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On the Frontlines

The *Real* Salary Scandal
It's isn't that some nonprofit CEOs make big bucks. It's that most nonprofit employees are paid too little

By Peter Manzo

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The *Real* Salary Scandal

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If all you knew about nonprofits came from the media, you might think scandalous overpayment of nonprofit employees is rampant. If you instead relied on nothing but academic studies of nonprofit compensation, you might think nonprofit employees don't make significant sacrifices compared to their for-profit peers. But if you've worked for or with a nonprofit organization, you know neither assertion is true.

Ask virtually any nonprofit employee and they'll tell you they're underpaid. So why do some researchers conclude that nonprofit wages are similar to those of for-profit employees doing comparable work? The reason nonprofit employees are paid less, according to researchers Christopher Ruhm and Carey Borkoski, is simply because nonprofit organizations are disproportionately concentrated in low-paying industries. ("A Fair Wage," *Stanford Social Innovation Review*, Summer '04.)

Their analysis, however, is too simplistic. First, concentration in lower-paying industries does not explain gaps in compensation between high-ranking nonprofit executives and their private-sector counterparts. Nonprofit CEOs, lawyers, marketing directors, finance officers, and other top-level employees are paid substantially less than they would be in the for-profit world. Media stories obscure this by focusing on the highest-paid nonprofit executives or excessive payment scandals. In fact, the median salary for chief executives at California nonprofits is only $88,005, according to a recent survey by the Center for Nonprofit Management, which I head. And nonprofit leaders are sharply underpaid compared to CEOs of for-profit businesses of similar size. For instance, while the average pay for a chief executive of a Southern California nonprofit with a budget between $5 million and $9 million is $124,437, the average compensation for CEOs of for-profit firms with similar budgets is $200,295 – not including equity stakes, stock options, and other goodies nonprofits can't offer.

Moreover, this pay gulf for management positions is increasing. When I left private law practice for a public interest firm in 1993, I took a 50 percent pay cut. With the salaries junior attorneys are getting now,

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they'd have to accept 60 percent to 75 percent less, if not more, to make a similar move. I often meet young professionals looking to leave top consulting firms and other for-profit businesses to go into the nonprofit sector. And I see their hesitation when they realize how difficult it may be to earn enough simply to cover their student loans and housing costs.

"Psychic Income" Doesn't Pay the Rent

When people choose a nonprofit career, they forego opportunities to make much more money in the for-profit sector. Those who could have pursued a career in business or at a private law, accounting, or consulting firm easily forsake millions of dollars over the span of their work lives. This has significant consequences for them and their families: No matter how much "psychic income" a nonprofit worker gets from doing work he or she loves, it doesn't pay the rent. Economic research studies overlook the sacrifice that many nonprofit employees willingly make. At worst, the researchers may assume that nonprofit employees simply aren't smart enough or industrious enough to pursue more lucrative jobs.

Researchers also fail to address possible underlying reasons, such as gender bias, for what may be endemic underpayment in nonprofits. Women have long dominated the sector, and now make up about 70 percent of its employees. Oddly, Ruhm and Borkoski discounted the gender factor. After observing that nonprofit workers are highly educated (79 percent are college graduates), they concluded that lower pay at nonprofits cannot be explained by a heavy concentration of disadvantaged groups in the labor force. Unfortunately, just because women are well educated doesn't mean they don't suffer from sex discrimination.

Gender-based differences in pay for similar work are well documented in the overall labor market, and the nonprofit sector is no exception. My organization has seen this consistently in more than a decade of nonprofit salary surveys. A multiple regression analysis of our 2002 compensation data showed that male CEOs were paid more than similarly situated female CEOs, and that this gap could not be explained by any nondiscriminatory factors in our survey: budget size, number of employees, service field, or longevity in the position. In fact, we've seen over the years that executive directors of smaller-budget organizations are disproportionately women, and that as budget size increases, so does the likelihood that an organization will be run by a man. Nonprofit boards must begin to take this into account when setting salaries for female executives. When negotiating the pay of a current chief executive or a new hire who is a woman, for example, they should rely more on valid compensation survey data than on her past salary history, if that indicates her pay should be adjusted upward. (My organization is considering publishing an adjustment factor for female CEO salaries for this purpose.)

Big Job, Little Help

Lower pay is not the only burden for nonprofit workers, and it's often not even the most onerous one. Nonprofit employees also give up a good deal in terms of work environment and nonwage benefits. As New York University professor Paul Light observes, "[Nonprofit] employees are members of a first-rate workforce often employed in second-rate organizations with third-rate equipment." This is surely one of the biggest frustrations for professionals in the sector: Not only aren't they paid as much as they would be elsewhere, they also don't have adequate support and resources to do their work the way they want.

Meanwhile, it is more difficult than ever for nonprofits to compete for talented people. They face increasing competition from government and the private sector for a shrinking labor pool. And they must prepare for a generational transfer of leadership as many baby boom executives prepare to retire.

The key question for the future of leadership in the nonprofit sector is why people choose to come into the sector – and to stay in it. While nonprofit leaders may never be paid what their for-profit peers earn, making it easier to enter or remain in the field is critical. Rather than crunching salary figures, we need to do more research into why people choose nonprofit careers, and think about ways to better support them when they do.

While businesses have much more material compensation to offer, even government seems to be ahead of nonprofits in terms of wages and benefits. Government employers can provide loan forgiveness, pension plans that far outstrip even what private employers offer, and other benefits that most nonprofits can't yet match. The city of Claremont, Calif., for instance, offers employees $850 per month to cover health and other insurance premiums; any money left over goes into a retirement account. In contrast, the average cafeteria plan contribution reported by California nonprofits was $313 a month.

What more can the nonprofit sector do to compete for the best future leaders? One important step would be for the government to cancel student loans in exchange for an ROTC-style public service commitment. Most privately funded loan-forgiveness pro-

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grams are severely undercapitalized, and offer benefits too meager to make a real difference.

Another step would be to develop privately funded fellowships so for-profit executives could leave their jobs for a year or two to work at a nonprofit. One model for this is the Skadden Fellowship for public interest law, sponsored by one of the nation's largest private law firms. Unfortunately, large consulting and professional services firms don't seem to have the same pro bono commitment. While some may be encouraged to see firms like Bain spin off Bridgespan to provide consulting to nonprofits, I bet most nonprofits would much prefer to have a talented professional graduate on their staff for a couple of years instead of an outside consultant available part time for a couple of months.

Building a better support infrastructure is important, too. If your primary motive for taking a nonprofit job is to make a difference, obstacles to that goal become more important than compensation in determining if you're satisfied with your job, want to stay in it, or get burned out. People coming into nonprofits from for-profit firms often experience a painful collision between their increased level of social concern and the much lower level of on-the-job support.

Nonprofits need to find ways to relieve this pressure. Ask any nonprofit CEO and she could probably rattle off a list of deferred investments in administrative infrastructure – from improving technology systems (including phone systems, copiers, and printers) to hiring additional support staff or providing training and professional development opportunities. Although it may take a miracle, what if foundations or even government funders offered bonuses to nonprofits to improve their administrative systems?

For most nonprofit employees, work is about much more than money. People want to make an impact beyond themselves, to do good. Yet our society repays their civic commitment by paying them less than they're worth and expecting them to be satisfied. At a minimum, we need to better honor their contribution by giving them the tools they need to succeed. □

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