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Rewarding Value in a Non-profit Organization

By Rob Rogers

One of the common distinctions made by leaders in the non-profit, tax-exempt world is the lack of opportunity of real “ownership.” In the for-profit world, it is common to include some type of “equity” award in the total compensation package for leadership. This equity takes the form of real common stock options, awards, and performance grants as well as phantom arrangements which are all tied to the stock value of the organization. For privately held entities, longer-term awards might be based upon enterprise value or actual book value. This is a key component that is missing in the non-profit setting whether it is a health care system, social service organization, community association or a quasi-governmental group.

Interestingly, in some ways measuring long-term value is even more important with a tax-exempt organization because the “shareholders” are taxpayers and members of the community. Some would argue that measuring real long-term value delivered is more relevant than dealing with the uncertainty of equity markets. The organizations are charged with delivering social value at a reasonable cost—in other words, the return on the taxpayer investment is measured by stakeholder outcomes. Those outcomes are measured by deliverables such as preventive care, counseling, addiction treatment, and prevention.

There has been a marked increase in the number of long-term performance based reward systems with these organizations, particularly in the health care industry. The most important component of a successful plan is the metrics used to gauge real value. What are real long-term value benchmarks that might be appropriate in the tax-exempt world? Historically long-term plans have been merely an accumulation of short-term metrics over a three to five year period. More recently the focus has appropriately shifted to metrics that may be completely different than those present in a short-term incentive plan. Typical short-term metrics will include financial margins, customer/patient satisfaction, and short-term quality goals. Long-term or value-focused metrics force a more strategic or visionary view of future guideposts for success. Questions that should be addressed include:

1. What is the real value of the organization?
2. Does the value increase, and if so, how?
3. What performance outcomes will increase the value?

Our level of “profitability” in this setting may only serve as a minimum threshold for an effective value-based reward. The real measures will be more about growth, market share, community impact, and employee brand. While margin may serve as a threshold, there may be components of the balance sheet that also serve as long-term metrics such as liquidity or debt ratios. There may also be a metric tied to increasing the net book value or change in net assets of the organization.

While the non-profits do not have real equity as currency, there is a significant opportunity to create a reward structure that is aligned with the common vision for the future and its deliverables going forward. It is incumbent upon leadership and governance to create a thoughtful visionary design that is truly a reflection of enterprise value—that can be meaningful for the executives and consistent with the needs of the stakeholders.

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