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Examining Incentive Systems for Fundraisers:
History, Theory and Application

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Examining Incentive Systems for Fundraisers: History, Theory and Application

Esther Morchy Cohen

Submitted in partial fulfillment of the requirements for the degree of Master of Arts in Jewish Communal Service.

Hebrew Union College- Jewish Institute of Religion

Completed May 14, 2004

DEDICATION

For my parents, Lynne and Emanuel Morchy.
Their unselfish commitment to others in need
inspires me; their energy, humor and love guide me.
(*Ha tapuach lo nofel rahok me ha etz!*)

For my husband and best friend, Jack Cohen.
For his patience, unwavering support
and unconditional love.

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Introduction

General awareness of the nonprofit sector and of its role in society has dramatically increased in recent years. Over the last few decades, the government has sought to partner with the nonprofit sector in the delivery of health and human services, recognizing their contributions at the local, state and national level. The last three United States presidents established well-publicized national task forces to stimulate volunteerism and philanthropy.[1] A growing number of colleges offer courses and degrees related to the nonprofit sector; a recent study underway by Seton Hall University has identified over seventy nonprofit-management-specific higher education programs.[2] In fact, paid employees in the nonprofit sector now constitute 10.6 percent of the total workforce in the United States.[3] Employment in the nonprofit sector has grown at a faster rate than in the business sector over the past seventeen years.[4]

As the nonprofit sector continues to grow, the competition increases for the charitable dollar. Organizations must work harder with fewer resources to accomplish their missions. Many nonprofit organizations have already looked to successful business practices to increase their productivity and efficiency, including strategic planning, professional training and development and adopting "business models" of management and leadership. More recently, focus has been given to developing innovative and creative compensation packages that include monetary rewards such as incentives and

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[1] Barbeito, C.L. and Bowman, J.P., Nonprofit Compensation and Benefits Practices, 1998, John Wiley & Sons, Inc., p.10.
[2] Barbeito, p.22.
[3] Barbeito, p. 11.
[4] Barbeito, p. 10.

bonuses. "If nonprofits are to position themselves to recruit, motivate, and retain quality personnel, they need to take into account cross-sector compensation trends."[5]

Incentive systems[6] are often used in the for-profit sector to attract quality employees and to increase motivation levels and productivity. Different systems are more effective, depending on the tasks to be completed, the motivation of the individual, and the resources of the organization. The best-known example is commission-based pay, widely used in the field of sales, which provides a base salary and additional income tied directly to productivity.

Fundraising is often compared to sales in terms of the skills required of the fundraiser to cultivate, maintain and nurture relationships with donors, and the success and sustainability of the organization based on the 'productivity' of its staff. It has been debated whether incentives that work well to increase motivation and productivity with sales associates will also prove successful for fundraisers and their organizations.

The increasing need for nonprofits to compete with the for-profit sector, as well as other fundraising organizations, for quality employees as well as the real need to continue to raise more money have led non-profit organizations, including the Jewish Federation of Greater Los Angeles, to examine the use of incentive systems. This paper will examine key issues in creating and implementing incentive systems in an effort to understand the benefits and concerns for fundraisers. These issues include the role of motivation, the perception and appropriateness of rewards, and the importance of

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[5] Barbeito, p. 13.

[6] 'Incentive system' is used (throughout this paper) to indicate a formalized system of rewards based on a number of predetermined performance factors and goals, which ought to be directly tied to the evaluation process. Incentives differ from bonus systems which are more subjective and may not necessarily be formalized either in the amounts, or the frequency with which they are awarded.

meaningful evaluation. The information is organized and presented in the following way. First, motivation theories and studies are explored in terms of their relevance and applicability to the workplace. The descriptions and findings of several studies on incentive systems are investigated and based upon that information, best conditions and recommendations are offered. Key informant interviews were conducted and fundraisers were questioned about motivation, performance goals and evaluations, and attitudes regarding incentive systems. These interviews are examined for themes, similarities and reactions. Brief descriptions of current incentive models in use in the non-profit sector, are included. Finally, concluding thoughts and recommendations are offered regarding implementing incentive systems for fundraisers and specifically for the Jewish Federation of Greater Los Angeles.

Background

The Jewish Federation of Greater Los Angeles

The Jewish Federation of Greater Los Angeles, a unionized non-profit umbrella organization supporting 18 local and international agencies that offer the entire community a broad range of humanitarian programs, including career counseling services, mental health care, safe houses for victims of abuse, residential treatment centers, legal services, as well as Jewish and educational programming for children, teens and families. There has always been an emphasis on operating efficiently. However, it is becoming increasingly important, as the competition increases for the charitable (and government) dollar, to look to innovative and creative ways to maximize the money raised.

As a result of negotiations with the American Federation of State, County and Municipal Employees (AFSCME) Local 800, the Jewish Federation Council has negotiated the right to create and implement incentive compensation programs for Campaign staff, from Junior Fundraisers to Major Gifts Officers. This provision, included as Appendix A, was added to the Collective Bargaining Agreement for April 1, 2003 through June 30, 2004. According to Article 37 of the Agreement, this clause will automatically renew, as will all others, unless either party gives at least sixty days written notice prior to the expiration date to modify the Agreement.

The Blue Ribbon Committee

The Blue Ribbon Committee (BRC) was assembled by the Board of Directors in 2003 in order to strategically address budgetary concerns. The BRC was to make recommendations to guide senior staff in the development of strategies to institute change.

The perception of this committee is that it focuses on maximizing the organization's ability to provide services and to raise funds by strategically evaluating fundraising and planning goals to more effectively and efficiently utilize the organization's human and financial resources.

Craig Prizant, the Vice President of Campaign believes an incentive system aligns with this mandated emphasis on "working smarter" to increase and grow the campaign. Working smarter essentially refers to focusing on the annual campaign numbers, which includes analyzing the number of donors at each gift level, and maximizing efforts to increase the number of gifts above particular dollar amounts. "It's no different in our Federation than in any other business I've ever been in. A small core group is your lion's share of major customers. You could say 10 percent account for 80 percent of the revenue coming in. It's a reality in almost any business you're dealing with that goes forward. And so your ability to even ratchet that up a little bit and be more successful in that, whether it's through some kind of incentive system or whatever else you're doing, is ultimately what the mission of the Blue Ribbon is. Because your ability to help more people in the community is dictated by how much money you raise."[7]

The Field of Fundraising

Fundraising efforts in the past were largely communal and fairly straightforward. During the past 40 years, the field of fundraising has moved closer to establishing itself as a profession, with an ever expanding body of knowledge, a code of ethics, research, and standards of performance. Prior to that, fundraising was considered **"a necessary**

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[7] Interview with Craig Prizant.

but peripheral component of every successful organization. It was often assigned to staff as a secondary responsibility."[8]

The Association of Fundraising Professionals (AFP), the international professional organization for nonprofit development professionals, works to advance philanthropy through advocacy, research, education, and certification programs and has been instrumental, if not greatly responsible for, the professionalization of this field. The AFP claimed approximately 2500 individual members in 37 chapters in 1980. By 2001, their membership had grown tenfold, with more than 25,000 members in 163 chapters.[9] Currently, the AFP represents 26,000 members in 174 chapters throughout the United States, Canada, Mexico, and China.[10]

Henry Rosso's Achieving Excellence in Fundraising (1991), often used in fundraising and resource development courses, offers a wonderfully inclusive philosophy of fundraising. "Fundraising is never an end in itself, it is purposive. It draws its meaning and essence from the ends that are served: caring, helping, healing, nurturing, guiding, uplifting, teaching, creating, preventing, advancing a cause, preserving values, and so forth."

Fundraising includes more than articulating the mission and vision of an organization. Interpersonal skills as well as excellent written and verbal skills are required. In addition, the work encompasses different roles: Fundraisers are teachers, educating donors about the goods and services provided by the organization, as well as what their gift accomplishes. Fundraisers are trusted advisors, often times privy to

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[8] Paulette V. Maehara, "Let ethics be your fundraising guide", Association Management, Washington, v.54, p. 30-38, ISSN: 00045578, Jul 2002
[9] Ibid.
[10] AFP website, http://www.afpnet.org/about_afp/what_is_afp

sensitive financial or personal information. Fundraisers are representatives of the organization to the public. Fundraisers are advocates for, and agents of change. Above all, adherence to ethical practices and the trust engendered are successful fundraisers' most valuable assets.

In 2002, The Association of Fundraising Professionals held a conference to discuss different topics of interest to fundraising professionals, specifically in diverse cultural and giving environments. AFP Research Council Member, Robert Fogel, Ph.D., acknowledges the importance of cultivating relationships. He stated, "Part of being a successful fundraising professional is getting to know these experiences in people's lives. This involves knowing donors on more than a superficial level. We must connect with donors in ways that respect their culture and honor their deepest intentions."[11] Organizations are realizing the necessity of employing professional fundraisers skilled in, and dedicated to cultivating and maintaining donor relationships.

It is just recently that there is discussion of connecting measures of performance with salary. Unlike the business sector in which linking salary and performance is increasingly popular and widely used, for nonprofits this comes with a host of ethical issues. Federal and state legislation governs compensation in nonprofits and prohibits certain compensation arrangements deemed unethical.

Many nonprofit organizations have adopted their own codes of ethics and/or donors' bill of rights. Although this paper does not explore it in depth, Jewish text and commentary is replete with mandates regarding issues of compensation and both the asking and giving of *tzedekah*.

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[11] AFP eWire, http://www.afpnet.org/tier3_cd.cfm?folder_id=2326&content_item_id=8006.

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In 1964, AFP adopted a Code of Ethical Principles and Standards of Professional Practice promoting a high degree of professionalism in fundraising endeavors (see Appendix B). (The full guidelines for the Code of Ethics are not attached, due to the length, but are available to download at no cost, at www.afpnet.org.) In the past, the AFP has advised members on a wide range of issues including, most frequently, compensation arrangements. Standard 16 of the code states: "Members shall not accept compensation that is based on a percentage of charitable contributions; nor shall they accept finder's fees." The Ethics Committee advises fundraisers that a salary or fee based on the fundraiser's expertise and experience or the time requirements of the position is the preferred method of compensation. An example of an unethical compensation arrangement is the inclusion in the compensation package – either salary or bonuses – based on a percentage of the charitable funds raised. [12]

The corporate sector has been very successful in recruiting employees and executives by offering pay-for-performance bonuses and incentives. There is increasing pressure for non-profit organizations, who wish to attract and retain quality employees, to offer not only appropriate but competitive salary and benefits packages. As nonprofits compete for experienced fundraisers, many are being lured by compensation arrangements that offer rewards and a higher earning potential, based in part on their performance.

This is not unethical in the sense that is outlined above; the bonus is not calculated as a percentage of funds raised. In many cases the bonus is contingent upon efforts to successfully attain goals along several indicators. The difficulty (discussed in more detail in Creating and Implementing Incentive Systems) lies in the ability to

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[12] Maehara, P.

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identify and accurately measure criteria that are meaningful, and that incorporate short-term campaign goals and long-term relationship building with donors.

Evaluation is a critical component of incentive systems and there is still very little data regarding effective evaluation methods and reward systems. This is likely due to the variance among the fundraising needs of different organizations and their individual definitions of success.

Motivation Theories

Incentives are predicated on the notion that by increasing the reward, the motivation to perform a task will also increase. Different theories of what motivates people to achieve are briefly explained and their applications to the workplace are explored.

Maslow's Hierarchy of Needs

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        Self-Actualization
           Esteem
            Love
           Safety
        Physiological
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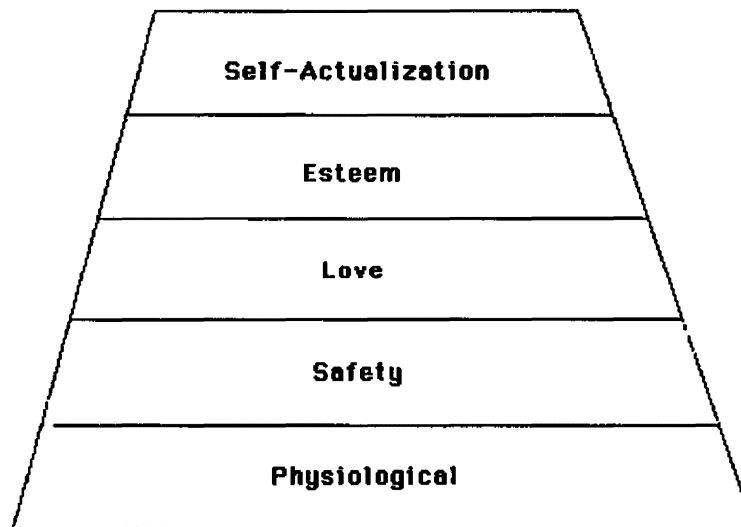
Abraham Maslow earned his Ph.D. in Psychology from the University of Wisconsin. He observed that certain needs take precedence over others and these observations led him to develop his theory called the Hierarchy of Needs, which has since been used to explain an individual's motivation for achievement. This model illustrates that basic, low-level needs such as physiological requirements and safety must be satisfied before higher-level needs such as self-fulfillment are pursued. He theorized

that as our needs are satisfied at each level, we are then motivated by our needs at the next higher level. Utilizing this framework, a successful manager would be required to understand which needs are active for each individual employee in order to gauge and provide motivators.

Ultimately, Maslow theorizes, we all strive to move upward toward self-actualization, also called growth motivation, which is the "highest" level. This is the level at which we do, learn, work, live – guided by completely intrinsic (internal) motivations, not those based on our physical or social needs. A brief description of each level and how it might relate to the work environment follows.

Level 1: Physiological Needs

The physiological needs are biological and consist of the needs for air, food, water and sleep. Strong motivation exists to satisfy these needs.

This is what we might consider basic compensation, represented by wages or salary. Without basic compensation, an employee cannot stay at the job nor afford basic necessities of food, rent, etc. This might also include rest or lunch breaks and comfortable working conditions.

Level 2: Safety (Security) Needs

Once physiological needs are met, the need for safety and security, living free from threat, becomes the priority. This can include securing food and shelter supplies for emergencies or creating financial reserves.

In the workplace, this can be as basic as a safe working area, proper tools to perform task, habitable and safe working space. It can also include a job contract guaranteeing the position or medical insurance and benefits packages.

Level 3: Social Needs

This category includes feelings of friendship, belonging, and feelings about interactions with other people.

In the workplace, this can be a sense of teamwork, role clarity and definition, perception of job within the organization, and feeling valued by colleagues and superiors.

Level 4: Esteem Needs

Once a person feels a sense of belonging, the need to feel important arises. This includes feelings of self-respect, achievement, recognition, attention, direction, and empowerment in the workplace.

This can mean opportunities for recognition and advancement within the workplace, in the form of benefits and rewards such as bonuses. This category includes both extrinsic (in this case, monetary) and intrinsic (recognition) rewards. 1001 Ways to Reward Employees, by Bob Nelson is a book dedicated to accomplishing this from Staff Retreats to priority parking spots to promotions. The need at this level is to bolster the sense of importance and pride in one's work and oneself.

<u>Level 5: Self-Actualization</u>

This is the highest level and is one that is never fully satisfied. It is the process of seeking one's true potential or calling. Self-actualizing people tend to have needs such as truth, justice, wisdom and meaning.

Maslow also believed that people should be able to move through the needs to the highest level provided they are given an education that promotes growth.[13]

In the workplace, this can mean providing opportunities for challenging and meaningful work with long-term goals, emphasizing creativity and innovation. This might include professional and personal development and resources that allow an employee to move beyond the requirements of the job to discover meaning in the work and in life.

Herzberg's Motivator-Hygiene Theory

Frederick Herzberg sought to understand workers' attitudes and motivation and devised experiments to determine which factors created satisfaction and which created dissatisfaction. He goes beyond the simple conclusion that lack of satisfying factors creates dissatisfaction; he identifies two different sets of factors that affect motivation in the workplace. The findings are published in his 1959 book, <u>The Motivation to Work.</u>

Herzberg labels the factors that contribute to satisfaction, *motivators*. These are, for the most part, measured by the individual and can increase desire to perform. These include, but are not limited to:

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[13] A. H. Maslow, <u>The Farther Reaches of Human Nature</u>, Esalen Books, Viking Press

- Challenging Work
- Achievement
- Recognition (can include monetary rewards)
- Advancement

Factors that do not necessarily lead to higher levels of motivation but without which there is dissatisfaction, Herzberg labels *hygiene factors*. These pertain to the job environment and are necessary for maintaining motivation. They include, but are not limited to:

- Company's policies and administration
- Supervision
- Working conditions
- Salary
- Status
- Security
- Interpersonal Relations

In the workplace, it is important to both provide motivators to increase satisfaction while monitoring the hygiene factors to minimize dissatisfaction. There is support for offering incentives within this theory. Salary would be categorized as a *hygiene factor*, while incentives would be a *motivator*. That is to say, even with a less than favorable salary (and some dissatisfaction), an incentive would act as a motivator.

Intrinsic v. Extrinsic Motivation

In the research regarding issues of work motivation, a distinction is often made between intrinsic and extrinsic motivation and rewards. **Intrinsic** rewards are those which are usually considered integral to the activity itself, resulting in satisfaction and feelings of accomplishment and comfort. Intrinsic motivation, similarly, refers to that which arises from within. **Extrinsic** rewards such as pay, benefits and promotions are

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independent of the activity. Extrinsic motivation refers to that which is generated by something in addition to the activity.

High intrinsic work motivation can be attributed to several factors. An *interesting task*, subjective though it may be, supports an individual's motivation to perform well. *Personal relationships* between principal (employer) and agent (employee) support intrinsic work motivation. Positive social interactions contribute to feelings of satisfaction and accomplishment. When employees can *participate* in the decisions taken by superiors, work morale tends to be high.[14]

There have been many hypotheses and studies that examine the effects of extrinsic rewards on intrinsic motivation. E.L. Deci, who received his Ph.D. in Psychology at Carnegie Mellon University and is currently a professor of Psychology at the University of Rochester. His research examines motivation and its application to work organizations in the United States and across cultures. Deci designed experiments that examined the impact of extrinsic factors such as monetary rewards, on intrinsic motivation. Deci had college students work on a series of interesting puzzles. The experimental sessions were divided into work periods and free-time periods. During the free-time periods, participants could work on the puzzles, read magazines or do whatever they liked. It was assumed that the amount of free time they spent working on the puzzles would be an indication of their intrinsic motivation.

In one set of experiments, the participants in the experimental group were paid contingent upon their performance (e.g. the number of puzzles solved). The amount of free time spent working on the puzzles was compared for the experimental group and the unpaid control group. The results indicated that the participants who received monetary

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[14] Frey, Bruno S., <u>Not Just For the Money</u>, 1997: Edward Elgar Publishing Company, p. 92.

rewards spent <u>less free time</u> on the puzzles than did the unpaid controls. It was noted that there were no differences on an attitudinal measure (the extent to which the task was seen as interesting and enjoyable).[15]

Richard DeCharms has done extensive research on motivation and the perception of autonomy. He proposed that man's primary motivation is to be effective in producing change in his environment.[16] His distinction between intrinsic and extrinsic motivation was linked to the perception of autonomy. He asserts that man desires to be the primary locus of causation for his behavior.[17] If the perception is that one's own behavior stems from personal choice, that behavior and its results are more valuable. If the perception is that a behavior is being guided by external forces, it will be devalued.

DeCharms also suggested that the introduction of extrinsic rewards for behavior that was intrinsically rewarding might decrease, rather than enhance, overall motivation. Offering an extrinsic reward places the individual in a dependent situation relative to the source of the reward. The behavior is no longer self-motivated but reward-motivated, the latter associated with less choice and thus, less motivation and less value to the individual.

This is similar to what is described, in economic theory of personal motivation, as the "Crowding-Out Effect" which takes place when an external factor is perceived to be controlling. However, if the external factor is seen as supportive, intrinsic work motivation is unaffected or may possibly even rise. Whether the intervention crowds out intrinsic work motivation depends on the employees' perception. [18]

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[15] Notz, W. "Work Motivation and the Negative Effects of Extrinsic Rewards. A review with Implications for Theory and Practice." <u>American Psychologist</u>, September, 1975, p. 886

[16] Notz, p. 884.

[17] Notz, p. 884.

[18] Frey, B. <u>Not Just For the Money</u>, 1997, Edward Elgar Publishing Company: Brookfield, Vermont, p. 93.

The debate continues about whether or not rewards or bonuses increase or decrease motivation. Deci's early experiments are limited in their applicability since the experiments involved very specific tasks that were assigned to the subjects. DeCharms' theories regarding autonomy and perception of rewards make it problematic to generalize about what will motivate individuals or groups of employees.

Rewards

The use of rewards to encourage, control, or modify behavior is not a new tactic. The most obvious examples deal with children: rewarding them for desirable performance, enticing them to perform tasks they are unmotivated to do on their own such as homework or chores. Rewards seem effective in that the desired behaviors are achieved. However, according to Alfie Kohn, who writes and speaks widely on human behavior, education, and parenting, rewards may do more damage in the long run. Kohn has written nine books and has been profiled in the *Washington Post* and the *Los Angeles Times*, and his work has been described and debated in many other leading publications. Kohn lectures widely at universities and to school faculties, parent groups, and corporations on the subjects of motivation, competition and rewards.

In one of his many books on the subject, Punished by Rewards, he posits that although rewards increase the probability that a particular task will be completed, in doing so they change the *way* the task is done and the *reason* for doing so. Kohn has done extensive research and he thoroughly and consistently cites the theories and studies of many well-known and well-respected researchers, including those referenced earlier (Deci, DeCharms, Herzberg).

In evaluating the effectiveness of rewards, Kohn says three things must be evaluated:

1. For whom are rewards effective?

Kohn discusses the populations usually utilized for behavioral studies and points out that the subjects used are usually children or lab animals; both are groups that are easily manipulated. This clarifying question is Kohn's first step in denouncing the long-term effectiveness of rewards. The more independent the subject – in this case, working adults – the more difficult it is to manipulate changes in behavior in a systematic and predictable way.

2. For how long are they effective?

Most data suggests that rewards used to affect behavior are successful short term, as in his examples of studies on weight loss, quitting smoking, and the wearing of seat belts. Rewards must be judged on whether they lead to lasting change, not whether they induce temporary or immediate changes. Kohn's main concern about what happens when the "goodies" run out is a more troubling question for a nonprofit organization than for a business whose revenues are more predictable.

3. At what, exactly, are they effective?

To this point, Kohn makes the case that rewards (and conversely punishments) are not successful at altering attitudes and emotional commitments. They are instead, only effective at inducing compliance. Kohn includes the details of a number of studies that support his claim that, "… if your objective is to get long-term quality in the workplace… then rewards, like punishments, are absolutely useless."[19]

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[19] Kohn, p. 42.

Kohn devotes an entire chapter to discussing pay for performance and offers fourteen reasons why incentive and merit pay plans fail, "beginning with the easily repaired problems associated with particular programs and progressing to explanations that challenge the value of any such plan, regardless of how skillfully it is designed."[20] Five of the general problems with rewards at work are described briefly.

First, Kohn claims that rewards punish. A system of rewards is essentially a system of control that produces the following effect: Some people do not get the rewards they were hoping to get and the effect is indistinguishable from punishment. This can lead not to improvement, but to defensiveness, defiance and dissatisfaction.

Secondly, rewards rupture relationships. Even in small groups when the rewards are shared, the rivalry is just shifted to the next level. Employees may be less likely to challenge poor decisions or ask for help if they are concerned about losing out on a reward. Thirdly, rewards ignore reasons. In order to solve problems in the workplace, we must know what caused them. This point illustrates the practice of rewarding the end result, and the danger of ignoring the reasons for not achieving the desired behavior or result. Fourthly, rewards discourage risk-taking. If ultimately obtaining the reward is the motivation, then the tendency to repeat what has worked in the past or taking only very calculated risks will replace potentially risky or innovative solutions. The fifth reason rewards fail is that rewards undermine interest. They change the way people feel about what they do. "Incentive plans do not respond to the extrinsic orientation exhibited by some workers so much as they *create* this focus on financial factors."[21]

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[20] Kohn, p. 127.
[21] Kohn, p. 141.

Kohn admits his notions about rewards and punishments are unconventional. He asserts that it is a mistake to discuss motivating people. Instead, employers should be thinking creatively and seriously about setting up the conditions that maximize the development of interest in the task/job and that minimize the constraints. Kohn's suggestions for providing an environment conducive to motivation are detailed in Chapter 10 and include reevaluating evaluation and creating conditions for "authentic motivation". He demands that we ask ourselves difficult questions about rewards, goals and the nature of relationships while offering clear and honest suggestions for improvement.

Current Research Review

The results of the 1994 Applied Research and Development Institute (ARDI) study on innovative compensation practices[22] shows that nonprofit organizations are catching up to the for-profit and government sectors in offering competitive packages that encompass cash compensation, recognition and benefit plan options. The following definitions include examples of cash compensation or recognition plans that were studied.

Individual incentives- Cash awards to recognize achievement of predetermined performance objectives. An incentive award is usually calculated as a percentage of salary, or salary-range midpoints, and is paid on an annual basis. Incentive awards are usually larger than spot awards and are frequently used at the managerial level.

Team or group incentives- The same as individual incentives, except awards are made based on achievement of team or group predetermined performance objectives. (These types of awards are not commonly found in nonprofit organizations.)

Bonuses- Awards paid at senior management's discretion to acknowledge outstanding individual job performance or to acknowledge special activities. Unlike an incentive award, the amount of a bonus is discretionary and not based on a predetermined formula.

Gain sharing- Awards that represent employees' share of the gains of actual results achieved above pre-established operational goals. The "gains" are then paid in the form of short-term cash incentive awards when the goals are exceeded. (These types of awards are not commonly found in nonprofit organizations.)

Spot awards- Cash payments to provide immediate recognition of accomplishments by staff below the managerial level. They are intended to reward risk taking, creativity, and productivity. Awards are generally smaller than bonuses and typically range from $250 to $500.

Special cash recognition- Similar to a spot award program, these are cash awards used to recognize contributions of staff below a certain managerial level. Awards are granted on a discretionary basis to employees who demonstrate either a sustained level of exceptional performance of exceptional performance on one program or project. Awards typically range from $500 to $1000 and are paid quarterly.

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[22] This term is defined as encompassing cash compensation, recognition and benefit plan options. Barbeito, p. 184.

Special noncash recognition- Noncash awards used to recognize contributions of staff below a certain managerial level. Awards are not paid in cash, but in the form of merchandise, a gift certificate, an evening out, and so on.

Lump sum increases- Cash payments usually made in a single lump sum for performance effectiveness. They do not roll into base salary. Another variation is to spread out payment over several pay periods. Awards are sometimes used only for employees above salary-range midpoint or at/over salary-range maximum. They replace a more traditional merit increase that is paid out in the form of an adjustment to base pay.

Skill-based pay- Pay based on acquiring additional job-related skills and capabilities. Also known as *pay for knowledge*, this option is traditionally used for teachers, scientists, and accountants.

The ARDI Survey, 1994

The purpose of this survey was to gather information on innovative compensation plans in effect among a sampling of nonprofit organizations. Two surveys were designed and utilized; the first one identified organizations with plans in place and the second sought more detailed information about those plans.

An Advisory Committee was assembled which included five compensation experts with experience in human resource management of nonprofits. The Committee's role included the following functions: to identify topics to be included in the survey, to provide guidance on the study process, to assist in identifying nonprofits likely to have compensation plans, to provide analysis and to assist in dissemination of the results.

A letter and a brief initial survey were sent to 182 prospects, of which 43 responded (24 percent). The second survey was confidential and more comprehensive with eleven pages of detailed questions on each type of compensation program. 12 of 43 did not have compensation or benefits programs and were did not receive the second

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survey. Of the 31 who did, 18 responded (58 percent). Some follow-up phone interviews were conducted for further insights.

13 of 18 responding organizations introduced compensation plans of different types. The top three plans utilized were bonuses, incentives and non-cash recognition. The performance criteria most often used were productivity, financial and quality measures. Participants were also questioned on whether there was any change in frequency of communication between management and plan participants as result of the compensation plan. 7 of 11 said communications remained the same while 4 reported improved frequency. Other positive results and the frequencies reported are indicated below.

Positive Results Achieved as a Result of Implementing Innovative Compensation Plans[23]

Results	Frequency
Improved employee performance	10
Improved morale and/or employee relations	8
Fostered teamwork	7
Enhanced communication of unit goals	6
Reinforced an existing environment of participation	4
Improved employee retention	4
Created a participative environment	3
Reduced entitlement mentality	3
Made labor costs variable with organizational performance	3
Became more competitive in total compensation	3
Encouraged entrepreneurship	2
Assisted in recruiting	1

Some organizations did report issues of concern, regarding administrative or operational elements, including:

- Some negative employee-relations impact due to the sole eligibility of managerial staff.

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[23] Barbeito, p. 98

- Difficulty in defining performance objectives both for individuals and for the organization, specifically qualitative performance objectives.

- The potential emphasis on short-term objectives at the expense of long-term goals.

- The preference, of some long-term employees, for more traditional compensation methods that offer more salary stability.

The SITE Foundation Study

The SITE Foundation was established in 1987 to fund research that relates to the incentive industry. Their 2002 study, Incentives, Motivation and Workplace Performance: Research and Best Practices has been called "the most comprehensive study ever done on the effectiveness of the $27 billion incentive industry and its usefulness to employers in determining the relationship between incentives, motivation and performance in the workplace."[24] The purpose of this study was to investigate the conflicts and misconceptions regarding monetary incentives on work performance. The main questions guiding the study were:

1. Do incentives increase work performance?
2. What kinds of incentive systems are most effective?
3. What organizational conditions indicate a need for an incentive system?
4. What model best expresses the events that occur during the selection and implementation of successful incentive programs?

The research team conducted the study over a one-year period using both primary and secondary research that included researching literature on incentives, using meta-analysis to determine trends, and surveying a large sample of U.S. corporations using incentive systems. There is no explicit breakdown by corporation type or field, therefore

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[24] "Landmark Study on $27 Billion Incentive Industry Shows Incentives More Important Than Ever in Motivating Employees", Copyright 2002 PR Newswire Association, Inc.: PR Newswire, March 18, 2002.

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it is difficult to determine whether nonprofit organizations were included in the "corporations" surveyed.[25]

The results are summarized as answers to the four guiding questions.

1. Do incentives increase work performance?

According to Mike Hadlow, president of the SITE Foundation, "This definitive study shows that tangible incentives dramatically increase work performance by an average of 22 percent. No CEO in the world can afford to ignore this compelling finding. Incentive programs may be the single most important performance-improvement tool available to executives today," said Hadlow.[26]

The impact of incentives differs according to the type of task. When the task is new, something the person had never done before, there was a 15 percent performance increase. Incentives were more successful in getting people to perform more familiar tasks, with a 27 percent performance increase.

2. What kinds of incentive system schemes or formats are most effective?

The four categories of incentive schemes examined were quotas, piece rates, tournaments and fixed rates; the only applicable one for our purposes is the first one. Quotas, defined as incentives for meeting or exceeding a performance goal, were found to be the most effective. One explanation is that quotas increase the employee's perception of control – one can decide for him/herself whether to exceed the performance target. (This is assuming performance goals are first clearly defined, articulated, and can be accurately measured.)

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[25] As of the submission date, the author had not received response from Richard Clark (USC) Co-Principal Investigator clarifying this issue.
[26] "Landmark Study".

Monetary incentives produced double the increase in performance (27 percent) than gift incentives did (13 percent). The difference might be attributable to the universal value of money and/or the variable interest level of the specific gift. However, it was suggested that pre-selection of incentives, by participants, might increase the effectiveness of gift incentives and, "The research team believes that if properly designed, gift or prize incentives could be as effective as money."[27]

The study also found that the longer the incentive programs are applied in organizations, the more powerful they become. Short-term incentives, one week or less, produced a 20 percent increase in performance but six-month programs yielded a 30 percent increase. Programs extending beyond a year saw a 44 percent performance increase. The researchers concede that with better programming design and field studies, shorter-term incentives could have a higher impact.

3. What organizational conditions indicate a need for an incentive system?

   The evidence suggests four conditions in which incentives might work best:[28]

   ❖ Current performance is inadequate without incentives.

   ❖ The cause of inadequate performance is motivational, either failure to actively work to achieve the goal, distracted by other goals, or are resisting work goals.

   ❖ The desired work accomplishment goal can be quantified (how much, how often, how many).

   ❖ The goal is challenging but achievable. Organizations must require that all other work goals continue to be achieved at or above current levels. Otherwise, abandonment of other goals in favor of incentives will occur.

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[27] Clark, R., Stolovitch, H., Condly, St. "Incentives, Motivation and Workplace Performance: Research and Best Practice" (pre-publication, used with the permission of Co-Principal Investigator R. Clark) p.15
[28] Clark, et al, p. 16.

In addition, a few warnings are articulated, such as avoiding the creation of incentives for easy tasks, or for those where performance problems are caused by a lack of knowledge and skill or organizational barriers. These are cases where incentives will not be successful and may actually worsen the situation.

The fourth question regarding which model best expresses the events that occur during the selection and implementation of incentive programs is not relevant for this discussion. The authors describe and detail a motivational model called CANE (Commitment And Necessary Effort). The implications of this particular model for fundraising are limited and therefore are not included in this paper.

University of Missouri, Kansas City (UMKC) Bloch School of Management and Public Administration Survey

This survey inquired about the relationship between job descriptions, performance, evaluation and compensation in the field of fundraising. The authors claim, "Although the results gleaned in this initial project are not generalizable to the development profession as a whole, they seem to indicate significant gaps between professional practice and preference."[29]

The survey was mailed on July 1, 1999 from UMKC's Cookingham Institute of Public Affairs to 40 professional fundraisers in Missouri, Kansas and Iowa. The sample was not randomized, although surveys were mailed to employees of nonprofit healthcare, religious, human services, and educational institutions.

In order to ensure that respondents would be engaged professionals, the surveys were mailed to fundraisers active in national professional organizations including the

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[29] Beem, M.J., "Fundraising in the balance: An analysis of job performance, appraisals and rewards", International Journal of Nonprofit and Voluntary Sector Marketing, London, May 2001.

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National Society of Fundraising Executives, the Committee for the Advancement and Support of Education, the National Committee on Planned Giving and the Association of Health Care Professionals. The surveys were mailed in nearly equal percentages to chief fundraising officers and line fundraisers in the same organizations. 27 out of 40, or 67.5 percent returned completed surveys. About half the responses were from those who set fundraising policy and the other half from those who follow it.

Thirty two questions were asked in five sections: 1) job descriptions, 2) duties, outcomes and measurement systems, 3) formal evaluations, 4) formal evaluation frequency, and 5) rewards.

Of interest to this discussion of incentives are sections two and five, dealing with outcomes and measurement systems, and rewards. These topics are central to the theories of motivation and performance and important for shaping policy and the resulting organizational culture.

Generally, there seems to be satisfaction among the respondents regarding the process by which they are evaluated. According to the results, 59 percent of the survey respondents were satisfied with the process by which their work is evaluated, 19 percent said they were somewhat satisfied and 22 percent said they were not satisfied. However, one respondent commented, 'I do wish I could be evaluated more than once a year. It would be helpful to know where the director would like me to spend my time and efforts during the year rather than after the year has passed.'[30]

The study does indicate the frequency of evaluations is less than satisfactory. The survey included a question that asked respondents whether they believed mid-year appraisals are more or less meaningful than year-end appraisals. And while only 8

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[30] Beem.

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respondents indicated they had formal evaluations more than once a year, 19 people responded to the question. Of those, 53 percent said they believed mid-year appraisals are more important than final evaluations, 26 percent said they are equally important and 21 percent said they are less important. These results indicate the need for a regular system of feedback, including regular supervision and mentoring.

The productivity of an organization is the responsibility of both the front line staff and management. In order to maximize that productivity, one must evaluate the tools available to the worker including formal, meaningful, and timely evaluations which allow for reflection and growth, and provide direction. Avoiding this crucial step drastically reduces the potential of the organization and those working on its behalf.

The final section, on rewards, sought information about how fundraising performance is rewarded. Only 8 percent said they were paid for performance, while 48 percent said for service and 44 percent said a combination of both. The most interesting responses came from the question which asked whether respondents believe performance and pay should be connected in their organizations. 21 out of 26 respondents (three times as many who indicated their evaluations and wage adjustments are currently tied) said they believe performance and pay **should be** connected in fundraising. The remaining 19 percent said they should be somewhat related and none said they should be totally independent.

The author claims the data illustrate six characteristics about today's fundraising professionals, one of which is that fundraisers are largely motivated by rewards and recognition. The author concludes, "These expressions – coupled with the overwhelming vote for a connection between performance and rewards in fundraising – say financial

and other incentives motivate development professionals."[31] This conclusion is unconvincing. Respondents' comments stated the importance of rewarding efforts and progress, offering incentives to over-achieve, and providing opportunities for people to excel. These comments are not unique to fundraising, nor do they "overwhelmingly" support anything more than traditional methods of recognition and reward, such as merit-based salary increases and promotions.

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[31] Beem.

Creating and Implementing Incentive Systems

History of Incentive Plans

Incentive plans essentially link pay to individual or group output. There is tremendous variety and complexity in the nature of incentive plans today. Historically, however, these were based strictly on formulas linking compensation to performance. Incentive systems showed different trends, beginning in the 1930s and ending in the 1970s. They all but disappeared during the Great Depression, had a revival during World War II, and then resumed their decline. There were three basic types: piece rates, more elaborate incentives, and commissions.[32]

Piece rates essentially made pay proportional to output and usually included minimum guarantees and adjustments for things such as technical problems or conditions beyond workers' control,

More elaborate incentives were variants of piece rates that did not adhere to proportionality. Typically a reward was offered above a specified production standard. This included premiums, point systems, and bonus plans that had complex formulaic equations.

Commissions, unlike the others, were based on value measures rather than output. They were widely utilized in sales. These also varied between simple, flat percentages of sales to more elaborate arrangements.

Several factors contributed to the decline of the incentive systems described. First was the influence of academic research and thinking, including the attack of behaviorists

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[32] Blinder, A. Paying for Productivity: A Look at the Evidence, 1990, The Brookings Institution: Washington, D.C., p.21

against money as a motivator (some of those theories are touched upon in this paper). There were also changes in the work force composition. Many jobs were replaced by automated machines, which made it difficult to utilize incentives. Also, more difficult to measure white-collar work opportunities emerged. Ultimately the threatening effects of union growth in the 1930s and 40s elevated the status of the personnel departments, emphasizing performance appraisals and discretionary awards. These preferred measures of evaluation, under the purview of the personnel departments, replaced the increasingly outdated incentive systems, created and administered by line managers.

Resources

There are a number of resources available for aiding organizations in the creation and implementation of incentive systems. In Wiley's, <u>Nonprofit Compensation and Benefits Practices</u>, general guidelines as well as more specific checklists, like the Human Resources Management System Checklist (Appendix C), are provided to assist an organization gauge the development work needed in order to create and implement an incentive system.

General Guidelines

The general steps in establishing a compensation policy are discussed. First, an independent committee ought to be established to create and evaluate such policies and to make recommendations to the larger Committee or Board. This group would work closely with the Executive officers to:

- <u>Develop Committee bylaws</u>, written responsibilities and procedures, including the frequency with which the system will be evaluated and the procedure for doing so.

- <u>Engage in internal research</u> including evaluation of materials such as mission statement, job descriptions, vision statement, stated values of organization, organizational chart, personnel policies. This process also includes soliciting information from employees regarding organizational culture, and workforce concerns related to compensation policies and motivation issues.

- <u>Engage in external</u> research including market price comparisons for positions considered as well as potential compensation practices and best conditions (some of which are offered here).

- <u>Determine the goals</u> of a compensation policy: increased productivity, increased motivation, attraction/retention of highly skilled employees.

Members of this committee should either have/seek relevant knowledge in law, accounting and finance. They should not have financial or significant personal relationships to either the Executive or other staff receiving compensation. More detailed information is offered in Appendix D, A Checklist for Development of a Compensation Policy.

Once the initial research has been completed, the committee needs to take the following steps:

1. Decide on the mix of compensation types and strategies to offer. This includes possibly updating wage scales and determining the benefits that will be offered. This includes deciding where in the market range the organization wishes to be, in terms of pay and benefits.

2. Determine eligibility. It may not be relevant for all positions. This must align with the goals and values of the organization. This includes the committee determining the amount of emphasis on salary versus incentive pay.

3. Establish fair and competitive base-compensation levels (if not already done).

4. Obtain an expert review of the proposed compensation plan to ensure compliance with relevant laws.

5. Present recommendations to the Board. (This step may depend on internal protocol steps within the organization.)

The board leadership and executives should ensure that employees are aware of the methods by which their jobs were analyzed, how performance relates to pay, and how pay increases are determined and administered. A feedback loop should be administered to assess whether the desired outcomes are being achieved and to allow for comments and corrections. Depending on the organization, evaluations can be done annually or at other appropriate intervals. Other resources suggested:

Executive Compensation: A Primer for Board Members and Chief Executives. An overview of executive compensation includes a review of factors that affect the level of compensation, a checklist for determining compensation, and a discussion of the responsibilities of board members in the process. Available through the National Center for Nonprofit Boards-National Center for Nonprofit Boards, Suite 900, 1828 L St. N.W., Washington, DC 20036-5104, Phone: 202-452-6262, Fax: 202-452-6299, www.ncnb.org.

Compensation in Nonprofit Organizations, 16th Edition – 2003, PUBLISHED: October 2003. 2003 survey report of 131 benchmark jobs from Abbott, Langer & Associates, Inc. The following describes the highest paid job characteristics, the national median total cash compensation for 46 benchmark jobs, and the factors affecting salary (Level of Supervisory/Managerial Responsibility, Type of Organization, Number of Employees, Annual Budget, Scope of Organization, and Geographic Area).

Nonprofit Compensation, Benefits, and Employment Law
David G. Samuels, Howard Pianko. Issues surrounding executive compensation, employee benefits, and employment law are becoming increasingly important to nonprofits. And with the recent passage of intermediate sanctions, the government has signaled that they will be watching compensation and benefits of nonprofits very closely. This timely book fills the growing need by nonprofit executives for an accessible guide to legislation, case law, and IRS regulations.

Existing Models in Nonprofit Organizations

The American Heart Association

One large nonprofit organization that currently offers incentives for fundraisers is The American Heart Association, Florida Affiliate. Although efforts to obtain concrete information from the AHA were unsuccessful, Jill Hagler, Campaign Director for the LA Federation Valley Alliance spoke about her prior employment with the organization and the criteria on which the incentives were based, including both qualitative and quantitative factors.

First and foremost, the AHA has a very thorough system of evaluation. The frequency of review and the variety of factors involved provide a great deal of feedback and opportunity for growth. Hagler described a process in which employees met with their respective supervisors four times a year. The first and third quarter reviews are similar to progress reports; these are opportunities for either corrective action or reinforcement. The mid-year and end-of-year evaluations are more formal, involving written components, and are included in the employee's personnel file.

The performance evaluations consider a number of factors, very closely tied to the incentive criteria, with realistic goals usually based upon the prior year's performance. This includes quantitative items such as numbers of event participants (i.e. the Heart Walk, educational seminars) and dollars raised, as well as more qualitative items such as Board cultivation and personal areas of strength. Hagler emphasized the importance of quality supervision and evaluation. The important thing is that the evaluation criteria are clearly explained and that opportunities for feedback and improvement exist. "Everybody deserves a chance to turn it around if they're not doing well." Conversely,

there is no ambiguity regarding who is (and is not) performing well and reaching set goals.

There are clearly differences between an organization like the AHA and the Los Angeles Jewish Federation. The AHA does not have an annual campaign and most of its events center around education and awareness. In addition, regional divisions alleviate many of the complicating donor issues that come with professional divisions and involvements. The critical piece to take from this model is their evaluation process and the role it plays in establishing meaningful and realistic goals and providing feedback.

A Northeast Federation

A major Federation in the northeast is currently utilizing an incentive plan and reports very positive results. This Federation has a $12 million annual campaign and the full-time equivalent (FTE) of 9 professional development staff, including its foundation. According to the Executive Director, during several phone interviews, the real focal point was to keep staff focused on the target and to ensure staff and volunteers shared the same priorities and vision for the organization.

Though the Director admits they followed no particular model, it is a textbook example, including many of the elements suggested in the previous section. This Federation has an independent committee, the Personnel Committee, which administers the program. They design and evaluate incentive criteria and manage the annual evaluations of the incentive program.

Currently, upper management is eligible for incentives under this program, including the Chief Executive Office, the Chief Operating Officer, the Vice President of Development, the Vice President of Community Development, the Chief Financial

Officer, the Foundation Director, and the Associate Foundation Director. While fundraisers are not currently eligible, there is a possibility they may be in the next few years. Of higher priority is the selection of criteria, which include "financial and non-financial performance goals" (see Appendix E for Incentive Criteria used by this Federation.)

The critical pieces to take from this model are the development of their goals and criteria and their review process of the incentive system.

Key Informant Interviews

Some interviews were conducted with fundraisers at the Jewish Federation of Greater Los Angeles, including Jill Hagler, Campaign Director of the Valley Alliance and Craig Prizant, Vice President of Campaign for JFGLA. Each interview took about an hour and was informal in nature. The interviews were recorded and later transcribed.

Questions that guided the interviews were based on the literature presented in this paper and included questions based on themes of motivation and rewards, perception of goals and tasks, as well as personal attitudes and beliefs regarding incentive systems. A list of the Guiding Questions is attached as Appendix F. Some of the questions discussed are of a potentially sensitive nature and in order to solicit honest feedback, the transcriptions of each interview are not included. However, the content of the interviews is described as it relates to the key issues presented.

There were some interesting similarities in the responses to the interview questions. First, all those asked about what occupation they write on their tax forms said Fundraiser. The range of fundraising experience among these professionals within JFCGLA spans from 3 years to 19 years. Some had prior fundraising or development experience with other Federations or organizations. In general, motivation was reported as very high and very much related to a sense of pride and connection with their work.

Of particular interest was that, although it was not a direct question, each person made a comment about money not necessarily being his or her primary motivator. One said, "If monetary (factors) were more important, I wouldn't be working here." Another, "The truth is, if it was all about money, I wouldn't work here." Similarly, "I mean, more

money is not always the answer, for me it's not." Lastly, "They (the lay leadership) really keep me here, it's not the millions of dollars that I'm earning that keeps me here."

There was agreement that a salary commensurate with experience and performance was ideal and that increased responsibility and promotion were indicators of success. "I think that most people here, with one or two exceptions, you'll find want to be paid a good salary and then if there's a bonus, great." There was also agreement on the importance of "psychic salary", meaning non-monetary rewards for work done well. This includes opportunities for professional development such as conferences and seminars, personal fulfillment including study sessions, vacation time or the opportunity to attend an event as non-staff, and more traditional forms of acknowledgement such as a congratulatory email or a staff lunch.

When asked about the potential impact on the relationships with donors, the responses were varied. There was some discussion about whether donors are aware of current compensation arrangements, including bonuses and how they might perceive an incentive system. Another's concern dealt with the ability to be focused on a donor and that solicitation, if the bottom line was ultimately about the fundraiser. Others felt the high degree of trust between donors and fundraisers and the potential lessening of staff turnover (a concern for some leadership) would produce support for such a plan.

In terms of performance and evaluation, it was suggested that the current evaluation form and procedure ought to be updated to be more reflective of the different components of the job, including: budgeting, event planning, cultivating new and increased gifts, administrative work, etc. "But I think the whole staff evaluation process

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needs to be revisited because I think we're using a very old model. And it's the model that I believe does not help motivate staff to go to the next level."

In terms of implementing such a system for JFCGLA, most agreed it would be complicated. Issues that arose dealt with access to donors, different objectives (and even cultures) among divisions and questions regarding equitable criteria. Many were asked to describe conditions under which such a system might work. One of the suggestions was to develop a point system, with weighted goals in different performance areas. Another was to determine performance goals as a percentage based on the prior year(s).

Most discussed the subjective bonus system currently in effect. One view was that the bonus at the end of the campaign did reward performance, and also improved motivation for the next year. Others shared their opinions that while bonuses were appreciated as a reward, they do not serve as a motivator for better performance. Though it is difficult to generalize the opinions of different professionals, with different preferences and working styles, there was clearly a desire for quality feedback and equitable and reasonable performance goals.

Recommendations

Based on the interviews conducted and the literature and studies presented, three areas relating to the implementation of an incentive system need to be explored further.

Eligibility: Who will be eligible to participate in such a program? The most frequently used criteria are grade level or classification within the organization. This means evaluating the roles that administrative staff, fundraisers, managers and executives all play in accomplishing the objectives of the organization and then being able to explain that eligibility criteria. This issue may be complicated by the fact that the JFCGLA has a Union.

Effects on relationships: How will an incentive plan affect the team dynamic and the perception of individual versus team goals? How will it affect the relationships between fundraisers and donors/leadership? Some of these concerns have been briefly mentioned, however, this is a major concern and deserves further investigation. Suggestions from those interviewed supported continued dialogue among staff and among executives and the appropriate committees and Board of Directors. Also, understanding current perceptions about these relationships is important in order to address and alleviate -- not compound -- any existing concerns.

Formulating Criteria: Clear definition and communication of goals are necessary. Performance measures should be realistic and should communicate the priorities of the organization (division). It is important that these priorities reflect the views of all

stakeholders within the organization. (Again, you may refer to Appendix E for examples of both financial and non-financial criteria currently used by one Federation.)

Recommendations for JFCGLA

It is clear from the research that any innovative compensation plan requires an extraordinary amount of time for research and goal-setting, as well as a strong commitment to the process. The following recommendations are offered specifically for the JFCGLA.

1. <u>Re-visit the current system of evaluation</u>.

This includes the frequency of evaluation, the quality of forms used, and the current criteria upon which fundraisers are evaluated. This is a crucial step. Ultimately, the incentives would need to be based on very clear goals with both financial and non-financial objectives. These might include budgetary issues, numbers related to new and increased gifts, donor cultivation and moves management steps within a division, monetary goals, and event attendance. It is strongly recommended that the criteria be uniform in terms of the categories, with variance in divisional goals according to past performance and realistic expectations.

This step requires a clear organizational chart and qualified and willing supervisors. In order for this to be done effectively, mentoring and supervision need to be organizational priorities, meaning there is consensus regarding the value in this process and the time it requires.

The research supports the author's opinion that this step alone will produce the results anticipated with incentive systems – increased performance and/or motivation.

Improved evaluation and performance measures will more clearly (than before) define "success", provide a feedback loop for support and recognition, and increase accountability. It also addresses some of the concerns regarding the subjective nature of the existing bonus system.

2. <u>Continued discussion between professional staff and leadership</u> to determine organizational priorities and where fundraising efforts ought to be concentrated.

This includes guiding ongoing discussions within the Blue Ribbon Committee, the Board of Directors, and the staff to ensure the organizational priorities are being communicated clearly. In addition, the issues and opinions that arose from the small number of interviews conducted illustrates that staff **are willing** to discuss these issues and have much to contribute, by way of suggestions and past experiences, to creative compensation (and recognition) systems.

3. <u>Further research</u>.

The Appendices and resources suggested in the section on Creating and Implementing Incentive Systems, on market trends and comparable compensation for fundraisers and development professionals, are a good starting point. It should also be noted that information on salaries for development positions should also be investigated because those are changing as well.

Conclusion

Incentive systems originated during a period in which people were treated very similarly to the machines they operated, with much attention on monitoring, measuring and increasing productivity. The original goal of incentives was to speed up production, to motivate employees to increase output. This was effective when the tasks were simple and repetitive and did not rely on teamwork. However, if the tasks require creativity and collaborative efforts, the use of incentives can be counter-productive to the process.

The art of fundraising, as has been described, is complex and requires the fundraiser to utilize his/her interpersonal skills and appropriate judgment. The results of these efforts are not always immediate nor are they always tangible. Yet the needs of the community **are** quantifiable and we must find ways each year to reach new heights in terms of dollars raised to answer those needs. It is debatable whether incentives are appropriate in this situation. I am doubtful they will be effective. Especially if they are implemented at the expense of commensurate and/or competitive salaries.

It is my belief that people will find their own motivation if their successes are recognized and rewarded. Based on the information presented, those rewards should include both financial and non-financial components. By offering financial rewards for performance (or measures of), the underlying message is that the product is more important than the process. Combining creative recognition strategies with growth opportunities for the professional in scope and salary offers a wider, more in-depth appreciation for both the process and the results.

APPENDIX A

Excerpt from the Collective Bargaining Agreement
April 1, 2003 through June 30, 2004

"During the term of this Agreement, the Employer (The Jewish Federation Council) at its sole discretion may implement and, once implemented, may discontinue, an incentive compensation program for all Campaign Classifications grades EF1-EF6 to provide a greater level of compensation than that provided by this Agreement. The design of the program, including eligibility, its terms, and the amount of compensation paid under the program shall be at the Employer's sole discretion. Any incentive compensation program developed for campaign classifications will require the input and participation of affected employees in its development. No fundraiser participating in this program shall receive less compensation than that to which he/she is otherwise entitled under this Agreement. The Employer will provide notice to the Union if and when such an incentive compensation plan is implemented and/or discontinued."

AFP Code of Ethical Principles

Adopted 1964; amended October 1999.

The Association of Fundraising Professionals (AFP) exists to foster the development and growth of fundraising professionals and the profession, to promote high ethical standards in the fundraising profession and to preserve and enhance philanthropy and volunteerism.

Members of AFP are motivated by an inner drive to improve the quality of life through the causes they serve. They serve the ideal of philanthropy; are committed to the preservation and enhancement of volunteerism; and hold stewardship of these concepts as the overriding principle of their professional life. They recognize their responsibility to ensure that needed resources are vigorously and ethically sought and that the intent of the donor is honestly fulfilled. To these ends, AFP members embrace certain values that they strive to uphold in performing their responsibilities for generating charitable support.

AFP members aspire to:

- Practice their profession with integrity, honesty, truthfulness and adherence to the absolute obligation to safeguard the public trust.
- Act according to the highest standards and visions of their organization, profession and conscience.
- Put philanthropic mission above personal gain.
- Inspire others through their own sense of dedication and high purpose.
- Improve their professional knowledge and skills, so that their performance will better serve others.
- Demonstrate concern for the interests and well-being of individuals affected by their actions.
- Value the privacy, freedom of choice and interests of all those affected by their actions.
- Foster cultural diversity and pluralistic values, and treat all people with dignity and respect.
- Affirm, through personal giving, a commitment to philanthropy and its role in society.
- Adhere to the spirit as well as the letter of all applicable laws and regulations.
- Advocate within their organizations, adherence to all applicable laws and regulations.
- Avoid even the appearance of any criminal offense or professional misconduct.
- Bring credit to the fundraising profession by their public demeanor.
- Encourage colleagues to embrace and practice these ethical principles and standards of professional practice.
- Be aware of the codes of ethics promulgated by other professional organizations that serve philanthropy.

Standards of Professional Practice

Furthermore, while striving to act according to the above values, AFP members agree to abide by the AFP Standards of Professional Practice, which are adopted and incorporated into the AFP Code of Ethical Principles. Violation of the Standards may subject the member to disciplinary sanctions, including expulsion, as provided in the <u>AFP Ethics Enforcement Procedures</u>.

Professional obligations

1. Members shall not engage in activities that harm the members' organization, clients, or profession.

2. Members shall not engage in activities that conflict with their fiduciary, ethical, and legal obligations to their organizations and their clients.

3. Members shall effectively disclose all potential and actual conflicts of interest; such disclosure does not preclude or imply ethical impropriety.

4. Members shall not exploit any relationship with a donor, prospect, volunteer, or employee to the benefit of the members or the members' organizations.

5. Members shall comply with all applicable local, state, provincial, and federal civil and criminal laws.

6. Members recognize their individual boundaries of competence and are forthcoming and truthful about their professional experience and qualifications.

Solicitation and use of charitable funds

7. Members shall take care to ensure that all solicitation materials are accurate and correctly reflect their organization's mission and use of solicited funds.

8. Members shall take care to ensure that donors receive informed, accurate, and ethical advice about the value and tax implications of potential gifts.

9. Members shall take care to ensure that contributions are used in accordance with donors' intentions.

10. Members shall take care to ensure proper stewardship of charitable contributions, including timely reports on the use and management of funds.

11. Members shall obtain explicit consent by the donor before altering the conditions of a gift.

Presentation of information

12. Members shall not disclose privileged or confidential information to unauthorized parties.

13. Members shall adhere to the principle that all donor and prospect information created by, or on behalf of, an organization is the property of that organization and shall not be transferred or utilized except on behalf of that organization.

14. Members shall give donors the opportunity to have their names removed from lists that are sold to, rented to, or exchanged with other organizations.

15. Members shall, when stating fundraising results, use accurate and consistent accounting methods that conform to the appropriate guidelines adopted by the American Institute of Certified

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Public Accountants (AICPA)* for the type of organization involved. (* In countries outside of the United States, comparable authority should be utilized.)

Compensation

16. Members shall not accept compensation that is based on a percentage of charitable contributions; nor shall they accept finder's fees.

17. Members may accept performance-based compensation, such as bonuses, provided such bonuses are in accord with prevailing practices within the members' own organizations, and are not based on a percentage of charitable contributions.

18. Members shall not pay finder's fees, commissions or percentage compensation based on charitable contributions and shall take care to discourage their organizations from making such payments.

APPENDIX C

Human Resources Management System Checklist[33]

	Have	Don't Have	Fine	Needs Improve-ment	Un-accept-able
1. Have a written mission statement that clearly and concisely defines the ultimate result that the organization aims to achieve, the general business by which the results are to be achieved, and the beneficiaries that the organization seeks to serve.					
2. Have board members who have the necessary knowledge and experience to lead the board in meeting its responsibilities in regard to human resource management and/or who have obtained such expertise from volunteers or consultants.					
3. Have staff who are capable of working with the board to develop policies and who can implement those policies.					
4. Have a communication plan for ensuring that all employees are aware of the human resource policies and practices of the organization.					
5. Have a human resource philosophy statement that has been adopted by the board of directors.					
6. Have an inventory of all job functions required to conduct the work of the organization.					
7. Have up-to-date job descriptions written for all positions in the organization.					
8. Have an organization chart that clearly shows how the various positions in the organization relate to each other in reporting relationships.					
9. Have written personnel policies that have been reviewed for legal compliance and that are clear and easy to administer and understand.					

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[33] Reprinted from Nonprofit Compensation and Benefits Practices, p. 123-124.

	Have	Don't Have	Fine	Needs Improve-ment	Un-accept-able
10. Have determined the outcomes for our compensation policy.					
11. Have identified the compensation strategies that will lead to achievement of the outcomes for our compensation policy.					
12. Have implemented a compensation plan that is internally equitable and externally competitive.					
13. Have an evaluation mechanism in place that will provide feedback on how well the strategies are achieving the outcomes sought.					
14. Have an affirmative action policy, which at least meets legal requirements, and have ensured that the policy is followed in all related employment practices.					
15. Are aware of all legal compliance and reporting requirements related to human resource management and are in adherence.					
16. Have developed employee orientation and training appropriate to all employees.					
17. Have personnel records that are complete and appropriate.					
18. Have a performance-appraisal system that provides constructive feedback to employees and that provides appropriate motivation for improved performance.					
19. Have a process for annual review of human resource policy to determine if any adjustments need to be made.					

APPENDIX D

A Checklist for Development of a Compensation Policy[1]

I. Recruiting a Compensation Committee

A. A work unit of the board of directors will be responsible for the development of the compensation policies. The work unit can be a committee, a subcommittee, or in the case of a small board, the board itself. The size of the work unit can vary depending upon the structure of the organization (typical work units or committees range from three to five members). For the remainder of this checklist, "work unit" will be referred to as the "compensation committee."

B. The board should develop and authorize, according to the bylaws or traditional means, a written compensation committee charge, including responsibilities and procedures.

C. The members of the compensation committee should have the necessary knowledge to accomplish the work. Examples of professionals with relevant knowledge are attorney, accountant, human resource specialist, and nonprofit management specialist.

D. Members of the committee should not have financial or other significant social or personal relationships with the executive or other staff. The executive should ensure that the committee has adequate support, but the executive is not a member of the committee. Compensation committee members may need to be recruited from outside of the board according to the need for additional expertise.

Your potential compensation committee candidates have been identified and the recruitment process begun. List potential candidates below:

_____   _____

_____   _____

_____   _____

Recruitment of the compensation committee has been completed according to the criteria in C and D above. The final roster includes the following members:

_____   _____

_____   _____

_____   _____

A chair with strong leadership skills has been appointed.

_____

These next steps are to be completed by the compensation committee with the support of the organization's executive and staff members. The organization's board of directors is responsible for final approval of the policies.

II.   Preparation for Developing Your Organization's Compensation Policies

A. Gather Internal Background Information	Yes	No
1. Material has been assembled to inform the compensation committee about the current status of the organization. The material should include:		
• Mission Statement		
• Current job descriptions		
• Vision statement		
• Number of people in each position		
• Values		
• Organizational chart		
• Relevant organization history		
• Personnel policies		
• Organizational culture		
• Summarized employee information (demographics, tenure, etc.)		
2. Information on your organization's current compensation policies and practices has been obtained (including wage scales, benefits, and innovative compensation practices).		
3. Input has been solicited from the board, executive, and managers and supervisors regarding workforce concerns related to compensation policies.		
4. Current employee motivations and those of prospective employee markets have been identified.		
B. Gather External Background Information		
1. Appropriate workforce and market-pricing data has been obtained and reviewed and any additional data generated as needed.		
2. Innovative compensation practices have been reviewed to determine which ones are of interest.		
C. Identify Desired Outcomes		
1. Outcomes to be achieved from the compensation policies have been identified and agreed to by the organization leadership.		
2. Determination has been made as to the adequacy of data, and additional date has been gathered as needed.		
3. The need for a consultant has been determined and obtained as necessary.		

III. Update/Alter Current Policies and Practices to Reflect Desired Outcomes

	Yes	No
A. The organization chart, job descriptions, and related sections of the personnel policies have been reviewed and are revised as needed to meet current conditions.		
B. Basic wage scales and benefits have been revised or established.		
C. Equity in current compensation within the organization has been reviewed, and any corrective actions have been identified and addressed.		
D. Employee reactions to prospective innovative practices have been obtained.		
E. Additional advice or information has been obtained to allow for choices to be made about which, if any, innovative practices fit the organization's need.		
F. Decisions have been made on the innovative compensation practices that will be included/incorporated into current or new compensation policies.		

IV. Implement New Policies

	Yes	No
A. An integrated compensation plan has been developed.		
B. The board has approved the plan, and monitoring and evaluation mechanisms are in place.		
C. The plan has been communicated to employees.		

APPENDIX E

PERFORMANCE GOALS
FOR INCENTIVE COMPENSATION PROGRAM
FISCAL YEAR 2003/04[34]

FINANCIAL PERFORMANCE GOALS

A. Annual Community Campaign - $11.7M in 2004 compared to 11.325M in 2003

B. Total new Foundation dollars - $14.5M in 2004 compared to $6.421M in 2003

C. Foundations, Family Funds & Corporate Sponsorship - $2.050M in 2004 compared to $1.598M in 2003

D. Government grants - $1.6M in 2004 compared to $1.008M in 2003

E. Jewish Healthcare Foundation - $1.1M in 2004 compared to 1.032M in 2003

F. Cash Collections
   1. As of June 30, 2003 the annual pledge receivable balance on the most recently completed campaign (2002) is 9% or $1.017M of the 11.325M campaign achievement. The goal for next year is to reduce the percentage by .5% or $960,500.
   2. As of June 30, 2003 the annual pledge receivable balance for the prior 4 years (1998-2001) is 2.1% or $914K of the $42.65M campaign achievements. The goal for next year is to reduce the percentage by .5% or $703,200.

G. Community Service Budget
   On the non-personnel component of the 2003/04 budget ($1,299,600), the goal is to save 2.5% or approximately $32,000.

NON FINANCIAL PERFORMANCE GOALS
The performance goals below are intended to supplement the financial goal and reflect the UJF Personnel Committee's desire that these performance goals be:

A. Easily quantifiable and objective;
B. "Generic" indicators of UJF's overall value (akin to the way stock price reflects overall perceived value of a profit-making company);
C. "Organization-wide" measures– not focusing exclusively on what one department or part of the organization produces.
D. Effective in focusing the efforts of UJF's professional staff on UJF's highest priorities.

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[34] Taken from documents sent to the author from the Executive Director and re-printed with permission.

<u>Rationale:</u>

1) UJF's responsibility to the community is not simply to raise funds but to make sure that these funds are used most effectively to address community priorities;
2) this is the most "generic" and organization-wide performance measure because it amalgamates a) raising the maximum total dollars, b) maximizing waste reduction at UJF and at our Agencies; and
3) being most effective in investing the maximum amount of funding within priority areas.

I. Performance Goals for UJF Top Priorities:

A. Jewish Education
   1. Successfully hire new CEO for Central Agency by June 30, 2004
      Time Frame: Meets benchmarks of approved work plan
      Quality: Meets priority selection criteria
      Process: Consensus choice of Search Committee, Jewish Learning Commission, and UJF Trustees
   2. Establish structures for new Central Agency by June 30, 2004 (including organizational and governance structure, board of directors and initial by-laws)

B. Israel
   1. Total number of participants engaged in UJF-related Israel trips
      Measures: Missions, P2K trips, Israel scholarships
   2. Total number of donors engaged in Israel programs
      Measures: Number of events and number of participants in three categories:
      a.) community-wide events, b.) Israel education programs c.) volunteer for Israel activities

1. Israel Trips	2002-2003	2003-2004	% Change
a) Missions	41	90	+120%
b) P2K trips	44	70	+59%
c) UJF Israel scholarships & teacher trips	21	100	+376%
2. Israel Programs			
a) Community-wide events	6,635	8,700	+31%
b) Israel education programs (K-12)	1,700	2,400	+41%
c) UJF volunteers for Israel	415	500	+20%

C. Young Adult Engagement
   1. Total number of participants at Young Adults programs
         Measures: Number of programs and participants in three categories: 1) new
         young people added to database, 2) outreach event participants, and 3) new
         young leaders.

Young Adult Engagement	2002-2003	2003-2004	% Change
a) New young people added to database	135	150	+11%
b) Number of young people touched through events and/or outreach	250	300	+20%
c) Number of young leaders (engaged as solicitors, as members of a committee/ agency board, or as leadership course/conference participants)	49	60	+22%

Note: These numbers reflect the lack of a young adult staff person for almost a third
of the '03-'04 program year.

II. OUTREACH AND DONOR DEVELOPMENT

A. Complete Community-Wide Vision Statement by June 30, 2004, by giving 500
         community representatives opportunities for input in order to validate priorities
         and build broad support for long-term fund raising and allocations vision.

B. Address all five requirements of the August 15, 2003, UJF-JHF Block Grant Letter
   Agreement to strengthen UJF-JHF relationship. - Still under discussion with JHF

C. Number of annual campaign donors - 6850 in 2004 as compared to 6,850 in 2003

D. Number of new or renewed annual campaign donors - 1250 in 2004 compared to 939 in 2003

E. Number of solicitors - 250 in 2004 compared to 240 in 2003

F. Number of Parlor Meetings - 35 in 2004 compared to 22 in 2003

G. Number of new funds - 44 compared to 22 in 2003
         Number of new philanthropic funds - 10 compared to 7 in 2003
         Number of new LOJE funds - 6 compared to 3 in 2003
         Number of new PACE funds - 3 compared to 1 in 2003
         Number of new beneficiary agency designated funds - 8 compared to 4 in 2003
         Number of new Life Insurance policies - 5 compared to 1 in 2003
         Number of new unrestricted funds - 8 compared to 6 in 2003
         Number of Supporting Foundations - 1 compared to 0 in 2003
         Number of General Endowment Funds (Restricted to non-beneficiary agencies) -
                  3 compared to 0 in 2003

APPENDIX F

Guiding Interview Questions

Personal Information

- Describe your current role within the LA Federation.
    - Current title?
    - How long in current position?
    - Main responsibilities?

- Briefly describe your employment history.
    - With the Federation?
    - Have you worked with other Federations in other cities?
    - In other departments or capacities?

- What do you put on your tax forms as your occupation?

- Do you consider yourself a Jewish Communal Professional?

Intrinsic v. Extrinsic Motivation

- How would you define your general motivation level to do your job?

- What is it that motivates you to do what you do?

- On a scale of 1 to 10, with 1 being completely intrinsically motivated and 10 being completely extrinsically motivated, where would you rate yourself? Why?

- What personal or Jewish values, if any, guide your work?

- Are they specific to the work you do here or would they apply no matter what field you were in?

Performance/Rewards

- Do you think rewards for performance are important? Do they work? What is an example of a time you felt rewarded for something you did well?

- Do you think rewards to increase performance are important? Do you think they work?

- Do you have an example of an incentive that did/did not motivate you?

- Do you feel the work you currently *can be* measured accurately? In what terms? Why or why not?

- Do you feel your productivity *is currently being* measured accurately?

- Do you feel like you are as productive as you could be? Why, why not?

- What do you think would increase your productivity?

Individual v. Team

- Do you feel like your work goals are a combination of individual and team goals?

- Do you feel you have autonomy with your work?

- Do you feel that rewards and/or recognition are given individually or as a team?

- Which do you feel are given more value/recognition in the organization: team or individual contributions?

Incentive Systems

- Many people compare fundraising to sales, even use sales language, talking about "products" and "customers". What do you think about that?

- Do you think there are similarities between fundraising and sales? (in the methods we use to reach or engage donors? In the ways we measure success?)

- What do you think separates fundraising from sales?

- Are you aware the JFCGLA Collective Bargaining Agreement for 4/03-6/04 contains a provision enabling The Federation to implement an incentive program?

- Do you think such a program can be successfully implemented?

- Do you think it would affect your motivation? Your productivity?

- How do you think it would affect your relationships with your donors, board members?

- How, if at all, would it affect your interactions/collaboration with other campaign staff?

- How, if at all, do you think it would change the way you currently view/do your job?

- How, if at all, does it play into your current values system?

- Are there situational factors or circumstances under which you would consider an incentive program beneficial, appropriate?

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