

## Upfront

### **A Fair Wage** **Nonprofit workers earn the same as** **their for-profit counterparts**

**By J. Magee**

Stanford Social Innovation Review  
Summer 2004

Copyright © 2004 by Leland Stanford Jr. University  
All Rights Reserved

**DO NOT COPY**



**STANFORD**  
GRADUATE SCHOOL OF BUSINESS

Stanford Social Innovation Review  
518 Memorial Way, Stanford, CA 94305-5015  
Ph: 650-725-5399. Fax: 650-723-0516  
Email: [info@ssireview.com](mailto:info@ssireview.com), [www.ssireview.com](http://www.ssireview.com)

## NONPROFIT COMPENSATION

## A Fair Wage

*Nonprofit workers earn the same as their for-profit counterparts*

If you work for a nonprofit, you probably think you're underpaid. In one sense, you're right. On average, nonprofit employees earn 11 percent less than for-profit workers. But according to a new study, if you compare apples to apples, people doing the same work in nonprofit and for-profit organizations earn roughly the same amount of money. It's just that nonprofit jobs require fewer hours and nonprofits are disproportionately concentrated in low-paying industries. At least that is one explanation offered in "Compensation in the Nonprofit Sector," published last fall in the *Journal of Human Resources* (vol. 38, no. 4), for the apparent wage differential between workers in nonprofit and for-profit organizations.

Using data tracking 25- to 55-year olds over a five-year period, Christopher Ruhm of the University of North Carolina at Greensboro and Carey Borkoski of the University of Maryland, Baltimore County set out to test whether or not the rules of competition operate to set wages in nonprofits. The data was from the Current Population Survey, a nationally representative survey of 50,000 households. Past research had suggested that people are willing to "donate" their time (by taking less pay) as long as they work for an organization that is socially responsible and aligned with their values. Other research has suggested that nonprofit workers essentially trade pay for nonmonetary "perks," such as improved working conditions. These forces should lead to suppressed wages in nonprofits.



The authors do not discount these explanations as possibilities for select groups, but, in general, they felt there was little reason to expect that employees would be penalized for their choice of working at a nonprofit. After all, there are forces that could drive nonprofit wages upward. For example, since managers of nonprofits do not directly benefit from cost-reducing measures, they may have less incentive to keep wages down.

It turns out that of the three main industries that account for 55 percent of nonprofit jobs – hospitals, social services, and religious organizations – the latter two industries have low average wages, across both nonprofits and for-profits. This concentration of nonprofit jobs in low-paying industries appears to be the primary factor that leads to low nonprofit wages. "Reduced wages reflect the specific goods and services provided, rather

than the nonprofit status of the employee," write Ruhm and Borkoski. Employees in for-profit religious organizations, such as religious publishing companies, probably make no more than their nonprofit counterpart, the authors argue. (The findings don't hold for people at all levels of the organizational hierarchy. The study found that for-profit managers earn about 7 percent more, controlling for important job characteristics.)

The researchers also tracked people who moved between nonprofits and for-profits, and found, surprisingly, that they tend to earn between 7 percent and 9 percent more – regardless of the direction of the movement.

The authors also found that nonprofit employees are better educated: 79 percent of nonprofit employees went to college, compared to only 56 percent in the total labor force.

The large number of highly educated workers in the nonprofit sector also wipes out an alternative explanation for the 11 percent wage gap between nonprofits and for-profits: overrepresentation of disadvantaged groups (women and minorities). If overrepresentation were the case, the authors write, one would not expect to see the large number of highly educated workers. –J. Magee