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Social Impact  
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# What is compensation?



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Compensation can be defined as "the level of pay/salaries of the employees in an organisation." Competent compensation positively affects talent attraction, retention (Brown et al., 2004) and motivation in Social Purpose Organisations (SPOs). While some metrics define compensation purely in monetary terms, such as salary/cash transactions, others also include intangible benefits like investments in learning opportunities.

Figure 1: Components of compensation





## Key findings

Compensation in SPOs constitutes monetary & non-monetary components as well as benefits offered by the organisation. Monetary sources include those items which are paid in financial form (e.g.: salary, reimbursements); or can be monetised by comparing similar things in the market (e.g.: health insurance); or through a proxy (e.g.: monetising unused leave). Non-monetary components are those for which a monetary approximation is complex, for example: job enrichment by providing diverse work opportunities to personnel.

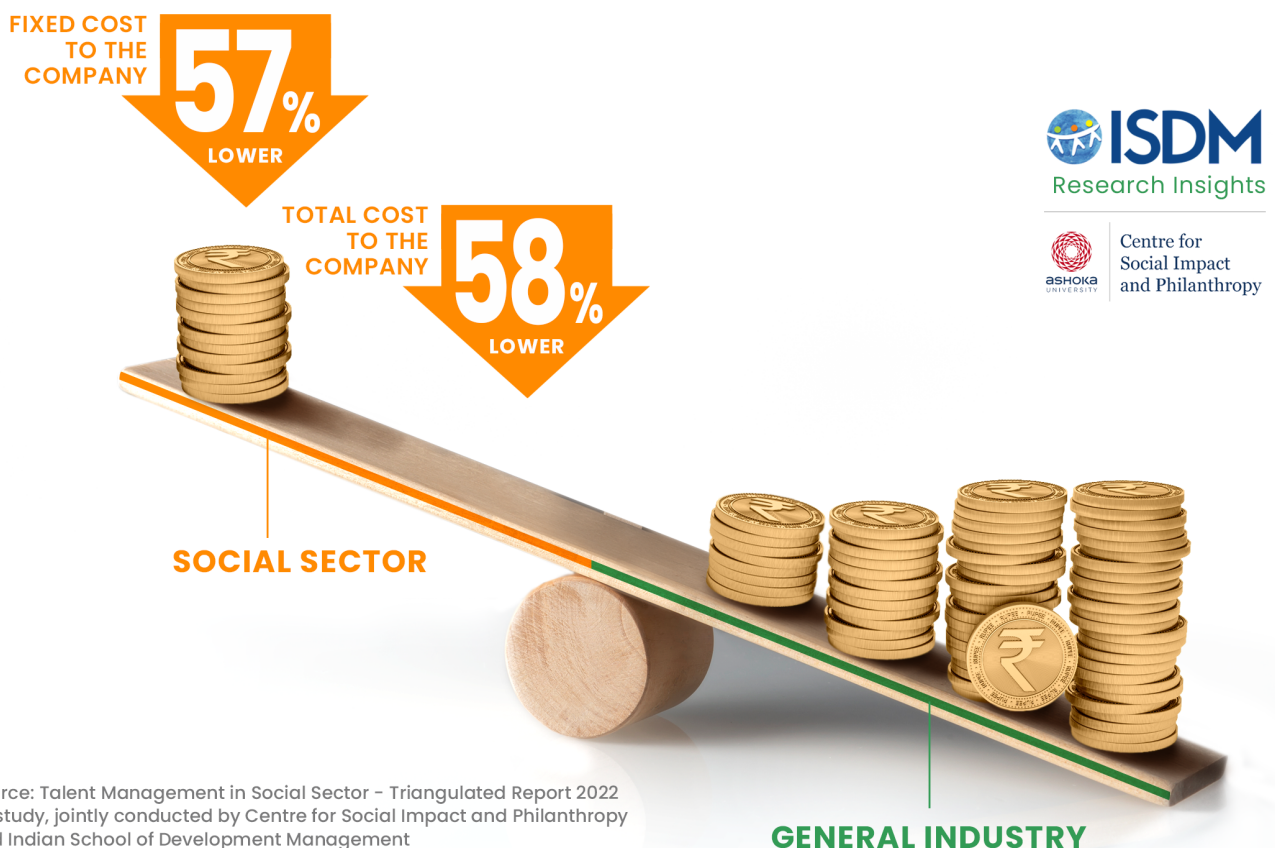
The study **“Compensation Benchmarking in the Indian Social Sector”** benchmarked the sector's compensation against compensation levels in the General Industry (GI). Pay in the social sector consists of four components: basic salary, allowances, benefits, and short-term incentives. The study revealed that personnel in social sector organisations are paid lower than the general industry across all levels. The study reported that compensation in the overall social sector needs improvement.

The study found the existence of a positive relationship between education and experience levels within an organisation, with the salary of the executive staff. Managerial performance has a positive relation to compensation, and the two measures of such performances used by organisations are fundraising and cost-effectiveness, especially when deciding the CEO's compensation levels. Compensation levels are positively influenced by indirect factors (such as organisational commitment to employee well-being), as they display the organisation's sensitivity towards the well-being of employees. The study also finds that executive-employee level factors such as intrinsic motivation could have a negative impact on the compensation levels of an organisation's staff, as intrinsically motivated individuals may accept wages for their efforts that are lower than the norm in the organisation/sector.

The study also suggests a positive relationship between education, experience (tenure in office), and the salary of the executive staff. Hence this is an essential factor in determining compensation levels.

**Figure 2: Compensation Parity in Social Sector organisations compared to General Industry (GI)**

### Compensation Parity: Does it exist ?



## What does the social sector do well in compensation ?



Within organisations in the social sector, compensation also constitutes non-monetary components and benefits, for example: investment and learning opportunities, providing diverse work opportunities to personnel as a form of job enrichment, as well as other benefits including flexible leave policies. Investments in culture and leadership development were revealed to also be a part of compensation practices in some organisations: for instance, factoring empathy towards personnel in the task of designing the structures and processes of compensation.

In Non-Governmental Organisations and Social Enterprises (NGOs & SEs) and Funding Organisations (FOs), team performance, organisation performance and individual skills are the top three factors; while in the case of Ecosystem Support Organisations (ESOs), individual performance, skills, and team performance are the three most crucial factors determining compensation. In FOs, organisational performance, team performance and current compensation levels compared to peer SPOs are three critical elements for compensation increment.

## What does it not do well in compensation ?

According to the study “**Personnel Perception of Talent Management in the Indian Social Sector,**” social sector personnel voice a lack of fair compensation, benefits, and recognition when going beyond the regular job, receiving proper feedback from managers and scope of improvement for work, structure & resources in all organisations except South India. Individual skill is a top factor influencing compensation increment in all regions except East India. Team performance is a top factor in all except South India. Personnel in North India rank competition with peers also as one of the top factors influencing increment. Despite being paid relatively high compensation compared to NGOs/SEs, personnel in both FOs and ESOs displayed strong discontent towards compensation. **Only 40% of employees in FOs and 43% of ESO personnel feel that fair compensation is provided to them, while 53% of employees in FOs and 51% in ESOs feel that the benefits offered meet their needs.** Personnel in FOs also feel their bonus/incentives are not aligned with the efforts they put into their work. In ESOs, employees also feel there is poor implementation of organisations' policies and practices. Personnel in these organisations display a lack of intent to stay as they feel disconnected and demotivated.

## Factors affecting compensation

The overall performance of the organisation relates positively to the level of compensation. Levels of compensation vary between organisation sizes, as well as differing for varying levels of employees.

The quality of governance in the organisation affects compensation. For instance, lower quality and governance may result in lowering employee pays coupled with higher executive pays: this may result in the inefficient use of power and general reduction in performance levels.

The presence of volunteers assists in reducing the cost of turnovers if regular employees leave the organisation, thus acting as a buffer, and also reduces the need of the organisation to pay their employees efficiency wages.

The availability of funds to an organisation is also a major factor in deciding the levels of compensation followed by the organisation, as is

the classification of the employees of the organisation in terms of task significance and complexity. The definition of key personnel and the size of the organisation are also significant factors, which are defined according to the uniqueness and work expertise of their profiles as well as market competition for similar talent.

An organisation's existing compensation framework and the expectations of recruits, especially if they belong to talent segments critical to the organisation's success, also leads to organisations reconsidering their compensation.

Furthermore, government regulations significantly affect the benefits extended by SPOs to their employees. Regulations affect both the nature of employee engagement (like a contractual employee or a full-time employee) and the benefits they receive from the organisation.



Figure 3: Perceptions of social sector professionals about the sector

## Perceptions of social sector professionals about their work and the “sectors”



### Purpose and commitment:

Personnel in the social sector display a strong sense of purpose and association with the organisations.

### Issues:

Lack of good communication between departments in the organisation and fair assignment of promotions and assignments seems to be an issue.



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Source: Decoding Talent: Talent Management in Social Sector. September 2022

## Key recommendations

Ensuring parity in compensation practice enables organisations to adopt a more transparent approach to structuring compensation levels and benefits. Benchmarking compensation can positively affect talent motivations, which would allow SPOs to display their commitment to ensuring fair compensation practices.

Investing in learning and development opportunities at an organisational level can positively affect talent motivation and retention levels across diverse personnel functions, as well as offer a higher return on their investment as the boosted talent capacity helps develop and further organisational goals and practices.

In order to counter the frequent resource constraints faced by organisations in the social sector in terms of conducting exercises like mapping their compensation levels, organisations should take part in similar studies that are conducted across the social sector ecosystem. This would help them compare their own compensation levels and policies with different organisations in the sector.

Also read

**Decoding Talent: Talent Management in the Indian Social Sector (2022) –**  
Chapter 3: Compensation and Benefits.

The Talent Management study was conducted with Guidestar India, KornFerry and SATTVA as execution partners.