



Nonprofit Compensation: To Pay or Not to Pay?

Does your total-reward program ensure your organization has the talent it needs?

By Peter Ronza

It's more important today than ever before to use resources effectively. Since most nonprofits' fixed costs go toward employee compensation, it's crucial to pay attention to this expense. To manage costs while attracting the best employees, you need to examine your total-reward (salaries and benefits) program.

What Motivates Workers?

Compensation isn't the main reason for job satisfaction. Employees are motivated, productive, and content when they have a good relationship with their supervisors and a chance to use their skills and talents. The ideal work environment provides intrinsic rewards, which satisfy an employee's psychological needs and offer an adequate work-life balance.

Employers are maintaining their compensation budgets for key talent.

However, intrinsic rewards don't pay the mortgage. Inadequate compensation can be a great demotivator.

The solution is to develop a total-

reward strategy that incorporates the strengths of your environment, mission, and the benchmarking of your practices with the relevant competitive labor markets. Let's take a brief look at the labor market to see what the issues may be.

What's the Labor Market Like Today?

In most skill sets, the labor market is experiencing an abundance of supply in relation to demand. Surveys show a trend towards consolidation and re-entrenchment. It would appear that nonprofits would possess a competitive advantage in this environment.

However, surveys also show that employers are maintaining their compensation budgets for key talent. Private-sector firms have been through this kind of cycle before and realize they must be prepared to ramp up operations quickly when the economy recovers. Retaining key talent will allow them to stay ahead of the competition when those cycles occur. Furthermore, there are shortages in some areas of the labor market due to the number of exits (retirements) exceeding the number of entries (new graduates), resulting

in a replacement gap. These shortages are occurring in such areas as health care, technology, and nonprofit management.

What Are the Best Practices to Follow?

Salaries and benefits are an ever-growing portion of fixed costs and are constantly in flux. An organization's survival depends on keeping good workers—especially in the service-intensive nonprofit sector. Best practices require an organization to do the following:

- **Pay** jobs comparable to the competitive labor market.
- **Reward** high performers more than other employees.
- **Evaluate** your compensation offerings at least once a year.
- **Prepare** employees for change.
- **Staff** critical support positions with skilled professionals.

Now, let's get the automatic negative reactions to best practices out of the way:

- "We're different, and those concepts won't work here."
- "We've always done things this way."
- "We have to do what other nonprofits are doing."
- "You can't measure what we do."
- "We can't spend more resources on benefits when we're cutting services."

Nonprofit World • Volume 27, Number 5 September/October 2009
Published by the Society for Nonprofit Organizations
5820 Canton Center Road, Suite 165, Canton, Michigan 48187
734-451-3582 • www.snpo.org

If your organization doesn't have the cultural capacity to change, you shouldn't. Also, if your organization doesn't have managers with the skills to implement change, you should keep doing what you know best. Change for change's sake is a dangerous concept.

However, should your organization employ many overworked, low-paid staff, or should you devote your resources to key success areas and contract out what you can't pay for or perform well? For example, do you need to employ a Web professional, or would you be better off contracting that work out? Should you be competing in the labor market for a highly skilled Web professional? Are you willing to pay market rates? You might get lucky and find some "talented" cousin of a trustee who does it as a hobby, but are you getting the best for your investment? Ask yourself:

- Does this activity need to be done at all?
- Can the function be staffed differently?
- Should the activity be outsourced?

Can You Compete?

An HR manager once told me that his nonprofit had just lost a staff member to a for-profit enterprise for a \$10,000 raise. "I just can't compete with that!" he exclaimed. So the following questions were posed to him:

- Do you know what your mar-

ket position is on that job? Are you within a margin of 10% of the relevant market standard?

- Was the employee really leaving for the money? Exactly why did he leave?
- Was the job he was going to the same as the one he held with you?

The fact was that the manager didn't know what the market rates were and couldn't explain the compensation philosophy behind how his organization paid what it did. Nor had he performed an exit interview with the employee to gain insights on why he was leaving and what the organization could do to retain talented workers.

Make certain you're not jeopardizing your organization as this manager did. Continuing to operate total-reward programs as organizations did 30 years ago is no longer acceptable. Take a good look at your organization's culture, compensation philosophy, and fiscal strategies to be sure you can compete for the very best people. ■

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ROAD MAP TO AN EXCELLENT TOTAL-REWARD PROGRAM

For more on managing costs while recruiting and keeping the best employees, see these *Nonprofit World* articles at www.snpo.org/members:

How to Use Organizational Culture as a Competitive Tool (Vol. 20, No. 2)

Survey Reveals Nonprofit Salaries (Vol. 27, No. 4)

Outsourcing in the Nonprofit Sector: A Strategic Approach to the Challenges of Growth and Staffing (Vol. 15, No. 5)

How to Be Sure Compensation Is Reasonable (Vol. 17, No. 1)

Overcome Organizational Indifference (Vol. 24, No. 2)

Free Yourself from Costly Human-Service Duties with a PEO (Vol. 23, No. 3)

Executive Compensation (Vol. 23, No. 5)

Play to Your Strengths: Using Outsourcing to Manage Human Resources (Vol. 17, No. 1)

How to Hire the Right Person the First Time (Vol. 21, No. 2)

It would appear that nonprofits would possess a competitive advantage in this environment.

Be Sure You Have the Talent You Need

Your organization's survival depends on attracting productive workers. Here are tips for creating a total-reward program to recruit *and* retain top performers:

Research the labor market to see what other organizations are paying for each type of job.

If you can't pay competitive salaries now, create a plan to gradually catch up to the labor market.

Balance extrinsic rewards such as salary with intrinsic rewards such as flexible work arrangements, access to training, and opportunities for employees to be creative and use their talents.

Know which employees are key to your organization's success, and be sure you have a plan to retain their services. Talk with them often to be sure they have what they need to do their jobs.

Consider hiring a contractor to provide the appropriate talent at the appropriate time.

Outsource activities that don't need to be performed in-house.

Interview employees when they resign to find out why they're leaving and how you might improve your retention strategies.

Follow best practices such as rewarding high performers more than other workers and evaluating your total-reward program frequently to be sure it is competitive.

Look into Professional Employer Organizations (PEOs) to help provide competitive benefit packages and take care of administrative tasks.