COMPENSATION MEDIA BIAS

By Brent Longnecker, Chris Crawford, and Josh Whittaker

"What the eyes see and the ears hear, the mind believes." - Harry Houdini

An article was recently published regarding the CEO of a not for profit, Health Care and Rehabilitation Services (https://nonprofitquarterly.org/governancevoice/25628-nonprofit-boards-can-and-should-avoid-this-problem-with-ceo-compensation.html). Judith Hayward, the CEO, is reported to have received a $650,000 retirement package after 19 years of service. The author highlights the problematic excessive payment and the anger of some company employees. In the author's words, "this story is not new." However, it does create division and solicits a response which was likely the author's intention.

Many times, the problem with CEO pay is magnitude- how big is the payout. The pile on effect occurs dragging in problematic issues like: the pay compared to the average employee or author's salary, there are no bonuses paid in the year of the payout, the board is friends with the CEO, if the employee has to pay taxes, the CEO should pay taxes and so forth.

While magnitude matters, so do the relative comparisons that deal with these issues on a daily basis. Here are a few other points for perspective.

1. The CEO's final salary was significantly below what the other CEOs of similar sized organizations make.
2. This particular CEO created value. In 19 years she grew the organization from $8 million to $50 million. This includes growing employee headcount approximately 5x, who are also taxpaying citizens.
3. The retirement package was a discretionary board decision after 19 years of performance. The number of 19-year long-term incentive performance plans in the market place is less than 1%. Most long-term incentives planes are one to five years. Further this was not a traditional retirement benefit, where the company contributes a percentage of salary for each year of service or pays a defined benefit at the end of service.
4. The payout of $650,000, which is approximately $325,000 after tax, is equal to $17,105 per year for the 19 years of service, or under 15% of her salary over that time.
5. The total compensation the organization would have had to pay a "median performing CEO" for a $25mm to $50mm revenue healthcare company is $600,000 per year. In short, this not for profit saved $ 7.6mm even with the retirement benefit paid to it's "above median performing female (reference our article on underpaid female execs) CEO." In our opinion, this appears to be another example of an underpaid, overperforming female CEO.

The list could go on. The point of the matter is that while we all like to play judge and juror on the value of a person, it's important to recognize all of the facts before rendering judgment.

Note: Longnecker & Associates is a strategy, governance, and compensation consulting firm based in Houston, Texas. The firm has no affiliation with Health Care Rehab or the author of this article.

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