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Biannual Compensation and Benefits Survey Results

A summary of the only statewide report on association and nonprofit compensation packages

by Ed Ura
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For the first time, average trade association top executive compensation topped $100,000, continuing at least one segment of the nonprofit world's move toward, and even beyond, competitiveness with general industry. The results of the 2000 Association and Nonprofit Compensation and Benefit survey reflect what many executives have seen develop over the last decade: the entry of the association industry into the world of general industry competition for employees. While the dramatic compensation and benefit increases of the mid-1990s have moderated somewhat, low unemployment and an increased need for more technically skilled and sophisticated staff has caused yet another pressure on association budgets, and forced associations to be even more creative in their compensation and benefit program design. As is always the case, it is important to understand both what the findings say and what they do not.

The changes in compensation levels are primarily driven by trade associations, whose pay levels have increased to and beyond that of their professional association counterparts, both in the short and long term. The 2000 survey results illustrate a trend toward a differential between the two groups, particularly noticeable among middle management staff. Simple four-year comparisons indicate sharp increases in compensation levels among key management jobs in trade associations, compared to no little growth, and even decreases in rates in comparable jobs in professional associations. Clearly a part of any statistical change is caused by differences in the participant base, however, the importance of the findings should be clear to professional association executives – if you plan on providing high levels of services toward members, an examination of the compensation of those service providers is in order.

Rise in Compensation Continues... But Requires Careful Consideration

Overall compensation levels increased over the two-year period, for virtually every surveyed position. However, within each budget group, pay increases were relatively modest. Given that the participant base has not varied significantly, a reasonable conclusion is that successful associations, particularly trade associations, are growing significantly, with compensation following commensurately. That is, while the "average" 2000 top executive of a $1 million association is earning somewhat more than the average top executive of a $1 million association earned in 1998, many of the actual 1998 executives of those $1 million organizations in 1998 are now in a higher budget category, earning pay at the appropriate level.

Adding confusion to assessment of the data is the growing sophistication of many

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associations, requiring their entry into many technical fields, coupled with the tight economy that often requires compensation in excess of skills, or staffing at a level below what is really desired. For example, an association might have managed well with a non-degreed bookkeeper for years, but then finds the nature of the financial work demands a higher skill level. The association seeks a "Chief Financial Officer" and advertises as such, but finds that, the labor market being as it is today, the best it can find at what it can afford is a highly competent accountant. The job title remains the same, but the pay level is deceiving... too high for an accountant, but not high enough for a "real" CFO.

Upward Pressures Apply Unequally

Another key to using the survey results is to understand the economy outside the association industry. Association jobs tend to fall into one of two basic categories – industry-specific (e.g., membership, conventions, professional education), and "generic" (finance, information systems, etc.). In a sense, the industry matches the labor market for its own type of jobs – membership and convention professionals (as well as association executives) tend to move within the association community, rather than to general industry. As a result, for these jobs, the budget limitations and market pressures affect all associations – and all individuals, on a generally equal basis.

Traditionally, associations have used the work environment, as well as the nature of the labor market, to fill many of the "general-industry" competitive jobs. More favorable work schedules and more generous benefits have helped in acquiring talent, particularly when the employees are second income or early in their careers. Associations now face the challenge of direct competition with organizations who have more resources and are often more aggressive, who think little of dangling an additional $10 or $20 thousand dollars to lure an employee into what may be a less desirable situation.

Salary pressure is particularly intense in the technology profession, where skills and talents apply to all types of organizations. The perceived need to immediately rush to digitize every form of information, data and communication has resulted in the need to rely on consultants, or on employees who receive dozens of tempting calls from headhunters every week. Because of the difficulty in hiring and retaining staff, our anecdotal evidence suggests that many associations are purchasing their technology solutions, often regretting the decisions down the road.

Comparing to The Private Sector

It is obvious that the upward pressure of general industry, particularly in the technical fields, will push management and executive salaries to higher levels. In fact, while for many years association executives have fought for compensation increases to truly reflect their contributions and talents, they are now often asking for increases that come more from market forces than measurable performance. These increases are often essential to maintain an equitable compensation program, because failure to pay competitively at the executive level causes pay compression within the organization. Just as major league sports teams have learned the reality that even marginal talent demands exorbitant pay, association boards must come to the realization that when they have above average talent, they may need to compensate it at levels far beyond what they are accustomed to seeing.

At some point, there must be a realization that comparisons need to be made to general industry. This will be a very difficult transition, and must be done carefully, as comparison of the survey results indicates. Compensation is typically related to the scope and complexity of the organization, usually indicated by some financial measure. In manufacturing the traditional measure is revenues, in finance it is usually assets. The comparison is more easily made to manufacturing, as revenues are ... revenues. However, it also appears that on a revenue-to-revenue basis, association executives may fare slightly better than their colleagues in manufacturing. Pay levels are slightly higher, and benefits are typically also more generous. A recent MRC survey shows that top executive salaries in manufacturing average about 10 percent less than comparable (by revenue) association executives, although total compensation (base plus bonus) is higher for manufacturing executives.

The major caution for executives and boards in understanding these comparisons is that business owners develop "wealth" through the performance of their business, but association executives do not. It is not even fair or reasonable to compare retirement plans, as business owners often contemplate the sale of their business – or income derived from their children's operation of the business – to supplement their retirement lifestyle.

Benefit programs remain competitive and gain ground

As reported in 1998, associations provide generally competitive, and in some instances highly favorable, benefits programs to their executives and staff. Once again, there were significant improvements in both the prevalence and level of various benefits. The typical association will provide nine paid holidays in 2000. Vacation practices appear to have tightened up slightly for top executives, with associations requiring somewhat more service to earn vacation beyond three weeks; practices for other staff members remain about the same.

One area of significant improvement, from an employee's perspective, is the amount of health insurance premiums that they must pay for employee coverage. The survey results suggest a dramatic decrease in the percentage of health insurance premiums paid by employees – about 17 percent, compared to 32 percent in 1998. This probably results from a combination of circumstances, but remains significant. Plan provisions also appear more generous, with individual and full family deductibles at $125 and $250, respectively.

Despite dramatically increasing premium costs, dental insurance programs became more prevalent, and more generous, with employee deductibles cut almost in half. There has been about a ten percent increase in the incidence of life and disability insurance programs, and the life insurance and disability benefits have also increased significantly.

Another area of change in association benefits is the retirement arrangements made both for top executives and staff. In 1992, the most common retirement arrangement was deferred compensation, limited to the top executive. The year 2000 shows almost three-quarters of the participants providing some type of retirement program for their employees, with some type of savings program (401(k) or 403(b)) as the most popular.

Critical Areas to Consider

1. Accept competition from the general market. It is simply not enough to know what the association industry is doing. Particularly in the technology field, and for clerical and administrative jobs, it is important to note and deal with the trends in general industry.
2. Pay more attention to the environmental advantages you have to offer – assuming they exist. If your association has better, and relevant, benefits make sure your current and potential employees know it. Many association executives make a typical management mistake – they assume that the satisfaction they get from serving their members, from working long hours and giving up their weekends and vacations, is the same feeling their employees have – understand that in most cases, this is simply not true.
3. Tailor the compensation and benefits package to the type of employees you have. Many benefits are either not expected, or wasted, on many employees. Benefit and pay programs should be targeted not at executives' expectations, but at those of the "typical" employee.

Conclusion

The 2000 Association and Nonprofit Compensation and Benefits Survey provides a unique opportunity to see the response of the industry to increasing competition, both within and out of the general industry. The use of this report, in conjunction with other local and general industry surveys, will provide associations with the information they need to develop approaches to attract and motivate the skilled employees they will need to survive and prosper.

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