

COMPENSATION

Do nonprofit employees deserve a fair wage, or should they be satisfied with less than their for-profit counterparts because they're in the business of helping others? Dr. Paul Light of the *Washington Post* has looked at salary setting in all three sectors, and here he reviews some of the social forces affecting our thinking about public/nonprofit sector executive salary, and the public's reactions to what they perceive to be nonprofit salaries that are overly high.

Sources of Attitudes on Nonprofit Compensation: A Conversation with Paul Light

by Jon Pratt, JD, MPA

Editors' note: Recently, NPQ contributing editor Jon Pratt sat down with NYU's Dr. Paul Light to talk about social attitudes about compensation in public service jobs. In his usual integrative style, Light provides an excellent overview of the frameworks Americans use when they think about executive pay. This follows a string of articles and commentaries on concepts of nonprofit compensation by Lester Salamon, Tom Pollack, and Rick Cohen, which continue to provide strategic guidance in the area. Light is the Paulette Goddard Professor at the Robert F. Wagner Graduate School of Public Service at New York University and an online columnist for the *Washington Post*. He is also author of, most recently, *Driving Social Change: How to Solve the World's Toughest Problems* (John Wiley & Sons, Inc., 2011).

JON PRATT: RECENTLY, CHARITIES REVIEW COUNCIL of Minnesota conducted a public opinion poll that asked 800 people in Minnesota to pick a statement that best described their view of nonprofit pay. The choices were:

- "Employees of charities should receive wages comparable to for-profit employees" (42 percent agreed);
- "Employees should be paid less than their for-profit counterparts but enough to earn a living" (34 percent agreed);
- "Employees should be drawn to their work out of a commitment and paid no more than a stipend" (14 percent agreed); and

- "Don't know" (10 percent agreed).

What do you think these responses say about the public's understanding of nonprofit compensation?

Paul Light: Well, it suggests that 42 percent, or a substantial minority of Minnesotans, believe that nonprofit employees deserve a fair wage, and that's a positive. But when you get to the next group that says they should be paid less, and to the group that says no more than a stipend—which, combined, is the majority—it demonstrates a real problem. There may be an element of the "vow of poverty" theory among the ones who think this way. And I'll bet if you had asked the whole group whether executive directors should be paid the same as corporate CEOs, the answer would have been emphatically no!

JON PRATT, JD, MPA, is the executive director of the Minnesota Council of Nonprofits and a contributing editor to the *Nonprofit Quarterly*.



But your survey pretty much reinforces the results of a survey I conducted in 2008 with a national sample, where we asked, “Do you think that the heads of charitable organizations are paid too much, too little, or just right?” The number who said “too little” was 4 or 5 percent; the number who said “too much” was in the high 40s. The 40 percent who say “too much” has been pretty steady over time, suggesting that many Americans believe that employees of charitable organizations should take a discount or pay cut because they’ve signed on to help others.

JP: *A frequent comparison group for reasonableness of nonprofit compensation is government pay scales, where civil service systems and public*

oversight bodies have developed very transparent structures of grades, ladders, and steps. Government compensation has been a major news item in 2011, with a wave of freezes, reductions, and public criticism of government salaries, pension benefits, and collective bargaining rights for public employees. The governors of Wisconsin, Ohio, Indiana, and New Jersey each made this a major issue. What do you see as the implications for nonprofit compensation?

PL: Most of the public says that federal employees are just paid too much, and there’s a lot of false information out there about that, based on averages of what federal employees get versus what private employees get. The gross generalizations

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fuel the public's notion that the federal government wastes a great deal of money, which is built on anger toward Washington and toward government in general.

JP: *Congress and the IRS have increased attention on nonprofit compensation. Nonprofit organizations with employees paid more than \$150,000 are required to provide supplemental information about compensation on Schedule J.*

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JP: *One interesting part of the Schedule J, which is required for these highly compensated individuals, is Part 1A, which requires organizations to check whether they're paying for personal services as part of their compensation—services described as "maid, chauffeur or chef."*

PL: These questions are often related to a specific scandal, not unlike the presidential appointments process, which now has almost 300 questions on a nominee's personal and financial history. Every time you get a scandal, you add a new question. So, we've got domestic workers on the forms as the result of scandals early on in the Bush administration and, earlier, with Zoë Baird and Kimba Wood, in the Clinton administration. These items can generate material for a congressional investigation or a nice hot one-off hearing, where you bring up the CEO of the nonprofit and really take him or her to task.

JP: *There's been some concern at the federal level that this kind of scrutiny, public exposure, and salary limit inhibits the ability of government or nonprofits to compete for talent. Has this inhibited compensation, or do organizations just charge ahead and make their decisions on their own management judgment?*

PL: The problem is that we've got to come up with

a reasonable way of setting nonprofit salaries in the midst of an overall salary picture that does not make a lot of sense. Let's benchmark contractor, nonprofit, and private salaries on government pay, and you'll see an immediate effort to bump up government pay, or at least introduce some perspective to the debate. The president of the U.S. makes \$400,000 a year running a multitrillion dollar operation. Hello? That makes the claim that a \$1 million salary is essential for the CEO in charge of a \$3 billion nonprofit somewhat less credible, no?

A lot of this is political football. Recently, New Jersey Governor Chris Christie demanded a cap on nonprofit salaries paid through state contracts, which is nothing more than a sop to the Tea Party.

JP: *And Governor Christie has also launched a major battle taking on teachers unions. Is this anti-tax, small-government movement just fiercer now, or is there an ongoing trend of hostility toward governments, and, perhaps indirectly, nonprofits, about how they compensate their employees?*

PL: Anger against public servants has been around from the very beginning. You can go back to the 1800 presidential election, where Thomas Jefferson ran the first "war on waste" campaign in American history. He won office in part by promising a smaller, leaner government, and by arguing that there were too many federal employees, and they were sucking up too much money, and there was too much corruption. It's been around for a long time, and historically that's led to salary compression at the top of the salary chart.

JP: *What should an individual nonprofit do to educate its own public about its compensation approach?*

PL: Be clear about how the organization makes salary determinations. Unfortunately, it's an opaque process in most organizations. The comparisons are not clearly defined by class, let alone by specific organization. So, you use these market-basket approaches, where you're throwing in private companies, you're throwing in consulting firms, you're

throwing in other nonprofits, and you're trying to figure out some methodology for saying that your CEO deserves extra. Why?

That's the first step, and if you want to use deferred compensation and you want to use performance bonuses, say it. And, tell your supporters, your givers—Charity Navigator and others—how you arrived at your figure, and put it out there.

JP: *If you look at a 990 form, it says, "Please explain how you came up with your compensation." Often, what organizations report in their 990s is that they used market information, or a compensation consultant, and then the board made the decision on the basis of that. Would you like to see more disclosure about what's in the comparison, such as identifying the comparable types of organizations?*

PL: Yes, you could start with a simple pie chart showing how many organizations you used in the benchmarking, how many were private, how many were nonprofit, and how many were government. I suspect that the percent from government would be near zero, and I suspect that the share of private firms might be as high as 50 percent. If you don't list individual firms, at least you should list the industries and revenue streams within the comparison group.

JP: *How about the middle and bottom of the scale for nonprofits? Government adopts a relatively flat compensation model. Should the range from top to bottom for nonprofits be similar to that of government?*

PL: We have to be clearer about what the market basket should look like, and have a good solid debate about what's fair. If we continue to compress nonprofit salaries by comparing them to government salaries, you just suck up all that anti-government fever into that comparison. But, if you don't use those kinds of comparisons and you benchmark against private firms and so forth, you're going to get that sentiment in there.

JP: *What about the slope—the ratio between senior managers and frontline service providers?*

Government has a relatively flat slope; business has a steeper hierarchy. . . . Where should nonprofits be?

PL: In government, the top-to-bottom ratio is oftentimes in the 3:1 to 5:1 range. In the private sector, it can be 100:1 or 200:1, depending on the size of the firm and the compensation policy. Some argue that top-level salaries in some of our most prestigious, well-known nonprofits are out of synch with frontline salaries, and that the nonprofit sector should be governed by a more egalitarian ratio.

I think the nonprofit sector has an obligation to get the very best talent it can at the most reasonable cost appropriate to its role in the public service—more broadly defined. Yet you can't simply say, "We've got to pay whatever the market demands, and that's the only criteria we can use." There is a perceived public obligation that shows in the discount to keep in touch with the real world that you're trying to serve. When you look at ratios, you could go with the ratio of the top job in the organization to the frontline job in the organization, but you also need to factor in the kinds of people you're serving. To what extent does a nonprofit grow slowly out of touch with its community, its mission, by building up a robust market-sensitive compensation system?

Some people argue that we've got to make an opportunity for more business executives to come in, because nonprofits should be run like businesses. I disagree with the assumption that somehow business people are going to be more rigorous or they're going to do things in a more disciplined fashion than a top-flight nonprofit executive who's already run a successful organization.

I don't think you have to take that vow of poverty, but at the same time I wonder if the sector isn't obligated to set itself out there as being more a part of the community that it serves—obligated by basic issues of fairness to set reasonable market-sensitive pay, but also stay in touch with the world we serve.

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