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Non-Profits and Living Wages

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Abstract

Non-Profit organizations must find ways to divide their budgets between staff wages and program services, as well as paying their staff a living wage. Unlike for-profits who can increase prices for consumers when they need to increase staff wages, non-profits do not have this luxury. The goal of this project was to collect data on how non-profits manage their budgets and if they provide staff with living wages. A survey was sent out with a total of eight responses, giving a breakdown of various non-profit's budgets and if they pay a living wage. Overall, seven out of eight non-profits pay their staff a living wage, however despite this multiple organizations are struggling with staff turnover and hiring new employees. Non-profits may need to do more than pay a living wage in order to keep staff, and hire quality employees. Based on this survey total compensation packages may be a better way to evaluate non-profit pay instead of wages, because the most of the non-profits reported paying above a living wage, but still reported struggling with keeping staff.

Non-Profits and Living Wages

Background

Non-profits face an interesting challenge. One primary reason Non-profits exist is to provide services to people who would otherwise not have access to that service. Often these people are low-income. In recent years there has been a lot of research about minimum wages and living wages. A living wage is defined as the minimum income necessary for a worker to meet their basic needs (SAI, 2018). Non-profit organizations at times are criticized for the wages that they pay their own staff; studies have found employees in similar positions at for-profits make more money (McCambridge, 2016). How do non-profits work towards accomplishing their mission, helping low-income individuals, while paying their own employees less than a living wage? Unlike for-profit organizations that can raise their prices in order to increase their revenues and pay their employees more, non-profits do not have that luxury. Therefore, non-profit organizations must find a way to manage their budgets to make sure they are paying their employees a living wage, while also putting enough of their budget into program services so that they are still achieving their mission.

The Problem

The problem is that non-profit organizations cannot simply raise prices in order to generate more revenue to pay their employees a living wage. Non-profit organizations already pay their employees less than their for-profit counterparts (McCambridge, 2016). As a result, non-profits may be contributing to the problems they are actively trying to address. If they are not paying a living wage, it may make their own employees reliant on services provided by non-profits. Some non-profits may fear losing donors if they spend more on staff wages, as donors want to see their money being utilized for programs to accomplish their organizations' actual mission. Depending on the restrictions attached to the donations they receive, non-profits may legally be required to use the money in a specific way.

Purpose

The purpose of this study is to see how non-profit organizations divide their budget between staff wages and program services and if they pay their employees a living wage. Are non-profits who pay their staffs a living wage sacrificing program services in order to do so? The purpose is to determine how different non-profit organizations manage their budgets. Collecting this data while examining how the organization functions will help to explain why their budgets are designed this way. It will also clarify how organizations structure salaries in their own organizations, and may cause some of these organizations to do some self-reflection about their policies. There is not a lot of data available on the payment of living wages in non-profit organizations. This study attempts to collect data on this important topic.

Overview

Non-profit employees are already thought to make less than their for-profit counterparts (McCambridge, 2016). MIT created a living wage calculator, which calculates what a living wage would be in each area. In Richmond, VA according to the calculator, a living wage for a single person with no children is $15.91 an hour, which results in an annual income after taxes of $26,829. Some non-profits organizations have come out and said that by paying a living wage that they would go out of business. However, this was not the case in Detroit; when living wage laws were implemented there, 96 non-profit organizations were contacted a year and a half later and the new law did not result in a loss of jobs and did not have a negative impact on the non-profit organization (Reynolds and Vortkamp, 2005). However, in California, when a similar law was put into place, a non-profit organization applied for an exemption because the increase in minimum wage from $9 to $15 was going to have a dramatic impact on the group's ability to survive. In this case the group had seventy full time employees and 200 transitional employees and the organization felt that they would have had to stop operations due to the new law (NonProfitTimes, 2015). These two examples show this issue is a complicated one and that there may not be one answer for all organizations. Some organizations may be able to adjust to living wages more quickly than others.

Research Design

The research question is how non-profit organizations balance their budgets between staff wages and program services and if they pay a living wage to employees. A survey will be sent out through email on Qualtrics. The results will be anonymous to protect organizations from backlash and protect employees from any potential risk for answering questions about how the organization functions.. The data will inform us if the organization pays its employees a living wage, as well as how the organization functions and if there have been changes in the budget brought about by the payment of living wages. Once the data is collected it will show if Non-profit organizations pay living wages in Richmond. The data this survey gathers will show whether organizations do in fact pay a living wage, and if they do how they go about balancing their salary and program services. This will help other organizations see that payment of living wages is possible while working towards their mission, and also providing some practical guidelines on how those groups make it work with their budget.

Methods

Sample

Participants were individuals who work at non-profit organizations in Virginia. In total 8 individuals completed the survey.

Instrument

Participants were asked to fill out a ten question survey, attached in Appendix A, about their Non-profit Organization's budgets. The survey questions asked about their organization's overall operating budget, but when talking about staff expenses and program expenses asked for percentages. This was done so that the data is more comparable among organizations, despite their total budget. It makes it easier to compare how Non-profits divide their budgets using the percentages, because of the potentially vast differences in overall budget amounts. The questions had an open response, so that participants could give exact figures, and share any information they felt was relevant. The living wage for a single person with no dependents in Richmond is $15.95, so one question asked how the participants organizations hourly wages compared to this. Another benefit of the short response is that it allowed participants to be specific, such as saying that some employees received this wage, while others did not.

Procedure

Participants for this study were recruited through a posting on the ConnectVA forum, a website meant to connect different Non-profit organizations throughout Virginia. Participants were also recruited through an email sent out by the head of the Non-Profit Studies Program, Andrew Schoeneman. As well as through word of mouth from Harold Fitrer, followed up with an email.

The survey went live on March 8th and was open through April 2nd. Participants were kept anonymous so that there was no risk to themselves or their organization because of their answers.

Limitations

The response rate has unfortunately been low, with 22 people taking the survey, and only 8 actually submitting complete answers. Future researchers may have a bigger network to reach out to, to collect data, and may be able to offer some sort of incentive for participating. They may also be able to collect data over a longer period of time, allowing for more responses.

Results

Organizational Budget	Staff Percentage	Program Percentage
3.9m	37%	46%
3m	30%	20%
1.7m	75%	77%
939,198	28%	62%
933,934	53%	90%
900,000	70%	20%
369,645	38%	36%
230,000	42%	36%

The eight responses can be found above, sorted by Organizational Budget. Staff percentage is the percent of the organizational budget that is spent on staff wages. Program percentage is the percent of the organizational budget that is spent on programs and services they provide. The response of $1.7 million, and 75% of the budget spent on staff percentage, and 77% on program expenses, adds up to more than 100%, so it can be interpreted as staff wages were included as program expenses, making program expenses outside of staffing 2%. The same rule can be applied to the organization with $933,934, making program percentage 37%. Seven of the eight organizations reported that they are above the living wage for their full-time staff. The one organization that is not is the organization that's budget is $369,645, where only their top two staff meet the living wage. Despite the living wage, four organizations reported that they pay below what other nonprofit organizations pay. One organization stated that because of this, despite the living wage they have already lost three employees this year due to wages.

Seven of the eight organizations reported that their wages have increased over the past five years. The one that did not, the organization with an annual budget of $939,198, has reported a decrease, however their wages are above the living wage. The organization has reported a decrease in staff "Staffing has decreased as teammates leave for better environment." The participant also responded that "Generally, the pay is exceptional; however, there are no other benefits like health insurance or retirement" This organization does not provide any benefits to employees. Two participants responded that they feel their wages are lower than other non-profits and much lower when compared to for-profit organizations.

Six of the organizations that reported an increase in their wages stated there have been more services provided, and improved staffing. One organization, which reported increased wages, has had programs ended because of their staffing issues, despite providing a living wage to all employees, the lowest paid of which makes $45,000 per year. This participant when asked how he felt their organizations pay compared to other non-profits responded "Far too low; i have employees leaving because of it. 3 this year" The one organization that reported a decrease has scaled back programs and stopped implementing ambitious plans.

In conclusion, 7 out of the 8 organizations pay their employees a living wage. Yet 5 of the 8 organizations said maintaining and recruiting new staff is hard because of their wages. A couple participants mentioned the lack of benefits, and poor working environments when talking about wages, which means that total compensation and organizational culture may be more important than wages themselves.

Literature Review

Background

In recent years there has been a lot of research about living wages for employees. A living wage is defined as a wage that is high enough to maintain a normal standard of living (MIT). There are numerous arguments, both for and against paying living wages. Smaller firms fear that a living wage will drive their costs up and potentially push away consumers. For Nonprofit organizations, paying living wages is even more of a complex issue. Nonprofits, as their names suggest, do not operate to create profit, but rather accomplish a mission. Nonprofits rely on donations, grants, government funding, and for some sales of goods to raise money. Their services are typically passed on free of charge, the point being to provide a much needed service to a community or group of people who need it.

Unlike for profit businesses, nonprofits cannot just pass off the increased costs to the community they are serving when they need to raise additional funds to cover the living wages and other benefits they are seeking to provide to their employees. Nonprofits also face another dilemma, when it comes to paying a living wage, if their aim is to help low-income individuals, how are they accomplishing their mission if their own staff cannot afford to live. So how are nonprofits balancing their budgets in order to pay living wages to staff, while also still working towards their missions? Based on the 2020 Nonprofit employment report, nonprofits are America's third largest workforce, making the issue of living wages and budgeting extremely important. Nonprofit organizations already typically pay less than their for profit counterparts (McCambridge, 2016). How will nonprofits increase wages while still being able to provide adequate funds towards their mission.

Not a whole lot of research is out there on how nonprofits are reworking and managing their budgets to provide a living wage while also working towards their mission. However there is a lot of research on the wage disparities between nonprofits and for-profits and what fuels those, as well as wage issues for nonprofit organizations. Research on both types of this information can help to look at the issue of living wages and nonprofits budgets.

Non-profit vs. For-Profit Pay

The argument has also been made that those who work for nonprofits are paid less than their for profit counterparts. However, this has been refuted, saying that nonprofit and for profit employees are paid the same (Hirsch, et al., 2018). The study found that for profit and nonprofit employees in similar positions are paid the same. However, it also mentions that those who worked for nonprofits in these positions were typically older and were more educated (Hirsch, et al, 2018). While technically the claim that similar job positions in for profits and nonprofits are being paid the same, the fact those in non-profits are older and are more educated seems to indicate they are being paid less. Those who are more educated and older are typically paid more than their younger and less educated counterparts. While this study does come to the conclusion similar job positions are paid equally, the experience of those in these similar positions is not taken into account.

Research on non-profit and for profit hospitals also showed some similar data to Hirsch's study. Non-profit hospitals paid more than for-profit and public hospitals (King and Lewis, 2017). However, this study pointed out that they also had the more experienced and qualified nurses than the others, which may lead to the higher pay, but some comparable nurses were also paid the same amount (King and Lewis, 2017). Interestingly, they also found that pay disparities among gender, race, and relationship status was highest at nonprofit hospitals (King and Lewis, 2017). The wage disparity was an unexpected finding and something to keep in mind as the rest of the research progresses around nonprofits and living wages.

Another study found that nonprofit workers on average made $14,207 less than their for profit counterparts, despite having the same degrees, positions, and hours worked (Fong, 2009). After running regressions on that number in order to account for more variables in pay, it was found that nonprofit workers make $8,895 less than for profit workers in similar positions. This demonstrates the need to increase wages in order to provide nonprofit workers with a living wage, however it provides no mention of non-profit organizations budgets and whether they would be able to pay employees enough to make up their difference without diverting serious funds away from their mission.

In the field of law, there is also a significant difference in pay between nonprofit organization lawyers and lawyers at for profits (Weisbrod, 1983). While this study is very old, the data is not monetarily based, instead it talks about the preferences the lawyers who choose nonprofit work have, placing an emphasis on something other than money. Due to this it felt important to include, because no other work during this literature mentioned anything about preference. While this preference should not be the reason someone does not make a living wage, it does play a role. Since those who do work at nonprofits actively make that choice, which is an argument against increased wages. It also might suggest that some workers would be against a wage increase if this increase would take money out of the nonprofits program budgets and put it towards the organization's payroll instead.

Executive Compensation

The disparity in wages and the issue of living wage for nonprofits is a tricky one. In particular when it comes to issues of management pay levels and service workers. Management level workers were found to be at a pay disadvantage compared to for profit workers (National Compensation Survey, 2016). While service level workers at nonprofits were considered to be at a pay advantage compared to for profit service workers (National Compensation Survey, 2016). This survey is interesting because it concludes that nonprofit service level employees fair better than their for profit counterparts, perhaps showing that some organizations have felt it important to pay a higher wage, and that in order to account for keeping their budgets focused on their mission, that they have decided to pay management level workers less than their for profit peers.

Another study that backed up this finding, the 2016 Charity CEO Compensation study, found of the nonprofits studied an average salary increase of 3% (Charity Navigator, 2016). Interestingly, as a nonprofit annual expenses increased, the percent of the budget spent on the CEO decreased (Charity Navigator, 2016). While a decrease would be expected in percentage, the drop from just under 10% with annual expenses of 1 million, to 2% for a nonprofit with annual expenses of 10 million, shows that nonprofits focus their budget on their mission, and not making those who work for them rich. Nonprofits are still being conservative with their CEO wage increases, so that they can focus funds on their mission. This may make adjusting their budgets to pay all their staff a living wage, while accomplishing their mission difficult.

Real World Examples

In Detroit, there was a minimum wage increase in 1998, that some thought would lead to the closing of nonprofit organizations. However, after contacting 96 nonprofits a year and a half later, there was no loss of jobs found (Reynolds and Vortkamp, 2005). While some of these nonprofits needed help implementing the living wage requirements, they did not have a negative impact on the nonprofits, or lead to job loss(Reynolds and Vortkamp, 2005). This is an important finding because one of the potential issues is job loss and decreased programs due to a budget that has to allocate more for living wages. In Detroit, this turned out not to be an issue, which should be reassuring that it can be done throughout the country without negative impacts. One drawback of this study is that it was almost 25 years ago, which makes it a bit outdated.

For smaller nonprofits these wage increases can force them to close their doors. As was the case in Michigan, where one nonprofit had to close after a minimum wage increase of .75 cents, which in total added up to $10,000 annually (NonProfitTimes, 2015). When Los Angeles County raised the minimum wage $9 to $15 Homeboy applied for an exemption from the raise for transitional employees, because the raise would cripple them with 70 full-time employees and 200 transitional ones (NonProfitTimes, 2015). The issue they cited is that government funding is not totally reliable and that donors who want to see bang for their buck in terms of accomplishing their mission will feel slighted if increased donations did not lead to additional services provided. This source focused on the nonprofits view of things, and included a few exact examples, however it did not give an overall view of the issue, or give anyone from the other side of the issue.

Overall, there is a lot of information on nonprofits and the lack of pay compared to for profits, but there is not a lot out there on how increased wages effect nonprofits in terms of their budgets, and ability to accomplish their missions. The aim is to provide insight on how nonprofits are able to provide a living wage to employees, without sacrificing the work they are doing. Talking to nonprofits directly about how they are adjusting their budgets to provide living wages, while also accomplishing their mission will show some of the challenges of it, while also potentially giving ideas to other organizations of how to do so.

Discussion

Introduction

While the survey unfortunately did not generate as many results as would have been liked, there is still value to it. It is an insight into how organizations spend their money, and how the money they spend is actually impacting their organizations. Nonprofit organizations have a vast range of budgets, which is why percentages were looked at when it came to how much money organizations spent on staffing and program services, so that despite differences in overall budgets, percentages could be looked at. Only eight full responses were received to the survey.

Implications for NPOs

While budgets and the number of employees might play a role in how much organizations spend on staffing and program services. While seven of the eight organizations total percentages spent between staff and program services were between 74% and 90%, one organization only spent 50% of their budget on them. This number sticks out as relatively low, and makes you wonder what other major expense this organization has if only 50% of its budget is spent on their programs and staff. The organization that only spends 50% of its budget, may have another big expense, such as a property expenses. Outside of this exception it seems that non-profit organizations can be expected to spend anywhere between 70% and 90% of their total budget on staffing and program services. Unless there are extenuating circumstances.

Seven out of eight organizations reported paying a living wage. However, three organizations reported decreased staffing, and staff turnover due to low wages. This may mean that non-profit organizations may need to go above just a living wage in order to retain and entice high level staffers. A few of the responses also mentioned that their organizations provided no benefits, so despite paying above a living wage staffers are left to fend for themselves when it comes to health insurance, and retirement. Organizations may be losing staff not due to wages, but the fact they need health insurance for themselves and their families. Organizations may need to find ways to provide benefits in order to keep employees, as wages alone may not be enough to keep employees.

Implications for Research

There has not been a lot of research done on non-profit organizations and their wages. Only receiving eight full responses means that no definite conclusions can be drawn, but it is a start. Research to collect data on non-profit wages and budgets should be continued, more questions should be focused on the benefits non-profits provide, as this seems like it might play a role. Another limitation of the survey is that it only covered Virginia based Non-profit organizations. More data can and should be collected at the National level.

Future Research

More research can be done to gather this information from other non-profits. In the future, research should look into benefits as well. As based on the responses some organizations who pay above the living wage come with no benefits, and the benefits may play more of a role in staff turnover than wages. While most respondents said that for-profits paid more wage wise, it is also more likely that they are providing benefits, such as healthcare and retirement, which make the upside even more than the salary being a bit higher. A study on the benefits that non-profits offer, compared to for-profit organizations would provide insight on non-profit job turnover.

Conclusion

Non-profits seem to typically spend a total between 75% and 90% of their budgets on staffing and program expenses. Between 30% and 50% of the Non-profits who participated budgets are spent on staff expenses. Between 20% and 62% of the programs who participated budgets are spent on program expenses. In conclusion it seems a normal percentage of a non-profits budget to be spent on staffing and program expenses is anywhere between 75% and 90%. With anything outside of this range probably having some sort of extenuating circumstance. All of the non-profits, outside of one organization, who spent 38% of their budget on staff expenses, all the organizations provided living wages for all.

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