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Not Adding to the Problem: Seven Ways Your Nonprofit Can Avoid Mirroring Practices That Perpetuate Inequality

By **JON PRATT AND RUTH MCCAMBRIDGE** | March 21, 2015

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Do the net effects of all activity across the nonprofit sector tend to:

A. Increase the equality of conditions?

B. Decrease the equality of conditions?

C. Have no effect on the equality of conditions?

Equalling roughly 10 percent of the U.S. economy, the nonprofit sector does not have the financial resources to be a significant countervailing force to the larger trends in the economy. Nonetheless, it is important that the nonprofit sector stand for equality as a core principle—and, of course, the supporters and leaders of nonprofits don't want their organizations to contribute to or exemplify the problem of income inequality, wittingly or unwittingly.

The following are seven practices nonprofits can adopt to foster income equality.

1. *Nonprofit employees should be paid a livable wage, sufficient to afford adequate shelter, food, and the other necessities of life*. Nonprofit organizations are the employers of record for 10.3 percent of U.S. workers, most of whom have a livable wage. But a substantial number of child-care workers, direct service personnel, personal care attendants, and support positions are crowded at the very bottom of the pay scale. When boards and managers rely solely on market information (which often tells us that the bottom wage range needs to be lowered and the top needs to be raised because other employers are doing it), aren't they shirking the responsibility to make independent decisions to advance the organization's overall mission? While the executive compensation of nonprofits and foundations will never match the heights of Wall Street salaries, the internal equity among the workforce needs to be addressed in a principled way.

2. *Executive compensation should be reasonable and proportionate within the organization's structure*. The public has mixed feelings about compensation in the nonprofit sector, especially amid perceptions of rich rewards for top managers, who are not expected to be solely motivated by economic return. This suppressed market requires a common understanding among boards and managers to restrain the most adamant revenue maximizers and to take community values into account. A key indicator of an out-of-control executive pay package is the gap between it and compensation for the top manager at the next rung. When the number-two and -three positions make less than 75 percent of the number-one position, the concentration of power and undue deference are making the organization unhealthy in other ways as well. But a number of very rich organizations have tiers of pay, with a top tier that is very

well compensated and a bottom tier that is paid so badly that it needs subsidies to survive. This can sometimes be reinforced by the board, which may be more interested in turning a profit or adding to the reserves than it is about internal fairness—in fact, to the point where it rewards a top executive for turning that profit at the expense of reasonable pay for the bottom tier of workers.

These issues have popped up in any number of hospitals and universities. For example, in April 2014, *NPQ* wrote about the biggest employer in Pittsburgh, the University of Pittsburgh Medical Center (UPMC), with 62,000 employees and more than $10 billion in annual revenue.[1] UPMC was a nonprofit and also the site of an intensive unionization effort. Its executive made more than $6 million in compensation, while its starting hourly wage in some jobs was all of $11. The SEIU, which had been waging a two-year-long unionization drive at the institution, wanted the minimum for service workers to be $15 hourly. The SEIU pointed to a study from MIT that found that an adult living in Pittsburgh with one child needs $17.01 an hour to meet minimum living standards, that two adults raising two children would need $16.98 each, and that more than half of UPMC's service employees earn under what experts consider to be a sustaining wage. Pittsburgh's mayor, Bill Peduto, exhorted UPMC to raise its wages. "It's the largest employer in the state of Pennsylvania," he said. "They have the means to help their workers break the cycle of poverty and join the middle class. They probably have more of an ability to do that than any other entity."[2]

But there is no rule that says CEOs should be impervious. In August 2014, *NPQ* wrote about Raymond Burse, interim president at Kentucky State University, who requested a $90,000 pay cut in order to raise the wages of twenty-four employees who made less than $10.25 an hour—and the school's board of regents approved the request.[3] The board's having approved the request may be even more important than the CEO's request in the first place, as it demonstrates an institution's overall understanding of the importance of wage equity. Burse, who ended up making $259,744 instead of $349,869 (a reduction in salary of nearly a third), has said that he understands that he cannot make the institution function without those workers, some of whom are making as little as $7.25. "It takes everybody on this campus to do what we need to do to improve it," Burse said. "I want everybody on the team to be involved and this is one way of showing employees on the lower end of the pay scale that they are important as well. . . . They are the people that do the physical labor on this campus on a daily basis. They are the ones that make it look good. I think they deserve to be rewarded. . . . We live in some very tough times and we want to make certain that they know we, the board and myself, care about them and want to do the very best by them."[4] Another example of CEO involvement is described in the same article: "According to the *Chronicle of Higher Education*, at Hampton University, William R. Harvey, the president, donated more than $100,000 so that low-wage workers there would make at least $9 per hour."[5] The donation covered higher wages through the end of the fiscal year, after which they were to be included in the university's budget.

3. *Nonprofits should consider capping their pay and publishing their pay ratios*. These are measures that many think are key to tackling inequality. A recent article in the *Guardian* suggests that there are any number of good reasons to implement such a policy: "ratios can serve as a 'helpful tool to assist in their [charities'] approach to pay—for example in helping to identify the impact of pay decisions on individuals and the appropriate distribution of any increase in payroll spend across the whole charity each year.'. . . There are other benefits too. A recent report by the High Pay Centre has highlighted how workplaces with big pay gaps between the highest and lowest wage earners suffer more industrial disputes, more sickness and higher staff turnover than employers with more equitable pay differentials."[6]
   And "this figure tends to rise with the size of the organization: the average pay ratio for organizations with 100 to 250 employees is 1:5 compared with 1:11 for those with over 1,000 employees."[7] In fact, "the 2011 charity pay ratio survey from Charity Finance found that the larger the organization, the smaller its lowest salary."[8] It appears likely that the same dynamic is true on this side of the Atlantic.

Some larger organizations have eschewed large differentials and do not seem to suffer from it organizationally—Médecins Sans Frontières, for example, has a policy that requires that the highest employee never earn more than three times the lowest paid.[9]

4. *The civic voice of a nonprofit organization should be applied broadly to advance the organization's mission and the people it serves, not narrowly used to protect its parochial interests in its own program and revenues*. Foundation grants and grassroots fundraising cannot in themselves reduce inequality without using their influence to leverage government and business policies. Given the links between income and health outcomes and between educational attainment and cultural participation, the success of every nonprofit mission is affected in some way by the economic success of the people the organization serves (or could serve, if it could afford it). So, for example, the success of the earned income tax credit and/or an increase in the minimum wage should be broadly discussed. Sector leaders need to avoid focusing almost exclusively on those measures that protect their own revenue streams and organizational health (for instance, through protecting charitable tax incentives, which themselves have a high correlation with the interests of wealthy donors) and weigh in on the larger challenges facing the economy and the people in it.

5. *Governance responsibilities should be broadly shared, not closely held, by recruiting board members who represent the organization's constituents*. Sometimes referred to as the zip code test (do the board members come from the same zip codes as the people the organization serves?), the question of who should be on nonprofit boards goes to the heart of whether the nonprofit sector will express the interests of plain citizens or of aristocrats. When organizational design results in board composition of high-net-worth individuals or the "connected," the organization's civic voice tends to reflect its economic perspective (which, again, could be sympathetic to the need for high executive compensation and skeptical of the benefits of increasing the minimum wage). Most organizational administrations anticipate the perspective of their boards; so, for example, it is unlikely that any United Way with a board of primarily

business executives would support a position to increase the minimum wage. Not to pick on the United Way, since these issues apply to many organizations and foundations, but the fact that boards do not consider these economic positions anything close to a conflict of interest undermines efforts to address the current situation.

6. *Each organization should assess the ethnic and racial diversity in its leadership as well as elsewhere inside the organization*. Recent reports by BoardSource and the Diversity Initiative of the Green 2.0 Working Group have reinforced that this sector does a poor job of reflecting the country's diversity in its leadership positions, namely, among board members in general, board chairs, and CEOs. The Diversity Initiative's report, *The State of Diversity in Environmental Organizations: Mainstream NGOs, Foundations & Government Agencies*, showed that in environmental organizations the proportion of ethnic minorities on the board or general staff did not exceed 16 percent in any of the three types of institutions studied. For the conservation/preservation nonprofits, the percentage of ethnic minorities on boards was 4.6 percent, and the percentage of ethnic minorities on staff was 12 percent. Additionally, ethnic minorities tended to be concentrated in the lower ranks and occupy less than 12 percent of the leadership positions. Not one of the largest conservation and preservation organizations has a president who belongs to an ethnic minority, but the smaller conservation and preservation organizations were even less racially diverse than the largest. Ethnic minorities and people of multiracial backgrounds make up about 38 percent of the U.S. population; ironically, in the government agencies, the greatest proportion of ethnic minority staff in any position (66 percent) was seen in the position of diversity manager.

7. *Each organization should assess its own equality footprint to examine whether the net effect of its actions increases, decreases, or has no effect on the equality of conditions*. About a third of nonprofits primarily serve the poor, and most of the rest seek to make their activities available in some way to people of limited means. Each of these organizations has pledged to either use all of its resources for tax-exempt purposes or pay the regular corporate income tax on its

unrelated business income. With this small army of organizations pledged to counteract market failure—each in its own way—there is a major stake in seeing that these resources are accessible and effectively applied. Some larger institutions have recently been called out for practices that abuse or exclude people of lower incomes. Two examples that come easily to mind are the recent stories about the aggressive collection policies of some nonprofit hospitals that have driven poor people further into poverty and the "suggested donation" of $25 at the Metropolitan Museum of Art in New York City. Nonprofit hospitals are gradually clarifying their charity care policies so that indigent patients can know in advance what care might be available to them. Equality of access should be a primary consideration in return for tax exemption, and, just as most organizations have a donate button on their websites, transparency is needed about the availability of scholarships, sliding scales, and direct assistance.

In *Democracy in America*, Alexis de Tocqueville predicted that as conditions in society became more equal there would be both more newspapers and more voluntary associations. Issues surrounding inequality during a time when the old regimes of Europe were under stress were a major interest for Tocqueville, coming from the aristocracy as he did. Newspapers and voluntary associations were seen as social goods and products of democracy that would thrive in a more equal society. In this era, the increased number of American media outlets and nonprofits exist in a democracy with a very high level of freedom of speech and freedom of association. The tools are there to increase the equality that made this possible—now if only we will use them.

Notes

1. Ruth McCambridge, "The UPMC and the SEIU Go Head-to-Head in Pittsburgh," April 4, 2014, nonprofitquarterly.org/policysocial-context/23960-the-umpc-and-the-seiu-go-head-to-head-in-pittsburgh.html (nonprofitquarterly.org/policysocial-context/23960-the-umpc-and-the-seiu-go-head-to-head-in-pittsburgh.html) .

2. Ibid.

3. Ruth McCambridge, "2 College Presidents Take Pay Cuts to Raise Pay of Low-Wage Workers," August 8, 2014, nonprofitquarterly.org/policysocial-context/24641-2-college-presidents-take-pay-cuts-to-raise-pay-of-lowest-paid-workers.html (nonprofitquarterly.org/policysocial-context/24641-2-college-presidents-take-pay-cuts-to-raise-pay-of-lowest-paid-workers.html) .

4. Ibid.

5. Ibid.

6. Becky Slack, “Salary ratios: how charities are approaching fair pay,” *Guardian*, May 15, 2014, www.theguardian.com/voluntary-sector-network/2014/may/15/wage-ratios-how-charities-are-approaching-fair-pay (http://www.theguardian.com/voluntary-sector-network/2014/may/15/wage-ratios-how-charities-are-approaching-fair-pay) .

7. Ibid.

8. Ibid.

9. Ibid.

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