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Point of View

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Nonprofits aren't as nice to their employees as you might think

Check out almost any business conference these days, and you're bound to find a session on how companies can do better by their employees, their customers, their suppliers, their communities, and the environment. Although many companies do a lot of greenwashing, thousands are keeping their eyes on the triple bottom line – people, planet, and profit. Corporate social responsibility, though still the exception, is no longer an oxymoron. More and more, it's taking hold in companies around the world.

But what about the nonprofit sector?

Nonprofits are exempt from paying taxes because they serve the public interest. And their donors get all sorts of tax benefits because they're supposedly supporting philanthropy.

Yet philanthropy – the love of humankind – is missing from the practices of many nonprofits. Consider the nonprofit sector's low salaries. Reliable data on nonprofit compensation are hard to come by, but the evidence says that employees in the social sector are paid significantly less than their counterparts in the private sector.

For example, in 2002 *The Chronicle of Philanthropy* cited U.S. Department of Labor data showing that "nonprofit groups pay about 15 percent less than for-profit companies." Similarly, in 2003 Cornell University researchers found that "nearly 9 percent of the most recently hired workers received promotions in for-profit firms, vs. about 4 percent in nonprofit firms."

Nonprofit executives often don't share in their employees' travails. Analyst Harvey Lipman showed in 2005 that "the median increase in pay for chief executive officers [in the nonprofit sector] rose by 16 percent from 1998 to 2003, after adjusting for inflation, while wages of other workers rose 8 percent."

Living Wage Evasion

And what happens when local folks come together to campaign for a living wage, as they have in dozens of cities all across America? Guess who's often on the front lines of the opposition?

You've got it – nonprofit organizations.

In 2002 *The Chronicle of Philanthropy* reported that "The Salvation Army of Eastern Michigan argued against a living wage referendum that raised the hourly wages for employees" in 1998. The Salvation Army official quoted in the article said, "Conforming to the law would drain cash and require cutting services to homeless people."

The Montgomery (Maryland) County Council witnessed similar nonprofit recalcitrance in the face of living wage legislation, continued the *Chronicle* article. "A wage bill that included charities lost in the council in 1998 largely because nonprofit groups refused to back it," Council Member Phil Andrews was quoted as saying.

The living wage movement sprouted because of the human costs, social costs, and lowered productivity that below-subsistence wages exact. The $5.15 per hour federal minimum wage – which adds up to an annual income of $10,712 for a full-time employee – amounts to barely half the $20,000 poverty line for a family of four, as set by the U.S. Department of Health and Human Services. The working poor who receive this meager income not only suffer themselves, but also burden taxpayers, who must pay for the healthcare and social services that employers neglect.

In many jurisdictions, the living wage is the hourly rate that a full-time worker would need to earn to support a family of four at the poverty line. Other jurisdictions set the living wage at 130 percent of the poverty level – the maximum income a family can receive and remain eligible for food stamps. Some 70 jurisdictions have enacted living wage requirements for government contractors, and many farsighted companies have voluntarily increased compensation to match the living wage level.

Although the living wage is an improvement on the minimum wage, it is far from luxurious, ranging from a low of $6.25 in Milwaukee to a high of $12 in Santa Cruz, Calif. Six-and-a-quarter an hour is the equivalent of $250 per week, or $13,000 per year with two weeks of paid vacation. Twelve dollars an hour becomes $480 a week, or $24,960 per year. Unless you and your family are accustomed to dressing in hair shirts

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and living on spaghetti and corn flakes, I strongly suspect you would be hard-pressed to survive at even those wage levels – and that's the *living wage*.

Yet almost all nonprofit organizations that have addressed the issue oppose taking even such a minimal step toward humane levels of compensation for the people who keep our organizations and our economy running.

"The living wage will bankrupt us," they say, using the same argument the U.S. Chamber of Commerce has raised in opposition to every single attempt to raise the minimum wage since it went into effect in 1938, at 25 cents an hour.

"Our donors will never allow it," they say, sounding strangely like those businesspeople who pretend to be arguing on behalf of their shareholders.

"The public expects us to be frugal," they say, despite the fact that few in the public are aware of how very low wages are at many nonprofits.

"We're creating jobs, and we'd have to lay people off if you made us pay them more," they add, mouthing another knee-jerk argument from the Chamber of Commerce – an argument that has been repeatedly disproved by real-world experience.

Philanthropy – the love of humankind – is missing from the practices of many nonprofits. It's time America's nonprofits came to understand that philanthropy begins at home.

Ample Mismanagement

Nonprofit organizations routinely cite the nonmonetary rewards their employees receive from work that is inherently satisfying. Yet the revolving-door turnover in nonprofits belies this argument.

Granted, there aren't any reliable statistics on nonprofit turnover. I rely on my own anecdotal observations, gathered over a span of 40 years in the nonprofit sector, as well as the observations of the 200 nonprofit leaders I surveyed on this question not long ago. Is it surprising that employees sometimes turn to labor unions to help them bargain for better working conditions?

The management of nonprofit workers also leaves a lot to be desired. Peter Drucker, the management guru's management guru, famously said that nonprofits are better managed than businesses. If that's true, then businesses are in really sad shape, from what I've seen of the management practices at too many of America's nonprofits.

Nonprofit management is often resolutely hierarchical, allowing little or no leeway for individual initiative. And with notable exceptions, most nonprofits offer very few opportunities for career advancement.

Boosters of the voluntary sector are inclined to argue that America's nonprofits are *inherently good* because the missions they serve are philanthropic. Well, maybe. In many cases, for sure. But it's time America's nonprofits came to understand that philanthropy begins at home.

To those nonprofit board members and executives who argue against raising wages, I suggest studying the many high costs of rapid employee turnover. These include high recruitment and training costs, on-the-job stress, and low morale. I suggest they speak to a sample of their donors about the pathetically low salaries they pay at the entry level, and learn firsthand whether their donors would support raising wages. I suggest that they make a long-term commitment to paying at least the local living wage and develop a plan to increase base salaries gradually toward that goal.

To the leaders of organizations that are still managed under a strictly hierarchical, command-and-control model, I suggest reading some of the many excellent books in print about leadership styles based on trust, positive reinforcement, teams, two-way communication, flat management structures, and other contemporary techniques that many of the most successful enterprises use.

To those in the nonprofit sector who assert that every other consideration must be subordinated to an organization's single-minded pursuit of its mission, I suggest taking a leaf from the playbook of socially responsible businesses. Pursuing a triple bottom line can pay off in higher morale, greater productivity, broader public support, and, ultimately, increased resources.

In any venture, for-profit or nonprofit, the ultimate reality is that what goes around, comes around. □