# Incentives in Not-for-Profits:
# *A Review of Basic Principles*

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# What are Incentives?

Any type of additional compensation that is expressly intended to recognize and promote performance.

Forms of incentives can include:

- Cash (one-time bonus or formal incentive)
- Perquisites (additional leave, professional development opportunities, etc.)
- Low-cost or no-cost recognition (lunches, movie passes, employee of the quarter, certificates of appreciation, etc.)

# Why Use Incentives?

There are a number of reasons organization implement incentive plans:

- Reinforce organization values
- Support business strategies and initiatives
- Stimulate productivity and quality improvement
- Enhance recruitment and retention

Incentives can provide a real link between organizational objectives and individual performance.

# Potential Issues Concerning Not-for-Profit Incentives

- Private Inurement: "Expropriation" of organizational resources for the benefit of private individuals
- Public Scrutiny: Wide availability of data allows review by donors, clients, media and "watchdog" groups
- Legislative and Regulatory Environment: Federal and state legislation focusing on not-for-profit compensation, and "fall-out" from Sarbanes-Oxley

A well-designed incentive plan should anticipate all of these issues to ensure it provides appropriate, reasonable and well-defined rewards in exchange for a demonstrable benefit to the organization.

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# Market Factors Influencing the Use of Incentives

- Increasing competition for funding and staff recruitment
- Need to demonstrate program results and operational effectiveness
- Greater demand for accountability from constituents, boards and the general public
- More candidates with for-profit experience are applying for not-for-profit jobs
- Stronger linkage of compensation planning to management strategies, with greater emphasis on pay-for-performance
- Incentives help maintain fixed payroll costs and related fringe expenses

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# Taking the First Steps

- Define objectives:
  - What behaviors do you wish to promote?
  - What objectives are to be achieved? How are they measured?
  - What is pay-off to organization?
- Identify stakeholders:
  - Who can make a difference through modifications in behavior or contributions to critical results?
  - What do they contribute, and how will you measure?
  - Is there a consistent “line of sight” for all staff, or does it vary within the organization?
  - Are volunteer leaders, constituents and funders engaged in support of an incentive plan?
- Determine if support systems are in place:
  - Planning and monitoring?
  - Program or process evaluation?
  - Individual performance appraisals?

# Plan Types to Consider

- Formal “Incentive” Plan:
  - Establishes clear performance objectives and target payouts at the beginning of the performance period
- Discretionary “Bonus” Plan:
  - General guidelines are established for performance expectations
  - Payouts are determined by management, if funds are available, based on overall results
- “Spot Award” Plan:
  - Periodic lump sum payments are made to recognize special accomplishments or exemplary behavior
- Combination Plans:
  - Use of several plan types for different types of contributors to encourage broad staff involvement in priority areas.

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# Design Considerations:  Formal Incentive Plan

- Are strategic goals and key values established and articulated?
- Who are key staff stakeholders who have the opportunity to contribute to successful achievement?
- Will rewards replace merit increases, or complement them?
- Should the organization achieve certain minimum targets (organization “triggers” before any rewards are paid?
- Will the plan incorporate individual and team goals?
- How will awards be funded?

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# Design Strategies

- Understand Your Market: know who your competitors are within the labor market and how they compensate.
- Anticipate Concerns: consider how funders, partners, donors, clients and other interested parties view your organization and the potential use of incentives.
- Define Compensation Philosophy: with management team, determine rationale for incentive plan(s) in keeping with mission, business directions and values.
- Engage Board: identify “champions” who understand plan concepts and help build support among volunteer leaders.
- Determine Staff Input: depending on plan type, it is likely to be better understood and more widely accepted if you solicit staff opinions on the types of rewards that are meaningful to them.

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# Questions?

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