Insights Into Incentive Compensation

Higher education development programs with and without formal performance incentives
Few topics in the development profession are as polarizing as the idea of providing financial incentives to development officers. Some see these incentives as a form of commission, which has long been anathema to the field. Others see incentives as one technique among many for addressing the talent challenges faced by the industry.

Larger fundraising programs have been using incentive compensation for decades. Yet conversations about these programs are often held in hushed tones. Even development program leaders who are using them ethically and effectively are aware that there is still a significant stigma attached to the idea of tying fundraisers’ compensation to their productivity.

We asked senior managers of higher education development programs to tell us about their assessment programs for development officers. Our study explored the results achieved by those programs using performance metrics alone and by those programs with a formal incentive compensation structure.

Retention of strong performers was the most commonly cited rationale for an incentives program, followed closely by increased fundraising results. Our work with universities over decades has shown that the former leads to the latter. It commonly takes 18 to 24 months to develop an engaged prospect to the point of successful major gift solicitation. Staff turnover can disrupt the process. Our study found that programs with incentive compensation showed positive results in both of these key areas. Employee retention improved, and dollars raised increased. These results challenge two common negative perceptions about development officers: first, that they change jobs frequently; and second, that they will sacrifice relationship building in favor of soliciting smaller gifts in the short term to achieve their incentive pay.

Programs using metrics without incentive compensation also saw improvements in staff and program performance. We have seen that strong development officers thrive in environments where expectations are clear and where they are supported in achieving these expectations. In the competition for a scarce pool of talented, experienced officers, the thoughtful and strategic use of performance measures may give a hiring university an advantage in attracting the interest of discerning candidates.

There are cultural challenges with incentive compensation programs. Other parts of the university, and other staff within the development program, may resent those who receive incentive pay. Vice presidents might find themselves having to determine what balance they want between high program performance and overall employee morale. And universities must be prepared to discuss these programs candidly and persuasively with donors who inquire.

This is the first iteration of a study we intend to repeat over time, as this component of the field continues to evolve. We welcome your feedback and look forward to discussing these findings with you.

Penelepe Hunt, Senior Consultant & Principal, Leader of Talent Development
Incentive compensation programs often share a similar structure:
- awarded annually
- from regular operating funds
- permanent part of the compensation structure
- metrics measured individually

50% of institutions without incentive compensation programs reported offering ad hoc bonuses in Advancement.

Most likely to be covered by incentive compensation and metrics-only programs:

**Gift officers and Advancement leadership**

### Incentive Compensation Program

**Goals**
- #1 Employee retention
- #2 Employee recruitment
- #3 Improved employee performance

### Metrics-Only Program

**Goals**
- #1 Improved employee performance
- #2 Higher overall revenue
- #3 Larger gifts

67% of incentive compensation respondents versus 25% of metrics-only respondents found employee retention to be improved.

100% of incentive compensation respondents reported improvement in dollars raised and visits.

Both types of programs had a positive impact on organizational culture.

Most believe incentive compensation will become more common in the fundraising industry.
- 90% of incentive compensation programs said this would have a positive or very positive impact on the industry.
- 47% of metrics-only respondents said this would have a negative or very negative impact on the industry.
The pool of fundraising talent has tightened considerably over the past decade. As public funding sources diminish, institutions large and small have initiated, or expanded, development programs. The competition for good development officers is fierce across all components of the nonprofit sector. In response to this new reality, organizations are looking for new and creative methods for recruitment and retention. Incentive compensation is a standard component of recruitment and retention packages in the private sector, but the nonprofit sector has been slow to adopt it. Concerns regarding the efficacy and ethical implications of such programs abound.

Marts & Lundy conducted a survey of Advancement leaders in select higher education institutions to examine how incentive programs are structured, whether they are achieving desired goals, how they compare to metrics-only programs and how they are perceived across the sector. Incentive compensation was defined in this survey as a program that provides specific monetary compensation for meeting a set of predefined performance expectations, which may or may not include fundraising dollar goals. Metrics-only respondents in this survey are institutions that track quantifiable, measurable activities or outcomes and use these to evaluate employee performance.

Sixty-three higher education institutions responded to the survey; of these, 11 (17.5%) reported having incentive compensation programs in Advancement. These 11 institutions received questions about the structure and efficacy of their incentive compensation programs. Of the remaining 52 institutions, all but one reported having a formal metrics programs without incentive compensation ("metrics-only"). These organizations were asked about the structure and efficacy of their metrics programs, and all institutions were asked about their perceptions of incentive compensation in the fundraising industry as a whole.

We asked all survey respondents, “What, if anything, would you like to learn about incentive compensation?” Some typical responses included:

- “Everything! I’d love to know what others are doing. No one seems to want to share when I ask directly.”
- “A model that works. I was once part of a program where it was a total secret. There was no transparency about how you earned it. In fact, the percentage amount went up and down.”
- “At what level are they offered? Are only major gift officers offered plans?”
- “What percentage of compensation is tied to incentives? Is it dependent on financial achievement of the organization?”

In this report, we aim to answer these questions and more.
Introduction

About the Respondents
Fifty-nine of the 63 survey respondents reported that their survey responses represented Central Advancement, including two that reported a centralized/decentralized hybrid system. Incentive compensation programs are more common at larger institutions with more employees and higher budgets. Seven of the 10 incentive compensation institutions reported Advancement divisions with 100 or more employees and $100M or more raised annually. The other institutions reporting incentive compensation programs were some of the smallest institutions surveyed. Proportional to the overall responses, midsize respondents did not report having as many incentive compensation programs.

Number of Advancement Employees

Amount Raised Annually

Annual Advancement Operating Budget
Outside of Advancement, institutions reported incentive compensation programs in Alumni Relations (3), Investment Management (3), Student Enrollment (2), Financial Management (1), Human Resources (1) and the President's Office (1). Twenty-one of these universities also reported having considered an incentive compensation program in Advancement in the past, and 15 reported that they expect incentive compensation to be implemented at their organization in the near future.

**Do you anticipate that incentive compensation will be added to the development/advancement division at your organization?**

<table>
<thead>
<tr>
<th>Response</th>
<th>Metrics Only</th>
<th>Incentive Compensation</th>
</tr>
</thead>
<tbody>
<tr>
<td>No</td>
<td>26</td>
<td></td>
</tr>
<tr>
<td>Unsure</td>
<td>10</td>
<td></td>
</tr>
<tr>
<td>Yes, within the next three years</td>
<td>9</td>
<td></td>
</tr>
<tr>
<td>Yes, unsure of the timeline</td>
<td>5</td>
<td></td>
</tr>
<tr>
<td>Yes, for the next campaign</td>
<td>1</td>
<td></td>
</tr>
</tbody>
</table>

Respondents from both metrics-only and incentive compensation programs mostly reported that these programs had been established for at least a year, but metrics-only programs were reported to be generally more mature, with 73% of these programs being at least three years old.

**How long has the program been in place?**

<table>
<thead>
<tr>
<th>Time Period</th>
<th>Metrics Only</th>
<th>Incentive Compensation</th>
</tr>
</thead>
<tbody>
<tr>
<td>More than 5 years</td>
<td>40%</td>
<td>27%</td>
</tr>
<tr>
<td>3–5 years</td>
<td>33%</td>
<td>27%</td>
</tr>
<tr>
<td>1–2 years</td>
<td>10%</td>
<td>36%</td>
</tr>
<tr>
<td>Less than 1 year</td>
<td>13%</td>
<td>9%</td>
</tr>
<tr>
<td>No Answer</td>
<td>4%</td>
<td></td>
</tr>
</tbody>
</table>
Incentive Compensation

Structure

Some basic elements of incentive compensation program structure appear to be consistent across a wide majority of responding institutions:

- Ten of the 11 incentive compensation respondents reported that their programs are a permanent part of Advancement’s compensation structure.
- Ten of 11 respondents also reported that their programs are funded by regular operating funds rather than strategic initiative or campaign funds.
- Nine of 11 respondents reported that incentives are awarded annually. One of these nine reported incentives also being awarded at the end of a campaign. The two remaining respondents reported that incentives are awarded over multiple years.
- Respondents indicated that the particular details of their incentive programs are only communicated to individuals participating in the program, not to any nonparticipants. Institutions most often communicate their program parameters through managers (7), written communication (5) and/or in hiring orientation (4).
- All 11 responding institutions indicated that to determine incentive compensation awards, metrics are measured individually. Three of the 11 reported that metrics measured by a team (1), all of development (2) and/or the entire organization (1) also contribute to incentive compensation awards.

Other elements of incentive compensation programs demonstrated more diversity in structure:

- Five respondents reported that enrollment in their incentive programs is dictated by the employee’s job category (e.g., all MGOs or all VPs). Two additional respondents reported that all Advancement employees are automatically included in their incentive programs. Enrollment in the programs for the remaining four institutions was split into being determined by specific hiring packages (1), managers selecting individuals for enrollment (1) and enrollment based on length of employment (1) or scope/responsibility (1).
- Seven of the survey respondents reported that incentives are awarded as flat dollar amounts, while the remaining four respondents reported that incentives are determined as a percentage of base salary. In both the percentage-of-base-salary and flat-dollar-amount systems, incentive payments most commonly represented 5–9% of base salaries across position types.
Within incentive compensation programs, gift officers and development officers with prospect portfolios are the type of positions most often covered by the programs, followed by leadership positions. Only one responding institution reported having incentive compensation available at the administrative professional level.

**Position Most Often Covered by Incentive Compensation Programs**

<table>
<thead>
<tr>
<th>Category</th>
<th>Count</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gift Officers and Development Officers with Prospect Portfolios</td>
<td>9</td>
</tr>
<tr>
<td>Leadership within Development/Advancement (e.g., CDOs, VPs, AVPs)</td>
<td>6</td>
</tr>
<tr>
<td>Annual Giving</td>
<td>4</td>
</tr>
<tr>
<td>Corporate and Foundation Relations Officers</td>
<td>3</td>
</tr>
<tr>
<td>Alumni Relations</td>
<td>2</td>
</tr>
<tr>
<td>Advancement Services, including Prospect Management, Research, Analytics</td>
<td>2</td>
</tr>
<tr>
<td>Administrative Professionals</td>
<td>1</td>
</tr>
</tbody>
</table>

**Goals, Metrics and Efficacy**

Institutions indicating they have an incentive compensation program were asked only to report and evaluate the goals and metrics associated with that program; these programs may have additional non-incentive compensation metrics that are not reported here.

The most commonly reported metric was dollars raised, which aligns with the position that is most frequently eligible for incentive compensation: development officers with prospect portfolios. About half of respondents reported that development officers are also measured on their number of solicitations, gifts and visits.
**Incentive Compensation**

### Metrics by Position in Incentive Compensation Programs
(% of total Incentive Compensation Respondents)

<table>
<thead>
<tr>
<th>Metric</th>
<th>Chief Development Officers</th>
<th>AVPs and VPs</th>
<th>Development Officers with Portfolios</th>
<th>Other Development Staff</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dollars Raised</td>
<td>36%</td>
<td>27%</td>
<td>82%</td>
<td>9%</td>
</tr>
<tr>
<td>Visits</td>
<td>18%</td>
<td>9%</td>
<td>45%</td>
<td></td>
</tr>
<tr>
<td>Solicitations</td>
<td>18%</td>
<td>18%</td>
<td>55%</td>
<td></td>
</tr>
<tr>
<td>New Prospects</td>
<td>27%</td>
<td>9%</td>
<td>36%</td>
<td></td>
</tr>
<tr>
<td>Number of Gifts</td>
<td>18%</td>
<td>18%</td>
<td>45%</td>
<td>9%</td>
</tr>
<tr>
<td>New/Retained/ Reactivated Donors</td>
<td>18%</td>
<td>9%</td>
<td>18%</td>
<td></td>
</tr>
<tr>
<td>Portfolio Capacity Fulfillment</td>
<td>18%</td>
<td>9%</td>
<td>27%</td>
<td></td>
</tr>
</tbody>
</table>

*Institutions with incentive compensation rated their program’s impacts on these metrics very highly,* with all responding universities reporting improvement in dollars raised and number of visits. No metric was found to have worsened, and only a few respondents reported no change in solicitations and number of gifts.

### Has performance on metrics improved with the incentive compensation program?

- Dollars Raised: 100%
- Visits: 100%
- Solicitations: 83% with 17% unsure
- New Prospects: 83% with 17% unsure
- New/Retained/ Reactivated Donors: 80% with 20% unsure
- Number of Gifts: 83% with 17% unsure
- Ratio of Dollars Raised to Portfolio Capacity: 67% with 33% unsure

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*Improved  No Change  Unsure*
Incentive Compensation

Has performance on metrics improved with incentive compensation?
In incentive compensation programs, metrics are most often only privately reviewed, with just under half of the programs reporting that metrics are publicly shared through a ranking system or reports that are accessible by other employees of the same seniority. Metrics for incentive compensation evaluation are most often measured through objective data pulled from the donor database (82%); three organizations use dashboards or data visualizations in addition to donor database reports. Under half of respondents reported that manager observation plays a role in metrics review (45%), and two of the 11 respondents reported that metrics are measured by manager observation alone.

The goals of incentive compensation programs were reported to be principally aimed at employee retention and, secondarily, at employee recruitment and improved performance.

What are the goals of the incentive compensation program?

<table>
<thead>
<tr>
<th>Goal</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employee Retention</td>
<td>90%</td>
</tr>
<tr>
<td>Employee Recruitment</td>
<td>60%</td>
</tr>
<tr>
<td>Improved Employee Performance</td>
<td>60%</td>
</tr>
<tr>
<td>Higher Overall Revenue</td>
<td>40%</td>
</tr>
<tr>
<td>Larger Gifts</td>
<td>30%</td>
</tr>
</tbody>
</table>

When respondents rated their programs’ performance in achieving these organizational goals, about half reported improvement in most of the suggested goals. Though no respondents reported worsening performance on organizational goals, *employee recruitment received the weakest evaluation despite being selected as one of the main goals for incentive compensation.*
Management Observations of Incentive Compensation Programs

Nine of the 11 incentive compensation respondents expect their incentive compensation programs to continue, though seven expect that their programs will change. No responding institutions reported that they expected their incentive compensation programs to be canceled.

While a plurality of organizations found that their incentive compensation programs had a “Positive” or “Very Positive” impact on organizational culture, 40% of respondents felt the impact was neutral. No respondents reported a “Very Negative” impact on culture.

When asked about particular successes of incentive compensation programs, responses were in line with the data on incentive compensation program goals:

- “A solid candidate was recruited who would not have come otherwise.”
- “Helped seal the deal with two candidates, and it is working as a retention incentive for a couple of others.”

Some respondents felt overwhelmingly positive about the program:

- “Best fundraising year ever.”
- “Best thing we did.”

Some respondents reported that despite supporting the intentions of their incentive compensation programs, their organizations are looking for a “less controversial” and more inclusive method.

- “Can cause unhealthy competition; those not eligible don’t like the fact that they can’t participate.”

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**Incentive Compensation Program’s Impact on Internal Culture**

- Positive & Very Positive: 50%
- Neutral: 40%
- Negative: 10%
Metrics-only respondents in this survey are institutions that track quantifiable, measurable activities or outcomes and use these to evaluate employee performance. While these institutions do not have incentive compensation programs in Advancement, other types of bonuses were not uncommon in this group. Twenty-six universities without incentive compensation programs reported awarding other types of bonuses within Advancement (50% of the respondents to this particular question). Some examples of bonuses identified include:

- One-time bonuses for extreme, extra-special or above-and-beyond performance.
- Bonuses for the end of a campaign.
- Small gift cards given “on the spot” for exceptional work.
- Merit-based raises or adjusting salary at nontraditional times to reflect exceptional work.
- Bonuses for taking on additional duties or special projects.
- Bonuses based on supervisor recommendations.

Structure

In metrics-only programs, gift officers and development officers with prospect portfolios are the types of position most often covered by the program, followed by leadership positions. Only four responding institutions reported using metrics for administrative professional positions.
## Goals, Metrics and Efficacy

Metrics-only programs reported wide use of a few traditional major giving metrics: visits, dollars raised and solicitations. These are particularly important metrics for development officers with prospect portfolios and are also most prominent for CDOs and VPs/AVPs.

### Metrics by Position in Metrics-Only Programs

(% of total Metrics-Only Respondents)

<table>
<thead>
<tr>
<th>Metric</th>
<th>Chief Development Officers</th>
<th>AVPs and VPs</th>
<th>Development Officers with Portfolios</th>
<th>Other Development Staff</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dollars Raised</td>
<td>75%</td>
<td>61%</td>
<td>78%</td>
<td>24%</td>
</tr>
<tr>
<td>Visits</td>
<td>59%</td>
<td>53%</td>
<td>88%</td>
<td>27%</td>
</tr>
<tr>
<td>Solicitations</td>
<td>57%</td>
<td>53%</td>
<td>80%</td>
<td>20%</td>
</tr>
<tr>
<td>New Prospects</td>
<td>27%</td>
<td>27%</td>
<td>63%</td>
<td>24%</td>
</tr>
<tr>
<td>Number of Gifts</td>
<td>41%</td>
<td>37%</td>
<td>59%</td>
<td>20%</td>
</tr>
<tr>
<td>New/Retained/Reactivated Donors</td>
<td>20%</td>
<td>14%</td>
<td>39%</td>
<td>22%</td>
</tr>
<tr>
<td>Portfolio Capacity Fulfillment</td>
<td>10%</td>
<td>6%</td>
<td>20%</td>
<td>2%</td>
</tr>
</tbody>
</table>
When evaluating the metrics-only program’s impact on employee performance, most saw improvement across the range of available metrics. A small portion of the institutions reported worsening of performance on two of the three core metrics identified: visits and solicitations.

In metrics-only programs, the review of metrics was evenly split between being only privately reviewed (20) and publicly shared (21). Eighty-four percent of metrics-only respondents use reports from their donor databases to review metrics performance, and 55% reported also reviewing this data through dashboards or data visualization tools. Manager observation is a method of metrics review for 55% of respondents in metrics-only programs, and three respondents reported manager observation as the only method of metrics review at their institutions.

The organizational goals for metrics-only programs are primarily improved employee performance and higher overall revenue, followed closely by larger gifts.
What are the goals of the metrics-only incentive compensation program?

- Improved Employee Performance: 94%
- Higher Overall Revenue: 78%
- Larger Gifts: 65%
- Employee Retention: 35%
- Employee Recruitment: 18%

Most institutions reported improved organizational performance on these core metrics program goals.

Has metrics-tracking improved performance on the intended goals?

- Employee Performance: 75% Improved, 7% No Change, 16% Unsure, 2% Not a Goal
- Higher Overall Revenue: 76% Improved, 5% No Change, 15% Unsure, 5% Not a Goal
- Larger Gifts: 59% Improved, 15% No Change, 18% Unsure, 8% Not a Goal
- Employee Retention: 28% Improved, 25% No Change, 11% Unsure, 36% Not a Goal
- Employee Recruitment: 14% Improved, 26% No Change, 17% Unsure, 43% Not a Goal
- Other: 25% Improved, 25% No Change, 25% Unsure, 50% Not a Goal
Management Observations of Metrics-Only Programs

*Metrics-only institutions evaluated their programs as overwhelmingly “Positive” or “Very Positive” for organizational culture.*

Many metrics-only respondents found that the solicitations and visits improved after implementing metrics and that the program fostered a “natural sense of good-natured competition.”

“Before metrics, the staff were unfocused. Stellar performers were unsure of expectations, while poorer performers were able to hide behind a lack of expectation. With metrics, expectations are very clear, and that’s helped with a comfort level for staff, as they know what’s expected and how they will be measured. Also, we don’t use one-size-fits-all metrics: we have a conversation with each staff individually each year to determine the right metrics for him/her. It’s a two-way conversation.”

Many commenters indicated that metrics programs have helped clarify expectations and increased focus on institutional goals, **creating a culture of accountability and achievement** and allowing Advancement to demonstrate clear successes to administrative and academic leadership and trustees.

Metrics-only respondents provided few neutral or negative comments, but some said there had been “mixed effects” and a sense that metrics are “a moving target” or that the organization is not ready to implement them. Others argued that they are seeing an increase in quantity of visits and solicitations but need to adjust the metrics program to promote quality over quantity.

Moving forward, metrics-only respondents highlighted the importance of having managers who can use their metrics programs effectively and that the metrics need to shift and mature as priorities change. Implementing metrics slowly and having the process be a “two-way conversation” between fundraisers and managers made the implementation less threatening. One respondent noted, “We’ve come a long way, but there’s more to do.”
Incentive and Metrics-Only Comparison

Responding institutions with metrics-only and incentive compensation programs were asked parallel questions to compare the two types of programs on metrics used, goals and the efficacy of the programs in moving metrics and accomplishing goals.

“There was a tremendous amount of resistance, but now that it has been in place for several years, people are happy to know what success looks like, and we are able to better argue for more positions and resources.”

Structure

For both incentive compensation and metrics-only programs, gift officers and development officers with prospect portfolios are the types of positions most often covered by the program, and coverage of the program by position type declines in the same pattern in both incentive and metrics-only programs.

Position Most Often Covered by Metrics-Only and Incentive Compensation Programs

<table>
<thead>
<tr>
<th>Position</th>
<th>No Incentive Compensation</th>
<th>Incentive Compensation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gift Officers and Development Officers</td>
<td>50</td>
<td>9</td>
</tr>
<tr>
<td>Leadership within Development/Advancement</td>
<td>39</td>
<td>6</td>
</tr>
<tr>
<td>(e.g., CDOs, VPs, AVPs)</td>
<td>38</td>
<td>4</td>
</tr>
<tr>
<td>Annual Giving</td>
<td>36</td>
<td>3</td>
</tr>
<tr>
<td>Corporate and Foundation Relations Officers</td>
<td>16</td>
<td>2</td>
</tr>
<tr>
<td>Alumni Relations</td>
<td>11</td>
<td>2</td>
</tr>
<tr>
<td>Advancement Services, including</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Prospect Management, Research, Analytics</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Administrative Professionals</td>
<td>4</td>
<td>1</td>
</tr>
</tbody>
</table>
Incentive and Metrics-Only Comparison

Goals, Metrics and Efficacy

Metrics-only respondents reported tracking more metrics across all positions than incentive compensation programs. Only dollars raised and solicitations were tracked by more than half of incentive compensation respondents. In contrast, the majority of metrics-only respondents reported tracking dollars raised, visits, solicitations, new prospects, number of gifts and new/retained/reactivated donors. Incentive compensation institutions also might be tracking these metrics, but they are not used in evaluating incentive compensation awards. Despite metrics-only programs reporting that they track more metrics than incentive compensation programs, incentive compensation respondents reported greater perceived improvement on each metric than the metrics-only programs.

The reported goals for metrics-only programs are roughly the inverse of the reported goals for incentive compensation programs. Respondents with metrics-only programs reported that the most common goals of their programs were “Improved Employee Performance,” “Higher Overall Revenue” and “Larger Gifts.” Respondents with incentive compensation programs de-emphasized the importance of two of the central metrics-only goals and instead placed greater emphasis on “Employee Retention” and “Employee Recruitment.” These two goals were the least important goals for metrics-only programs. Overall, the data indicates that incentive compensation programs are aimed more at reducing turnover and attracting strong talent than metrics-only programs, which are aimed at improving employee performance.

Stated Goals of Metrics-Only and Incentive Compensation Programs

<table>
<thead>
<tr>
<th>Stated Goal</th>
<th>No Incentive Compensation</th>
<th>Incentive Compensation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Improved Employee Performance</td>
<td>94%</td>
<td>60%</td>
</tr>
<tr>
<td>Higher Overall Revenue</td>
<td>78%</td>
<td>40%</td>
</tr>
<tr>
<td>Larger Gifts</td>
<td>65%</td>
<td>30%</td>
</tr>
<tr>
<td>Employee Retention</td>
<td>35%</td>
<td>90%</td>
</tr>
<tr>
<td>Employee Recruitment</td>
<td>18%</td>
<td>60%</td>
</tr>
</tbody>
</table>
The difference in goals between metrics-only and incentive compensation programs is also reflected in the perceived impact of these programs on their goals. Metrics-only respondents reported slightly greater improvement in “Employee Performance” and “Higher Overall Revenue” than incentive compensation programs, with greater percentages of the latter programs reporting these as “Not a Goal.” If “Not a Goal” responses are excluded, the two program types evaluate their performance on these goals to be about the same.

Sixty-seven percent of incentive compensation respondents evaluated “Employee Retention,” one of these programs’ central goals, as “Improved” compared to only 25% of metrics-only respondents (39% if “Not a Goal” responses are excluded). Between the two main goals for incentive compensation programs, respondents perceived greater improvement in “Employee Retention” than “Employee Recruitment,” with more uncertainty about program effectiveness with regard to recruitment.

**Metrics-Only and Incentive Compensation Programs’ Impact on Goal Performance**

<table>
<thead>
<tr>
<th>Goal</th>
<th>No Incentive Compensation</th>
<th>Incentive Compensation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employee Performance</td>
<td>75%</td>
<td>67%</td>
</tr>
<tr>
<td>Higher Overall Revenue</td>
<td>76%</td>
<td>57%</td>
</tr>
<tr>
<td>Larger Gifts</td>
<td>59%</td>
<td>57%</td>
</tr>
<tr>
<td>Employee Retention</td>
<td>25%</td>
<td>67%</td>
</tr>
<tr>
<td>Employee Recruitment</td>
<td>14%</td>
<td>25%</td>
</tr>
<tr>
<td>Other</td>
<td>25%</td>
<td>100%</td>
</tr>
</tbody>
</table>

**Management Observations of Both Types of Programs**

When asked about the impact of their respective programs on organizational culture, no respondents from either group reported a “Very Negative” impact. Incentive compensation respondents appeared more neutral on the impact of their programs, while metrics-only programs evaluated their programs more positively.
Incentive and Metrics-Only Comparison

Perception of Program’s Impact on Internal Culture

- **No Incentive Compensation**
  - Negative: 2%
  - Neutral: 16%
  - Positive & Very Positive: 82%

- **Incentive Compensation**
  - Negative: 10%
  - Neutral: 40%
  - Positive & Very Positive: 50%

Perceptions of Incentive Compensation in the Industry

Respondents with and without incentive compensation programs generally agree that incentive compensation is likely to become more common in the fundraising industry, though respondents with existing incentive compensation programs believe this more strongly.

When asked what the impact of incentive compensation programs on the industry would be if they were to become more common, respondents with existing incentive compensation programs skewed more positively in their assessments than those with metrics-only programs.

Will incentive compensation become more common in the industry?

- **No Incentive Compensation**
  - Yes: 45%
  - Unsure: 25%
  - No: 29%

- **Incentive Compensation**
  - Yes: 80%
  - Unsure: 20%

What will be the impact on the industry if incentive compensation becomes more common?

- **No Incentive Compensation**
  - Negative & Very Negative: 47%
  - Neutral: 27%
  - Positive & Very Positive: 25%

- **Incentive Compensation**
  - Negative & Very Negative: 27%
  - Neutral: 25%
  - Positive & Very Positive: 10%
As reflected in the stated goals for incentive compensation programs, nearly all of the positive comments focused on the use of incentive compensation programs in recruitment and retention of strong talent. Respondents also highlighted incentive compensation as a method to attract younger gift officers to feed the talent pipeline.

- “Every other industry has similar performance-based awards — we should too.”
- “The stakes in nonprofit fundraising are just about as high as for-profit sales. There simply isn’t any room for not incentivizing what is effectively your sales force.”

Neutral and negative commenters expressed concern about whether these programs would cause inappropriate solicitations, lead fundraisers to pressure donors or otherwise negatively impact how fundraisers treat donors. These respondents also worried that donors would perceive incentives as a misuse of nonprofit funds or that even fundraisers who continue to treat donors ethically would be received with suspicion and that the altruistic relationship between the donor and the organization would suffer.

“Scaling a sustainable operation is the advancement objective of every nonprofit. Qualified talent to accomplish this objective is relatively scarce. Securing and retaining that talent is therefore priced at a premium. Paying the premium is more publicly defensible if a portion includes incentive compensation related to measurable outcomes. But nonprofits risk more than for-profits by achieving their measurable outcomes through unethical practices because of public perceptions of their social missions. Nonprofits that take careful measures to secure and retain mission-fit talent and educate about unethical practices and provide safe processes to expose it will avert much of the risk associated with incentive compensation.”

Others expressed concern over operational aspects of the programs, arguing that individual performance is difficult to separate from team performance and that incentives must be available to all types of positions within Advancement. They also worried that the industry has not yet identified the correct behaviors to incentivize and could inadvertently sacrifice long-term fundraising sustainability while also driving up the overall “cost of doing business.”
Most discussions of incentive compensation in fundraising involve competing interpretations of the AFP and CASE statements on the appropriateness of supplemental compensation, and this survey was no exception. The AFP and CASE statements, along with many of the respondents to our survey, highlight the possibility that incentive compensation might negatively impact the relationship between fundraisers and donors: Will incentive compensation cause gift officers to pressure donors to make a gift before they are ready, and will that damage the overall relationship? Survey respondents were acutely sensitive to the possibility that such programs would undermine the spirit of altruism in their work.

While some respondents with incentive compensation reported that the program needed to be tweaked to promote healthier internal competition, no respondents reported a negative impact on relationships with donors. Incentive compensation programs were in fact less often aimed at increasing revenue than metrics programs without specific monetary rewards. Rather than pushing short-term gains from donors, incentive compensation programs are designed to create longer-term relationships between Advancement employees and their institutions, and this strategy appears to work. More stable relationships between fundraisers and their institutions can translate to stronger relationships between the donor and the institution.

This report will not settle controversies about the use of incentive compensation in fundraising, but we hope to have illuminated some of the prevailing points of view, brought transparency to incentive compensation programs, and contributed to this industry-wide dialog on the ethics and utility of incentive compensation.

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Describe Incentive Compensation in Three Words