

Is the Nonprofit Sector Socially Responsible?

By Mal Warwick

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Check out almost any business conference these days, and you're bound to find a session on how companies can do better by their employees, their customers, their suppliers, their communities, and the environment. Although there's a lot of green-washing in the name of corporate social responsibility, the concept of the triple bottom line – people, planet, and profit – has made inroads into thousands of companies both here and abroad. Socially responsible business, though still the exception, is no longer an oxymoron. More and more, it's taking hold in companies around the world.

But what about the nonprofit sector? Nonprofits are exempt from paying taxes on the grounds that they serve the public interest. And their donors get all sorts of tax benefits because they're supporting "philanthropy."

Yet philanthropy – "the love of humankind" – is missing from the practices of many nonprofits. Consider the nonprofit sector's low salaries. While reliable data on nonprofit compensation is notoriously hard to come by, researchers invariably confirm the anecdotal evidence that employees in the social sector are paid significantly less than their counterparts in the private sector. For example, in 2002 the *Chronicle of Philanthropy* cited U.S. Labor Department data showing that "nonprofit groups pay about 15 percent less than for-profit companies." A 2003 study by Cornell University researchers concluded that "[n]early nine percent of the most recently hired workers received promotions in for-profit firms, versus about four percent in nonprofit firms." Adding insult to injury, analyst Harvey Lipman asserted in 2005 that "[t]he median increase in pay for chief executive officers [in the nonprofit sector] rose by 16 percent from 1998 to 2003, after adjusting for inflation, while wages of other workers rose eight percent."

And what happens when local folks come together to campaign for a "living wage," as they have in dozens of cities all across America? Guess who's often on the front lines of the opposition? You've got it – nonprofit organizations. In a 2002 article on this subject, *The Chronicle of Philanthropy* reported that "[i]n 1998, the Salvation Army of Eastern Michigan argued against a living-wage referendum that raised the hourly

wages for employees . . . ‘Conforming to the law would drain cash and require cutting services to homeless people,’ the Salvation Army affiliate said.” And, added the Chronicle, “Phil Andres, a member of the Montgomery County Council, in Maryland, near Washington, and a proponent of living-wage legislation, says a wage bill that included charities lost in the council in 1998 largely because nonprofit groups refused to back it.” ,

The living wage movement sprouted because of the human costs, social costs, and lowered productivity that result from below-subsistence wages. The \$5.15 minimum wage now mandated by federal law—resulting in annual income of \$10,712 a year for a full-time employee—is barely more than half the \$20,000 income cited as the poverty guideline for a family of four by the Department of Health and Human Services. The working poor who receive this meager income not only suffer themselves, but also burden taxpayers, who must pay for the healthcare and social services that their employers neglect.

In many jurisdictions, the living wage is the hourly rate that a full-time worker would need to earn in that area to support a family of four at the poverty line. Other jurisdictions set the living wage at 130% of the poverty level—the maximum income a family can receive and remain eligible for food stamps. Some 70 jurisdictions have enacted living wage requirements for government contractors, and many far-sighted companies have voluntarily increased compensation to match the living wage level.

Although the living wage is an improvement on the minimum wage, it is far from luxurious, ranging from a low of \$6.25 in Milwaukee to a high of \$12 in Santa Cruz, California. Six-and-a-quarter an hour is the equivalent of \$250 per week, or \$13,000 per year with two weeks of paid vacation. Twelve dollars an hour becomes \$480 a week, or \$24,960 per year. Unless you and your family are accustomed to dressing in hairshirts and eating spaghetti and corn flakes, I strongly suspect you would be hard-pressed to survive at even those wage levels—and that’s the *living wage*.

Yet almost all nonprofit organizations that have addressed the issue oppose taking even such a minimal step toward humane levels of compensation for the people who keep our organizations and our economy running.

“The living wage will bankrupt us,” they say, using the same argument the U.S. Chamber of Commerce has raised in opposition to every single attempt to raise the minimum wage since the minimum first went into effect in 1938 at 25 cents an hour.

“Our donors will never allow it,” they say, sounding strangely like those businesspeople who pretend to be arguing on behalf of their shareholders.

“The public expects us to be frugal,” they say, despite the fact that few in the public are aware how very low wages are at so many nonprofits.

“We’re creating jobs, and we’d have to lay people off if you made us pay them more,” they add, mouthing another knee-jerk argument from the playbook of the Chamber of Commerce that has been repeatedly disproved by real-world experience.

Yet nonprofit organizations routinely cite the non-monetary rewards their employees receive from work that is inherently satisfying. Yet the revolving-door turnover in nonprofits belies this argument. Granted, there are no reliable statistics on nonprofit turnover, with estimates typically in the range of 30 to 40 percent annually. My own soundings of 200 nonprofits suggest a similar rate.

Peter Drucker, the management gurus’ late management guru, famously said that nonprofits on the whole are better managed than businesses. If that’s true then the U.S. economy is in sad shape, because what I’ve seen of the management practices at too many of America’s nonprofits would suggest that the business bankruptcy rate is bound to rise alarmingly.

Nonprofit management is resolutely hierarchical, allowing little or no leeway for individual initiative.

With notable exceptions, opportunities for career advancement are almost nonexistent.

Nonprofits fall short of corporate social responsibility standards in other areas, as well.

Boosters of the voluntary sector are inclined to argue that America’s nonprofits are *inherently good* because the missions they serve are philanthropic. Well, maybe. In many cases, for sure. But it’s time America’s nonprofits came to understand that philanthropy begins at home.

To those nonprofit board members and executives who argue against raising wages, I suggest studying the high cost of rapid job turnover, which is manifested in on-the-job stress, low morale, and high recruitment and training costs. I suggest they speak to a sample of their donors about the pathetically low salaries they pay at the entry level—and learn first-hand whether donors would support raising wages. I suggest making a long-term commitment to pay at least the local living wage—and developing a long-range plan to increase base salaries gradually toward that goal.

To the leaders of those organizations that are still managed under a strictly hierarchical, command-and-control model, I suggest reading some of the many excellent books in print about the virtues of service leadership, consultative management, appreciative inquiry, and other contemporary approaches in organizational development that can be found at many of the most successful enterprises on the planet.

To those in the nonprofit sector who assert that every other consideration must be subordinated to an organization's single-minded pursuit of its mission, I suggest taking a leaf from the playbook of the increasing number of socially responsible businesses and learning how a broader view, represented by the triple bottom line, can pay off in higher morale, higher productivity, increased public support, and ultimately in directing more resources toward fulfilling their mission.

In any venture, for-profit or non, the ultimate reality is that what goes around, comes around.

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