THE NONPROFIT WAGE DIFFERENTIAL

A Thesis
submitted to the Faculty of the
Georgetown Public Policy Institute
in partial fulfillment of the requirements for the
degree of
Master of Public Policy

By

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Washington, D.C.
April 8, 2009
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ABSTRACT

Among the images the nonprofit sector evokes is that of significantly lower paid employees. Many have theorized why such a pay gap exists, but few have substantiated this wage differential claim. This thesis sets out to determine if the nonprofit wage differential is perceived or, in fact, real.

Using data from the American Community Survey (ACS) conducted by the United States Census Bureau, a multivariate regression model tests the hypothesis that there exists a nonprofit wage differential, regardless of an individual’s personal attributes. A basic statistical analysis reveals that the mean wage for a for-profit employee is $14,207 greater than that of a nonprofit employee. Yet, knowing many different factors determine an individual’s wage, the question remains whether this difference can be justified or whether individuals are actually penalized for accepting employment in the nonprofit sector. Results of these multivariate regression models reveal that, while holding constant various measures of individual characteristics, nonprofit employees face a nonprofit pay penalty of \textbf{15.65 percent}, or $8,895. This result confirms the general notion that nonprofit employees receive significantly lower wages compared to their for-profit counterparts even though they all have obtained a
Bachelor’s degree or higher, work the same number of hours per week, are the same gender, have the same marital status, and are of the same race. The findings of this analysis and their potentially detrimental effects to the nonprofit workforce, nonprofit sector, and the community-at-large will be further discussed in this thesis.
The research and writing of this thesis is dedicated to those who wish to make the nonprofit sector the best it can be.

Many friends, family, colleagues, and professors played a pivotal role in supporting me through the thesis process as well as through my graduate school career at Georgetown Public Policy Institute. I extend a well-deserved thank you.

A sincere mahalo is also dedicated to my thesis advisor, Christopher Toppe, for both his hour-long drives to Car Barn and supportive handshakes concluding each meeting. He not only motivated me to do this study, but saw me through the process to the end. And for this, I thank him.

With love and aloha,
Cecilia Ann Fong
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Table 1: Descriptive Statistics of Binary Variables (p. 16)

<table>
<thead>
<tr>
<th>Variable</th>
<th>Description</th>
<th>Valid N</th>
<th>Value</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>npo</td>
<td>Whether or not respondent works for a nonprofit organization</td>
<td>44,726</td>
<td>1</td>
<td>8,567</td>
<td>19.15</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>0</td>
<td>36,159</td>
<td>80.85</td>
</tr>
<tr>
<td>male</td>
<td>Whether or not respondent is male</td>
<td>44,726</td>
<td>1</td>
<td>25,172</td>
<td>56.28</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>0</td>
<td>19,554</td>
<td>43.72</td>
</tr>
<tr>
<td>married</td>
<td>Whether or not respondent is married</td>
<td>44,726</td>
<td>1</td>
<td>25,962</td>
<td>58.05</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>0</td>
<td>18,764</td>
<td>41.95</td>
</tr>
<tr>
<td>white</td>
<td>Whether or not respondent is white</td>
<td>44,726</td>
<td>1</td>
<td>34,186</td>
<td>76.43</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>0</td>
<td>10,540</td>
<td>23.57</td>
</tr>
</tbody>
</table>

Table 2: Descriptive Statistics of Wages (p. 16)

<table>
<thead>
<tr>
<th>Variable</th>
<th>Description</th>
<th>Valid N</th>
<th>Mean</th>
<th>Median</th>
<th>Mode</th>
<th>Min</th>
<th>Max</th>
<th>Std. Dev.</th>
</tr>
</thead>
<tbody>
<tr>
<td>wagp</td>
<td>Respondent wages or salary income in the past 12 months.</td>
<td>44,726</td>
<td>64,898</td>
<td>52,000</td>
<td>60,000</td>
<td>80</td>
<td>666,000</td>
<td>55,101.84</td>
</tr>
<tr>
<td>wagp (where npo=1)</td>
<td>Respondent (in nonprofit sector) wages or salary income in the past 12 months.</td>
<td>8,567</td>
<td>53,412</td>
<td>45,000</td>
<td>50,000</td>
<td>80</td>
<td>635,000</td>
<td>41,947.29</td>
</tr>
<tr>
<td>wagp (where npo=0)</td>
<td>Respondent (in for-profit sector) wages or salary income in the past 12 months.</td>
<td>36,159</td>
<td>67,619</td>
<td>55,000</td>
<td>60,000</td>
<td>80</td>
<td>666,000</td>
<td>57,445.10</td>
</tr>
</tbody>
</table>
Table 3: Demographics of Sectors (p. 17)

<table>
<thead>
<tr>
<th>Sector</th>
<th>male</th>
<th>married</th>
<th>white</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nonprofit</td>
<td>38.21%</td>
<td>51.75%</td>
<td>77.58%</td>
</tr>
<tr>
<td>For-profit</td>
<td>60.37%</td>
<td>56.07%</td>
<td>73.30%</td>
</tr>
<tr>
<td>Odds Ratio</td>
<td>0.41*</td>
<td>0.84*</td>
<td>1.26*</td>
</tr>
</tbody>
</table>

* indicates significance at the 99% confidence level (Chi-Square < 0.0001)

Table 4: Model A Predicting Wages for College Graduates by Sector (p. 18)

- Number of observations = 44726
- F Value = 392.75
- Pr > F = < 0.0001

<table>
<thead>
<tr>
<th>Variable</th>
<th>Parameter Estimate</th>
<th>Standard Error</th>
<th>t value</th>
<th>Pr &gt;</th>
<th>t</th>
</tr>
</thead>
<tbody>
<tr>
<td>Intercept</td>
<td>66,259</td>
<td>280.52</td>
<td>236.20</td>
<td>&lt; 0.0001</td>
<td></td>
</tr>
<tr>
<td>nonprofit</td>
<td>-13,015</td>
<td>656.73</td>
<td>-19.82</td>
<td>&lt; 0.0001</td>
<td></td>
</tr>
</tbody>
</table>

Table 5: Model B Predicting Wages for College Graduates by Sector Holding Constant Gender (p. 19)

- Number of observations = 44726
- F Value = 1012.94
- Pr > F = < 0.0001

<table>
<thead>
<tr>
<th>Variable</th>
<th>Parameter Estimate</th>
<th>Standard Error</th>
<th>t value</th>
<th>Pr &gt;</th>
<th>t</th>
</tr>
</thead>
<tbody>
<tr>
<td>Intercept</td>
<td>53,870</td>
<td>413.24</td>
<td>130.36</td>
<td>&lt; 0.0001</td>
<td></td>
</tr>
<tr>
<td>nonprofit</td>
<td>-8,466</td>
<td>655.00</td>
<td>-12.93</td>
<td>&lt; 0.0001</td>
<td></td>
</tr>
<tr>
<td>male</td>
<td>20,522</td>
<td>510.05</td>
<td>40.24</td>
<td>&lt; 0.0001</td>
<td></td>
</tr>
</tbody>
</table>
Table 6: Model C Predicting Wages for College Graduates by Sector Holding Constant Gender and Marital Status (p. 19)
Number of observations = 44726
F Value = 892.63
Pr > F = < 0.0001

| Variable | Parameter Estimate | Standard Error | t value | Pr > |t| |
|----------|-------------------|----------------|---------|------|---|
| Intercept | 48,745 | 458.82 | 106.24 | < 0.0001 |
| nonprofit | -8,684 | 650.54 | -13.35 | < 0.0001 |
| male | 17,025 | 525.53 | 32.40 | < 0.0001 |
| married | 12,904 | 516.66 | 24.98 | < 0.0001 |

Table 7: Model D Predicting Wages for College Graduates by Sector Holding Constant Gender, Marital Status, and Race (p. 20)
Number of observations = 44726
F Value = 688.59
Pr > F = < 0.0001

| Variable | Parameter Estimate | Standard Error | t value | Pr > |t| |
|----------|-------------------|----------------|---------|------|---|
| Intercept | 45,236 | 617.00 | 73.32 | < 0.0001 |
| nonprofit | -8,895 | 650.50 | -13.67 | < 0.0001 |
| male | 16,997 | 525.12 | 32.37 | < 0.0001 |
| married | 12,920 | 516.25 | 25.03 | < 0.0001 |
| white | 4,799 | 564.68 | 8.50 | < 0.0001 |
Table 8: Summary Results for OLS Regression Analysis in Predicting Wages of Individuals

<table>
<thead>
<tr>
<th>Variables</th>
<th>Description</th>
<th>(A) General Model</th>
<th>(B) Model (A) with addition of gender</th>
<th>(C) Model (B) with addition of marital status</th>
<th>(D) Model (C) with addition of ethnicity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Intercept</td>
<td></td>
<td>66,259*</td>
<td>53,870*</td>
<td>48,745*</td>
<td>45,236*</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(280.52)</td>
<td>(413.24)</td>
<td>(458.82)</td>
<td>(617.00)</td>
</tr>
<tr>
<td>nonprofit</td>
<td>Respondent sector of employment</td>
<td>-13,015*</td>
<td>-8,466</td>
<td>-8,684*</td>
<td>-8,895*</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(656.73)</td>
<td>(655.00)</td>
<td>(650.54)</td>
<td>(650.50)</td>
</tr>
<tr>
<td>male</td>
<td>Respondent gender</td>
<td>20,522*</td>
<td>17,025*</td>
<td>16,997*</td>
<td>16,997*</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(510.05)</td>
<td>(525.53)</td>
<td>(525.12)</td>
<td>(525.12)</td>
</tr>
<tr>
<td>married</td>
<td>Respondent marital status</td>
<td>12,904*</td>
<td>12,920*</td>
<td>12,920*</td>
<td>12,920*</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(516.66)</td>
<td>(516.25)</td>
<td>(516.25)</td>
<td>(516.25)</td>
</tr>
<tr>
<td>white</td>
<td>Respondent white (or non-white)</td>
<td></td>
<td></td>
<td>4,799*</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>(564.68)</td>
<td></td>
</tr>
<tr>
<td>Observations Used</td>
<td></td>
<td>44,726</td>
<td>44,726</td>
<td>44,726</td>
<td>44,726</td>
</tr>
<tr>
<td>F Value</td>
<td></td>
<td>392.75**</td>
<td>1,012.94**</td>
<td>892.63**</td>
<td>688.59**</td>
</tr>
</tbody>
</table>

Standard errors in ( )
* indicates significance at the 99% confidence level

Table 9: Results of General Linear Model Procedure (GLM) (p. 21)

| Sector          | Average Wage | Pr > |t| |
|-----------------|--------------|------|---|
| Nonprofit Sector| 53,699       | < 0.0001 |
| For-profit Sector| 62,594      |        |
INTRODUCTION

... the nonprofit sector is the doorway through which millions of Americans pursue a diverse array of cultural, social, political, and religious beliefs through civic opportunities that are the hallmark of a healthy democracy.

~ Cynthia Gibson

The American workforce is divided into three major sectors: the for-profit sector, the public/government sector, and the nonprofit sector – each defined by its distinctive traits and goals. As of 2001, the nonprofit sector employment represented 9.5 percent of the total employment in the United States, with a total of 12.5 million employees. And in the “independent sector” (characterized as 501(c)(3), 501(c)(4), and religious organizations), there were a total number of 11.7 million individuals employed, or 9 percent of the total employment in the United States (Independent Sector 2001).

This diverse and growing sector is often perceived as providing meaningful employment opportunities, but providing low monetary compensation. Graduates entering nonprofit employment have salaries, on average, that are 21.5 percent lower than those entering the private sector and 10.9 percent lower than those entering the public/government sector (Ballard 2005). This proposed disparity raises several questions concerning the weight sector of employment has on determining salaries.

The primary purpose of this paper is to investigate the perceived wage differential between the for-profit and nonprofit sector. Furthermore, it will also examine the implications of wage differentials between for-profit and nonprofit employment. Motivated by basic statistical data and anecdotal rhetoric, this paper
addresses the following questions: Does a wage differential exist between the for-profit sector and the nonprofit sector? If so, how great is it and what factors explain this disparity? What is the earnings opportunity such an individual gives up when accepting a position in a nonprofit organization? Using the annual American Community Survey conducted by the United States Census Bureau in 2007, this thesis will test the hypothesis that a nonprofit wage differential exists even when comparing individuals with similar, personal attributes.

The nonprofit sector is described as resilient, diverse, and robust. Nonprofit organizations are “like arteries of a living organism [which] carry a life force that has long been a centerpiece of American culture --- a faith in the capacity of individual action to improve the quality of human life” (Salamon 2003, p. 3). The services it provides, the people it helps, and the social changes it creates can be credited to one single aspect of the nonprofit sector: its workforce. Individuals are drawn to jobs in the nonprofit sector because they are seen as fulfilling, meaningful, and effective. All citizens should have an equal opportunity to contribute to society, but more importantly, all should have more comparable compensation for their qualifications, regardless of the sector they wish to be employed by. Individuals may not be motivated to join the nonprofit sector based on wages, but they still deserve a salary that allows them to achieve the American Dream they themselves try to make commonplace through their very work.
BACKGROUND

Nonprofits are unique in that they produce public goods through private means. To ensure trustworthiness among the nonprofit model, Federal and State laws prohibit nonprofits from distributing net earnings to members, officers, or trustees. However, beyond their tax-exempt status, nonprofits appear to embody a different set of values which in turn affects its organizational culture. The nature of these organizations shapes their culture and identity thereby attracting a specific part of the labor force. It is this segment of the workforce that is motivated and satisfied by particular rewards (Mirvis and Hackett 1983).

Before delving deeper into the types of compensation and rewards offered to nonprofit employees, it is important to get a better understanding of who makes up the nonprofit workforce. Relative to a 1985 estimate where at least 7.8 million individuals were employed by the nonprofit sector, the third sector labor force was estimated at approximately 12.5 million in 2001 and appears to be the fastest growing sector (Johnston and Rudney 1987; Independent Sector 2001). Past reports describe the nonprofit workforce as being more likely to be both less educated and more educated (Mirvis and Hackett 1983; Johnston and Rudney 1987). They also show that more women and more minorities tend to be employed in the nonprofit sector. Due to the exponential growth in the sector over the last forty years, it is speculated that the sector has generated new career opportunities in managerial positions for both women and
minorities. It is also reported that 58 percent of nonprofit managers are women and 17 percent are racial minorities (LeRoux and Sneed 2006).

**LITERATURE REVIEW**

_Your most precious possession is not your financial assets. Your most precious possession is the people you have working there, and what they carry around in their heads, and their ability to work together._

~ Robert Reich

This section discusses past research examining the wage differential between the private and the nonprofit sectors. Since the nonprofit sector is characterized by service industries that are labor intensive, “productivity depends heavily on competence, skills, and motivation of employees and volunteers” (Rudney and Weitzman 1984, p. 16). The demand for higher skilled labor results in the nonprofit sector’s labor force having attained higher levels of education. It is expected that with a higher educated workforce, the nonprofit sector’s wages would also be higher. Rudney and Weitzman report that the average nonprofit sector wage is less than three-fourths the average for all employees (Rudney and Weitzman 1984). Johnston and Rudney later report that, on average, nonprofit workers earn less than four-fifths as much as for-profit employees (Johnston and Rudney 1987). However, in a more recent study conducted by Ruhm and Borkoski, they find that nonprofit employee wages, on average, are 11 percent less than those of their for-profit counterparts with similar observed attributes (Ruhm and Borkoski 2003). They further explain that although there is an apparent discrepancy
between for-profit and nonprofit wages, the lower nonprofit wages are justified by the fact that nonprofit jobs are concentrated in a small number of industries that offer relatively low pay. Leete also supports the finding that there exists zero or slightly positive economy-wide wage differences between for-profit and nonprofit employees (Leete 2001). Manzo criticizes this claim and says that low wages in the nonprofit sector can be credited to other factors such as gender or racial bias, especially in managerial positions (Manzo 2004). A CompassPoint survey also reveals this gender-bias revealing that where women earn on average $82,314, men on average earn $98,739 (Halpern 2006). This disparity is more pronounced particularly in large organizations (organizations with budgets greater than $5 million). In an attempt to analyze the differences between men and women’s salaries in the nonprofit sector for comparable positions, LeRoux and Sneed find that the general rule of women earning less than their male counterparts for comparable work also applied in the nonprofit sector (LeRoux and Sneed 2006). This is surprising given that females are over represented not only in the entire nonprofit labor force, but specifically in managerial positions. They find this pattern to be true regardless of which occupational category they examine.

Many reports speculate as to why this sector pay differential exists. Like Manzo, some feel that although nonprofits can play a critical role in advancing the aims of representative bureaucracy, gender bias may still influence the determination of an employee’s monetary compensation. Others suggest that the type of services nonprofits
provide are either concentrated in industries that offer relatively low market pay or that they are characterized as namely part-time positions (Ruhm and Borkoski 2004; Mirvis and Hackett 1983). Manzo also references a different type of compensation, “psychic income,” which can be seen as another form of nonprofit benefits (Manzo 2004). Another possible hypothesis is that nonprofit workers donate their labor to their employers by accepting lower wages (also known as the donative-labor hypothesis).

One study reveals that the wage disparities are credited to a gap between men with traditional outlooks versus egalitarian outlooks (Vedantam 2008). It showed that there was a connection between people’s attitudes about gender roles and their salaries. The effects of a wavering budget based on charitable donations and government grants may also affect the ability of a nonprofit to pay nonprofit employees the same as their for-profit counterparts.

Although the list of possible explanations to describe the wage differential between for-profit positions and nonprofit positions is countless, I find one particular hypothesis worth investigating. The types of compensation or reward incentives nonprofit employees respond to may not be just in monetary form. Mirvis and Hackett describe two types of rewards that are associated specifically with either the for-profit sector or the nonprofit sector. The two types of rewards are extrinsic rewards and intrinsic rewards. Extrinsic rewards, they explain, are those linked to material gratification and advancement, whereas those that are endemic to the work itself are deemed intrinsic rewards (Mirvis and Hackett 1983). Those that are employed in the
for-profit sector are more likely to receive extrinsic rewards, such as compensation in the form of wages or a promotion. Employees in the nonprofit sector are, therefore, more likely to gain intrinsic rewards, such as greater flexibility and innovation opportunities, and challenging assignments that meet their educational level. Mirvis and Hackett further suggest that such intrinsic rewards may be just as valuable as monetary compensation, if not more. This would explain why nonprofit workers are willing to accept lower wages, but are also genuinely more satisfied with their work and contributions. LeRoux and Sneed support this view by noting that nonprofit employees associate job satisfaction with the ability to exercise greater discretion, yield greater decision-making power, and exhibit greater creativity. They go on to say that this phenomenon suggests that “intangible opportunities may be just as important as prospects for material gains to employees who elect to work in the nonprofit sector” (LeRoux and Sneed 2006, p. 18).

Case Studies

This next section discusses two studies that investigate the compensating differentials for two occupations, teachers and lawyers. The first study, conducted by Allegretto, Corcoran, and Mishel, uses the Current Population Survey (CPS) of the Bureau of Labor Statistics (BLS), specifically the Outgoing Going Rotation Group (ORG) and looks at the weekly wages of public elementary and secondary school teachers. They compare these weekly wages to six identified professions that are
deemed “comparable” to teaching, based both on their raw skill requirements and market valuation (Allegretto, Corcoran, and Mishel 2008). These occupations are selected based on a previous study, which systematically and empirically identified professions that represent “proper” comparison groups to the teaching profession (Allegretto, Corcoran, and Mishel 2004). Accounting for public school teachers’ educational attainment, categorized age, martial status, region, race, and ethnicity, the study finds that teachers earn 85.7 percent as much (14.3 percent or $154 less) in weekly wages than those in the group of comparable occupations (Allegretto, Corcoran, and Mishel 2008). Not only is there a pay differential, but this disadvantage appears to have grown and continues to grow substantially. The study concludes that while the average college graduate currently experiences real wage stagnation, teachers relative pay appear to be eroding at a greater rate.

The second study looks at wage differentials and self-selection among lawyers by applying choice-based samples to a simultaneous model with continuous and discrete dependent variables (Goddeeris 1988). This study is based on the premise of a previous study conducted by Weisbrod (1983) which draws a comparison between lawyers employed in public-interest law firms and those employed in the private sector. Goddeeris analyzes data collected between August 1973 and May 1974 by researchers at the University of Wisconsin Law School and the Institute for Research on Poverty (the same data set that is used by Weisbrod) and uses an estimation that is not purely random, but rather considered a choice-based sample (Goddeeris 1988). A choice-based
sample in this case is a sample of different sectors, in some proportion, in which individuals are selected randomly from the population within each sector. He uses this model because he believes that public-interest lawyers select jobs in the nonprofit sector based on personal characteristics and nonpecuniary compensation. Therefore, the model must take into consideration the possibility of selection bias. The model used indicates the natural log of 1973 earnings as the dependent variable and uses experience, experience squared, quality of law school, ranking in the law school class (based on categories), regional description of where each individual grew up (urban vs. rural), extent of political activity in college, and political classification (liberal, left liberal, radical, or other). The study’s results show that public-interest lawyers earn far less than their private sector counterparts, with public-interest lawyers earning $17,000 and private lawyers earning $32,700). The study concludes that individuals who choose public-interest law employment are not generally accepting large sacrifices in earnings, but rather their personal characteristics or preference explain which lawyers choose public-interest law.

**CONCEPTUAL FRAMEWORK**

*Hypothesis*

This analysis tests the hypothesis that an individual employed in the nonprofit sector earns less income than an individual employed in the private sector, holding constant certain demographic factors.
**Conceptual Model**

The relevant factors that may affect an individual’s wages include various demographic characteristics. Among these key demographic characteristics are an individual’s race, gender, and educational attainment. In addition, the sector in which an individual is employed by may also affect an individual’s wages. Besides an individual’s demographic variables, the variable marital status may also capture either the effects of the individual being the primary earner or whether or not he or she provides a second income added to the total household income.

**DATA AND METHODS**

![Conceptual Model Diagram]

\[
wages = f(\text{class of worker, gender, marital status, race})
\]
**Data Source**

The United States Census Bureau conducts an annual nationwide survey called the “American Community Survey (ACS),” which is designed to provide communities a look at how they are changing each year. The specific data source this study uses is the “2007 American Community Survey 1-Year Estimates.” The survey captures such information as age, race, income, commute time to work, home value, industry of employment, gender, and other important data. The ACS is valuable since it captures and reports population and housing information every year instead of every ten years. Approximately three million households across every county in the nation (including the District of Columbia) and about 36,000 households in all of the municipalities in Puerto Rico are selected annually to provide specific housing and population characteristics. This information in turn provides a more up-to-date glance of the U.S. population on the local community level.

There is a relatively high quality associated with this data because survey participation is mandatory through Title 13 of the United States Code (U.S.C.); meaning that households are required to respond to the survey by law.

The information captured in the ACS is acquired using three different methodologies: mail, telephone, and personal visits. The mailer is a self-enumeration form which requires the individual to return the completed survey by mail. Households are sent a pre-notice letter, the questionnaire, and a reminder card. If the original questionnaire is not returned in a timely manner, then a replacement questionnaire is
sent. Households may also be contacted via telephone. The ACS uses the Computer Assisted Telephone Interviewing (CATI) process which is conducted approximately six weeks after the ACS questionnaire is mailed. The CATI operation entails Census Bureau telephone interviewing staff contacting the households that have not responded by mail during the six-week allotted time period. The last method of contact is the Computer Assisted Personal Interviewing (CAPI), which follows the CATI operation. If households do not respond to either the mailer or the telephone interview, a sample of these non-interviewed households are selected to receive a visit from Census Bureau field representatives who conduct personal interviews.

**Analysis Plan**

This project analyzes whether or not there exists a wage differential between college graduates who are employed full-time in the nonprofit sector and those who are employed in the private sector. The dependent variable is the wages or salary income for the individual in the past 12 months. The selected independent variables capture a number of characteristics of each individual. The key independent variable is class of worker. Other independent variables include gender, race (white vs. non-white), educational attainment, and marital status. Theory suggests that these variables may influence an individual’s wage. Through a step-wise test, it is determined that education has the greatest impact on determining an individual’s income. Therefore, the dataset is
limited to only those who have obtained a Bachelor’s degree or higher. From this point forward all individuals and respondents refer to those who are college graduates.

Additionally, the complete dataset originally captured all employees employed by the nonprofit and for-profit sector, including full-time and part-time workers. To get a better comparison, the dataset is limited to only those who are considered full-time employees. In the United States the most common full-time work week is between 32-40 hours. To properly categorize individuals as full-time employees, the data is limited to nonprofit employees who work between 30 (Q1) and 40 (Q3) hours per week, and for-profit employees who work between 33 (Q1) and 44 (Q3) hours per week.

Since the dependent variable (wages or salary) is a continuous variable with a normal distribution, this study will use an ordinary least squares regression as the regression model. The proposed specifications are:

- **Model A**: \[ Y(wagp) = \beta_0 + \beta_1(npo) + e \]
  
  Specification A is a simple linear regression model that compares the average salary for a for-profit employee with the salary of an individual employed by a nonprofit.

- **Model B**: \[ Y(wagp) = \beta_0 + \beta_1(npo) + \beta_2(male) + e \]
  
  Specification B is a multiple linear regression model that adds the variable which controls for a respondent’s gender. This tests if a statistically significant nonprofit wage differential still exists once an individual’s gender is controlled for, holding all other factors constant.
Model C: \[ Y(wagp) = \beta_0 + \beta_1(npo) + \beta_2(male) + \beta_3(married) + \epsilon \]

Specification C is a multiple linear regression model that adds the variable which controls for a respondent’s marital status. This tests if a statistically significant nonprofit wage differential still exists once an individual’s gender and marital status are controlled for, holding all other factor’s constant.

Model D: \[ Y(wagp) = \beta_0 + \beta_1(npo) + \beta_2(male) + \beta_3(married) + \beta_4(white) + \epsilon \]

Specification D is a multiple linear regression model that adds the variable which controls for a respondent’s race (signified as white or non-white). This tests if a statistically significant nonprofit wage differential still exists once an individual’s gender, marital status, and race are controlled for, holding all other factors constant.

VARIABLES

Dependent Variable

- Wages or Salary \((wagp)\): The dependent variable measures an individual’s wages or salary income in the past 12 months. This variable is measured in dollars and is rounded and top-coded. If \(wagp = bbbbb\), then the individual is less than 15 years of age. If \(wagp = 00000\), then the individual received no wages. All other wages range from $1 to $999,999 (000,001-999,999).

Independent Variables

- Class of Worker \((npo)\): My main variable of interest is an indication as to whether or not this individual works in the nonprofit sector or the for-profit
sector. As a binary variable, if this variable equals 1, then the individual is an employee of a private not-for-profit, tax-exempt, or charitable nonprofit. If this variable equals 0, then the individual is an employee of a private for-profit company or business, or of an individual, for wages, salary, or compensation.

- **Gender (male):** This binary variable describes the sex of the individual. If this variable equals 1, then the individual is male. If this variable equals 0, then the individual is female. Theory predicts a positive relationship between being male and a positive increase in wages.

- **Marital Status (married):** This variable describes an individual’s marital status. If this variable equals 1, then the individual is married. If this variable equals 0, then the individual is single (widowed, divorced, separated, or never been married). Theory does not predict whether or not marital status has an effect on an individual’s wages, but intuition indicates that an individual’s motivation may differ if the individual has a spouse.

- **Race (white):** This binary variable describes the race of the individual. If this variable equals 1, then the individual is white. If this variable equals 0, then the individual is non-white. Theory predicts a positive relationship between being white and a positive increase in wages.
DESCRIPTIVE STATISTICS

All of the tables provided are based on weighted data. Additionally, the dataset is limited and recoded in several ways. First, since the American Community Survey (ACS) allows individuals other than the reference person to complete the survey, the dataset is limited to only those who complete the survey in-person. Second, as mentioned in the analysis plan, the dataset is also limited to those who have obtained a Bachelor’s degree or higher. Finally, the data is also limited to only compare individuals who are considered full-time employees.

Since every variable is re-coded to be binary variables, the frequencies of each reveal a great deal about the sample population. For example, in Table 1, the majority of respondents are employed by a private for-profit company or business (80.85 percent), with only 19.15 percent employed by a private not-for-profit, tax-exempt, or charitable nonprofit. Contrary to theory, the sample reveals an unequal number of male and female respondents. The descriptive statistics reveal that 56.28 percent of the respondents are male and 43.72 percent are female. It is also shows that 58.05 percent of respondents are married, while 41.95 percent are single (meaning either widowed, divorced, separated, or never been married). The majority of respondents also identify themselves as white (76.43 percent). The other 23.57 percent consider themselves non-white.

Referring to Table 2, which presents descriptive statistics on wages for the entire dataset and then of those employed by the for-profit and nonprofit sectors, the mean
income respondents earn in a 12 month period is $64,898. For respondents employed by the nonprofit sector, the average income earned in a year is $53,412, and for respondents employed by the for-profit sector, the average income earned in a year is $67,619. Here, the nonprofit employee earns lower than the average income earned and the for-profit employee earns above the average income earned.

Table 3 provides more information about each individual sector. The nonprofit workforce is 38.21 percent male, inferring that the nonprofit workforce is predominately female, whereas the for-profit workforce is predominately male (60.37 percent). For both sectors, it appears that most respondents are married and white. A little more than half of the nonprofit workforce is married (51.75 percent). Similarly, the 56.07 percent of the for-profit workforce is married. Both sectors are predominately white with 77.58 percent of the nonprofit sector identifying themselves as white compared to 73.30 percent of the for-profit sector.

A further analysis provides insight on the average, college-graduated, nonprofit employee. According to the odds ratio, the average nonprofit worker has a greater likelihood of being female, married, and white. These details are aligned with the intuition that the nonprofit workforce is primarily female. Combining this information with average wages may also further explain the wage differential between the average incomes of for-profit and nonprofit employees. Since the average nonprofit employee has a higher probability of being female and married, she may receive lower wages because being married may indicate her contribution to the household income as a
secondary income. The outlook on marriage may also be among people’s attitudes that affect how much money they make, and in turn may provide flexibility in the amount of wages an individual accepts and the sector in which an individual accepts employment.

**RESULTS**

As mentioned earlier, the dataset has been limited and recoded in several ways. It only reflects those respondents who complete the American Community Survey in-person rather than through a proxy. Also, this data only reflects individuals who have obtained a college degree or higher. Lastly, the data is also limited to only those whose employment status best reflects a full-time schedule. Therefore, regression Models A through D reflect the wages earned by respondents who work full-time and have, at the minimum, completed college. Tables 4 through 7 display the regression results of the individual models and Table 8 compares the coefficients and standard errors of the four regressions which capture demographics of respondents.

- **Model A:**  
  \[ y(wage) = \beta_0 + \beta_1(nonpo) + e \]

Model A is a simple model used to show the total effect of an individual’s sector of employment on his or her wages earned. This model speaks specifically to the research questions for consideration, which are “Does a wage differential exist between the for-profit sector and the nonprofit sector?” and “What is the earnings opportunity such an individual gives up when accepting a position in a nonprofit organization?” With a t-value = -19.82 (p < 0.0001), the coefficient on the variable indicating which
sector the individual is employed by (npo) is highly statistically significant. Table 4 shows that on average, a college-educated, full-time, nonprofit employee gives up an earnings opportunity worth $13,015 when accepting a position at a nonprofit organization, and, therefore, a wage differential does exist between the for-profit and nonprofit sector. The constant is $66,259, which is the average for-profit employee income.

- **Model B**: $Y_{(wage)} = \beta_0 + \beta_1(npo) + \beta_2(male) + e$

Model B is a multivariate linear regression model that adds the additional variable *male*, which captures the respondent’s gender. Intuition says that gender may contribute to the determination of an individual’s salary and, therefore, this variable is included in the model. This model tests if a statistically significant nonprofit wage differential still exists once an individual’s gender is controlled for, holding all other factors constant. With a t-value of -12.93 ($p < 0.0001$), the coefficient on the variable indicating the respondent’s gender (*male*) is highly statistically significant. Accounting for this characteristic, Table 5 shows that the average, college-educated, full-time, nonprofit employee gives up an earnings opportunity worth $8,466. Being male affects an individual’s income amount and decreases the nonprofit wage differential. However, the sector in which the respondent is employed by still statistically significantly influences the respondent’s wage.
○ **Model C:**  \[ Y(\text{wagp} ) = \beta_0 + \beta_1(\text{npo} ) + \beta_2(\text{male} ) + \beta_3(\text{married} ) + e \]

Model C is a multivariate linear regression model that adds the additional variable *married*, which captures a respondent’s marital status. Intuition suggests that one’s marital status may contribute to the determination of an individual’s salary. Therefore, the variable is included in the model. This model tests if a statistically significant nonprofit wage differential still exists once an individual’s gender and marital status are controlled for, holding all other factors constant. With a t-value of -13.35 (p < 0.0001), the coefficient on the variable indicating the respondent’s marital status (*married*) is highly statistically significant. Accounting for this characteristic, Table 7 shows that the average, college-educated, full-time, nonprofit employee still gives up an earnings opportunity, which is worth $8,684. Therefore, being married also statistically significantly affects an individual’s income amount. However, the sector in which the respondent is employed by still continues to statistically significantly influence the respondent’s wage.

○ **Model D:**  \[ Y(\text{wagp} ) = \beta_0 + \beta_1(\text{npo} ) + \beta_2(\text{male} ) + \beta_3(\text{married} ) + \beta_4(\text{white} ) + e \]

Model D is a multivariate linear regression model that adds the additional variable *white*, which captures a respondent’s race. Intuition also says that race may contribute to the determination of an individual’s salary, and, therefore, this variable is included in the model. This model tests if a statistically significant nonprofit wage differential still exists once an individual’s gender, marital status, and race are controlled for, holding all other factors constant. With a t-value of -13.67 (p < 0.0001), the
coefficient (white) is highly statistically significant. Therefore, being white also statistically significantly affects an individual’s income amount. However, the sector in which the respondent is employed by still continues to statistically significantly influence the respondent’s wage. According to Table 7, even after accounting for an individual’s race (white or non-white), the average, college-educated, full-time, nonprofit employee face a “nonprofit pay penalty” of $8,895.

- **General Linear Model Results**

  Realizing that the for-profit and nonprofit workforces have different demographics, the analysis includes a general linear model (GLM), which projects the average mean for each sector controlling for gender, marital status, race, educational attainment, and work status. According to Table 9, once all the variables in the model are accounted for, on average, a college-educated, full-time, nonprofit employee earns $53,699, while a for-profit employee with similar attributes earns $62,594. The difference between the average income of for-profit and nonprofit employee is $8,895. This difference is statistically significant at the 99 percent confidence level (p-value < 0.0001). Therefore, on average, the results from this regression analysis reveal the “nonprofit pay penalty,” the penalty for accepting employment in the nonprofit sector, to be 15.65 percent.
LIMITATIONS OF THE DATA

The primary limitation of the dataset is that specific subsectors within the nonprofit sector are not identified within the variable *npo*. The dataset only allows respondents to select what type of organization they work in from a variety of sector-specific choices, one being “a private not-for-profit, tax-exempt, or charitable nonprofit,” another being “a private for-profit company or business, or of an individual, for wages, salary, or commissions” (American Community Survey, 2007). This does not further delineate if the nonprofit organization is, for example, a health, education, human services, or arts, culture, and humanities organization. Knowing the breadth of subsectors and diversity of organizations which make up the nonprofit sector, not being able to distinguish between and separate out the different type of nonprofits can skew the data, specifically the average wages of the typical nonprofit employee. For example, large hospitals and well-endowed universities typically award more competitive wages than small community-based or grassroots organizations. Not controlling for the subsector of a nonprofit may present a higher average nonprofit wage affecting the wage differential between a for-profit and nonprofit employee.
POLICY IMPLICATIONS

Meaningful change is labor-intensive and takes time, often a lifetime. The organizations doing such work must think differently about themselves and how they will sustain themselves. Piety and good intentions can take you only so far. Where they leave off, money comes in.

~ Bill Shore
The Cathedral Within

The findings of this report show that nonprofit employees have lower wages than for-profit employees even though these individuals have the same personal attributes, including race, education, and marital status. The existence of a nonprofit pay penalty limits the use of salary as a recruitment and retention tool. This has critical policy implications affecting the nonprofit sector, both externally and internally, and the nation. Externally, this wage differential disadvantages the entire nonprofit sector in the national competition for talent. A nonprofit pay penalty hinders the nonprofit sector from reaching its maximum competitiveness in the job market. Internally, given that nonprofit organizations in specific subsectors, such as health and education, have the financial capability to offer a greater range in wages, there also exists a war for talent within the sector itself. For example, since large hospitals and well-endowed universities tend to offer higher salaries than community-based, grassroots organizations, and sometimes even certain for-profit companies, the health and education subsector may find it less challenging to recruit and retain qualified individuals.

On the national level, the nonprofit pay penalty can have potentially detrimental effects on the American community. September 11th proved that “the capacity [of the
nonprofit sector] extended well beyond the conventional and visible institutions of government” (Salamon 2003). As every American observes or personally feels the effects of the current economic downturn, the nonprofit sector and its workforce will once again be called upon to do what the government cannot. The nonprofit sector’s inability to support and sustain their workforce may lead their workers to be part of the population in need.

From a human resource management perspective, salary is important to creating a healthy workforce. The Herzberg Two-Factor Theory reveals that people are influenced by two factors: hygiene factors and motivation factors (Herzberg 1968). The Herzberg Theory is born out of Frederick Herzberg’s realization that job satisfaction and job dissatisfaction act independently of each other. Salary is considered a typical hygiene factor, meaning salary is a factor needed to ensure an employee does not become dissatisfied with his or her work. Other hygiene factors include working conditions, interpersonal relations, and quality of supervision. Motivation factors, on the other hand, are defined as factors needed in order to motivate an employee into higher performance. Such motivation factors include achievement, recognition, and advancement. Additional workforce research indicates that salary can also be used as a motivation factor. Taken together, nonprofits face the challenge preventing dissatisfaction among the nonprofit workforce and have less effective tools to motivate their workers.
Recruitment and retention are multifaceted and evolving challenges. Besides wages, there are many factors that determine a specific individual’s choice in applying for and accepting a nonprofit position as well as remaining within a nonprofit organization. The nonprofit sector may not lack in interested potential employees. However, as individual financial burdens grow during this economic downturn, coupled with rising costs, such as tuition, and salary freezes, the nonprofit sector should be greatly concerned that debt can have a negative effect on the nonprofit sector. Escalating debt burden may deter graduates from accepting their first career choice, many of which are within the nonprofit sector, in lieu of a more financially stable and practical option. According to a study measuring the impact of educational debt in 2000, 74.5 percent of graduates who accept employment in the nonprofit workforce graduate with educational debt of $19,577 (Ballard 2005). This average represents a 64 percent increase in educational debt from 1993. It is noted that this percentage is higher than those associated with the private sector or government. As expected, low wages will have an adverse effect on those with large debt burden. With the average student loan burden among households under 35 years of age being $15,700 in 2001 (USA Today 2001), a nonprofit pay penalty of 15.65 percent will have detrimental effects to the nonprofit workforce. The challenge then may be less about recruiting the nonprofit workforce, but rather retaining it.

According to another study reporting on nonprofit retention and vacancy, the average rate of turnover for nonprofits is 21 percent (OpportunityKnocks.org 2008). No
matter the cause for departure, turnover is expensive for any organization. For a nonprofit organization, re-recruitment and re-training means less attention and resources dedicated to direct services. Therefore, maintaining employee satisfaction and preventing departure will need to be addressed strategically. Since nonprofits tend to have little to no monetary-based motivators, the sector will need to expand retention and motivational tools that are effective and innovative. This will add yet another challenge nonprofit leaders must address.

Studies and scholars present contradicting trends; one where the nonprofit sector faces an impending employment crisis, another in which the nonprofit workforce is robust and attractive to eager potential employees (Light 2002; OpportunityKnocks.org 2008). However, an emerging theory suggests that “the workforce is strong, but [nonprofit] organizations are often weak” (Light 2002, p. 6). The results of this analysis support this theory.

The growing concern is not whether or not the current workforce will, once again, “tough it out” as people are laid off, organizations institute pay and hiring freezes, and donations dwindle. Rather scholars, such as Light, suggest that the concern is with whether or not this current nonprofit workforce will remain in the nonprofit sector, let alone their organizations given another economic downturn (Light 2002). This, of course, is in addition to the increasing job-related stress, growing burnout levels, and the persistent lack of resources, such as compensation, that are synonymous with nonprofit employment. As the effects of the 2008-2009 economy begin to physically and
emotionally show, the nonprofit sector will once again be tested if it has the capacity to rise above and beyond the call of duty; for if it cannot, the effects will be felt far beyond the nonprofit sector.

**CONCLUSION**

Nonprofit organizations boast about providing more than monetary compensation, but as the war for talent grows fiercer, the nonprofit sector will need to find other methods and tools to recruit and retain the next generation of nonprofit workers and, more importantly, nonprofit leaders. As with any workforce it is important to identify the elements which maintain employee satisfaction and employee motivation. Furthermore, it is important to distinguish between these two types of factors. However while the non-monetary benefits add fulfillment and value to those who seek nonprofit careers, there still exists an unmet need only monetary compensation can fill in order to simply live.

Salary is germane to any employment opportunity because it instills stability, sufficiency, and safety in the employee. Moreover, according to President Obama, salary and monetary rewards must be proportional, balanced, and tied to the health and success of the company (Javers 2009). Fair salaries and the health of the nonprofit sector must be seen as having an interdependent relationship. Given this, combating a nonprofit pay gap percentage of 15.65 percent will be no easy feat.
The strength of the nonprofit sector lies in its diverse, unique, and dedicated workforce. Time and again, it is called to work harder, do more with less, and make sacrifices on a professional, personal, and institutional level. Now more than ever, the nonprofit sector will be asked to provide greater, more diverse, and more robust services as the government continues to lose its capacity to serve the community, and the economic downturn increases the population of individuals in need.

It is unclear if the current social safety net has the ability to effectively catch those most in need. Yet, it is clear that the most serious social problems will have to be addressed by the nonprofit sector since the very governmental institutions that may have attributed to the current economic hardships do not have the capacity or resources to address these problems. The year 2009 promises an era of change, but this change hinges on effective reform. For employers, this means pay reform. For the nonprofit sector, salaries are an investment in a healthy and robust workforce. And without the best workforce, the nonprofit sector will be unable to do what it does best.
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