BLOG

How to Handle Employee Pay Raise Requests

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Retaining talented and dedicated team members is one of the most important aspects of nonprofit management. Because nonprofits often offer compensation packages that fall below those in the private sector, the topic of raises can be especially challenging. Having a clear process in place is key, but it is equally important to consider the broader implications of a raise for both the employee and the organization. Since nonprofit resources are often limited, even modest compensation increases can have a significant impact on the budget and mission delivery.

When an employee asks for a raise, it can feel like a pivotal moment that requires both analytical and interpersonal skills. You will need to weigh the financial implications of the request against factors such as the cost of employee turnover, alternative uses for the same funds, and the employee's performance metrics. At the same time, it is important to consider less tangible factors, including the impact on team morale and alignment with your organization's values.

Here are some key areas to examine when someone requests a raise, and how you might build a process for managing these requests effectively:

Understand the Context

Start by gathering information to understand the motivation behind the request and break it down into what is and is not within your control. For example, the recent rise in inflation has affected many employees' cost of living. While economic shifts may be beyond your control, they are widely felt and can influence compensation expectations across the board.

On the other hand, an employee who recently went above and beyond on a project may feel they have demonstrated a high level of value to the organization. In such cases, it may be easier to assess the impact of a raise using specific accomplishments or measurable outcomes that are tied to the organization's goals.

Another important piece of context is the competitive landscape. While nonprofits may not compete in the traditional business sense, they still compete for talent and funding. If similar organizations with comparable missions offer higher salaries or more comprehensive benefits, it may affect your ability to attract and retain high-performing employees.

Finally, legal and structural considerations must be taken into account. These include whether the employee is salaried or hourly, whether prevailing wage or minimum wage laws apply, and whether a collective bargaining agreement is in place. It is also helpful to review the full compensation package, including health insurance, retirement contributions, paid leave, stipends, one-time bonuses, and flexible work arrangements.

Explore Your Options

Understanding the employee's reasoning can help guide your response. If they cite inflation or increased living expenses, it is reasonable to assume that other staff may be experiencing the same challenges. If the budget does not allow for universal pay increases, consider offering alternative forms of support. For instance, flexible scheduling or remote work opportunities could help reduce commuting time and related costs.

If the employee refers to market comparisons, take time to evaluate industry benchmarks and salary surveys for roles with similar responsibilities. If you determine that your current compensation is below market, a raise may be warranted, especially if the cost of replacement or turnover is high. In tight labor markets, retaining valuable employees through targeted pay increases can be more cost-effective than onboarding and training a replacement.

You can also explore creative compensation strategies. For example, you may ask the employee to take on expanded responsibilities, oversee a new project, or move into a more strategic role in exchange for the raise. Aligning compensation with career growth opportunities can benefit both the employee and the organization.

Build a Consistent Pay Philosophy

One of the most effective ways to handle compensation questions over time is to create a consistent, transparent pay philosophy. This starts by documenting how salary ranges are set, how often they are reviewed, and how raises or bonuses are determined. A clear framework not only helps you respond to individual requests more confidently, but it also provides employees with a sense of fairness and predictability.

Consider identifying the core factors that influence pay at your organization, such as job responsibilities, tenure, performance outcomes, and funding availability. By aligning compensation decisions with these criteria, you reduce the risk of arbitrary or emotionally driven decisions that could lead to dissatisfaction or morale issues.

In some cases, it may make sense to publish internal pay bands or share your organization's compensation philosophy as part of onboarding and performance reviews. Even if exact salaries are confidential, explaining how decisions are made can go a long way in fostering trust and transparency.

Communication Is Key

Whatever your decision, clear and honest communication is essential. A well-explained response helps ensure that the process feels fair and understandable, not only to the employee making the request but also to the broader team. Avoid vague language or superficial justifications, which can fuel misunderstandings and perceptions of favoritism.

If you are unable to approve a raise, acknowledge the employee's reasons and explain the organization's current financial priorities. For many nonprofit employees, especially those driven by mission and purpose, this level of transparency can build trust—even if the financial outcome is not ideal. You may also offer to revisit the conversation during the next budget cycle or after a performance review.

If you do approve a raise, be sure to formally recognize the employee's contributions. A verbal acknowledgment followed by a written communication helps reinforce the value of their work and sets a precedent others can learn from. While individual salaries may not be made public, you can still maintain consistency by applying the same standards to future decisions.

Some organizations have even adopted full pay transparency, sharing salary ranges for all roles to promote equity. Whether or not that approach is right for your nonprofit, a culture of openness can strengthen morale and improve retention over time.

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