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BLOG POST

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What Drives Nonprofit Executive Pay?

Understanding the factors that influence executive compensation in the nonprofit sector is essential for organizations striving to attract and retain top talent while ensuring fairness and compliance with IRS regulations. [BDO's 2023 survey on compensation of leadership](#) at more than 500 nonprofit organizations sheds light on the key drivers of pay levels for Executive Directors (EDs) and Chief Financial Officers (CFOs), providing valuable benchmarks for nonprofit organizations. ([Click here](#) to read the first post in this series.)

- ▶ **Organization Size and Sector:** Perhaps least surprising, the survey reveals a clear correlation between the size of the organization and executive pay levels. Larger organizations, with their more complex operational challenges and greater resources, tend to offer higher compensation. This trend is evident across various sectors, with

significant differences in pay observed based on the organization's operating budget.

- ▶ **Geographic Location:** Geographic location can also play a critical role in determining executive compensation. Cost of living, local market trends, and the availability of talent all influence pay levels. This is especially pronounced in metropolitan areas with a high cost of living and a competitive talent market, such as New York City or San Francisco, where executives typically receive higher compensation compared to those in regions with a lower cost of living.
- ▶ **Sector-Specific Trends:** The survey highlights differences in compensation across sectors, reflecting the unique challenges and market conditions of each field. For example, foundations and healthcare organizations tend to offer higher pay, possibly due to their operational complexity, competition from the finance and healthcare private sector, need for specialized expertise.

The delivery of pay, encompassing base salary, bonuses, and deferred compensation, varies by sector and organization size. Notably, the use of bonuses and performance-based incentives is more common in certain sectors (such as professional associations), underscoring the importance of aligning compensation strategies with organizational goals and the competitive landscape.

Nonprofit organizations must consider several factors when determining executive compensation. By understanding the influence of organization size, sector, and geographic location, nonprofits can develop compensation packages that are both competitive and equitable, thereby supporting their mission and ensuring long-term success.