



Nonprofit Compensation Trends & Best Practices

Employing the correct staff is crucial to the survival of any nonprofit. Individuals attracted to working for nonprofit entities are generally motivated by the nonprofit's mission. Despite the fact that compensation in the nonprofit sector is lower across the board, there remains a market of skilled labor interested in working in the nonprofit sector regardless of the base compensation discrepancy. And trends in generational attitudes suggest the possibility of unprecedented growth in the number of people interested in working in mission-oriented environments. As Baby Boomers migrate out of the workforce and the presence of Millennial and Generation X, Y and Z workers increases, compensation strategies highlighting multiple factors, not just base compensation, become increasingly important, because virtually every generation since the Boomers place greater emphasis on job satisfaction than base compensation, something nonprofits can and should leverage. Given these changes, employers are wise to develop more inclusive compensation and retention strategies.

Millennials (ages 20 to 36 in 2017) currently comprise more than one-third of the American workforce and are anticipated to become the largest share of the American workforce in a few years. 72% of Millennial workers are willing to sacrifice higher pay in exchange for a more personally and professionally fulfilling career, so nonprofits can approach compensation strategies differently, offsetting the cost of a lower-base pay with the perceived value of working within an altruistic organization. However, that alone may not be enough to keep and attract a top workforce. Effective management of this evolving workforce may require revamping pay increases.

Compensation systems based on annual raises tend to create a culture of entitlement -- everyone expects to get something. In fact, in organizations employing an annual merit review and raise option, 99% of employees receive a pay increase every year. Under this traditional performance management system, everyone is rewarded, regardless of contributions. This system does little to differentiate between strong contributors and non-contributors, and increases a nonprofit's financial burden because once a salary increase is given, it never goes away. The cost compounds exponentially over time, rewarding employees for past contributions for as long as they remain employed.

Strategies directly aligned with achievement of individual, team and organizational goals reward actual performance without increasing the nonprofit's long-term costs. In addition, incentive programs designed to drive performance and accountability reinforce the right employee behavior by encouraging productivity and efficiency when made contingent on performance and results achieved. Ultimately, an effectively designed incentive plan can empower your nonprofit to deliver targeted results, while directly rewarding employees with the benefits they most value for achieving predetermined results.

Strategies for staffing and volunteers are some of the many aspects of nonprofit management covered in the Certificate in Nonprofit Management course. Also look at our Human Resources section of the *Principles and Practices for Nonprofit Excellence*.

Source: Colorado Nonprofit Association (www.coloradononprofits.org/).

How to make an incentive plan work

- Create a direct line of sight between employee performance and tangible rewards.
- Focus on a mix of qualitative and quantitative incentives tied to individual and team performance.
- Devise incentives closely aligned with the organization's culture.
- Grant rewards in close proximity to goal attainment.
- Ensure program transparency and effective employee communication tools are in place.