

- As a general rule of thumb the larger and more prominent charity brands are more likely to aspire to a market position in the upper quartile of their defined voluntary sector market, or even, in some cases to be the top payer. The INGO sub-sector are more likely to aspire to a median market position within their defined market, and indeed, INGO salaries are approximately 80% of comparable general voluntary sector salaries. One could speculate on the reason for this: the position may reflect a combination of affordability and self imposed restraint based on the nature of such organisations.
- Participants' defined comparator bases vary considerably ranging from a select group of “organisations like us”, meaning size and/or nature of activity, through to broad comparisons with the voluntary sector market via public surveys such as Croner and Celre, bespoke salary clubs and one-off targeted surveys using benchmarking firms, to public sector market data including social care, education and medicine, and finally private sector, particularly for business support functions such as Finance, IT and HR, commercial directors, communications and media. Whilst most participants who use private sector benchmarking data do so in order to keep an eye on general trends, a few do try and aim to make some posts attractive against elements of these markets. This is also the case at middle ranks where organisations are feeling pressure on pay for qualified professionals. Suppressing executive pay could potentially have a knock-on effect further down the line of making other staff groups harder to recruit and retain.
- There is general recognition amongst larger charities that their talent is sourced from a range of markets and they need to appeal to candidates from very different backgrounds with different levels of market worth. Six participants regularly undertake benchmarking across mixed markets in order to establish their unique market position. In determining salary for specific roles they weight data towards what they see as the most appropriate comparator base for that role and their requirements of it, which may not necessarily be the voluntary sector. Participants reported that market rates at recruitment for core organisational specialisms are often at a lower level than business support functions such as Finance or IT

where candidates have a wider choice of opportunities across sectors. However, there are some specific technical specialisms that straddle more than one sector and can command a premium, such as medical directors.

- In recognising this market variance virtually all participants take a spot salary approach to setting individual director salaries. However, most also have a notional or real salary range within which they wish their director salaries to sit from the point of view of parity. These ranges can be quite wide, however and most are not published.
- Over 85% of participants offer the same basic benefits package to all staff including directors. Differentiation between the levels of staff through the benefits package does not seem to “sit well” with the ethos of many participants and is felt, might be seen as overly favouring one group of staff above another by distinguishing their benefits package in a way that is less justified than market related pay. Similar views were expressed regarding offering the type of benefits more typically associated with the private sector, such as private medical care in the UK.
- 95% of participants do not offer an automatic annual increment to directors.
- Most offer a basic uplift which may or may not be tied to cost of living increases and which is common across all staff.
- Although it has increased, only 28.5% offer some sort of variable pay element tied to individual and/or organisational performance or competencies. In most cases the variable element is a modest percentage of less than 10% of base salary.
- Around a third of participants have no formal mechanism for pay progression at executive level and use their market analyses to inform decisions on when and by how much pay should be uplifted. This may be an annual or bi-annual exercise or less frequently.
- Specific attraction challenges were mentioned in trying to recruit leaders from the public sector where final salary occupational pensions are still available. Adding a little more to base salary to offset the loss of such a valuable benefit may be an attractive option to some organisations.
- All participants are conscious of internal differentials, but in general, only a few take steps to manage these actively. There were individual

examples of chief executives choosing not to take a full pay rise that would position their salary at the organisation’s desired market point or even groups of directors choosing to accept only part of a market related uplift due to considerations of internal equity, value and restraint.

- The concept of ‘total reward’ is being applied by an increasing number of organisations. This aims to strike a balance between financial and intrinsic rewards.

Participant comment – reward philosophy:

“We’re in the fighting poverty business and focusing on performance and impact are how we do it. We play in the big league and expect to pay appropriate salaries in return for high impact performance.”

“Our directors’ salaries are good but I don’t think they are running away compared to the surveys we use.”

“We don’t want to be the best payers but we want to be up there amongst our peers or we won’t be treated as a serious option by good quality candidates.”

“We don’t want to pay private sector rates but we have to be realistic.”

“I earn a good salary for what I do in absolute terms, but I took a huge drop in income to come and work here from a job that was less complex. It’s all relative.”

“I know it’s a little out of fashion but we’re proud that we still have a top to bottom ratio of around 4 times. It sits well with our ethos and principles and what we are about and we would be cautious about going much further. At the moment the internal felt fair sense is stronger than market drivers.”

Organisational complexity

- Much has been written and commented on about the changing nature of the UK voluntary and INGO sectors and in particular the focus on professionalisation and accountability. All participant organisations cited this as a significant factor in determining executive salaries in terms of:
 - a more sophisticated and complex operating environment, requiring different skills to lead effectively than fifteen or twenty years ago
 - changing nature and design of organisations which leads to bigger and more stressful leadership roles
 - the changing nature of risk
 - greater external scrutiny and focus on high performance and organisational impact
 - the contradiction of managing tight budgets and demanding more from limited resources thus requiring more complex leadership skills

Participant comment – organisational complexity:

“Our trustees want the right people and it’s in our interest that we have them as that’s how we fulfil our mandate. We have ambitious plans and we need the right people across the whole organisation to get us there.”

“This is a far more complex and demanding environment than when I worked for [major multinational corporation]. Definitely not a place for amateurs.”

Internal transformation

- A third of participants indicated that attracting a different calibre of executive was part of a wider organisation development strategy to foster a renewed culture of high performance, accountability and impact. Investment in a new type of leadership with a more overtly commercial focus and/or greater emphasis on performance and accountability, and the experience and skills to deliver it is seen as a critical response to the range of challenges that organisations have faced. This often involves a major shift in terms of the operating environment leading to new ways of thinking and working and scale of operation, and in many cases coincides with the arrival of a new chief executive, HR director or trustees with innovative ideas on how to respond.

Some of the strategic responses that have resulted in organisational transformation have included:

- professionalisation and process re-engineering
- mergers and acquisitions
- re-branding
- major increases in funding, scale and range of operations
- restructuring
- refocusing the operating model eg creation of a global unitary presence

Such exponential shifts when organisations are getting bigger and more complex require a new and difference range of competencies and the result is often an upward gearshift in terms of salary on recruitment.

A number of participants commented that performance management systems had been strengthened and, in some cases, links made to remuneration via performance or contribution pay. In addition systems have been put in place to measure effectiveness of a greater range of activities and outputs from HR processes, organisational performance, programme impact etc. In these instances repositioning of executive salaries can be seen as a proactive investment in future performance accompanied by the measurement tools to determine success.

However, a similar proportion of organisations indicated that repositioning of executive salaries was a reactive measure in response to failed recruitments or a wider benchmarking exercise and was not an integral part of a wider transformation programme. All such organisations recognised the need for more rigorous performance management and measurement of success criteria to ensure the return on investment, and were at varying stages of addressing this. It could be argued that by following a market trend in salaries without taking a more strategic approach the return on investment is less secure.

Participant comment – organisational transformation:

“We want to engender a real sense of stewardship alongside value for money ie not short cutting. OK isn’t good enough, we want to be a high performing culture.”

“We are raising our game and spending more money so we want to make sure we get more value.”

“The key thing isn’t salaries but how you’re publicising outcomes. If you can demonstrate that you are making a difference to people’s lives and moving things forward then you can justify the investment.”

“It’s been a journey for us [professionalisation]. Creating a shared belief in what we’re all trying to achieve – that’s what’s important – and the knowledge that if I’m doing a good job I’ll be suitably rewarded, wherever I sit in the organisation.”

“We don’t want poor performers round here and we don’t keep them.”

Participant comment – funding base:

“There is a real sense of a global war for talent impacting on the international end of the sector which is characterised by the need to manage complex revenue streams and activity areas requiring new and different skills sets which are not readily in strong supply plus, in the US at least, increased competition with a new range of organisations for space to operate such as the military.”

“Many large charities operate on a very broad canvas in terms of range of activities and now have more in common with the large commercial sector enterprises in the way they are run.”

“There has been a fundamental shift in the role that charities fulfil in society in the last ten or so years. The more complex environment that we operate in requires a more sophisticated response and leadership capable of delivering it.”

“We’re demanding commercial sector skills for third sector rates. We have to be realistic.”

Funding base

- The dominant funding source of an organisation can have a significant impact on decisions around executive pay. For example many organisations in the social care sector rely heavily on local authority contracts secured through competitive tendering. The leadership environment can be highly commercial and cost focused requiring skills that are not readily available in the voluntary sector.
- It was suggested that organisations with a higher voluntary income base may have more flexibility in establishing high salaries, however, this would not always appear to be the case. Where the funding environment demands a highly commercial approach some organisations have adopted a strategy of investing in commercial leadership skills to ensure delivery of value down the line.
- Competition for funds is also getting tougher as new players enter the traditional operating area of voluntary sector organisations. This can be in the form of private contractors for public services and, in the international arena, even the military entering the humanitarian field. All these factors have a bearing on what is required of an

organisation’s leaders, and in many cases, require skills and experience that have a high absolute market worth and have not grown-up within the sector.

Brand attraction

- 57% of participants said they rely on their brand to attract high calibre candidates and at least half actively promote their brand as part of a wider employment proposition to attract talent.
- Perhaps predictably, organisations with a high brand recognition and affiliation are more likely to promote this actively as part of their employment offer, along with other intangible rewards such as the challenge, and opportunity to make a difference. This is particularly the case in the international community which is seen by some candidates as the “sexier” end of the sector.
- It was suggested, however, that over reliance on brand as an attractor could backfire on a number of levels.
 - Whilst candidates may be attracted by a charity’s brand, if the experience of working within the organisation does not deliver on the

brand promise then retaining individuals could be problematic.

- The voluntary sector provides a viable career option for an increasing range of people and skills backgrounds. Employer hopping, is becoming a big issue. Admittedly this is more acute at lower levels in organisations but can be seen at executive level too.
- If the brand is used to suppress salaries artificially against the market, candidate pools can become restricted to strong candidates who can afford to work for that employer or mediocre candidates who have less choice
- If brand is used to suppress salaries the negative perception could be created that working for such an organisation involves significant personal sacrifice rather than a

more positive view that involves buying into a set of values (one of which might involve lower salary than other sectors) which could have a negative impact.

Composition of the Board and Trustees

- The backgrounds of the board and trustee group has a massive impact on the thinking and approach towards executive reward. 50% of executive boards of participating organisations contain individuals with a mix of voluntary sector and private sector backgrounds providing a range of perspectives, including some that are less familiar to the sector in terms of pay. Many also have public sector representation.
- Perhaps even more influential is the fact that 50% of the HR directors interviewed had taken a career and lifestyle decision to move into the UK voluntary or INGO sector from senior HR roles within the private sector including: financial institutions, telecommunications, leisure and hospitality and oil and gas industries. Is it a coincidence that many of the organisations that have imported and adapted more commercial approaches to managing reward and making judgements on individual effectiveness and commitment, including widening their market base at executive level, have an HR Director and/or Chief Executive with a commercial background and a different take on what constitutes good use of money in relation to executive pay?

Participant comment – brand attraction:

“Our brand serves us well and because of that, so far we think we’ve been able to attract without major salary hikes or compromising on skills sets. We’ve also been lucky and benefited by picking up talent from restructuring in other organisations.”

“We rely on our brand to attract potential recruits but we are also conscious not to take advantage of their passion.”

“We need to pay for the jobs we’re asking people to do. That’s about being clear what’s required and our expectations of individuals and holding them accountable for delivery.”

“There is now such a thing as the third sector career professional. They may not be here for the pay but we have to understand and recognise their value – they do.”

“What brand recognition? We don’t have any.”

“If you’re thinking of a career in “doing something good and worthwhile” there are a whole bunch of organisations out there alongside the traditional charities that have opportunities for skilled and talented individuals - the Olympics for example.”

“I’m not convinced that we always manage to get the best people. I don’t think it’s enough to rely just on good will and, if I’m honest, I think we sometimes pay what we think we can get away with. It doesn’t feel great and is probably false economy.”

Participant comment – Composition of the Board and Trustees:

“I do sometimes wonder if my board colleagues and I really are worth 4 or 5 times more than our receptionist.”

“We are working to introduce more of a culture based on performance measurement. It’s not been easy but many of our people have said they think it’s fairer than before.”

“We are benefiting from a wider and more modern and progressive experience base and the ideas that come with that, particularly around accountability.”

Organisational purpose

- Concern was expressed by some individual participants on a personal level or on behalf of director colleagues or their trustees that paying high salaries may not be seen to align well with their organisation's purpose and strategy where this focuses on poverty alleviation, social inequality or injustice. This view was most apparent within some of the INGO organisations that took part. Such organisations were keen to see restraint in the upward movement of executive pay.
- When specifically asked, however, almost 60% of participants indicated that this is not a debate that has taken place within their organisation, nor do they expect it to.
- Some participants felt that applying value judgements to executive pay confused issues and could actually prevent them from recruiting the skills they need and delivering their strategy.

Participant comment – organisational purpose:

“We don't have those sort of philosophical debates. I think it's a confusion to add value judgements into a situation that is separate from the market. The market will sort itself out.”

“Just because someone has choices where to work and can command a decent salary does not make them somehow less committed to the cause. They should be judged on what they deliver not on whether they are prepared to work for less.”

“We deal with people living in poverty on less than one dollar a day. I think there would be something quite perverse if someone came in demanding a really high level of pay.”

“It's not that we can't afford to pay higher salaries, we have so far chosen not to because we believe that paying what we consider to be excessive executive salaries is contrary to our values and purpose. It feels like there's a Dutch Auction going on out there and we may be forced to join it if things don't change.”

“We don't have a values debate. If you want to do the best for kids worldwide you need the best people and you need to pay for this.”

Internal and external risk factors

- Three participants perceived a real employee relations risk in raising executive salaries too high or stretching historic internal differentials too far which is serious enough to affect decisions on executive pay.
- Three other participants perceived a limited risk which could be managed through effective communication, clear justification for salary levels and demonstration of the value that directors bring.
- None of the other participants perceived a major employee relations risk from high salaries, either because salaries are kept confidential or due to confidence that all staff groups are being paid at the desired position within their market, thus mitigating a sense that one group is doing better than another.
- It was commented that where staff could see the value that their directors added and where trust is high and leaders act with integrity, there is less likely to be major contention around senior salary levels.
- There was a some concern about risks to external reputation and in particular donor perspectives of high executive salaries if such information was shared out of context. This was most apparent in organisations with a significant voluntary donor base. A few participants have developed a communications response which clearly explains their salary philosophy and decision in case it should be required, however, most participants did not have a formal strategy to address this.
- Participants spoke of the very real challenge that the sector faces in communicating the changing nature of charities and not for profit organisations. More than ever before, such organisations have a fundamental role in today's society by filling large gaps in service provision, providing an important voice in civil society, and in influencing political debate and policy, both domestically and internationally. Many argued that the traditional view of these organisations is therefore outdated and over simplified.

Participant comment – organisational purpose:

“People [ie our staff] will be happy for directors to be paid high salaries if their work justifies it [ie they can be seen to add real value].”

“I think international pay is far more of a risk on all fronts than directors’ salaries.”

“We needed to reposition senior salaries as they have fallen well behind the market but we decided to do it in stages. The first went alongside a general repositioning for all staff so was less contentious. We haven’t done stage 2 yet as there are concerns about staff reaction and accusations of feathering our own nest, even though all the data indicates we’re losing out to our competitors on salary.”

“There is definitely more public scrutiny and we need to think “how far will we go?” I don’t have an answer to this.”

“Donor’s perceptions are an important restraint but difficult to quantify. Ability to justify salary levels depends on the perspective of what the organisation does, the nature of the organisation, how big and complex it is, and the perceived impact and stewardship of the charity.”

“Our income has increased year on year and increases in management costs as a percentage of income have remained constant. If we went into double figures that might make our trustees ask us to pull back.”

Looking to the future – People In Aid’s perspective

The conversations with participants indicated that significant uplifts in executive pay usually occurred either at the point of recruitment or as a result of a broader review of either executive or general salaries and therefore represented a one-off market adjustment and repositioning of one or more directors’ salary. Participants reported that individual year on year increases have generally been in line with the overall increase offered to all their staff. Some repositioning exercises have been phased and therefore may appear on the surface as a more regular occurrence than they in fact are.

There is evidence from some participants that decisions have been taken by directors along with their trustees not to award/accept a full repositioning rise indicating a level of self imposed restraint and reluctance to increase internal differentials too far. When such individuals leave, however, there may be a “catch-up” required for the salary to be competitive enough to attract replacement candidates with sufficient skills and experience. We may therefore see organisations go through periods of relative stability with periodic lurches upwards depending on the preferences of their existing directors or driven by vacancies. There seems little appetite among participants to differentiate executive packages through benefits so, overall, we may safely assume that executive salaries will continue to rise. Whether this is at a uniform pace across the board is less sure.

Delivering the professionalism and accountability agenda will continue to influence executive salaries for the foreseeable future. It is often argued that this has been one of the main causes of salary increases at senior leadership level. As the sector “raises the bar” in terms of delivery requirements many organisations have consciously sought to recruit a different calibre of leader and have had to play “catch-up” on salaries. Typically, pay scales in the voluntary and INGO sector have historically been weighted towards the more junior end of organisations for a variety of reasons. Organisations across the board have and are undertaking major reward projects to redress this imbalance and in order to use their reward systems more strategically to help deliver organisational transformation and to be attractive to candidates with the range of managerial and leadership skills and disciplines that are, even yet, still within their infancy within the sector.

Hamish Davidson, chair and senior partner of at Rockpools recruitment agency which sponsors the ACEVO chief executive survey commented of sector progress in the latest ACEVO report...

“The sector is creeping oh so slowly, towards addressing its shortcomings in terms of governance, succession planning and diversity, but at a rate that exposes you to charges of simply being non-credible – and I am astonished that no one has taken the sector to task.”

Professionalisation represents a maturing of our sector and the passing of the days of the “enthusiastic amateur” in favour of the professional manager. However, as Davidson indicates, there is still some way to go. As we adopt and creatively adapt many of the techniques from other sectors to help us deliver higher impact the challenge for the future is to do so in a manner which values and builds upon the ethos at the heart of all our organisations; that of service to others and the greater good rather than of individual gain. We must and should value our executives’ contributions appropriately as with all our staff, but organisations may need to address the question “how far are we prepared to go to attract that illusive talent?” There is still a reluctance to engage in a wider debate on this subject across the sector.

One participant talked about a “blurring of the distinction between different sectors and labour markets”. Increasingly high profile private sector companies are establishing their own charitable foundations as a way of delivering their social agenda, in some cases because they believe they can do so more efficiently than voluntary sector organisations. Charities and not for profit organisations are taking over a wide range service provision that was previously delivered by the state.

Equally there is a level of mobility between sectors today that was unheard of ten or fifteen years ago, though curiously the movement from the private sector still appears to be pretty much one way. By encouraging and promoting “sector hopping” because there was and is a need for skills that simply were not available in any great supply we have “let the genie out of the bottle”. It may not be

possible, or even desirable to attempt to hold the border, as the transfer and mixing of skills and backgrounds from all three sectors enriches our ability to be creative, innovative and impactful in our work. However, by opening our borders to more commercial skills and mindsets we cannot suddenly be shocked at the impact that this has on attitudes towards market driven reward and competition for talent.

The price to pay, and it may be a very real price, is that the voluntary sector can no longer see itself as a separate entity when it comes to its offer to potential recruits. While it is reasonable to expect a level of commitment and passion for the cause at senior level that translates into salaries that will never match comparable salaries in the private sector, there will, of necessity need to be a meeting half way if the third sector is to be an attractive and viable long term career option and not just a couple of years “out”, or that is open only to those on their second or third career who can afford to take the necessary pay cut.

Another trend which may blur sector distinctions is the increasing presence of private sector firms in traditional third sector space. This is taking the form of competition for local authority contracts in the social care area and in the international arena the impact of globalisation and firms competing for space in post-war and humanitarian disaster reconstruction, including the military, means that individuals who want to “do good” may have a wider range of opportunities, types of organisations, and rates of pay available to them within which to do so.

The emergence of China and India as leading global economies will undoubtedly have an impact on competition for funds and space to operate. The impact is, as yet, unclear, suffice to say that new relationships and partnerships will need to be skilfully developed and managed.

As professionalism embeds and the sector demonstrates its impact more widely perhaps mobility will begin to run two ways and there may be opportunities for third sector and commercial sector employers to collaborate to help talented individuals move seamlessly between them with benefit to both parties. Such partnerships already exist, but there may be the opportunity to develop more. For example, corporations may choose to sponsor certain positions in the way that a professorial chair or research fellowship is sponsored in academia as a means of supporting development of shared and transferable skills.

About a third of participants offer some form of variable pay and others are considering this. However,

the maximum amount in this survey is 15% of base salary and most is significantly lower. If upward pressure on executive salaries continues, organisations may consider the option of placing greater emphasis on payment for results rather than payment on account, by offering lower consolidated basic salaries and higher amounts of variable pay re-earnable each year linked to individual performance and/or organisational results. There appears to be little appetite for such a radical approach at this point but it may offer an alternative way to “cut the salary cake” which is more acceptable to trustees and donors if base pay reaches a level that is unpalatable.

The likelihood of wide spread self-restraint regarding executive salaries in the form of capping or sector-wide agreements seems highly unlikely in the short term. As long as there is excess demand over supply for the sort of talent that the sector now requires, there will be upward pressure on salaries. Indeed, in the past, the international development sector could be accused of colluding in the widely shared public belief that virtually any spend on activity other than direct programme delivery is wasteful. In fact the UK third sector as a whole spent only 16% of its income on management, admin and fundraising in 2004/05. Compared to other sectors this is an impressive ratio. If organisations are truly convinced of the added value that these high cost, high value employees bring, then perhaps the challenge is to focus more on communicating their and the organisation’s value in terms of outputs and impact. This may seem rather controversial but it can be argued that organisations will always find themselves on the back foot regarding the real costs of running their businesses if they continue to accept and legitimise such an ideas around overheads.

The voluntary sector offers a wealth of opportunities for talented individuals and has become a more viable career option for those aspiring to managerial and senior leadership roles. Succession planning and talent management are still relatively new disciplines within the sector, but an increasing number of organisations are now turning their focus to how they can create a compelling employment proposition that balances reasonable remuneration with a wider range of benefits and opportunities to grow and develop professionally. This may include support for international mobility, study and training, secondments and sabbaticals along with flexibility in working life that are genuinely valuable and valued by employees. Many employers are now taking a ‘total reward’ approach which takes into account the whole employment proposition rather than simply the financial elements of the “package” offering greater clarity on the intrinsic value of work. There is

sometimes a view that some of these benefits are less accessible at executive level and, if organisations want them to be impactful, they may have to consider more closely how they can ensure that non-cash elements of the employment offer are made clear and are accessible to their executives to create an attractive all round career option, i.e. increased opportunities for talented individuals to choose to build a career in the 3rd sector and the implications for pay.

Conclusion

This research suggests that pay comparison is becoming more sophisticated and organisations are making individual choices without always making specific reference to the impact on their peers in the sector. In that sense we can argue that market forces are very definitely the dominant theme guiding executive compensation decisions – for now at least. The pendulum has thus swung from a highly non-commercial “mission” focused starting point where executives were poorly paid and expected to do the job “for love”, towards the commercial, ‘market driven forces’ end of the continuum in response to changes in the operating environment and increasing complexity and sophistication of third sector organisations. It may yet swing back to settle somewhere between the two extremes once the sector has progressed further on the talent and succession management front, organisations will not have to compete for every directorship. Only time will tell. For now, market pressure seems to be irresistible. Having said that there is a genuine recognition that the sector is a very special place doing highly prized work, and, whilst organisations are comfortable in justifying their current levels of remuneration and philosophy, they cannot and should not try to emulate the commercial sector in pay terms. Achieving a balance of these two influencing factors provides both the challenge and optimism for the future.

Appendices

Appendix 1: Discussion framework for trustees to consider

Suggested questions around which a discussion with trustees on executive compensation could be framed:

1. What is the level of complexity and challenge of our organisation compared to others of similar size – in all sectors?
2. What do we expect from our executives relative to other comparable organisations?
3. Do our executives operate as a corporate board with shared accountability for overall governance, setting the strategic direction and day to day running of our organisation or are they simply functional leads?
4. Are there specific roles which have a particularly high impact on delivering our strategy and for which a higher investment could be justified?
5. Who are our competitor and comparator organisations? How much do we understand them in terms of the combination of their organisational change agenda, funding base, strategic objectives, nature and scope of executive roles – are we always comparing like with like?
6. What measures have we put in place to ensure return on salary investment at executive level and are we using these to best effect?
7. How far, if at all, should our executive pay policy be governed by/reflect our organisational agenda e.g. poverty, inequality, social justice etc? What are the pros and cons? Are we prepared to lose potentially good candidates on principle?
8. Do we have talent management and succession planning strategies and how successful are they? What should we be doing to strengthen them further?
9. Is there a level beyond which we would not or should not go regarding executive pay? What should our determining factors be?
10. How could we structure pay differently so that it is less weighted towards base pay – i.e. more/larger bonuses or other variable pay elements, developmental opportunities, flexible working? How could we structure our total reward package differently?
11. Are there other organisations that we should and could be speaking with to learn from their experience – inside and outside our sector?

Appendix 2: Exploring a risk based approach to setting executive pay

Challenge/Issue	Possible reasons	Risk	Possible mitigation
Failure to recruit or recruitment of lower calibre candidates	Executive salaries too low	Organisational strategy delivery at risk	Position salaries at level to recruit correct calibre candidates – understand the market and your competition Identify correct comparator base for each recruitment market which may include a combination of private, public and third sector.
External perception that donors' money being wasted. Bad publicity. Internal perception that senior managers "feathering their own nest" at expense of other staff and beneficiaries – negative impact on staff morale	Executive salaries seen as too high	Reputation of organisation suffers and donations decrease Employee relations climate suffers including motivation of individual staff – could result in resignations or other key staff	Demonstrate business case for executive pay by demonstrating higher impact and publicising outcomes and value add Do not collude in prevailing "myths" about pay but be clear internally and externally about what it takes to run a multi-million pound corporation effectively. Executives demonstrate their worth internally by leading with integrity, being trustworthy and delivering results. Demystify reward systems for all staff and demonstrate that staff at all levels are paid fairly and at desired market position within their peer groups. Consider using variable pay to rebalance base and variable elements at exec level.
Every exec vacancy ends up being filled by an external candidate. Insufficient internal promotion	Insufficient high calibre internal candidates	Internal staff with potential could become demotivated and leave. Organisation fails to renew itself and retain talented individuals and learning.	Develop succession planning and talent management strategies that enable individual growth and career progression and rebalance current demand/supply deficiencies

Appendix 3: Research methodology

The primary research methodology involved semi structured interviews with HR directors, Chief Executives/Secretary Generals or other appropriately placed representative.

Conversations lasted for up to one hour and followed a broad structure, with flexibility for contributors to focus on areas of particular interest or concern for their organisation.

Themes covered in all the conversations included:

- recent recruitment and retention challenges at board level
- desired market position, executive pay philosophy and comparators
- how executive compensation is determined
- recent trends within your organisation (e.g. percentage pay awards for directors and other staff)
- managing risks and challenges (e.g. public perception and internal employee relations issues)
- aligning pay policy with organisational priorities (e.g. focus on justice, inequality and relieving poverty)

The more detailed interview template is included below. In addition Croner, Celre and Acevo surveys were consulted.

Semi-structured Interview template

1. Introduction

Give background and purpose for piece of work

Emphasise anonymity, fact that comments will not be attributed without prior consent

Purpose of research is to gather principles, and identify philosophies, and NOT to capture pay data / do salary benchmarking (we already do that through benchmarking surveys)

2. Who determines executive compensation and how do they do it?

3. What is your desired market position for executive pay? Philosophy and comparators?

4. Which organisations and which posts do you compare?

Do you distinguish between support function directors and core business directors in your pay philosophy, i.e. specialist roles with high impact strategically.

What about fundraising and campaigning? i.e. not necessarily core business but sector specific, high impact role for which competition for good candidates is high?

How far do salary issues factor in executive recruitment and how much do you “sell”/rely on these to attract candidates, e.g. the cause, the challenge, the overall experience and opportunity to make a difference.

5. Please outline recent pay trends within your organisation (eg percentage pay awards for directors and other staff) – looking back over the last 2 or 3 years

Do you have metrics / percentages?

6. Can you identify [have you identified] any reasons or drivers for the trends?

What about the impact of recruitment / retention challenges at board level? competitors pay policies?

7. Have rises in exec comp been in anticipation of higher impact or to reward higher impact already delivered?

If the former has the strategy been successful? What are you doing to ensure success?

Do you, or are you considering variable pay (PRP) linked to delivery of corporate objectives as an alternative method of enhancing exec pay. ie an alternative way to structure pay to achieve the same ends but without loading base salary.

8. Where you have awarded increases, how have you managed the associated risks and challenges? (eg public perception and internal employee relations issues).

- What about where increases were significantly above normal / the average?
- If you recognise a Union, what is their view? How have you tackled communications?
- What risks does a widening gap between executive and other pay pose to the wider psychological contract of staff, if any? What are you doing to manage this?
- What are the perceptions of your key stakeholders of board pay (ie staff, volunteers, supporters). What risks, if any, are there to these relationships of significant senior pay increases?

9. How do you (if at all) align your pay policy with the organisational mandate or priorities? Eg focus on justice, inequality and relieving poverty

Do you use percentage ratios eg Chief exec / lowest grade; directors / minimum wage?

How does a broader spectrum of pay sit with organisational values and expectations?

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In addition the research drew on a number of confidential internal documents and research papers which participating organisations generously shared.

About People In Aid

People In Aid is a **global network** of development and humanitarian assistance agencies. We help organisations whose goal is the relief of poverty and suffering to enhance the impact they make through better management and support of staff and volunteers.

The impact and effectiveness of relief and development operations depend on the quality of staff and volunteers and the support an agency gives them. Our very practical output can help agencies enhance that quality.

We respond to the needs of members and the sector by acting as an information exchange on good human resources and people management practice, by facilitating networking, by providing resources, by undertaking research and by answering queries.

Established by agencies in the relief and development sector in 1995, we are a not-for-profit membership organisation governed by our members, whose experiences and HR practices shape our activities and have informed the cornerstone of our work, the 'People In Aid Code of Good Practice in the management and support of aid personnel'.

PEOPLE IN AID
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