

## Executive Compensation in the Nonprofit Sector: New Findings and Policy Implications

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*In an economy that offers an increasing array of opportunities for executives, charities must offer to top executives wages and benefits that are comparable with those in the for-profit sector.*

The strong economy and tight labor market of recent years have spurred hefty increases in executive compensation in corporate and nonprofit America. Yet, the growth of salaries and benefits for nonprofit officers has been significantly more controversial than increasing executive compensation in the corporate sector. Even government regulators have taken notice, as evidenced by the temporary regulations recently passed by the Internal Revenue Service (IRS).

Related to public concern that large executive salaries are incompatible with charitable activity, these regulations allow the IRS to assess excise taxes against executives of nonprofits that provide disproportionately high—or excessive—compensation to their employees. However, in an economy that offers an increasing array of opportunities for executives, some scholars and nonprofit leaders suggest that charities must offer to top executives wages and benefits that are comparable with those in the for-profit sector.

Despite the contentious nature of this issue, the debate regarding excessive wages and benefits in the nonprofit sector has proceeded without much empirical evidence. Instead, the discussion has relied largely on limited survey data from small samples of organizations. Indeed, studies such as the *Chronicle of Philanthropy's* salary survey,<sup>1</sup> which focuses on just 0.2 percent of the largest nonprofits, provide only a narrow examination of a few exceptional organizations. To expand our knowledge of nonprofit executive compensation, this brief draws on data<sup>2</sup> from the National Center

for Charitable Statistics (NCCS)<sup>3</sup> to examine nearly 55,000 nonprofits that reported the wages and benefits of their chief officers on Forms 990 in 1998.<sup>4</sup> The brief relates the executive compensation of these nonprofits to their size, activities, and reliance on different types of revenue. The relationships between top executive salaries and the nonprofits' program service revenues and management, general, and fundraising expenses are also examined.

### Six Major Findings

**With a median annual salary of \$42,000 in 1998, chief executives of nonprofit organizations receive relatively low wages.** Nonprofit executives perform a host of tasks that often include budgeting, staffing, and fundraising. Despite the consistent challenges of running organizations, nonprofit chief executives earn relatively small salaries compared with other occupations. In fact, their 1998 median annual salary lagged behind the typical 1998 wage earned by computer programmers (\$47,550), construction managers (\$47,610), and dental hygienists (\$45,890).<sup>5</sup> Moreover, with a minimum salary of \$99,200, administrators and managers in the Senior Executive Service of the federal government earned more than twice the typical pay of nonprofit chief executives in 1998.

**Executive salaries in the nonprofit sector are highest at hospitals and higher education institutions.** Wage rates vary significantly across the nonprofit sector. Indeed, salaries for top officers at nonprofit hospitals and colleges and universities sig-

nificantly exceed the wages of chief executives in other nonprofit fields. In select cases, chief executives at nonprofit hospitals and higher education institutions are paid more than \$1.5 million, while the highest salaries in most nonprofit industries, including arts and culture, international and foreign affairs, and the environment, were below \$500,000 in 1998. Moreover, the typical chief executive received \$169,000 at nonprofit hospitals and roughly \$114,000 at colleges and universities, while the median salary at health-related nonprofits, such as community-based clinics that provide medical or men-

tal health care, was \$53,000 (table 1). With a typical salary of approximately \$24,000, chief executives of faith-related nonprofits were the lowest paid in the nonprofit sector.

**Bigger nonprofits generally pay higher chief executive salaries than smaller groups.** Not surprisingly, top officers at large nonprofits typically receive higher compensation than chief executives at smaller organizations. Using an organization's total revenue as a proxy for its size, the Spearman correlation between salary and size for all nonprofits is 75 percent, indicating that organizations with larger revenues tend to pay

higher salaries to their top executives (table 2). This finding is particularly evident among arts organizations, which seem to strongly link executive pay to firm size. It is not surprising that bigger nonprofits pay higher salaries to their top officers because, similar to for-profit firms, large nonprofit groups are often complex entities with multiple funding streams, products, and many layers of staff. Moreover, organizations with complicated administrative structures often compete with other groups for experienced executives, causing wage rates to rise.

**Hospitals and higher education nonprofits are the most likely groups to supplement executive wages with employee benefit plans or deferred compensation.**

Among the roughly 54,000 groups reporting compensation to chief executives in 1998, approximately 38 percent made payments to employee benefit plans or deferred compensation. Thus, more than one-third of the chief executive officers at nonprofit organizations received monies to supplement their base pay. However, the extent that alternative compensation is used in the nonprofit sector depends significantly on the type of organization. Indeed, about three-quarters of hospitals and higher education institutions contributed to employee benefit plans or deferred compensation for their top executives, while only one-quarter of the arts, culture, and humanities, and religion-related organizations did so (table 3). Although the degree of additional payments varies across the nonprofit sector, the level of payment is fairly constant. On average, these benefits equaled roughly 8 percent of the base compensation of the executives who received them. Moreover, these contributions served as the biggest supplement for executives earning \$100,000 or less in wages, particularly in the higher education, international, and religion-related fields.

TABLE 1. Median Salary for Top Executives in the Nonprofit Sector, by Type of Organization

Type of Organization	Number of Organizations	Median Salary for Chief Executive (\$)
Hospitals	1,933	169,000
Higher Education	1,261	114,000
Health (Excluding Hospitals)	8,300	53,000
Public, Societal Benefit	4,502	44,000
International, Foreign Affairs	644	42,000
Human Services	20,518	41,000
Education (Excluding Higher Education)	5,648	40,000
Environment and Animals	1,716	37,000
Arts, Culture, and Humanities	4,982	31,000
Religion Related	3,989	24,000
All Organizations	54,883	42,000

Source: Authors' tabulations of the NCCS/PRI National Nonprofit Organization Database, circa 1998 (version 1).

TABLE 2. Correlation between Top Executives' Salaries and Organizational Size

Type of Organization	Number of Organizations	Correlation between Salary and Organizational Size (Percentage)
Arts, Culture, and Humanities	4,982	77
Higher Education	1,261	76
Human Services	20,518	73
Education (Excluding Higher Education)	5,648	73
Environment and Animals	1,716	72
Health (Excluding Hospitals)	8,300	71
International, Foreign Affairs	644	71
Public, Societal Benefit	4,502	70
Hospitals	1,933	58
Religion Related	3,989	57
All Organizations	54,883	75

Source: Authors' tabulations of the NCCS/PRI National Nonprofit Organization Database, circa 1998 (version 1).

Note: All correlations are significant at the 0.01 level.

TABLE 3. *Distribution of Organizations Paying Employee Benefits and Deferred Compensation to Their Chief Executives*

Type of Organization	Number of Organizations	Percentage of Organizations	Median Value of Payment As a Percentage of Base Salary
Arts, Culture, and Humanities	1,280	25.7	7.4
Education (Excluding Higher Education)	1,892	33.5	8.6
Environment and Animals	562	32.8	7.5
Health (Excluding Hospitals)	3,844	46.3	7.5
Higher Education	926	73.4	10.4
Hospitals	1,467	75.9	7.5
Human Services	7,675	37.4	7.6
International, Foreign Affairs	244	37.9	10.0
Public, Societal Benefit	1,696	37.7	8.7
Religion Related	981	24.6	12.8
All Organizations	20,896	38.1	8.0

Source: Authors' tabulations of the NCCS/PRI National Nonprofit Organization Database, circa 1998 (version 1).

**Expense accounts and other allowances serve as important supplements for base pay, particularly among faith-related organizations.**

In addition to making cash contributions to retirement funds or deferring compensation for top executives, nonprofits act like other firms by supplying some chief officers with expense accounts or other allowances to purchase housing, food, and clothing. This compensation strategy is less popular among nonprofits, however, than contributing to employee benefit plans or deferring wages. Indeed, only about 6,000 of the nearly 55,000 groups (or 10.9 percent) covered employee expenses or provided allowances. Nonprofit hospitals are the most likely organizations to pay these expenses for their chief executives. Nearly 28 percent of nonprofit hospitals that reported executive compensation levels provided expense accounts or other allowances to their top officers (table 4).

In addition to nonprofit hospitals, more than one-quarter of the faith-related organizations provided these benefits to their organizational leaders in 1998. Because wage levels are relatively low at religion-related nonprofits, expense accounts and other allowances for these groups are the biggest supplements of base pay in the nonprofit sector. Not only do a

relatively high number of top executives of faith-related groups receive wage supplements, but these payments also account for a relatively substantial percentage of their total compensation. While the typical expense account or allowance added roughly 6 percent to a top nonprofit executive's compensation package, it improved the total compensation of religious leaders by a whopping 53 percent (table 4).

The value of allowances for chief executives is even more pronounced in smaller religion-related nonprofits. Among faith groups with revenues of \$250,000 or less, the median benefit

for expense accounts or other allowances added nearly 60 percent to the leader's base salary. This makes sense considering that heads of religious groups often receive room and board in addition to their salaries. Other types of organizations with relatively large allowances include higher education institutions, which often provide housing, and international organizations, which may pay international travel and lodging expenses.

**Nonprofit executive compensation varies significantly within subsectors, making problematic the targeting of types of organizations for IRS sanctions.** Simply stated, hospitals, higher education institutions and, to a lesser extent, other types of health-related nonprofits compensate their chief executives more heavily than do other types of nonprofits. These organizations could therefore be the prime targets of regulatory efforts to reduce excessive compensation in the nonprofit sector. While this brief provides evidence of relatively high wages and benefits in the nonprofit hospital and higher education industries, the analysis also reveals that pay levels vary significantly within all nonprofit industries, depending on an organization's size, activities, and reliance on different streams of revenue. The substantial variation

TABLE 4. *Distribution of Organizations Paying Expense Accounts and Other Allowances to Their Chief Executives*

Type of Organization	Number of Organizations	Percentage of Top Executives Receiving	Median Value As a Percentage of Base Compensation
Hospitals	540	27.9	2.4
Higher Education	331	26.3	7.7
Religion Related	1,038	26.0	52.7
International, Foreign Affairs	77	12.0	12.4
Health (Excluding Hospitals)	855	10.3	3.7
Human Services	1,734	8.5	5.8
Public, Societal Benefit	374	8.3	6.2
Education (Excluding Higher Education)	448	7.9	6.0
Environment and Animals	117	6.8	5.8
Arts, Culture, and Humanities	336	6.7	6.0
All Organizations	5,956	10.9	6.3

Source: Authors' tabulations of the NCCS/PRI National Nonprofit Organization Database, circa 1998 (version 1).

within nonprofit subsectors is described below:

- *Hospitals.* Executive salaries at nonprofit hospitals with revenues of over \$10 million are linked to lesser reliance on program service revenue and greater dependence on government grants. However, higher compensation is linked to less dependence on government grants in hospitals with revenues between \$1 and \$10 million.
- *Other Health-Related Organizations.* Among nonhospital, health-related nonprofits, greater reliance on government grants relates to higher salaries for small groups with revenues of under \$250,000 and lower salaries for groups with revenues of over \$500,000. For groups with more than \$250,000 in revenues, large compensation packages relate to a lower percentage of expenses spent on commercial or program services.
- *Higher Education Nonprofits.* Higher executive salaries in large colleges and universities with revenues above \$500,000 are linked to less dependence on direct public contributions, which includes contributions from individual donors. Among smaller colleges and universities with revenues between \$100,000 and \$500,000, higher salaries relate to greater reliance on government grants.
- *K-12 and Other Education Nonprofits.* Among small education nonprofits (excluding higher education) with revenues of under \$500,000, higher salaries relate to greater dependence on direct public contributions. For organizations with over \$1 million in revenues, higher compensation relates to more reliance on program service revenue, or fees for their services.
- *Arts and Cultural Organizations.* Higher executive salaries at small arts nonprofits with revenues of less than \$500,000 are related to greater reliance on direct public support and government grants and less reliance on commercial revenue from programs and activities. Small arts groups that pay higher salaries also spent a greater percentage of their budgets on management and fundraising. For large arts organizations with revenues of over \$10 million, higher salaries are related to greater dependence on government grants and a higher percentage of resources spent on fundraising.
- *Environmental Nonprofits.* For environmental nonprofits with revenues of less than \$2 million, higher salaries are linked to a greater reliance on government grants and less dependence on the sale of goods or commercial revenue. For organizations with revenues between \$1 and \$10 million, high executive salaries relate to less dependence on direct public donations.
- *Human Service Nonprofits.* Among human service nonprofits, higher executive compensation relates to dependence on direct public donations. Small groups with revenues under \$250,000 also pay higher salaries if they rely more on government grants and less on commercial and program service revenue. The opposite is true for human service providers with revenues of more than \$2 million, which pay higher salaries if they rely more on program service revenue and sales of inventory and less on government grants. For all but small organizations with revenues under \$100,000, higher executive salaries relate to a lower percentage of expenses spent on program services and a higher percentage spent on management and fundraising.
- *International Affairs.* The most notable trend among nonprofits that focus on international affairs is that higher salaries are linked to a relatively low percentage of commercial or program service expenses. Relatively high executive salaries in the largest international nonprofits (with revenues over \$10 million) relate to a greater reliance on program service revenue and a higher percentage of expenses spent on management.
- *Public and Societal Benefit Nonprofits.* Executive salaries paid by public and societal benefit nonprofits also vary with organizational size. Greater reliance on government grants is linked to higher salaries for groups with revenues below \$250,000 and lower salaries for nonprofits with revenues above \$250,000. For these larger nonprofits, higher compensation also relates to higher management and lower program service expenses.
- *Faith-Related Organizations.* In religion-related organizations, as in large, higher education institutions, higher reliance on direct public donations is linked to lower salaries for organizations with over \$1 million in revenues.

## Discussion

Our findings illustrate that nonprofit executive pay structures are complicated and somewhat difficult to categorize. Nevertheless, some important patterns emerge that help to explain variations in nonprofit executive compensation. Hospitals and higher



education groups pay the highest wages. Religion-related nonprofits pay the lowest base salaries, but tend to compensate their organizational leaders with fairly generous housing and other allowances. Organizational size is also very influential in determining compensation packages. Larger nonprofits generally pay their chief executives significantly more than smaller nonprofit organizations pay.

Pay in the nonprofit sector is also related to the reliance of groups on different revenue sources. For arts, education (excluding higher education), and human service nonprofits with revenues of less than \$500,000, greater dependence on direct public support is linked to higher salaries. For some larger organizations, however—such as higher education institutions, environmental groups, and religious nonprofits—dependence on direct public contributions actually relates to lower executive salaries, suggesting perhaps that some nonprofits depress compensation levels to avoid agitating their donors. One notable exception to this rule is the human service category. Among these human service nonprofits, higher executive compensation is tied to the organization's dependence on direct public support, regardless of organizational size. This finding may hint to the growing competition between nonprofits and for-profits for skilled executives, particularly as the corporate sector becomes more prominent in social service delivery.

More “commercialized” nonprofits pay higher salaries to their executives, although the relationship between program service revenue, which serves as a proxy for commercial activity, and executive compensation varies with organizational size and activity. Once again, smaller nonprofits tend to behave differently than larger groups. Higher executive salaries in small arts and human service nonprofits are linked to less reliance on program service revenue, which include fees paid by clients.

Among large education (excluding higher education), human services, and public societal benefit organizations, however, higher executive compensation relates to greater receipts of program service or commercial revenue. On the other hand, for hospitals with revenues of over \$10 million, dependence on program service revenue is related to lower salaries.

The variability in nonprofit executive wages and benefits suggests that generalizations concerning compensation patterns are difficult and unadvisable. Indeed, the differences among executive salaries within subsectors of nonprofits has important implications for policy officials and IRS regulators. As lawmakers and the IRS impose sanctions on executives and groups that pay excessive compensation, they should be mindful that salary determinations are defined largely by the characteristics and circumstances of individual nonprofits.

## Endnotes

1. The annual surveys by the *Chronicle of Philanthropy* serve as the most notable sources of information on nonprofit executive salaries. The *Chronicle* surveys 400 U.S. nonprofits that raised the most money in private donations during the preceding year (Billitteri et al. 1999). Although widely discussed, the surveys focus heavily on nonprofit hospitals and universities as well as foundations. As a result, the reports do not include information on small nonprofits, and therefore may overstate the compensation of nonprofit executives.
2. This study uses a new dataset of nonprofit organizations that was constructed by NCCS in partnership with Guidestar, Inc. The data file contains information on roughly 210,000 public charities that submitted Forms 990 to the IRS in 1998. The new dataset is a significant improvement over other national nonprofit data files, because nearly all the fields—numeric and text—of each nonprofit's Form 990 are in the dataset. Other national data files of nonprofits include either relatively few organizations with a high number of variables from the Form 990 or the full array of public charities with a significantly limited number of variables.
3. The National Center for Charitable Statistics is the national repository of data on nonprofit organizations. Originally formed at the Independent Sector, it relocated in 1996

to the Urban Institute in the Center on Nonprofits and Philanthropy.

4. This study uses a multistage methodology to identify the chief officer of each nonprofit organization. Of the roughly 210,000 nonprofits in the data file, 166,000 nonprofits complied with IRS regulations in reporting compensation information on Part V of Form 990. Roughly 44,000 groups (or about 20 percent of the population of nonprofit filers) were noncompliant. Of the noncompliant organizations, nearly 50 percent supplied some entry in Part V, but failed to include any salary information. The remaining groups did not include any portion of the section. Our analysis suggests that the degree of noncompliance did not skew our data, because the size, location, and organizational type are not statistically related to noncompliance on Part V. Nevertheless, the substantial degree of noncompliance among nonprofit groups should be of concern to policy officials and regulators.

Moreover, our analysis reveals that, among the 166,000 nonprofits that completed Form 990, only 33 percent (or roughly 55,000 organizations) indicated that they paid a salary to their chief executive officer. Conversely, nearly two-thirds (111,000 groups) did not pay their executives. Many of these groups, however, have salary costs. Indeed, some groups have salaried treasurers or other employees who are not the “organizational leaders.”

5. Median 1998 occupational annual earnings obtained from the Bureau of Labor Statistics. See <http://stats.bls.gov/oes/1998/oesnat98.htm>.

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