

THE THIRD SECTOR REPORT

## **Nonprofit Executive Compensation: It Makes a Statement**

*By Jeffrey R. Wilcox, CFRE*

For most, it's a double-edged sword. For many, it's a subject that should be left alone. The topic is executive compensation, and it's one leadership responsibility that can't be ignored.

How a nonprofit organization decides to engage in dialogue, deliberation and decision-making regarding its compensation policies and practices speaks volumes. It's a message about how people choose to compensate other people who have directed their lives' passions, educations and careers to creating social benefit.

The process by which board chairs and board members engage in discussion about the compensation of their paid professionals sends an unmistakable message about stewardship. It also demonstrates the organization's position on such things as advancement, equity, value and self-respect. Outcomes that many nonprofits are funded to achieve for the people they serve.

Everyone knows the subject of pay for nonprofit professionals is loaded. On the one hand, there are contributors and payors who provide hard-earned personal funds or public dollars to support nonprofit organizations who are rightfully concerned that their funds are being put to best use. On the other, what constitutes underpaid or overpaid is an opinion contest that has few winners.

Regardless of perception, more and more nonprofit boards who are replacing their vacated executive positions are finding the predecessor's salary is insufficient to attract equal or greater talent to continue advancing their organization. Apparently, market value and replacement costs wasn't considered an essential element of fiduciary responsibility to the mission.

Sweeping the executive compensation discussion under the table can no longer be tolerated for any nonprofit that considers the outcome of its work is rooted in social justice and community progress. The reason is that what nonprofits are paying their people is no longer just a matter of dollar and cents.

If only it were as simple as recreating budgets to respect cost of living increases, make allowances for modest pay raises or consider incentive-based pay within the ethical guidelines prescribed by the Association of Fundraising Professionals.

Today, nonprofit compensation practices make a statement about gender and racial equality, due respect for the position the Third Sector plays in the economic vitality of the community, and the leveraged partnership that must exist between government and the nonprofit sector to provide quality of life services.

Allison Sesso in an article in *The Nonprofit Quarterly* describes the reality best when she wrote, “In the social service arena, many nonprofit organizations receive 80 to 90 percent of their funding from government. Nonprofits cannot increase prices or pull from a profit margin to fund wage and benefit increases. Despite the clear importance of the services they provide, the members of this workforce increasingly find themselves in the very same position as their clients.”

For the longest time in American history, charity was viewed as “women’s work” which created a spawning ground for gender inequality in its most blatant forms. A perception that leaders of community are substantially subordinate to leaders of corporations further compounded the compensation equation.

And, there’s one more serious factor: While nonprofit boards struggle to reflect the diversity of our society, the nonprofit workforce is proudly a different picture. People of color have been on the front lines of feeding the hungry, caring for the elderly, teaching young children and cleaning up community messes at production rates and levels of diverse representation that other industries would boast about.

Today, the compensation conversation begins with a board understanding the market value and replacement costs of its professionals and establish multi-year budgeting goals and reserve policies aimed at adequately compensating the hands and hearts that mobilize the mission.

The strategic planning discussion must include specific directives about how the organization intends to retain and recognize its talent. The public message about compensation must be framed around taking a leadership role in social justice that begins with the organization itself.

As taxpayers, board members also have a responsibility on behalf of their people to advocate their elected officials to design government spending mandates that balance fair compensation for the people on the front lines of their contracts in nonprofit organizations.

Executive compensation is a complex issue with no right answer. What every socially-responsible nonprofit board must have today, however, is a justified answer.

*(Jeffrey R. Wilcox, CFRE, is president and chief executive officer of The Third Sector Company, Inc. Join in on the conversation about this article at the LB Business Journal at [www.lbbizjournal.com](http://www.lbbizjournal.com)*



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