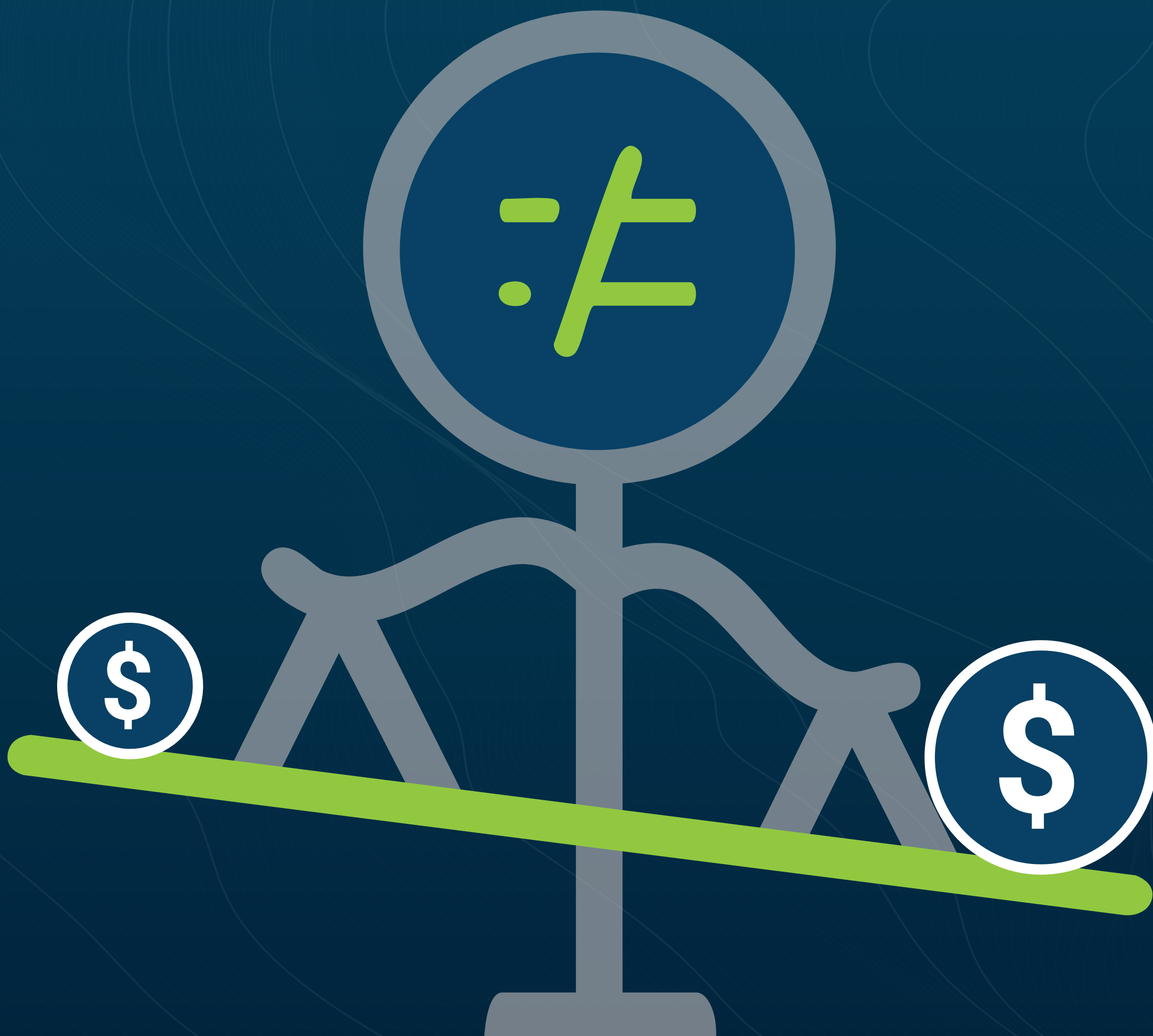
ONTARIO NONPROFIT NETWORK

The cost of undercompensation in the nonprofit sector



About ONN

ONN is an independent nonprofit network for the 58,000 nonprofits and charities in Ontario, focused on policy, advocacy, and services to strengthen the sector as a key pillar of our society and economy. We work to create a public policy environment that allows nonprofits to thrive. We engage our network of diverse nonprofit organizations to work together on issues affecting the sector and channel the voices of our network to governments, funders, and other stakeholders.

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Executive summary

This paper presents options that leadership and staff in nonprofit organizations can use to understand and quantify costs when it comes to determining whether to invest in higher compensation levels when hiring or prioritizing retention. When looking at all the costs involved in hiring and how salary decisions are being made, having an understanding of how an organization is spending money that could otherwise go to increasing compensation - in addition to building supportive systems that help determine what an organization values and will pay for as compensation - will help decision making and planning and retention of staff, whether a new hire or long standing employee.

Compensation in the nonprofit sector

Does the following scenario sound familiar to your organization: you hire a dynamic individual - maybe they are young but have some experience in their field, maybe they are switching careers after going back to school, perhaps they are a newcomer, more than qualified and experienced in their country of origin and bringing their knowledge to the sector - whatever the case, it took a while to hire and you are excited about their skills, enthusiasm, and capacity, and they are excited about you. Except for one thing: salary. And within a year or so, you lose them to another organization - mostly because that other organization can pay more. And now you have to start the hiring process all over again.

63%

of respondents reported recruiting and retention challenges in the past year

What does this all too familiar scenario tell us about compensation in the nonprofit sector? According to ONN's 2024 State of the Sector survey, 63 per cent of respondents reported recruiting and retention challenges in the past year. Of that number, both non competitive compensation packages (56 per cent) and wage disparities between similar jobs across sectors (66 per cent) weresignificant prohibiting factors in recruitment and retention. What can organizations do about this? After all, money is limited: funding comes with conditions and constraints, philanthropic giving can be inconsistent, and reserves only go so far - you simply cannot afford to pay more. Or can you? What does compensation, and as a result, undercompensation, really cost the nonprofit sector? How can we look at the costs of hiring and recruitment differently, especially compared to the cost of offering compensation that not only attracts workers, but also retains them?

Current landscape and trends in nonprofit

Post-COVID-19 pandemic, a number of factors have converged to put pressure on both nonprofit organizations and workers: primarily, a rise in inflation that began accelerating in 2021 and peaked in summer 2022, causing significant price increases in food, housing, and travel, as described by Statistics Canada. COVID benefits for organizations and individuals dried up, including wage subsidies. At the same time, wages and earnings did not match the spike in inflation, leaving organizations and households with a cost of operating/living quandary.

There has also been a slow down in philanthropy, both in individual and corporate giving, and government funding has become stagnant at best. Yet, the demand for nonprofit services, programs, and products across all sectors has increased - according to Statistics Canada close to half of nonprofits reported an increase of some kind in services, but only one quarter reporter increased capacity to deliver. ONN's own 2024 survey data highlighted that 83 per cent of participating organizations experienced increased demand for service. In addition, the survey revealed that 56 per cent of organizations that were experiencing staffing and volunteer challenges had to scale back their programs and services and another 12 per cent had to discontinue programs and services altogether.

More positively, nonprofit salaries and wages (or cash compensation) have increased since 2023, and in fact, over the last eleven years, according to the 2024 *CharityVillage Canadian Nonprofit Sector Salary and Benefits Report*. The CharityVillage report introduction indicates that, accounting for differences in location, geography, sector, focus, and size, salaries have risen the most among support staff[1] as the lowest paid group of workers in nonprofit,

[1] Charity Village defines support staff as employees who provide support to ensure the smooth operation and or service delivery of the organization, who report into a manager or supervisor but usually do not have any direct reports themselves.

and executives as the highest paid group. ONN's 2024 survey reports 76 per cent of participants saw an increase in salaries and benefits as part of an overall increase in expenses. The 2023 and 2024 ONN sector surveys showed that nonprofits raised salaries, benefits, and offered enhanced perquisites, alongside flexible working hours and other retention strategies. Total compensation can be understood as the monetary (for example, base salary or wages, cost of living increases, bonuses), benefits (for example, health and dental benefits, pensions, sick days), perquisites (for example, memberships, show tickets), and social and psychological factors (for example, work-life balance, hybrid work options, workplace culture, wellness) that employees receive in exchange for their labour.

The issue remains that even the modest increases in nonprofit salaries have not (and possibly cannot) keep pace with the current moment of heightened inflation, increased costs of living, economic uncertainty, rising unemployment, and lack of policy alternatives. In addition to advocacy, nonprofits must look at some of the sector's own practices that in reality may be diverting dollars that could go towards increased compensation to the staff who deliver critical programs and services.

The costs of hiring

In order to think about undercompensation, nonprofits have to think about the true cost of compensating each person who works for their organizations. There are two considerations to the costs of compensation: what we might call "**hard**" and "**soft**" costs.

Most of us understand hard costs to include cash compensation in the form of wages or salaries or even bonuses, perquisites such as gym memberships, benefits such as health, dental, employee assistance programs, and mandatory employment related costs (MERCs) such as the Employer Health Tax, Employment Insurance (EI) contributions, vacation pay, and Canada Pension Plan (CPP) contributions.

But hard costs to hiring also include recruiting expenses that range from paying for online job postings to hiring search firms, paying for the time of employees or consultants to sort, vet, interview, and negotiate with potential applicants, the cost of onboarding (the time it takes to train and orient a new employee and the cost of the staff or programs that will be training and or orienting them), and equipment and furniture a person needs to do their job (location of work notwithstanding). Has your organization put a dollar figure to the hard costs of compensation?

Organizations that do not have human resources (HR) or equivalent departments or functions need to weigh the costs of hiring even more carefully when it comes to staff involved in hiring processes who also have their own jobs to do. There is a cost to having to keep hiring and rehiring and training and retraining because we cannot retain employees since wages are too low. Offering a higher starting salary may feel untenable, but the cost - and time and energy - of constant turnover may be higher. Money that is spent on constant hiring due to turnover could go towards salaries, and by extension, retention instead.

What we might call "soft" costs of hiring include:

- The length of time it takes to forecast, post, interview
- The impact on services and programming, including gaps in service, if there are no or not enough staff and the time needed for training and onboarding if the new employees are inexperienced.
- Administrative time and overhead.
- The impact of hiring and employee turnover on existing staff - it takes time for people to learn how to work together and get to know each other in a work context; paying attention to workplace morale as people enter and exit can be an important indicator of staff satisfaction.
- The impact on workplace culture: any person coming into or leaving an organization changes its dynamics.

These “soft” costs are referred to as such because they can be difficult to quantify and measure. Soft costs affect organizations that are mostly or solely reliant on volunteers as well. Keep in mind that so-called soft costs may outweigh hard costs by two thirds. One American pre-pandemic study estimated the cost of turnover was conservatively one-and-a-half to two times the annual salary of an employee. Is your organization tracking employee turnover (how many people have left the organization in a set period of time and for what reason or under what circumstances)? Has your organization calculated what turnover could be costing you - in dollars and morale? Having some metrics to consider when it comes to determining whether to invest in salary dollars can be helpful in decision making.

What are you paying people for?

Knowing if you are paying someone “enough” means knowing what you are paying people for. Many factors go into determining wages and salaries - the size of the organization, the sector, the age of the organization, its purpose, whether or not it is unionized, the number of employees and types of roles and work done, organizational values, economic conditions, growth and expansion, access to funding and fundraising dollars, and more. There can be resistance to assigning dollar values to work - it’s important to remember that assigning a dollar value to work performed is not the same as assigning value to the individual performing it, and that very few nonprofits (volunteer based organizations notwithstanding) pay everyone the same.

Most organizations do have salary ranges based on job groupings that are hierarchical by nature. What many organizations do not have is an understanding of why they are paying people what they are paying them based on those groupings. There are many challenges to considering pay: merit over seniority, front line versus administrative, long serving employees hired at a lower salary versus new hires negotiating in the current market.

Some compensation standards that you can use to establish good practices, including fairness and equity, include:

- Job evaluations - considerations such as purpose of job, work performed, working conditions, use of equipment, level of authority etc.
- Pay systems and or compensable factors - a determination of the factors used to evaluate the relative worth of a position. In Ontario, this includes levels of effort, skill, responsibility, and working conditions, as well as pay equity (equal pay for work of equal value when it comes to “female-class jobs” and “male class jobs”). Within these four levels are considerations such as credentials, consequence of error, number of reports, etc.
- Salary ranges based on job groupings based on compensable factors.
- Salary reviews - including frequency of raises, merit pay, bonuses etc. based on the pay system you develop. This helps assessments to be methodical and fairly distributed. It also allows you to do salary planning at least a year in advance.
- Budget ahead: you don’t need to be an accountant to factor in small increases based on negotiation, cost of living, bonuses, or other kinds of salary increases. Planning salaries (including room for negotiation with current or planned hires) goes a long way towards sustainability.
- Ratios: How many dollars do you have to fundraise to support one position in your organization? Use an average salary to determine fund development based on employment (instead of programs or delivery ratios as is more typical). This is especially useful for organizations with little or no core funding - it lets you know how much money you need to raise to support the size of staff you want to maintain.
- Build in salary increases to funding proposals and grants. Many funders will consider reasonable planned increases, especially if you have a documented pay system or policies.

- Flexible cost of living allowance (COLAs) increases. If your organization uses COLAs, you can be flexible about them - perhaps the lowest paid employees get higher COLA considerations or use a flat dollar amount instead of percentage based on pay.

- Paying new staff more, but not considering existing staff, also creates disparity. In non-unionized environments, loyalty should not be penalized i.e., increasing pay for incoming staff but not taking into consideration wages for existing staff in similar or equivalent roles. Starting with tools and resources such as ONN's decent wages assessment tool can help assess compensation across your entire organization.

Conclusion

Other aspects of compensation, such as pension and benefits, matter. Culture matters, as does equity and inclusion. But if undercompensation is what is driving talented people from your organization, what this report suggests is that nonprofit employers should put systems in place to give you the flexibility to plan for, and pay for, increased salaries. Understanding the full cost of hiring allows for a cost-benefit consideration of offering higher compensation up front versus spending money, time, and effort in a constant churn of hard and soft employment costs which includes not just financial considerations, but values, culture, and morale considerations as well.

Truthfully, we simply don't have enough information about the impact of undercompensation. While the sector may have a sense of market rates for certain positions, we do not have enough information about how compensation impacts worker decisions to stay in the sector, much less on what turnover costs Canadian nonprofit employers. Imagine Canada notes that "the sector lacks critical labour market data on both charities and nonprofits, leading to an inability to conduct labour force planning and understand basic facts related to workforce composition, skills and compensation." Continued advocacy and calls for more focused nonprofit workforce data would be of huge benefit to many aspects of employment: recruitment hiring, engagement, retention, and succession planning.

As leaders of nonprofit organizations you may not have control over things like the changes in economic outlook, what or why funders or donors grant and give to, or the ebbs and flows of inflation. But developing defensible, fair systems of pay with the aim of retaining skilled employees - even under constrained funding - is something every organization can do.

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