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Incentive Compensation For Ministers?

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Do religious organizations use incentive pay? To motivate what behavior?

Designing pay-for-performance plans in for-profit companies is difficult enough. But, as I have noted in these pages previously, it can be even more difficult in not-for-profit organizations because the mission or bottom line may be more difficult to articulate (see the May 2012 Research for the Real World column, "Governance and Executive Compensation in Nonprofits" and the April 2013 column, "Pay in Nonprofits"). But what about religious organizations? Would such plans actually work? Are there potential unintended consequences?

Pay, Performance and Sector

Paying leaders of for-profit organizations is difficult. And this is even the case when there is some agreement regarding the objectives of the organizations (e.g., returns to shareholders in publicly held companies). But as we step away from the most obvious objective of maximizing shareholder return or profit, things can get more complicated.

What is the objective of a major league sports team? Is it to maximize wins, or profit, or both? And if they take their eye off the ball (or puck) of either, do they fail at both? What about a not-for-profit nursing home? Does it, for example, aim to extend residents' lives, provide quality-of-life care, maximize the lifespan of the organization itself, create "profit" to be put to other noble causes in the future, or something else altogether? And once the objective is determined, can compensation plans be structured to pay for performance to this end? If the pay plan is designed to motivate and/or reward a leader of this nursing home to fulfill the objective(s), are there unintended consequences?

In this regard, how can pay of religious leaders be considered, given these organizations may have a mission going beyond maximization of profits. Surely, some will argue that many leaders of religious organizations are called to do the work they do and are likely giving up substantial amounts of money in order to do that work (the same can be said of leaders of all sorts of not-for-profits). But, leaving aside how much religious leaders are paid, it is interesting to think about how they are paid.

A Study of Religious Leaders

Three authors shed considerable light on this by using a rich data set of more than 2,000 Methodist ministers over 43 years. To be sure, the data are from one specific religious group in one region of the United States, but the data are absolutely extraordinary. In "Is a Higher Calling Enough? Incentive Compensation in the Church," *Journal of Labor Economics*, 28(3), 2010, 509-539, authors Jay C. Hartzell, Christopher A. Parsons and David L. Yermack consider pay and productivity with this unique dataset. I will only mention a few of their interesting findings.

The data include information on 727 United Methodist Churches in the Midwest (2,201 unique ministers) for each year from 1961-2003, data on minister salary, congregation membership, attendance, revenue, members added and multiple reasons for members added (e.g., from other Methodist churches, from other Christian churches and new conversions to Christianity).

The authors are fundamentally interested in whether there is pay for performance for ministers in the data. They recognize that this is potentially an unusual place to find evidence of such incentives because folks are likely intrinsically "called" to be ministers, and pay may not be an immediate factor in accepting this kind of recruitment call. They also recognize that having incentive contracts for religious leaders might hamper credibility among the parishioners. They do not seek to see whether there is, for example, language in minister contracts that links pay and performance. Rather, they explore the data in an attempt to find relationships that may be consistent with pay for performance, regardless of whether such incentives are purposely devised.

One finding of this study: Just as in many other forms of executive compensation, there is a strong link between pay and organization size for this group of ministers. Controlling for other factors, the authors found that when a new member joins a church, the minister, on average, would see annual pay go up about $15. And when a member leaves, an average minister's annual pay goes down about $7. Seen another way, the authors document that, controlling for other factors, "a pastor is paid close to 3 percent of the incremental revenue that accrues to the church when a new member joins" (p. 511).

Economists like to calculate "elasticities." An elasticity is the percentage increase in one thing that happens in response to a 1 percent increase in another. Here, the authors calculate and present the "elasticity of pay with respect to organization size." They find that as the size of a church increases by 1 percent, on average the minister's pay would increase about one-fifth of 1 percent, or an elasticity of about 0.2. In other words, doubling the congregation size correlates with a 20 percent increase in the average annual salary. The equivalent number for for-profit CEOs in the United States is between 0.3 and 0.4 (p. 525).

They go on to consider many other issues, such as whether the return for "poaching" members from neighboring congregations of their own faith is lower than for recruiting converts from other faiths (it is) and whether ministers are compensated for risk. With respect to the latter, they find lower pay-for-performance sensitivity in parishes where church revenue is highly volatile, such as some regions of Oklahoma where church revenue fluctuates with oil prices.

Paying Religious Leaders and Leaders of For-Profits

It is striking that the lessons learned from even a specific set of leaders in one specific religious group has lessons that could be applied to the compensation on leaders in all sorts of workplaces. Pay, performance, risk, incentives, organization structure and compensation are linked in a dizzying array within most organizations. I expect I'll be thinking about this the next time I happen to be listening to a Sunday-morning sermon. ws