The Chronicle of Philanthropy, August 15, 2013, Page 21

Using Corporate Compensation as Benchmark for Nonprofits Prompts Fierce Debate

By Suzanne Perry

In his quest to reshape the nonprofit world, Dan Pallotta draws perhaps the most criticism for his defense of big pay packages for nonprofit officials.

"In the for-profit sector, the more value you produce, the more money you can make," he said in his much-watched TED talk, "The Way We Think About Charity Is Dead Wrong."

"But we don't like nonprofits to use money to incentivize people to produce more in social service," he added. "We have a visceral reaction to the idea that anyone would make very much money helping other people. Interesting that we don't have a visceral reaction to the notion that people would make a lot of money not helping other people."

That view has its fans.

"What should we pay the nonprofit CEO that figures out how to stop 30,000 kids a day from dying from preventable causes? Whatever they want," Trevor Neilson, a global philanthropy adviser and former executive at the Bill & Melinda Gates Foundation, wrote in a post on the Huffington Post praising Mr. Pallotta.

But critics are appalled that Mr. Pallotta regularly points to the corporate world as some kind of model.

"Nonprofits should be able to pay competitive salaries, but this is a guy who looks uncritically, approvingly even, at corporate CEO salaries as the benchmark," says Phil Buchanan, president of the Center for Effective Philanthropy and a *Chronicle* columnist.

"Most Americans think the gap between corporate CEO pay and the pay of regular workers, which has expanded dramatically in the last decades, is a problem, not something that needs to become more widespread."

Tough Balance

Mr. Pallotta's argument about executive pay appealed to Milton Little, president of United Way of Greater Atlanta, when he agreed to serve on the five-member board of directors of Mr. Pallotta's Charity Defense Council.

One of that body's goals: to make the public realize that "poor executive compensation is not a strategic plan for ending hunger and poverty or curing disease."

Mr. Little says charities are being pushed to act more like businesses—for example, by becoming more results-oriented—but are "not allowed the full rein of what a business can do to operate."

United Ways across the country have drawn media scrutiny over the years for what some critics consider overly generous pay packages—including Mr. Little's own organization, when it offered a supplemental retirement payout of $1.6-million to his predecessor, Mark O'Connell (a sum the charity says was meant to restore benefits lost because of legislative changes to defined-benefit pension plans).

But Mr. Little says a complex charity like his needs to be able to attract “the best talent available.”

“The tension is between having somebody with the capability to manage and lead a $100-million enterprise and the idea there ought to be a ceiling on the salary so we can make sure little of the money is captured by overhead and salaries,” he says. “That is an awfully difficult balance to maintain.” (Mr. Little’s compensation was about $387,000 in 2011, according to the charity’s tax filing.)

Attracting Talent

Mr. Pallotta’s now-defunct for-profit fundraising firm, Pallotta TeamWorks, paid executives $300,000 and $400,000 salaries and “challenged the notion that you should not be able to do good and do well at the same time,” Mr. Pallotta writes in his book *Charity Case: How the Nonprofit Community Can Stand Up for Itself and Really Change the World.*

But those salaries and other expenses ate into the proceeds of the bike rides and walks the company organized to raise money for AIDS and breast-cancer causes, leading to a stream of negative news stories and several legal disputes over the amounts that actually made it to charities.

Mr. Pallotta’s detractors say the argument that salaries paid by nonprofits should be increased to attract top-flight candidates is insulting.

“The implication is we have all the stupid people because all the smart people are running video-game organizations,” says Jan Masaoka, chief executive of the California Association of Nonprofits. “We’re obviously more than competitive with the for-profit sector because we are obviously attracting the best people.”

The “real scandal,” she says, is not executive compensation, but low wages for workers in nonprofits like nursing homes.

Mr. Pallotta says the nonprofit world needs to rid itself of the notion that money is evil.

“If you’re happy making $50,000 a year as an executive director of an organization, great,” he says.

“But it might not be what makes everyone happy,” he adds.

“There might be very talented people out there who won’t do that job for less than $1-million and they would be well worth it. Stop denying the nonprofit sector talent because you have some sanctimonious ideal you want to unilaterally impose on the rest of the world.”