The Young and Restless: Generation Y in the Nonprofit Workforce

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Research Question
How does the nonprofit sector compensate Generation Y employees?

Brief Abstract
Nonprofit organizations must be able to attract and retain the next generation of its workforce. Current literature emphasizes the implementation of non-compensation benefits; however, this literature has largely failed to consider the specific characteristics of Generation Y. In particular, survey research has shown that Generation Y employees value compensation more than previous generations. This paper explores wage differentials, so that nonprofit managers can better implement management changes targeted at this generation. The results show that Generation Y employees are more educated than previous generations. This factor significantly impacts their expectations for compensation.

Key Findings
- Although both nonprofit and for-profit employees with advanced degrees earn more, for-profit employees are better compensated, despite the fact that a higher percentage of nonprofit employees hold advanced degrees.
- Female and racial/ethnic minority employees are compensated more equitably in the nonprofit sector.
- Non-wage compensation practices common in the nonprofit sector are not enough to serve a young, educated workforce who consider compensation an important factor.

Opportunities for Action
- As nonprofit education grows, employers will need to consider the monetary returns that young, educated professionals will expect in the development of compensation packages.
- Nonprofit organizations must consider the value of advanced education for their positions and be prepared to offer competitive compensation for positions in which advanced education is required.
- Practitioners can use the wage equity experienced by women and racial/ethnic minority groups as an HR strategy to attract and retain young workers.

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THE YOUNG AND RESTLESS: GENERATION Y IN THE NONPROFIT WORKFORCE

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ABSTRACT

The ability of nonprofit organizations to attract and retain the next generation of its workforce will play an integral role in the growth and vitality of the sector. Management literature provides a number of suggestions for nonprofit managers emphasizing a focus on enhancing non-compensation related job characteristics in order to attract and retain a young workforce. Yet, this literature largely ignores survey research which indicates that Generation Y employees value compensation and non-compensation related characteristics differently than previous generations. Before management changes are proposed and implemented by nonprofit managers, we must first understand *how* the nonprofit sector compensates Generation Y employees. This study enhances our understanding of wage differentials by using data from the 2001-2006 American Community Survey's to examine a sample of approximately 178,000 young, educated employees.

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Public, private and nonprofit managers may face problems in attracting and retaining a young, educated workforce, as Generation Y employees (those born between the late 1970's and early 1990's) value compensation more highly than previous generations in choosing employers. This may explain why young people are leaving positions more frequently than in the past (Cornelius, Corvington, and Rusega, 2008; Smith, 2008; Terjesen and Frey, 2008). Generation Y employees may present special challenges to nonprofit managers as nonprofit pay tends to be low. In fact, human resource suggestions tell nonprofit managers to focus on enhancing the non-pecuniary rewards of nonprofit work. These management suggestions are a result of nonprofit research on the motivations of nonprofit employees, who are thought to 'donate' their labor and accept lower wages, because of the intrinsic returns they receive from nonprofit employment (A. Preston, 1989; Weisbrod, 1983). Conducting research on wage differentials of Generation Y employees can help practitioners better understand *how* they are compensating this particular group before implementing human resource suggestions. Additionally, previous research on wage differentials has not focused on young, *educated* employees so it is not clear whether pay gaps between nonprofit and for profit workers are large in this segment of the population (Lanfranchi and Narch, 2006; Leete, 2001).

The first section of this paper presents an overview of survey findings on young employees that served as the catalyst for this research. The second section reviews previous empirical work exploring nonprofit, for profit wage differentials. In the remaining sections, using the 2001-2006 Census Bureaus' American Community Survey I use pooled cross section regression to compare the wage differentials of nonprofit and for profit Generation Y employees.

This article contributes to scholarly and practitioner oriented discourse on how to structure compensation practices for young, educated employees, for which little empirical work has been conducted. For nonprofit managers, understanding how young, educated employees are being compensated will help better tailor their compensation practices and create incentives that are integral to both the attraction and retention of Generation Y employees (Mesch and Rooney, 2008).

SURVEY FINDINGS OF WHAT MATTERS TO GENERATION Y EMPLOYEES

In a 2007 survey conducted by the Young Nonprofit Professionals Network, 45% of nonprofit employees stated that they did not intend to work in the nonprofit sector in their next position (C. Preston, 2007). A 2008 survey of young nonprofit employees reinforced these findings, as 69% of nonprofit employees reported feeling underpaid in their current positions and 64% reported that they had financial concerns about committing to a career in the nonprofit sector (Cornelius et. al., 2008). These concerns are especially strong for people of color as this same survey finds they "are more concerned with committing to the nonprofit sector because of financial issues than whites" (Cornelius et. al., 2008, p. 23).

Additionally, a recent survey report indicates that compensation is one of the most important factors for Generation Y employees when considering potential employers (Yahoo! HotJobs/Robert Half International, 2008; Smith, 2008). In a national survey of Generation Y employees, salary, benefits, and opportunities for career growth and advancement are the three most important job considerations (out of 11) (Yahoo! HotJobs/Robert Half International. 2008). Another report ranks compensation as the number one way employers can attract Generation Y employees (Smith, 2008).

EXISTING THEORIES OF NONPROFIT COMPENSATION

Nonprofit employees place more emphasis on the intrinsic rewards they receive from their jobs than for profit employees (Light, 2002; Light 2003; Mirvis and Hackett, 1983).[1] In fact, scholars posit that the nondistribution constraint (which prohibits nonprofit organizations from distributing profits to its owners) creates a self-sorting of individuals into the nonprofit sector (Hansman, 1980). Nonprofit employees are motivated by organizational goals rather than profit maximization (Hansman, 1980; Leete, 2006; Mesch and Rooney, 2008; Preston and Sacks, 2009). Nonprofit employees are often attracted to the non pecuniary and/or working conditions found in many nonprofit jobs (Benz, 2005; Leete, 2006; Light, 2002; Mirvis, 1992; Mirvis and Hackett, 1983; Onyx and MacLean, 1996; Preston, 1990). Furthermore, these non pecuniary aspects and working conditions contribute to high job satisfaction among nonprofit employees, despite lower wages than their for profit counterparts (Light, 2002).

Nonprofit wages are lower than for profit wages for two reasons. First, many nonprofit organizations concentrate in low paying industries (Leete, 2000; A. Preston, 1990; Salamon, 2002). Second, the labor donations hypothesis states that many nonprofit employees have a 'taste for altruism' and are willing to accept low wages recognizing that they produce a *different* type or quality of product and/or service than for profit employees. Nonprofit employees "derive well being from participating in the enterprise, and are thus willing to accept a lower wage" (Leete, 2006, p. 161). This leads to the first hypotheses for Generation Y employees:

> *Hypothesis 1: Employees who work in nonprofit organizations will be paid less than comparable employees who work in for profit organizations.*

Male, female pay differences are smaller in nonprofit organizations than in for profit organizations. Male, nonprofit employees experience larger penalties which creates greater equity between female, male wages within the nonprofit sector (A. Preston, 1988; Leete, 2008).

> *Hypothesis 2: The wage differential between men and women will be lower for nonprofit employees than for profit employees.*

Some studies find that minorities receive small wage *premiums* in industries predominately composed of nonprofit employees (Leete 2000; A. Preston, 1990; Ruhm and Borkoski, 2003). Leete (2000) finds that wage penalties for minorities are smaller in the nonprofit sector than the for profit sector. Ruhm and Borkoski (2003) posit that nonprofit organizations are more likely to pay equitably across different demographic groups to inspire and motivate its workforce (often composed of a large proportion of women and minority employees). The third hypothesis also follows from previous research:

> *Hypothesis 3: The wage differential between minority and whites is lower for nonprofit employees than for profit employees.*

Unfortunately, previous research on wage differentials does not take into account examining wage returns to *graduate* education, but using existing research on the overall compensation of nonprofit employees I hypothesize that even those employees who hold graduate degrees will be compensated less for this education than their for profit counterparts.

> *Hypothesis 4: Nonprofit employees with graduate education will earn less than for profit employees with graduate education.*

RESEARCH METHODOLOGY AND DESCRIPTION OF VARIABLES

I use the 2001-2006 U.S. Census Bureau's American Community Survey[2] to examine earnings[3, 4] differentials for young, educated nonprofit and for profit employees using pooled cross section regression. The data is restricted to employees aged 30 or younger, with at least Bachelors' degrees, who work full time (40 hours a week, 48 weeks of the year). This results in a dataset with 178,765 observations, of which 151,985 are for profit employees (approximately 85% of the sample) and 26,780 are nonprofit employees.

Two regressions examine the wage differentials between male and female wages, minorities and whites wages and returns to graduate education between nonprofit and for profit employees.

The dependent variable is the natural logarithm of annual earnings, which is adjusted for annual inflation using the Consumer Price Index. The independent variables are an employee's gender (coded 1 if an employee is female, and the reference group is male) and four race dummy variables (coded 0, 1 for each race category as respondents self-reported Latino/Hispanic, Asian-American, African-American, and Other/Mixed Race - here whites are the reference group). Additionally dummy variables for education are coded 0, 1 for Masters Degree, Professional Degree[5] or Doctorates (Bachelor's Degree is the reference group).

The models also include state, occupation categories, industry categories, work experience, hours, and weeks worked (Leete, 2001; Lewis & Faulk, 2008; A. Preston, 1989).[6] A dummy variable is included coded 0, 1 for all 52 geographic areas in the American Community Survey (this includes the 50 states as well as Washington D.C. and Puerto Rico). An employee's occupation and industry is included with 0, 1 dummy variables for each of the 22 occupations and 29 industry categories. Work experience of employees is controlled for with an interval level variable for the number of years of work experience, self-reported by respondents. Finally, both hours and weeks worked are introduced as control variables using an interval level variable for the number of (log) hours worked during the past week and the number of weeks worked in the past 12 months.[7]

FINDINGS

Similar to previous research findings a larger percentage of Generation Y nonprofit employees have attained more graduate education than for profit employees. (Preston, 1989; Ruhm and Borkoski, 2003). The proportion of Generation Y employees holding Masters Degrees and Doctorates is nearly twice as high as the proportion of for profit employees holding Masters Degrees and Doctorates.

Table 1
Descriptive Statistics of Nonprofit and For Profit Employees

	For Profit Employees	**Nonprofit Employees**
Annual Earnings (Median)**	$37,668	$31,300
Age (Mean)**	27	27
Experience (Mean Number of years)**	8.4	8.3
Female**	51.3%	70.3%
White**	76.7%	80.8%
Black**	5.2%	5.6%
Hispanic/Latino**	5.8%	5.0%
Asian-American**	10.4%	6.6%
Other/Mixed Race	1.7%	1.8%
Bachelors Degree**	82.9%	73.8%
Masters Degree**	11.9%	19.8%
Professional Degree**	4.2%	4.5%
Doctorate **	0.9%	1.9%
Number of Observations	151,985	26,780
** indicates that the t test results are statistically significant at the .05 level		

The Generation Y nonprofit workforce is also majority female, 70% compared to Generation Y for profit employees where only 51% of its workforce is female. The racial/ethnic composition of the Generation Y nonprofit workforce is statistically different than the composition of the Generation Y for profit workforce in terms of the percentages of Whites (80.8% nonprofit, 76.7% for profit), Blacks (5.6% for profit, 5.2% nonprofit), Hispanic/Latinos (5.0% nonprofit, 5.8% for profit) and Asian-Americans (6.6% nonprofit, 10.4% for profit). However, the percentage of Other/Mixed Race employees (1.8% nonprofit, 1.7% for profit) is similar in both nonprofit and for profit workforces. For both nonprofit and for profit Generation Y employees Asian-Americans compromise the highest percentage of Generation Y racial/ethnic groups. Other/Mixed Race employees compromise the smallest proportion of racial/ethnic groups while both Hispanic/Latino employees and Black employees compromise an equal percentage of the young, educated workforce (10.8%).

Additionally, Table 1 displays the earnings gap between nonprofit, for profit salaries. There is an overall wage gap of approximately $6,300 in median[8] salaries between nonprofit and for profit employees. This finding is also statistically significant. The t test supports Hypothesis 1, indicating that Generation Y nonprofit employees earn less than Generation Y for profit employees.

WAGE EQUITY FINDINGS

Nonprofit employees who are females and *certain* racial/ethnic groups are paid more equitably (in relation to men and whites respectively) than their for profit counterparts (Leete, 2000; Leete, 2001; A. Preston, 1988; A. Preston, 1990; Ruhm and Borkoski, 2003).

Table 2

Pooled Cross Section Regressions (log earnings) of Nonprofit and For Profit Wage Differntials

	For Profit Employees	Nonprofit Employees
Female	-0.0631***	0.00673
	-0.00302	-0.0068
Hispanic/Latino	-0.0776***	0.0215
	-0.00609	-0.0139
Asian-American	0.0332***	0.0259**
	-0.00492	-0.0128
Black	-0.0705***	-0.00631
	-0.00635	-0.0131
Other/Mixed Race	-0.0566***	-0.0171
	-0.0108	-0.0221
Masters Degree	0.171***	0.162***
	-0.00442	-0.00768
Professional Degree	0.225***	0.180***
	-0.00832	-0.0165
Ph.D.	0.381***	0.318***
	-0.0146	-0.0225
Hours (log) worked per week	0.752***	0.139***
	-0.00947	-0.0199
Weeks worked per year	0.0384***	0.0367***
	-0.00013	-0.000281
Work Experience	0.0674***	0.0581***
	-0.000614	-0.00136
*** p<0.01, ** p<0.05, * p<0.1		

Model also includes dummy variables for the following control variables a) 52 geographic areas (50 states, Puerto Rico and Washington D.C.) b) 29 Industry Categories (U.S. Census North American Industry Classification System) c) 22 Occupation Categories (U.S. Census Standard Occupational Categories. A full model is available upon request from the author.

Nonprofit female employees do not have statistically significant wage differentials when compared to nonprofit male employees. However, young women who are for profit employees earn approximately 6.3% less than men. This finding is consistent with previous research indicating that women and minorities are often paid more equitably in nonprofit work (A. Preston, 1988; Leete, 2008). This finding supports Hypothesis 2, that although women in nonprofit organizations earn less than men, this earnings differential is smaller than the earnings differential between female and male for profit employees. Table 3 provides additional information as the earnings of male and female salaries are reported for both nonprofit and for profit Generation Y employees. The difference between male, female earnings of nonprofit employees is only a $2,000 wage gap, while there is a $9,000 wage gap between male and female earnings of for profit employees. The small wage gap between male and female earnings among nonprofit employees is because of the fact that male nonprofit employees experience significant wage penalties in nonprofit work, earning approximately $10,000 less than for profit male employees. Scholars have noted this prima facie gap is likely due to the concentration of nonprofit organizations in low paying industries (Salamon, 2002).

Table 3
Descriptive Statistics of Nonprofit and For Profit employees Male, Female Wage Gap

	For Profit Employees	Nonprofit Employees
Annual Earnings (Median), Full Sample	$37,668	$31,300
Annual Earnings (Median), Male	$42,684	$32,877
Annual Earnings (Median), Female	$33,973	$30,960

For nonprofit employees, Blacks, Latino/Hispanics, and Other/Mixed Race employees coefficients are not statistically significant. On the other hand the majority of racial/ethnic groups who are for profit employees earn less than Whites. Hypothesis 3 is supported as the wage penalties experienced by racial/ethnic minority groups in the nonprofit workforce are almost nonexistent for Generation Y employees, while wage penalties are experienced for the majority of racial/ethnic for profit employees. Latino/Hispanic employees' earn 7.76 % less than Whites, Blacks earn 7.05% less than Whites, and Other/Mixed Race employees earn 5.66% less than Whites. For *all* racial/ethnic minority groups the largest wage differentials are faced in for profit industries.

Asian Americans are the only racial/ethnic group to experience wage equity as both nonprofit and for profit employees. In the nonprofit workforce, Asian-American employees earn approximately 2.59% more than Whites, while in the for profit sector, Asian-American employees earn approximately 3.32% more than Whites.

Although the wage equity experienced by women and racial/ethnic minority groups may be an incentive for young, educated racial/ethnic minorities to enter the nonprofit workforce it is a story that practitioners often do not use as an HR strategy to attract and retain young people.

RETURNS TO EDUCATION

Both nonprofit and for profit employees with advanced degrees earn more than employees with Bachelors' degrees. Although there are a higher percentage of nonprofit employees with advanced degrees (as compared to for profit employees), for profit employees with advanced degrees are being better compensated for their education.

Nonprofit and for profit employees with Masters degrees earn approximately 16.2% and 17.1% more than employees with Bachelors' degrees. Although the highest percentages of employees with Masters degrees are in the nonprofit workforce, these employees are compensated the least for their graduate education. For profit employees with Professional degrees earn approximately 23% more than employees with Bachelor's degrees, while nonprofit employees with Professional degrees earn approximately 18% more than employees with Bachelor's degrees. The findings regarding compensation returns to nonprofit and for profit employees who hold Doctorates are also similar with for profit employees with Doctorates earning 38% more than employees with Bachelor's degrees and nonprofit employees with Doctorates earning 31% more than employees with Bachelor's degrees.

DISCUSSION AND CONCLUSION

The findings for this particular segment of the workforce are consistent with previous research but also indicate that there are some specific nuances practitioners will have to understand about its young, educated workforce that are quite different from previous generations. Future research of Generation Y employees can help scholars understand wage penalty and benefits for specific racial/ethnic groups and how nonprofit compensation practices may be developed to address these issues.

Furthermore, examining the monetary returns to education for nonprofit and for profit employees provides additional avenues for research. Is there a mismatch between low paying nonprofit jobs and the education of its workforce? If so, what can explain the rise in the number of Masters Degree programs in nonprofit work or the number of nonprofit job opportunities requiring Masters Degrees in lieu of work experience? A closer analysis of the returns to education *within* nonprofit work reveals an integral reason for scholars and practitioners to better understand how they are compensating its young, educated nonprofit workforce. Nonprofit organizations may attempt to incentivize the workforce with non wage compensation or adaptations to the working environment or culture of an organization, but as survey results indicate this may not aid in attracting or retaining Generation Y employees.

The findings in this study suggest that the emphasis nonprofit literature has placed on structuring compensation practices (focusing on non wage compensation) for an intrinsically motivated workforce will likely not serve a young, educated workforce who considers compensation an important factor in their attraction and retention to potential employers. Although female and racial/ethnic minority nonprofit employees are being compensated more equitably, the low paying returns to education for employees indicate a mismatch between a young, educated workforce and compensation practices that will retain these employees.

Furthermore, this research raises a number of unanswered questions about the specific manner in which Generation Y employees value both compensation and non wage job characteristics, and most importantly how these may differ from previous generations. Future research in this area will help nonprofit managers and practitioners develop compensation practices that are competitive with other sectors, as they will be based on an understanding of the needs and values of a young, educated workforce. This generation of employees is critical to the continued growth and vitality of the nonprofit sector and empirical research will likely play an integral role in the nonprofit sector's ability to attract and retain a young, educated workforce.

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NOTES

1. There is also a good deal of research describing employees who enter nonprofit work for religious and moral reasons. For a summary overview of this research see Frumkin, 2002.
2. "The American Community Survey (ACS) was designed to provide current estimates of community change, and intended to replace the decennial Census long form by collecting and producing updated population and housing information every year instead of every 10 years. The ACS collects information from U.S. households similar to what was collected on the Census 2000 long form, such as income and employment, commute time to work, home value and expenses, type of housing, household composition, health status, and veteran status." (http://aspe.hhs.gov/hsp/06/Catalog-AI-AN-NA/ACS.htm)
3. Unlike most research that uses the log of hourly wages, I use the log of annual earnings as the dependent variable. This sample of college graduates are probably salaried rather than hourly employees, and will likely provide a more accurate

statement of their annual earnings as opposed to their hourly wage.

4. I use the log of annual earnings as the dependent variable. The kurtosis statistic of annual earnings adjusted for inflation with the CPI is 32.11, indicating that taking the log of annual earnings will produce more consistent findings of statistical significance, since this variable is highly skewed and not normally distributed.
5. The American Community Survey's questionnaire defines a Professional Degree as an MD, DDS, DVM, LLB or JD.
6. Although I have not submitted full models with all controls listed, they are available upon request from the author.
7. I do not control for age and experienced squared as other studies have because the samples age is restricted to those employees under 30 years old, as I am only examining Generation Y employees. The range of ages and experience in this sample is not large enough to demonstrate a curvilinear relationship between those variables and one's wage.
8. I use the median earnings in descriptive statistics rather than the mean earnings, since annual earnings are highly skewed throughout this sample, ranging from \$6,800 to \$164,000