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ACCOUNTING PERFORMANCE MEASURES AND EXECUTIVE COMPENSATION IN NONPROFIT ORGANIZATIONS

by

Sandra B. Richtermeyer

B.S., University of Wyoming, 1987

M.S., University of Colorado, 1990

M.B.A., University of Colorado, 1992

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Barry L. Lewis, Chair

Ann Martin, Committee Member

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The final copy of this dissertation has been examined by the signatories, and we find that both the content and the form meet acceptable presentation standards of scholarly work in the above mentioned discipline.

Richtermeyer, Sandra B. (Ph.D, Accounting)

Accounting Performance Measures and Executive Compensation in Nonprofit Organizations

Thesis directed by Professor Barry Lewis

The primary purpose of this study is to examine the relation between executive compensation and performance in nonprofit organizations. In addition, the relationship between executive compensation, performance and monitoring by supporters is also considered. The study is motivated by recent changes in the regulatory environment for nonprofit executive compensation and also by changing compensation and accounting practices of nonprofit organizations.

The research questions are addressed using cross-sectional analyses of nonprofit organizations partitioned six types of nonprofit groups: (1) arts/cultural; (2) environment and animal; (3) health; (4) human service; (5) public and societal benefit; and (6) religious. Two measures of performance are addressed: (1) the percentage of revenue the organization spends on its direct purpose and (2) revenue growth. The incentive to monitor is examined implicitly by using the level of support provided by three types of monitors: (1) the government; (2) members of the organization; and (3) the direct public.

The results of the study indicate a negative relation between compensation and revenue growth consistently across all organizational types. The results also suggest that compensation and performance are positively related for most organizational types with the exception of human service and religious organizations.

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CHAPTER I

INTRODUCTION AND MOTIVATION

This study investigates the relation between compensation and performance in nonprofit organizations. The primary research question addressed is: "Does performance explain compensation in nonprofit organizations?" In addition, the relationship between compensation, performance, and monitoring by supporters is also considered and allows for examination of the following issue: "Do accounting performance measures and monitoring explain executive compensation in nonprofit organizations?"

This study is motivated by recent changes in the regulatory environment regarding acceptable compensation practices in nonprofit organizations. The Taxpayer Bill of Rights, enacted in 1996, allows the Internal Revenue Service (IRS) to impose penalties on individuals involved with nonprofit organizations that pay excessive compensation to their key employees. The legislation uses, but does not define, the term "excessive compensation".[1] The new regulations and lack of a clear definition for what could be deemed excessive compensation has raised considerable concern in the nonprofit sector. Nonprofits are operating in an environment that has, in many ways, become similar to the environment of for-profit entities, facing increased competition for contributions and resources and decreased amounts of support from governmental agencies (Bogart, 1995). Therefore, the need for strong

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[1] The legislation does not define excessive compensation, but rather states that it can be avoided with the promotion of reasonable compensation practices by: 1) approving compensation by the board of directors or a committee; 2) gathering compensation data on comparable positions; and 3) documenting all reasons for payment of compensation (NCIB, 1996).

executive talent is critical and similar to the needs of for-profit businesses (Golensky, 1993; Preston, 1990). If the compensation/performance relation is significant in nonprofit organizations, regulation affecting payment of "excessive" compensation could threaten a nonprofit's ability to effectively operate and compete with other nonprofit organizations for resources.

Compensation practices in nonprofit organizations have changed significantly in recent years primarily due to an increasing focus on improving performance. One of the most visible ways that nonprofits attempt to improve their performance is by adopting the practices of for-profit entities (Alvarado, 1996). Many nonprofits have adopted incentive pay systems similar to for-profit organizations. Surveys by Coopers and Lybrand (1993, 1994) indicate that the number of nonprofit organizations offering incentive plans is increasing. Prior to 1980, the IRS prohibited the use of profit-sharing incentive pay systems in organizations with a tax-exempt status.[2] Before the prohibitions were eliminated, nonprofit organizations were reluctant to incorporate incentive pay systems because they did not want to jeopardize their tax-exempt status. Although these prohibitions were lifted, most organizations did not implement incentive pay systems until the 1990s (Coopers & Lybrand, 1993, 1994).

Additionally, this study contributes to two areas of accounting research: 1) compensation and performance and 2) performance measurement in nonprofit organizations. This study extends prior accounting research by testing the relation between compensation and performance in nonprofit organizations. Accounting research shows mixed results in the compensation/performance relation in for-profit

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[2] IRS Counsel Memorandum 38283; Revenue Ruling 8122068.

entities. These inconsistencies are attributed to firm specific differences and differences in selection of performance variables (Antle and Smith, 1986; Lambert and Larcker, 1987). However, Ely (1991) offers insight by conducting an inter-industry analysis. She finds significant differences between industries and types of performance measures used. This study uses a similar approach and examines the compensation/performance relation for nonprofit organizations by examining the effect of organizational type within the nonprofit sector. Additionally, an analysis of compensation, performance, and monitoring based on fundraising activity across various types of nonprofit organizations is included in the study.

In the past four years, there have been significant changes in the generally accepted accounting principles of nonprofit organizations. Accounting practices for reporting and evaluating performance used by nonprofit organizations have been heavily criticized in the past and the Financial Accounting Standards Board (FASB) has recently issued new standards that significantly change nonprofit accounting and reporting (SFAS Nos. 116, 117, and 124). The issue of selecting appropriate financial performance measures for nonprofit organizations is widely debated; however, the new accounting standards provide some guidance in choosing acceptable financial performance measures. This study tests the relation between compensation and performance measures consistent with the new standards. The financial performance measures used in the study are also consistent with recommendations of charity monitoring organizations.

This study extends research in nonprofit accounting by analyzing compensation and performance in a large number of nonprofit organizations with diverse purposes.

The majority of research in nonprofit accounting focuses only on governmental agencies, hospitals, and educational institutions. The nonprofit sector has grown significantly in the last thirty years; the greatest growth has been in charitable, scientific, or religious organizations (Weisbrod, 1988; Freeman and Shoulders, 1996). This study also provides a descriptive financial analysis of the various organizational types within the nonprofit sector. Additionally, the study addresses the issue of accounting performance measures and establishes a basic framework that may provide guidance for further research in the area.

A measure of performance used in this study is the amount of resources a nonprofit organization spends on its direct mission or primary purpose. Growth in revenue and in support is also used as a performance indicator. The relation between compensation and performance is addressed by controlling for monitoring by supporters of nonprofit organizations. Monitoring is measured implicitly by examining the level of funding provided by different types of supporters. Three monitoring entities are analyzed in the study: the government, members of the nonprofit organization, and the public. The data used in the study come from informational returns that nonprofit organizations are required to file annually with the IRS (Form 990). The study uses large nonprofit organizations that are classified as exempt under Section 501(c)(3) of the Internal Revenue Code. The sample used in the study partitions the data based on six types of nonprofit organization classifications: (1) arts and cultural; (2) environment and animal; (3) health; (4) human service; (5) public and societal benefit; and (6) religious. This analysis also allows for

examination of the following issue: "Does intra-industry variation explain differences in the relation between nonprofit compensation and performance?"

The results of the study suggest a negative relation between compensation and revenue growth consistently across all organizational types. The analysis also indicates that compensation and performance (measured by percentage of revenue spent on direct program purpose) are positively related for most organizational types with the exception of human service and religious organizations.

The remainder of the paper is organized as follows. Chapter II provides a literature review and background information. Chapter III introduces the models. Chapter IV describes the sample and Chapter V describes the measurement of the dependent and independent variables. Chapter VI discusses the results and Chapter VII concludes the paper.

CHAPTER II

LITERATURE REVIEW AND BACKGROUND

Principal-Agent Theory

Principal-agent theory is a common framework used in examining the relation between compensation and performance. Holmstrom (1979) presents a model where a risk-neutral or risk-averse principal employs a risk-averse and effort-averse agent. In general, if the principal can observe the agent's actions, then the principal can rely on monitoring to keep the agent from shirking. If the agent's work is not entirely observable, the principal will incorporate incentives into the agent's contract and base the agent's compensation on performance.

Performance measures are used as incentives in setting compensation if they reveal information to principals about the input of agents. A common assumption in compensation/performance studies is that principals and agents engage in efficient contracting and use performance measures in the evaluation of agents. Most compensation literature uses for-profit entities with shareholders (principals) and managers (agents) and accounting earnings and stock returns as measures of performance. Defining the principal/agent relation in nonprofit organizations is important because it can be more heterogeneous than the relation in a for-profit firm. The principals in a nonprofit organization are generally the clients, donors, board of directors, and contracting or governmental agencies (Bogart, 1995). The agents are the managers of the organization.

Each type of principal involved with a nonprofit may have different incentives for monitoring the agents and the relation between compensation and performance

may be affected by the degree of involvement of various types of principals. This study hypothesizes that executive compensation is explained by both performance and monitoring. The following section develops the monitoring aspect more fully and discusses the incentives various types of principals have to monitor an agent of a nonprofit organization.

Monitoring by Principals of Nonprofit Organizations

In nonprofit organizations, each type of principal has varying degrees of interest in monitoring the performance of the agent (Bogart, 1995). The interest or incentive to monitor may depend on whether or not the clients/constituents and the donors are the same. If there is overlap in the client/donor relationship, the incentive to monitor is increased. If clients and donors are mutually exclusive, there may be no incentive to monitor (Weisbrod, 1988). This study focuses on the effects of monitoring by three types of principals: members of the organizations, the government, and the public.

Monitoring by Members

The performance of nonprofit organizations that serve members as part of their mission is likely to be actively monitored by the members. Nonprofits which focus on serving members are typically more entrepreneurial and try to satisfy their members in a manner similar to the way a for-profit business satisfies its customers (O'Neill, 1994; Weisbrod, 1988). Members have more incentive to monitor the performance of a nonprofit if they receive a direct benefit from the organization (Bogart, 1995). Many

people become members of nonprofit organizations because they are attracted to the cause or primary purpose of the nonprofit organization, and care very little about how the organization performs; these members have little incentive to monitor the organization. On the contrary, some members care a great deal about the performance of the organization and become active monitors. Groups that form based on voluntary membership can accomplish a great deal through the participation of a few main members looking out for the interest of all the other members who do not have the incentive or ability to get involved. This is supported by an aspect of public choice theory and the logic of collective action (Olson, 1965). Members who take the time to get involved are also likely to actively monitor the performance of the organization. The active involvement and concern of a few members can make a difference in how the nonprofit performs and compensates its executives. This study incorporates the incentive of members to monitor a nonprofit by using the level of member support as a proxy for incentive to monitor.

Monitoring by Governmental Agencies

Governmental agencies are also key principals in many types of nonprofit organizations (Kingma, 1993; Krashinsky, 1990; Weisbrod, 1988). Nonprofit organizations that receive federal funding are required to have specific types of audits and meet additional standards over and above audits of nonprofit organizations that do not receive a significant level of federal funding (OMB, 1996; Freeman and Shoulders, 1996). Therefore, as an organization receives more federal funding, the government's incentive to monitor increases. This study incorporates the role of the government as

a key monitor of a nonprofit organization and uses the level of government support as a proxy for incentive to monitor.

Monitoring by the Public

The general public is also considered a potential monitor of nonprofit organizations. Many nonprofit organizations receive their primary support from the public (Weisbrod, 1988; Hilgert, 1991). Contributions from the public typically come from diverse groups and individuals that have a plethora of reasons for supporting the organization. Donors who are a part of the general public may have a desire to know that the organization performs effectively in accomplishing its mission; however, it can be difficult for the public to monitor the performance of a nonprofit organization. In response to this difficulty, several charity monitoring organizations have emerged in the last decade (NCIB, 1996; Better Business Bureau, 1996). Charity monitoring organizations are typically nonprofits themselves that have formed to distribute information to donors from the general public who do not have the expertise, time or ability to adequately monitor nonprofits.

Individual donors from the general public who have a direct interest in the organization may receive an internal benefit from making a contribution (Kaufman, 1996) and thus have an interest in monitoring the organization. It is also possible that donors from the general public do not have an incentive to monitor the performance of a nonprofit organization because of the intrinsic benefit they receive from just supporting a cause they strongly believe in. Donors may receive a different level of satisfaction from supporting a nonprofit that serves a basic human need such

as shelters or food banks than they receive from supporting a social action group or art museum (Gassler, 1986; Kaufman, 1996; Weisbrod, 1988). This study uses level of direct public support as a proxy for monitoring incentive by donors from the general public.

The three types of principals described above, members, governmental agencies, and the general public may all have varying degrees of interest in monitoring the activities and performance of a nonprofit organization. It can be difficult for a nonprofit organization to satisfy the demands of each type of principal. Consequently, a nonprofit organization may focus on satisfying one type of principal, particularly the one that provides the most support. Operating in this manner can be detrimental to the stability and performance of a nonprofit. Chang and Tuckman (1991) find that stable nonprofits have a diversified revenue base. They illustrate that nonprofits with diversified revenue and support bases are more likely to survive financial and are less likely to cut programs or activities related to their exempt purpose.

In addition to considering the monitoring incentives of supporters/principals involved with nonprofit organizations, it is also important to consider the various types of organizational forms that nonprofits operate under. The issue of nonprofit organizational form is discussed in the next section.

Nonprofit Organizational Form

This study uses an intra-industry analysis of the nonprofit sector to examine the compensation and performance issue and determine if intra-industry variation explains differences in the relation between nonprofit compensation and performance. Weisbrod (1988) describes three types of nonprofit organizational form: (1) *proprietary, (2) collective, and (3) trust.*

Examples of *proprietary* nonprofits are trade associations and clubs and they are concerned primarily with benefiting their constituents. These types of organizations are typically not organized under 501(c)(3) of the Internal Revenue Code; they are typically organized as 501(c)(4)-501(c)(9). However, many 501(c)(3) organizations also have significant members that they serve, but the fees charged for membership are minimal (typically less than 35% of total revenues, (IRS, 1996)) and a large portion of their support is received from the general public and governmental agencies.

Collective nonprofits provide services that help individuals who do not provide support for the organization. In this type of organizational form, the clients and donors are separate. Examples of collective nonprofits are: environmental protection organizations, museums, wildlife sanctuaries, and organizations that provide aid to the poor. The activities conducted by collective nonprofits are similar in nature to governmental agencies.

Trust nonprofits provide combinations of a private good and consumer protection. There is commonly overlap in the client/donor relationship. An example of this type of nonprofit is a blood bank or nursing care center. Consumers of these

types of organizations are typically poorly informed and usually choose to deal with a nonprofit because they trust the nonprofit more than they would a for-profit organization.

Weisbrod (1988) warns that although it is helpful to look at the nonprofit sector within a framework of proprietary, collective, and trust organizations, there are many overlaps or hybrid organizations. Additionally, activities of some nonprofits may either closely resemble those of a for-profit business or the government. A common misconception of nonprofit organizations is that they are not business-like at all; however, many have business-like characteristics and focus heavily on "customer service "(Gasssler, p. 49, 1986). Nonprofits that receive a great deal of funding from governmental sources may appear more "government like" than nonprofits who rely more on members or the direct public (Krashinsky, 1990; Weisbrod, 1988).

The three types of organizational form presented by Weisbrod are not directly the same as the primary groupings used in this study. This study uses a formal coding scheme developed for nonprofit organizations similar to an SIC code. The sample used in this study is partitioned into six types of nonprofit organizational form and allows for analyses that incorporate type of constituent served by the nonprofit as well as primary mission. The categories of proprietary, collective, and trust are useful in classifying the six groups used in this study and the relation between the two kinds of classification is discussed in Chapter IV of the paper.

Prior Executive Compensation Research

Prior research on the relationship between compensation and performance indicates mixed results which the authors suggest may be attributable to choice of performance variables and firm-specific variables. Accounting and stock returns are the most frequently encountered performance measures in compensation studies involving for-profit entities; of the two factors, accounting returns are generally more significant in explaining the relation between compensation and performance (Pavlik, Scott, and Tiessen, 1993). Although stock return and accounting earnings clearly cannot be used in this study of nonprofit organizations, the methods and analyses used in this study are consistent with studies examining for-profit entities.

Ely (1991) conducts an inter-industry study of the relationship between compensation and performance. She partitions her sample into a diverse group of four industries: banks, electric utilities, oil and gas firms, and retail groceries. She uses stock return versus return on assets along with industry-specific accounting measures. Her results indicate that the use of specific accounting measures for *each industry* strengthens the predictive ability of performance. This study uses an approach similar to Ely with the data partitioned on six types of nonprofit entity types.

Compensation Practices in Nonprofit Organizations

Compensation practices in the nonprofit sector have traditionally been different from compensation practices in the for-profit sector largely due to compensation regulation. Inconsistencies and misunderstandings regarding incentive problems, performance measurement, and the market for executive talent widened the differences

between nonprofit and for-profit organizations (Golensky, 1993; O'Connell, 1993; Steinberg, 1990).

O'Connell (1993) presents four compensation problems frequently encountered by the nonprofit sector:

1. Salaries in some organizations are egregiously high.
2. Some compensation arrangements appear to be high because too little effort has been made to interpret what it takes to attract and hold people who can lead large and complex voluntary institutions.
3. There is an incorrect, but pervasive, interpretation by boards of directors that salaries are overhead.
4. Most salaries and benefits in nonprofit organizations are so low as to threaten development and maintenance of essential activities.

The regulatory environment, however, has been inconsistent with respect to nonprofit compensation practices. Prior to 1980, incentive plans were strictly prohibited by the IRS; however, during the 1980s, several cases documented a change in the IRS position (IRS GCM 39674, 1987). The tables turned again in 1996 with the Taxpayer Bill of Rights. The Taxpayer Bill of rights allows for sanctions that the IRS can take against individuals (most likely board members) involved in setting excessive compensation for employees of nonprofit organizations. Due to the shifting in the regulatory environment related to nonprofit compensation practices, this study looks at a five year period to examine the variance from 1989-1993 explained by the compensation/performance relationship.

In the last several years, compensation practices in the nonprofit sector have undergone dramatic changes. Recent surveys conducted by Coopers & Lybrand (1994, 1995) indicate that the number of nonprofit organizations offering incentive

plans is increasing. The time period examined in this study overlaps with the time periods of the surveys that document significant changes in compensation practices.

Nonprofit organizations are similar to public companies in that the board of directors either determines the chief executive's pay or appoints a compensation committee (usually comprised of board members) to perform the task (Knauft, 1993). Salary surveys indicate that executive compensation in larger nonprofit organizations are positively related to the total revenues or budget size of the organization (Coopers & Lybrand, 1993, 1994). A common criticism of nonprofit organizations is that as revenues grow, salaries grow accordingly (Covington, 1994). Preston (1990, pg. 18) states that "profits are more likely to raise wages in nonprofit firms than they are in for-profit firms because no individual or group has a legal claim on the profits of nonprofit organizations".

CHAPTER III

MODEL DEVELOPMENT

The following section describes two different ways of testing the compensation/performance relation based on models of agency theory used in previous accounting studies. The two methods are a basically a changes (multi-period) approach and levels (single period) approach. In addition, the use of a cross-sectional versus time-series approach is discussed.

Single Period versus Multi-Period Models

Most models of agency theory are single period models (Holmstrom, 1979); however, Lambert (1983) suggests that compensation contracts have "memory" and presents a multi-period model. His model assumes that the agent's compensation in one period depends on the performance in that period as well as the performance in the prior period. Lambert and Larcker (1987) also use this assumption and define cash compensation (denoted $c_{i,t}$) as a linear function of performance (denoted $perf_{i,t}$). Their model in first differences is:

$$(c_{i,t} - c_{i,t-1}) = a_i + B_i(perf_{i,t} - perf_{i,t-1}) + e_{i,t}$$

where a_i is the average change in cash compensation and B_i is the average change in cash compensation for a unit change in performance and $e_{i,t}$ is the error term. A form consistent with this first differences model is commonly used in other compensation/performance studies (Ely, 1991; Clinch, 1991; Clinch & Magliolo, 1993).

A review of compensation/performance studies by Pavlik, Scott and Tiessen (1993) shows that both levels and changes models are commonly used. Landsman and Magliolo (1988) discuss the use of changes models versus levels models in cross-sectional studies. They conclude that there is not a clear advantage to using a changes model, and that the appropriate model choice depends on the set of assumptions for each study. Recent studies uses a changes approach similar to Lambert and Larcker (1987).

For purposes of this study, both a changes and levels approach are used. The compensation contract is not examined explicitly as it commonly is in compensation studies using public firms. The compensation contract is measured implicitly based on disclosures from IRS filings and it is not possible to tell from the disclosures if a bonus component in the compensation measure relates to the current period or the prior period. However, organizations examined in this study are large and most likely follow accrual basis accounting implying that bonus amounts should be properly matched with performance. A changes model is still appropriate because it is also likely that an increase in base compensation will follow an increase in performance. According to nonprofit salary surveys, this is more likely to be the case (Coopers & Lybrand, 1993, 1994). Given these considerations, a changes analysis seems to be more appropriate than a levels analysis for this study; however, due to lack of prior research on executive compensation in the nonprofit sector, both a changes and a levels approach are used.

Method of Analysis

The use of a time series versus a cross sectional approach in compensation studies has sparked some debate. Lambert and Larcker (1987) use a both a time series and cross-sectional approach in their study. The time series approach assumes that the intercept and coefficients are stable across time for a given firm. Murphy (1985) and Lambert and Larcker (1987) assert that the time-series approach is not appropriate if the intercept and coefficients vary with a manager's ability, performance, level of education, previous jobs, size of organization, or outside employment opportunities. Evidence of significant changes in the market for nonprofit executives during the time period in the study suggest that these variables were not static and thus lend support to the use of a cross-sectional approach (Coopers & Lybrand, 1993, 1994; Knauft, 1993; Preston, 1990). Furthermore, due to data availability, the use of a time series approach is not feasible.

Ely (1991) uses a cross-sectional approach and partitions her sample on industry to decrease variation due to different production functions, outside employment opportunities and managerial responsibility. She also deflates the compensation and performance variables used in her study by size to control for variation due to managerial responsibility and outside employment opportunities. Clinch and Magliolo (1993) use both a time-series and cross-sectional approach and their results are consistent using both methods. Clinch (1991) pools the data in his study both cross-sectionally and temporally.

This study uses a cross-sectional approach and both a changes and a levels approach are implemented. The data is analyzed similar to Ely (1991) by partitioning

organizations by nonprofit organizational form. To control for size, all variables are deflated by revenues. The dependent variable used is total compensation and the independent variables are performance and monitoring. The independent variables are developed in the next section. The specific models used in the study are:

changes approach:

$$COMP_{it} - COMP_{it-1} = B_0 + B_1(PERF_{it} - PERF_{it-1}) + B_2(MONITOR_{it} - MONITOR_{it-1}) + e_i$$

levels approach.

$$COMP_i = B_0 + B_1 PERF_i + B_2 MONITOR_i + e_i$$

Where COMP = compensation and MONITOR = level of support provided by type of monitor.

CHAPTER IV

SAMPLE SELECTION

The data for this study come from informational returns (Form 990) filed by nonprofit organizations with the IRS. Nonprofit organizations with tax-exempt status are required to file an annual informational return (Form 990) with the IRS if their annual gross receipts exceed $25,000. The IRS grants tax exempt status to several types of organizations; however, only organizations with an exemption under IRS Code Section 501(c)(3) are used for this study. An exemption under Code Section 501(c)(3) includes nonprofits organized as charitable, religious, educational, or scientific organizations. The sample is drawn from large nonprofit organizations with assets over $10 million. Hospitals and educational institutions are not included in the study because the theoretical foundation and types of analyses necessary to properly examine these groups is not considered to be similar to the other nonprofit groups included in the sample (Weisbrod, 1988; Young, p. 87, 1983). Furthermore, many hospitals and educational institutions compete directly with for-profit and governmental institutions and the economic considerations that need to be considered are more suitable for a separate study.

The sample selected for the study represent large nonprofit organizations with assets over $10 million. Furthermore, in order to be included in the sample, an organization must have disclosed the compensation paid to key employees (generally directors and officers). Additionally, total revenues, total assets and total program expenses must have been disclosed properly. The time period in the study is 1989-1993 due to restrictions on data availability.

Data from IRS Forms 990 is generally considered to be reliable. A study conducted by Froelich and Knoepfle (1996) specifically examine the accuracy of Forms 990 for three types of nonprofit organizations: (1) arts, cultural, and humanities; (2) mental health and crisis organizations; and (3) human services. They compare Form 990 data to information directly obtained from organization. Specifically, they conclude that entries for revenues, program service expenses, and total salaries and wages are highly reliable. These three items are used in this study. Froelich and Knoepfle found items such as net rental income, gross surplus from sales, and year-end excess or deficit to be less reliable sources. The three types of organizations used in their study are consistent with the sample selected for this study.

An alternative to the primary data source for this study, the Form 990, are the audited financial statements of the organizations in the sample. The Form 990 was selected because it contains more detailed financial information than typical financial statements and it is likely to be just as accurate as audited financial statements. The IRS indicates in the instructions for Form 990 (IRS, 1996) that the audited financial statements and the Form 990 should agree (or be reconcilable). It is likely that the majority of organizations included in the sample are audited due to the level of government support received and size of the organizations. Organizations that receive more than $25,000 in federal financial assistance are required to be audited (OMB A-133). Furthermore, organizations with significant donors or that receive funds from granting institutions or state and local government support typically have audit requirements (Freeman & Shoulders, 1996).

Sample Partitioning

In order to determine if different groups of the nonprofit sector vary in the relationship between compensation and performance, an intra-industry analysis is conducted in this study. The selection of groups comes from a coding methodology recently established by the National Taxonomy of Exempt Entities (NTEE). The NTEE code is a four digit code similar to the SIC code used in for-profit firms. The groups defined as "industries" are summarized in Table 1 and Appendix I describes each type of industry/group in more detail.

With respect to the three types of organizational forms discussed earlier in the paper (proprietary, collective and trust), it is important to note that the groups used in this study may have characteristics of more than one type. For example, some arts and cultural organizations may be considered both proprietary and collective. They are classified often as more proprietary than other groups because they have a higher percentage of member support (4%) (Table 2).[3] They are also collective in nature because they help individuals who do not necessarily provide support for the organization. For instance, museums are available to the general public (and they may be charged a small fee for admission), but they may receive significant contributions from a small group of individuals.

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[3] Although the percentage of member support seems low at approximately four percent, it is important to note that individual member fees for any 501(c)(3) organization are small because they do not receive the majority of their revenues in the form of member fees or they jeopardize their status as a public charity. Due to the small or incidental fee charged by most nonprofit organizations, there is a significant difference in number of members for a nonprofit that receives 2% of its support from member fees versus one that receives 4%.

Environmental and animal related organizations are also both proprietary and collective in nature. They have a higher level of member support as in the case of arts and cultural organizations (Table 2), but they also receive contributions from individuals that do not receive a direct benefit by the organization.

Table 1

Nonprofit Organizational Form

Organizational Type:	Description*
Arts. cultural and humanities	Organizations that promote enjoyment of arts. cultural activities and humanities
Environment and animals	Environmental quality. protection and beautification Animal protection
Health related	Mental health Crisis intervention Diseases Disorders Medical disciplines
Human service	Crime. legal related Employment. job related Food agriculture and nutrition Housing. shelter Public safety. disaster preparedness and relief Recreation. sports. leisure activities Youth development Multipurpose human service organizations
Public. societal benefit	Civil rights. social action. advocacy Community improvement. capacity building Philanthropy. voluntarism Science and technology research institutes Social science research institutes. services Public. society benefit. multipurpose and other
Religious	Religion related. spiritual development

*NTEE description - based on major categorical groupings from
The National Taxonomy of Exempt Entities

** Also see Appendix I for a more complete description

Table 2 - Panel A
Mean Values for 1989-1993
Organization Type: Arts/Cultural

	1989	1990	1991	1992	1993	All Years
Sample Size	221	243	279	314	310	
Total Executive Compensation	253.428	271.056	257.413	260.053	302.131	268.816
Executive Compensation Allocated to Program Expenses	2.43%	2.94%	3.09%	3.15%	3.20%	2.96%
Total Revenues	18.545.918	17.781.275	17.208.756	17.643.873	17.164.798	17.668.924
Government Support (% of revenue)	8.40%	10.06%	9.91%	7.84%	8.26%	8.89%
Member Support (% of revenue)	4.53%	4.30%	4.34%	4.13%	3.88%	4.24%
Direct Public Support (% of revenue)	31.66%	32.80%	33.59%	34.98%	34.45%	33.50%
Direct Program Expenses (% of revenue)	56.56%	58.90%	58.99%	62.81%	61.52%	59.75%
Management/General Expenses	2.443.123	2.356.975	2.160.316	2.143.776	2.312.730	2.283.384
Management/General Expenses (% of revenue)	13.17%	13.26%	12.55%	12.15%	13.47%	12.92%
Fundraising Expenses	644.064	582.773	572.864	636.220	677.044	622.593
Fundraising Expenses (% of revenue)	3.47%	3.28%	3.33%	3.61%	3.94%	3.52%
Total Assets	38.419.531	39.380.754	38.570.416	41.376.508	43.403.156	40.230.073
Total Liabilities	8.731.029	9.203.394	9.691.213	9.520.778	9.070.986	9.243.480
Total Fund Balance	29.688.501	30.177.359	28.879.203	31.855.730	34.332.170	30.986.593
Change in Executive Compensation	*	0.11%	0.05%	0.20%	-0.17%	0.05%
Change in % of Direct Program Expense	*	3.27%	0.74%	3.46%	-1.49%	1.49%
Change in Revenues	*	10.23%	9.17%	7.53%	32.42%	14.84%
Change in Government Support	*	0.98%	-0.83%	-0.69%	0.49%	-0.01%
Change in Member Support	*	0.30%	-0.19%	0.00%	0.00%	0.03%
Change in Direct Public Support	*	1.17%	0.21%	0.52%	-0.43%	0.37%

* mean changes not available due to data availability

Table 2 - Panel B
Mean Values for 1989-1993
Organization Type: Environment & Animals

	1989	1990	1991	1992	1993	All Years
Sample Size	69	85	87	102	104	
Total Executive Compensation	220.503	308.442	409.383	345.571	552.128	367.205
Executive Compensation Allocated to Program Expenses	2.02%	2.60%	3.05%	4.84%	5.04%	3.51%
Total Revenues	10.088.329	19.798.854	15.438.651	19.001.714	21.006.046	17.066.719
Government Support (% of revenue)	5.22%	6.00%	7.60%	4.83%	5.18%	5.77%
Member Support (% of revenue)	4.80%	6.55%	5.13%	6.12%	5.62%	5.64%
Direct Public Support (% of revenue)	41.46%	39.52%	39.45%	38.17%	37.95%	39.31%
Direct Program Expenses (% of revenue)	59.87%	62.30%	61.55%	58.92%	57.97%	60.12%
Management/General Expenses	1.221.060	2.972.344	2.056.277	2.851.029	3.290.699	2.478.282
Management/General Expenses (% of revenue)	12.10%	15.01%	13.32%	15.00%	15.67%	14.52%
Fundraising Expenses	693.293	1.137.450	974.103	950.981	1.041.021	959.370
Fundraising Expenses (% of revenue)	6.87%	5.75%	6.31%	5.00%	4.96%	5.62%
Total Assets	25.678.385	42.410.111	43.703.504	46.259.314	51.050.618	41.820.386
Total Liabilities	6.949.376	16.217.317	13.042.130	17.801.953	19.717.429	14.745.641
Total Fund Balance	18.729.008	26.192.793	30.661.374	28.457.360	31.333.188	27.074.745
Change in Executive Compensation	*	-0.38%	0.06%	0.78%	-1.42%	-0.24%
Change in % of Direct Program Expense	*	6.30%	1.61%	-0.05%	-0.84%	1.76%
Change in Revenues	*	59.93%	22.40%	8.49%	36.07%	31.72%
Change in Government Support	*	0.86%	1.68%	-1.34%	-0.59%	0.15%
Change in Member Support	*	-0.15%	-0.96%	0.46%	-0.50%	-0.29%
Change in Direct Public Support Support	*	-0.85%	0.03%	-0.71%	0.94%	-0.15%

* mean changes not available due to data availability

Table 2 - Panel C
Mean Values for 1989-1993
Organization Type: Health

	1989	1990	1991	1992	1993	All Years
Sample Size	138	154	174	210	213	
Total Executive Compensation	353,271	319,547	320,866	318,347	329,799	328,366
Executive Compensation Allocated to Program Expenses	4.70%	4.31%	3.74%	4.50%	2.90%	4.03%
Total Revenues	14,494,837	13,815,103	15,364,311	15,731,852	19,047,729	15,690,766
Government Support (% of revenue)	16.85%	16.10%	17.88%	19.00%	18.53%	17.67%
Member Support (% of revenue)	2.79%	2.61%	2.58%	2.20%	2.61%	2.56%
Direct Public Support (% of revenue)	17.53%	17.35%	15.97%	17.48%	17.47%	17.16%
Direct Program Expenses (% of revenue)	66.74%	72.40%	75.95%	73.70%	74.20%	72.60%
Management/General Expenses	2,808,543	2,338,027	2,252,086	2,401,836	2,591,351	2,478,369
Management/General Expenses (% of revenue)	19.38%	16.92%	14.66%	15.27%	13.60%	15.80%
Fundraising Expenses	276,762	194,486	296,015	268,201	357,605	278,614
Fundraising Expenses (% of revenue)	1.91%	1.41%	1.93%	1.70%	1.88%	1.78%
Total Assets	22,986,120	21,808,579	24,004,259	23,774,243	28,597,130	24,234,066
Total Liabilities	8,309,645	7,693,065	8,978,754	9,583,836	11,867,527	9,286,565
Total Fund Balance	14,676,474	14,115,513	15,025,505	14,190,405	16,729,602	14,947,500
Change in Executive Compensation	*	0.66%	-0.05%	0.41%	-0.28%	0.19%
Change in % of Direct Program Expense	*	6.58%	4.05%	-0.74%	-0.93%	2.24%
Change in Revenues	*	11.53%	10.67%	11.52%	15.11%	12.21%
Change in Government Support	*	-1.43%	-0.21%	0.12%	0.39%	-0.28%
Change in Member Support	*	-0.04%	-0.39%	0.04%	0.01%	-0.10%
Change in Direct Public Support Support	*	-1.37%	-0.62%	0.63%	0.63%	-0.18%

* mean changes not available due to data availability

Table 2 - Panel D
Mean Values for 1989-1993
Organization Type: Human Service

	1989	1990	1991	1992	1993	All Years
Sample Size	480	540	586	758	775	
Total Executive Compensation	380,256	322,821	274,055	218,887	227,563	284,716
Executive Compensation Allocated to Program Expenses	4.67%	4.29%	3.96%	3.39%	3.12%	3.89%
Total Revenues	11,765,853	11,446,023	12,056,200	11,922,960	12,432,729	11,924,753
Government Support (% of revenue)	10.95%	11.37%	11.50%	12.05%	11.20%	11.41%
Member Support (% of revenue)	4.62%	4.23%	4.46%	4.27%	4.56%	4.43%
Direct Public Support (% of revenue)	14.54%	15.66%	15.70%	15.89%	15.26%	15.41%
Direct Program Expenses (% of revenue)	71.30%	77.98%	75.97%	73.21%	76.53%	75.00%
Management/General Expenses	1,115,378	1,170,624	1,186,529	1,206,313	1,257,720	1,187,313
Management/General Expenses (% of revenue)	9.48%	10.23%	9.84%	10.12%	10.12%	9.96%
Fundraising Expenses	248,695	224,169	247,513	225,715	240,430	237,304
Fundraising Expenses (% of revenue)	2.11%	1.96%	2.05%	1.89%	1.93%	1.99%
Total Assets	20,947,051	20,367,932	21,621,828	21,673,405	22,779,284	21,477,900
Total Liabilities	9,170,373	9,914,592	10,777,271	10,830,541	11,721,456	10,482,847
Total Fund Balance	11,776,677	10,453,339	10,844,557	10,842,864	11,057,828	10,995,053
Change in Executive Compensation	*	-0.23%	-0.89%	-0.11%	-0.35%	-0.40%
Change in % of Direct Program Expense	*	2.75%	-1.53%	-0.47%	3.12%	0.97%
Change in Revenues	*	22.13%	27.85%	14.88%	10.76%	18.91%
Change in Government Support	*	0.55%	0.49%	0.81%	0.31%	0.54%
Change in Member Support	*	-0.04%	0.12%	0.11%	-0.28%	-0.02%
Change in Direct Public Support Support	*	0.89%	-1.31%	-0.13%	-0.03%	-0.15%

* mean changes not available due to data availability

Table 2 - Panel E
Mean Values for 1989-1993
Organization Type: Public, Societal Benefit

	1989	1990	1991	1992	1993	All Years
Sample Size	386	384	414	486	483	
Total Executive Compensation	276.678	299.847	315.101	313.241	323.681	305.710
Executive Compensation Allocated to Program Expenses	2.30%	2.30%	2.81%	2.35%	2.42%	2.44%
Total Revenues	21.956.574	23.132.584	22.579.832	20.795.609	22.378.336	22.168.587
Government Support (% of revenue)	7.57%	7.30%	7.43%	7.59%	7.48%	7.47%
Member Support (% of revenue)	2.43%	3.07%	2.76%	2.00%	2.30%	2.51%
Direct Public Support (% of revenue)	37.12%	34.86%	34.28%	34.45%	36.24%	35.39%
Direct Program Expenses (% of revenue)	65.13%	68.61%	69.80%	70.42%	67.01%	68.19%
Management/General Expenses	1.704.949	1.821.067	1.752.868	1.711.092	1.752.432	1.748.482
Management/General Expenses (% of revenue)	7.77%	7.87%	7.76%	8.23%	7.83%	7.89%
Fundraising Expenses	386.505	414.153	451.020	454.366	506.955	442.600
Fundraising Expenses (% of revenue)	1.76%	1.79%	2.00%	2.18%	2.27%	2.00%
Total Assets	36.431.446	39.680.803	42.222.284	42.754.865	45.547.677	41.327.415
Total Liabilities	9.892.576	10.245.662	11.109.946	11.523.863	12.135.755	10.981.560
Total Fund Balance	26.538.870	29.435.141	31.112.338	31.231.001	33.411.921	30.345.854
Change in Executive Compensation	*	-0.08%	0.10%	-0.57%	0.87%	0.08%
Change in % of Direct Program Expense	*	5.08%	-0.08%	-1.85%	-0.33%	0.71%
Change in Revenues	*	12.78%	14.58%	5.92%	12.95%	11.56%
Change in Government Support	*	0.48%	-0.10%	-0.09%	-0.13%	0.04%
Change in Member Support	*	0.27%	-0.01%	-0.34%	0.05%	-0.01%
Change in Direct Public Support Support	*	0.34%	-1.55%	-0.14%	0.11%	-0.31%

* mean changes not available due to data availability

Table 2 - Panel F
Mean values for 1989-1993
Organization Type: Religious

	1989	1990	1991	1992	1993	All Years
Sample Size	46	44	59	69	62	
Total Executive Compensation	110.371	120.055	126.250	110.137	126.558	118.674
Executive Compensation Allocated to Program Expenses	3.53%	5.18%	5.97%	5.02%	4.00%	4.74%
Total Revenues	9.341.179	8.741.145	8.739.194	7.681.835	8.844.421	8.669.555
Government Support (% of revenue)	0.02%	1.73%	0.01%	1.22%	1.54%	0.90%
Member Support (% of revenue)	2.17%	1.92%	1.54%	1.20%	3.10%	1.99%
Direct Public Support (% of revenue)	35.19%	37.30%	35.07%	33.31%	33.55%	34.88%
Direct Program Expenses (% of revenue)	57.82%	64.80%	62.87%	62.01%	61.31%	61.76%
Management/General Expenses	794.521	602.726	759.415	678.813	795.209	726.137
Management/General Expenses (% of revenue)	8.51%	6.90%	8.69%	8.84%	8.99%	8.38%
Fundraising Expenses	535.604	479.859	389.966	369.438	369.438	428.861
Fundraising Expenses (% of revenue)	5.73%	5.49%	4.46%	4.81%	4.18%	4.95%
Total Assets	20.475.841	22.231.295	24.882.403	26.603.017	31.927.681	25.224.047
Total Liabilities	4.800.165	4.869.103	6.474.958	6.074.577	6.782.449	5.800.250
Total Fund Balance	15.675.675	17.362.192	18.407.444	20.528.440	25.145.232	19.423.797
Change in Executive Compensation	*	0.49%	-0.72%	1.68%	-1.13%	0.08%
Change in % of Direct Program Expense	*	2.11%	-1.35%	0.92%	-1.99%	-0.08%
Change in Revenues	*	5.69%	9.43%	3.35%	12.62%	7.77%
Change in Government Support	*	0.00%	-0.01%	0.02%	0.11%	0.03%
Change in Member Support	*	0.08%	-0.11%	0.05%	1.79%	0.45%
Change in Direct Public Support	*	-1.22%	0.45%	-0.46%	2.16%	0.23%

* mean changes not available due to data availability

Health related organizations have both collective and trust characteristics. These types of organizations may provide assistance or counseling to constituents with a specific disease or mental condition. They are also collective in nature because they receive support from individuals that do not benefit from their mission.

Human service organizations appear to have traits of all three organizational types: collective, trust, and proprietary. These organizations primarily assist constituents with basic human needs and receive contributions from individuals or groups that do not benefit from their services. They may also provide assistance in a trust capacity to constituents such as job retraining, physical fitness, legal services, home owners associations, etc. This group also receives comparable levels of member support giving it elements of a proprietary organization.

Public and societal benefit organizations are primarily trust organizations in that they assist constituents in specific areas of interest such as political, scientific, business or industry issues. These organizations may have some characteristics of proprietary type organizations because they likely receive contributions from individuals or groups that receive a direct benefit from their mission; however, they have lower levels of member support that the other groups that appear to be more proprietary in nature.

Religious organizations are difficult to classify, but are most likely proprietary in nature. It is important to note that the religious organizations included in the sample are not just churches, but include organizations affiliated with churches that have a mission related to a particular religion. Furthermore, most churches do not file a Form 990 with the IRS because they are not required to do so. Although it appears

that the support from members is low (Table 2, Panel F), most religious organizations record contributions from their constituents as direct public support, not member support. It is not likely, however, that religious organizations receive a large amount of their support from individuals or groups that do not practice a similar religion.

In addition to a partitioning the data on industry, the data is also partitioned on activity type. The NTEE coding methodology incorporates an activity dimension in its coding scheme; however, the majority of the organizations included in the sample had incomplete activity codes as the NTEE coding project is currently in its final development stages. The organizations in the sample were inspected for completeness with respect to the activity code, and the fundraising activity group was found to be reliable. A supplemental analysis of the compensation, performance, and monitoring relationship is examined with organizations that state "fundraising" as their primary activity.

CHAPTER V

MEASUREMENT OF DEPENDENT AND INDEPENDENT VARIABLES

The dependent variable used in the study is executive compensation and the dependent variables are performance and monitoring. Both a changes and levels analysis are conducted. The primary measure of performance is percentage of revenue spent on the organization's primary purpose. A secondary measure of performance is revenue growth. Variables that represent monitoring by three types of supporters are also used. The following sections discuss the measurement of each variable.

Executive Compensation

The compensation measure used in this study is total compensation paid to executive officers or directors of nonprofit organizations. Nonprofit organizations must disclose the compensation of executives and directors on their Form 990. Members of the board of directors of large nonprofit organizations are typically volunteers and therefore not compensated (NCIB, 1996). Consequently, the compensation amounts disclosed on the Form 990 are usually amounts paid to the executive director of the organization.

Performance Measures

Performance measures for nonprofit organizations are not as well defined or accepted as those used by for-profit entities. The issue of accounting performance measures for nonprofits has been criticized (Anthony, 1995), and the challenge

continues in finding objective measures. The basis for selection of performance measures used in this study comes primarily from new accounting standards (SFAS Nos. 116 and 117) and is based on expense classification of functional areas (defined below). Other performance measures used in the study are based on standards set by charity watchdog organizations, such as the National Charities Information Bureau (NCIB). The remainder of this section describes the performance and monitoring measures used as explanatory variables.

Performance Measures Based on Functional Expense Classification

Functional expense classification as defined by the FASB and IRS basically involves grouping all the expenses incurred by a nonprofit into three areas: 1) program service expenses (direct expenses); 2) management and general expenses; and 3) fundraising expenses. Program service expenses are expenses incurred by an organization in conducting its primary mission or direct charitable purpose. The management and general classification includes expenses that are for the overall, non-specific function of the organization with the exception of fundraising and program activities. Fundraising expenses are expenditures incurred to raise contributions.

SFAS No. 117 requires a statement of functional expenses that explicitly lists program, management and general, and fundraising expenses in the financial report of all *voluntary health and welfare organizations*. The FASB encourages other types of nonprofit organizations to include a statement of functional expenses in their financial statements. The intent behind this requirement of SFAS No. 117 is to "help donors, creditors, and others in assessing an organization's service efforts, including the costs

of its services and how it uses resources" which relates directly to performance evaluation (FASB, 1993).

Functional expense categorization has been a requirement of Form 990 for several years. Charity monitoring organizations, such as the NCIB and Better Business Bureau, evaluate the financial performance of nonprofit organizations based on functional expense classification (Better Business Bureau, 1996; NCIB, 1996). According to the standards set by charity monitoring organizations, nonprofit organizations that spend more of their resources on items related to their primary mission are considered to be better performers and are more likely to satisfy the constituents/clients of the organization.

A performance measure that is used by the FASB, the IRS, and charity watchdog organizations is the percentage of total expenses related to program services. NCIB standards suggest that at least 60% of an efficiently operating nonprofit organization's total expenses should be spent on program services. NCIB standards also suggest that fundraising expenses should be less than 30% of the revenues generated by fundraising activities. The NCIB does not give a guideline to use for management and general expenses, except that they should be minimal in relation to the other expense categories. The Better Business Bureau (BBB) standards are similar to the NCIB standards except they are based on a percentage of revenues, not expenses. The BBB that at least 50% of all income from all sources should be spent on programs and activities directly related to the purposes for which the organization exists (BBB, 1996). The BBB also states that a fundraising expenses should not exceed 35% of fundraising revenues. In addition, BBB standards state that

a maximum of 50% of revenues should be spent on administrative or general management costs.

This study incorporates the concepts behind the FASB and IRS reporting requirements as well as the standards set by charity monitoring organizations for the primary measure of performance used in the study. Performance is defined as follows:

PERFORMANCE = total direct program expenses/total revenues

The performance measure could be scaled by total expenses instead of total revenues of the organization; however, it is common for the total revenues and expenses of a nonprofit to be approximately the same over time. Nonprofit organizations typically do not operate at a surplus or a deficit for extended periods of time (Freeman and Shoulders, 1996). Revenues could exceed expenses in some years, and consequently, net assets would increase; however, if the relation continues, a nonprofit organization will be criticized if the excess funds are not spent in a manner that benefits the constituents (NCIB, 1996). On the other hand, if a deficit situation exists, net assets still available from prior periods are necessary in order satisfy the obligations of the organization.

In considering the objectivity of functional expense classification and the measurement of the performance variable, it is important to note that most nonprofits must allocate a portion of their expenses to functional categories if the costs are not directly traceable. Allocation might artificially bias functional expenses in a way unrelated to performance of the organization. The IRS and FASB provide little guidance concerning appropriate allocation practices. In the instructions for Form 990, the IRS simply states that allocation methods should be documented and

reasonable. Due to unsophisticated cost systems and lack of authoritative guidance, allocation practices possibly may not reflect actual cost drivers. For example, the rent paid by a nonprofit may be allocated to program service expenses based on the percentage of total support dollars received by program services. Another nonprofit may allocate rent based on square footage used by employees in each functional area. These allocations could be appropriate and accurately represent cost behavior or, if not, the consequences of inappropriateness may be immaterial. On the other hand, the allocations may be subject to manipulation by managers, particularly if a nonprofit's performance is declining and too many expenses are incurred in an undesirable category such as fundraising. If a nonprofit is continuously performing badly, and costs are incorrectly allocated, revenues and support may decrease over time.

Most nonprofits allocate a portion of the executive's time to the three functional expense classifications. The amount of executive compensation allocated to direct program expenses is disclosed on the Form 990 and it is subtracted from the direct program expense amount used in the study. More specifically:

PERFORMANCE = (total direct program expenses -
executive compensation allocated to direct program
expenses) / total revenues

Performance Measures Based on Revenue Growth

Revenue growth is commonly used in compensation/performance studies as a performance indicator (Pavlik, Scott and Tiessen, 1993). This study also uses this performance measure under the assumption that the more resources or revenues a

nonprofit organization receives, the more it can spend on achieving its purpose. Kingma (1993) reports that nonprofits with stable revenue growth typically receive more support from governmental sources. He also concludes that organizations that rely heavily on nongovermental sources have more volatility in their revenue streams. Chang and Tuckman (1991) suggest that performance is likely to be lower for nonprofit organizations that have less stable revenue sources because they may have more difficulty maintaining their primary programs. Descriptive statistics shown in Table 2 suggest that this is true for the nonprofit organizations in the sample. Table 2, Panel C show that health organizations receive more governmental support than other types of organizations and their average revenue growth is also smoother than the other groups. Furthermore, their performance as measured by their direct program expense ratio is higher than all other groups except human service organizations.

As discussed earlier in the paper, a common criticism of nonprofit organizations is that as revenues increase, salaries also increase (Covington, 1994). Part of the concern with the Taxpayer Bill of Rights is that it implies that it is improper for nonprofit organizations to raise salaries in accordance with increases in revenues and support (NCIB, 1996). If the concerns/criticisms are true, a positive relationship should exist between revenue growth and compensation. Revenue growth is defined as follows:

$$(REVENUES_t - REVENUES_{t-1}) / REVENUES_{t-1}$$

Monitoring Variables

Variables that control for different aspects of monitoring are included as independent variables in the study. As discussed previously in the paper, the degree of monitoring activities in nonprofit organizations is likely to vary depending on the types of principals involved. Monitoring activities by three groups are considered: the government, members of the organization, and the public. The level of support generated by each group is used as a proxy for incentive to monitor. The incentive to monitor is predicted to be different across organizational types. In organizational types where there is a strong incentive to monitor or when monitoring is likely to be more effective, the compensation and monitoring variables are predicted to be negatively related. In other words, as support increases, compensation decreases. The relationship is predicted to be positive in organizational types where monitoring activities are less effective or difficult to conduct. In this case, as support increases, salaries increase.

Governmental Monitoring

As discussed earlier in the paper, governmental agencies have an incentive to monitor the nonprofit organizations they support. Some organizations rely more heavily on government support than other groups. Table 2 shows that health and human service organizations receive more governmental support than the other types of organizations included in the study. Governmental agencies are more likely to monitor the activities of a nonprofit organization that serves specific groups of the public and less likely to monitor the activities of a nonprofit organization that serves

the general public (Weisbrod, 1988; Bogart, 1995). For example, health or human service organizations serve the general public, but public and societal benefit organizations or cultural organizations serve a more specific sector of the public such as political groups, civil rights advocacy groups, veterans, financial institutions, or science and technology research groups. The relationship between government support and compensation is expected to be positive in organizations that serve the general public.

The variable used for governmental monitoring is:

GOVT. SUPPORT = funds received from governmental agencies / total revenues

Public Monitoring

Nonprofit organizations generally receive two types of funding from the public, indirect and direct. Indirect public support generally comes from contributions received through solicitation campaigns conducted by federal fundraising agencies such as the United Way. Donors that contribute to federal fundraising agencies either specify the charity they want to receive the funds, or they make a general contribution and leave it up to the agency to determine where the funds are remitted. Direct public support includes general contributions, gifts, grants, and amounts received from special events that are not defined as fundraising events. Direct public support can be from the general public or specific sectors of the public. For example, public and societal benefit organizations that receive public support are more likely to receive their support from individuals that have a specific interest in the activities these types

of organizations promote (Weisbrod, 1988). It is more likely that when organizations receive support from specific groups of the public, these groups will monitor the activities of the organizations that they have a special interest in. The variable representing public monitoring activities is defined as:

DIRECT PUBLIC SUPPORT = total revenues received from direct public support / total revenues

The variable is predicted to have a positive relationship with compensation for organizations that serve the general public or are more collective in nature and the client/donor relationship is more distinct. In these cases, the public may have less incentive to monitor or may be less effective at monitoring the compensation of executives in these organizations. The variable is predicted to have a negative relationship for organizations that are classified as "trust" types of organizations where supporters from the general public may receive benefits from the organization and may have more interest in monitoring.

Member Monitoring

Nonprofit organizations with member-based activities receive two types of funds from their members: 1) general contributions and 2) membership dues and assessments. Membership dues and assessments represent payments made by the members to the nonprofit in exchange for some benefit. Member loyalty results when members approve of the benefits they receive from the organization or are pleased with the organization's performance. With an increase in monitoring activities, compensation levels may be watched more closely. As monitoring activities become

more effective, compensation levels are more likely to decrease (Steinberg, 1990). The variable used to proxy for monitoring activities by members is:

MEMBER SUPPORT = membership dues and assessments/total revenues

The variable is predicted to have a negative relationship with compensation in organizations with significant membership support.

Monitoring and Performance

The previous section develops the basis and predictions for the relationship between compensation and monitoring. Based on the activities and reports generated by charity monitoring organizations, individuals or groups that have an incentive to monitor a nonprofit organization are just as likely to monitor performance as they are to monitor compensation (NCIB, 1996). This study also includes an analysis of the relationship between performance and monitoring by testing the following model:

$$\Delta PERFORMANCE = B_o + B_1 \Delta GOVT.\ SUPPORT + B_2 \Delta MEMBER\ SUPPORT + B_3 \Delta DIRECT\ PUBLIC\ SUPPORT + e_i$$

Conducting this analysis also provides insight into the relationship between the independent variables used in the primary analysis of this study. A significant positive relationship between a support variable and performance implies an effective monitoring relationship whereby performance increases are related to increases in support. A significant negative relationship between a support variable and performance indicates that as performance decreases, support increases. This suggests an ineffective monitoring relationship.

CHAPTER VI

RESULTS

The results of the study are discussed in this chapter. The primary analyses for the study are the regressions of change in compensation on change in performance and monitoring. Additionally, descriptive and correlation analyses are discussed in some detail in an effort to provide further insight regarding financial characteristics of nonprofits because the types of organizations included in the study are relatively new to accounting research.

Descriptive Analysis

Table 2 (Panels A-F) presents descriptive statistics for each of the six organizational types included in the study. The means for the dependent and independent variables as well as assets, liabilities and fund balances are presented. The sample sizes for each group of organizations increased for each year in the sample period because the number of organizations that qualified to be included in the IRS database increased for each year. The sample sizes also varied slightly for the levels and changes analyses included in the study because not all of the organizations were included every year and it was not possible to calculate the change in a variable.

The mean level of compensation is highest for environmental and animal related organizations ($367K) followed by health ($328K), public and societal benefit ($306K) human service organizations ($285K), arts and cultural ($269K), and religious organizations ($118K). The percentage of executive compensation allocated

to program expenses is relatively low for most of the organizations and ranges from 2.43% (public and societal benefit organizations) to 4.74% (religious organizations).

Health and human service organizations spend more of their revenues on direct program expenses (72% and 75%) than the other groups. The mean direct program expense percentage is lower (approximately 60%) in the arts and cultural, environmental and animal, and religious groups. The mean percentage of direct program expenses for public and societal benefit organizations is approximately 68%.

Average assets are highest in the environment and animal groups ($41m) followed by public and societal benefit organizations ($41m), and arts and cultural organizations ($40m). Health and human service organizations have significantly lower levels of total assets ($24m and $21m).

Revenues are highest in the public and societal benefit group ($22m) and lowest in the religious group ($8.7m). The environment and animal groups has the most volatile average revenue growth rate followed by arts and cultural organizations.

Health and human service organizations receive higher mean levels of government support than the other types of organizations (7-9%). Environment and animal groups receive a lower amount of government support (6%) followed by religious organizations that receive very little (less than 1%).

Environment and animal organizations receive the highest level of member support (6%). Arts and cultural organizations and human service organizations also receive a higher mean level of member support (4%) than the other groups.

Human service and health organizations receive significantly lower levels of direct public support than the other types of organizations (15%-17%). The

environment and animal group receives the highest level of direct public support (39%). The other organizations receive close to an average of 34% in direct public support.

Correlation Analysis of Changes Variables

A correlation analysis of the dependent and independent variables used in the changes analysis of this study is presented in Table 3. The analysis is presented to inspect for multicollinearity among the independent variables. The correlation between the dependent variable, executive compensation, and each of the performance and monitoring variables is examined to provide an initial basis for understanding the relationship between the variables (due to lack of prior research on compensation and performance in nonprofit organizations).

Table 3 (Panels A-F) present Pearson correlation coefficients for change in compensation, performance, revenue, government support, member support, and direct public support. The relationship between change in compensation and change in performance is consistently positive and significant in at least three of the four years as well as the pooled sample in the following organizations: arts and cultural, environmental and animal, health, and public and societal benefit. The relationship between change in compensation and change in performance is negative in three of the four years for human service organizations, but the pooled analysis results in a positive relation. The significant positive correlation for this group in 1991 (.4448) is likely influencing the pooled correlation (.1876).

Table 3 - Panel A
Pearson Correlation Coefficients for Change in Compensation, Performance, and Monitoring Variables
Organization Type: Arts/Cultural

	n	Change in Compensation		Change in Performance		Revenue Growth		Change in Govt. Support		Change in Member Support	
1990	195										
Change in Performance		0.3359	*								
Revenue Growth		-0.4165	*	-0.5955	*						
Government Support		-0.0611		0.0007		0.0137					
Member Support		0.1138		0.1737	*	0.1336	**	-0.1161	**		
Direct Public Support		-0.3455	*	-0.3478	*	0.3465	*	0.0061		-0.1161	*
1991	226										
Change in Performance		0.6189	*								
Revenue Growth		-0.4141	*	-0.3997	*						
Government Support		0.0244		0.0892		-0.0911					
Member Support		0.1834	*	0.1711	*	-0.2264	*	-0.0026			
Direct Public Support		-0.0153		-0.0654		0.1184	**	-0.2678	*	-0.2083	*
1992	250										
Change in Performance		0.5162	*								
Revenue Growth		-0.4806	*	-0.5338	*						
Government Support		0.0973		0.0978		0.0567					
Member Support		0.0561		0.1121	**	-0.2006	*	0.0505			
Direct Public Support		0.3571	*	0.3183	*	0.0691		-0.0866		-0.2415	*
1993	267										
Change in Performance		0.3067	*								
Revenue Growth		-0.2760	*	-0.2443	*						
Government Support		0.0118		0.0541		0.1807	*				
Member Support		0.1408	*	0.4155	*	-0.0092		0.0422			
Direct Public Support		0.1558	*	0.0127		-0.0708		-0.2517	*	-0.0511	
Pooled	938										
Change in Performance		0.3655	*								
Revenue Growth		-0.2676	*	-0.2641	*						
Government Support		0.0283		0.0529	**	0.0731	*				
Member Support		0.0976	*	0.3658	*	0.0514		0.0228			
Direct Public Support		0.1347	*	0.0565	**	0.0037		-0.1330	*	-0.1059	*

* significance at the .05 level or better
** significance at the .10 level or better

Table 3 - Panel B
Pearson Correlation Coefficients for Change in Compensation, Performance, and Monitoring Variables
Organization Type: Environmental & Animal

	n	Change in Compensation		Change in Performance		Revenue Growth		Change in Govt. Support	Change in Member Support	
1990	63									
Change in Performance		0.0679								
Revenue Growth		-0.1018		0.3183	*					
Government Support		0.0199		0.2235	**	-0.0308				
Member Support		0.4501	*	0.0118		-0.0641		-0.0951		
Direct Public Support		-0.2780	*	-0.3638	*	0.1036		-0.0132	-0.2462	*
1991	75									
Change in Performance		0.4923	*							
Revenue Growth		-0.5248	*	-0.3307	*					
Government Support		-0.0769		0.1927	**	-0.0368				
Member Support		0.4004	*	0.3318	*	-0.2600	*	0.0945		
Direct Public Support		-0.3487	*	-0.3421	*	0.2791	*	-0.0433	-0.2987	*
1992	79									
Change in Performance		0.5785	*							
Revenue Growth		-0.4885	*	-0.6013	*					
Government Support		0.2539	*	-0.0425		-0.3905	*			
Member Support		0.0455		0.2250	*	-0.3449	*	0.0619		
Direct Public Support		-0.0419		-0.2408	*	0.2201	*	0.0657	-0.2955	*
1993	88									
Change in Performance		0.6185	*							
Revenue Growth		-0.9023	*	-0.7076	*					
Government Support		-0.0033		0.0609		0.0024				
Member Support		-0.0032		0.1208		-0.0483		-0.0171		
Direct Public Support		-0.5089	*	-0.5544	*	0.6229	*	-0.0512	-0.1949	**
Pooled	305									
Change in Performance		0.4793	*							
Revenue Growth		-0.4447	*	-0.1678	*					
Government Support		0.0459		0.1032	**	-0.0209				
Member Support		0.0981	**	0.1598	*	-0.0737		0.0009		
Direct Public Support		-0.3026	*	-0.3952	*	0.2568	*	-0.0192	-0.2454	*

* significance at the .05 level or better
** significance at the .10 level or better

Table 3 - Panel C
Pearson Correlation Coefficients for Change in Compensation, Performance, and Monitoring Variables
Organization Type: Health

	n	Change in Compensation		Change in Performance		Revenue Growth		Change in Govt. Support		Change in Member Support	
1990	110										
Change in Performance		0.2744	*								
Revenue Growth		-0.3966	*	-0.2921	*						
Government Support		0.1281		0.0741		-0.1747	*				
Member Support		-0.0105		0.0216		-0.0273		-0.0317			
Direct Public Support		-0.3968	*	-0.2300	*	0.0553		0.0610		-0.0307	
1991	136										
Change in Performance		0.0428									
Revenue Growth		-0.2810	**	-0.0478							
Government Support		-0.0418		0.0486		-0.1925	*				
Member Support		0.0193		-0.0377		-0.1782	*	0.0023			
Direct Public Support		-0.0320		-0.4923	*	-0.1176		-0.0853		-0.2575	*
1992	172										
Change in Performance		0.4695	*								
Revenue Growth		-0.3707	*	-0.3781	*						
Government Support		-0.1287		0.0271		0.3137	*				
Member Support		0.0479		-0.0458		-0.0346		-0.0226			
Direct Public Support		0.0645		-0.1647	*	-0.0564		-0.3914	*	0.0286	
1993	153										
Change in Performance		0.5842	*								
Revenue Growth		-0.7726	*	-0.5755	*						
Government Support		0.0144		0.0601		-0.0237					
Member Support		0.0134		0.0008		-0.0107		-0.0411			
Direct Public Support		0.0622		-0.0097		-0.2668		-0.0570		0.0541	
Pooled	571										
Change in Performance		0.3459	*								
Revenue Growth		-0.5044	*	-0.3482	*						
Government Support		-0.0084		0.0441		-0.0391					
Member Support		0.0154		-0.0251		-0.0599		-0.0065			
Direct Public Support		-0.0671	**	-0.2447	*	-0.1050	*	-0.0897	*	-0.1422	*

* significance at the .05 level or better
** significance at the .10 level or better

Table 3 - Panel D
Pearson Correlation Coefficients for Change in Compensation, Performance, and Monitoring Variables
Organization Type: Human Service

	n	Change in Compensation		Change in Performance		Revenue Growth		Change in Govt. Support		Change in Member Support	
1990	384										
Change in Performance		-0.0936	**								
Revenue Growth		-0.1030	*	-0.1227	*						
Government Support		-0.0549		-0.0581		0.3092	*				
Member Support		-0.0218		0.1349	*	-0.0074		0.0685			
Direct Public Support		0.0130		-0.0887	**	0.0002		-0.0405		-0.0768	
1991	462										
Change in Performance		0.4448	*								
Revenue Growth		-0.5711	*	-0.9312	*						
Government Support		0.0271		0.0190		-0.0006					
Member Support		0.0715		0.0159		-0.0433		-0.0895			
Direct Public Support		-0.0122		-0.0657		0.0263		-0.0530		-0.2614	*
1992	494										
Change in Performance		-0.1269	*								
Revenue Growth		-0.1750	*	-0.3831	*						
Government Support		0.0015		0.0378		-0.0156					
Member Support		0.0642		0.0663		-0.1480	*	0.0906	*		
Direct Public Support		-0.0443		-0.1762	*	0.2205	*	-0.1300	*	-0.2623	*
1993	622										
Change in Performance		-0.0063									
Revenue Growth		-0.2838	*	-0.2898	*						
Government Support		0.0234		0.0015		0.0013					
Member Support		0.0191		-0.0196		-0.0188		-0.1926	*		
Direct Public Support		-0.0116		-0.1338	*	0.1823	*	-0.1804	*	-0.0552	
Pooled	1962										
Change in Performance		0.1876	*								
Revenue Growth		-0.3259	*	-0.6554	*						
Government Support		0.0049		0.0069		0.0834	*				
Member Support		0.0279		0.0171		-0.0246		-0.0572	*		
Direct Public Support		-0.0121		-0.0862	*	0.0417	*	-0.1052	*	-0.1253	*

* significance at the .05 level or better
** significance at the .10 level or better

Table 3 - Panel E
Pearson Correlation Coefficients for Change in Compensation, Performance, and Monitoring Variables
Organization Type: Public/Societal Benefit

	n	Change in Compensation		Change in Performance		Revenue Growth		Change in Govt. Support		Change in Member Support
1990	319									
Change in Performance		0.3331	*							
Revenue Growth		-0.4249	*	-0.4572	*					
Government Support		-0.4340	*	-0.2212	*	0.2375	*			
Member Support		-0.0953	**	-0.0001		-0.0450		-0.0316		
Direct Public Support		-0.0626		-0.1269	*	0.2437	*	-0.0126		0.0005
1991	351									
Change in Performance		0.0880	**							
Revenue Growth		-0.3601	*	-0.3506	*					
Government Support		-0.1240	*	-0.2794	*	0.0888	**			
Member Support		0.0805		-0.0055		-0.0737		-0.0209		
Direct Public Support		-0.0958	*	-0.0327		0.1649	*	-0.0430		-0.0229
1992	365									
Change in Performance		0.5453	*							
Revenue Growth		-0.4526	*	-0.4311	*					
Government Support		0.0309		-0.0272		0.0031				
Member Support		-0.0046		-0.0103		0.0121		0.0143		
Direct Public Support		-0.0832		-0.1033	*	0.3771	*	-0.1448	*	-0.0110
1993	419									
Change in Performance		0.5051	*							
Revenue Growth		-0.2168	*	-0.3497	*					
Government Support		-0.0032		0.0211		-0.0066				
Member Support		-0.0020		0.0071		-0.0551		-0.0188		
Direct Public Support		-0.0309		-0.1497	*	0.3455	*	-0.1877	*	-0.0148
Pooled	1454									
Change in Performance		0.3725	*							
Revenue Growth		-0.2646	*	-0.3569	*					
Government Support		-0.0597	*	-0.0912	*	0.0991	*			
Member Support		-0.0004		0.0010		-0.0360		-0.0112		
Direct Public Support		-0.0525	*	-0.0918	*	0.2708	*	-0.0919	*	-0.0087

* significance at the .05 level or better
** significance at the .10 level or better

Table 3 - Panel F
Pearson Correlation Coefficients for Change in Compensation, Performance, and Monitoring Variables
Organization Type: Religious

	n	Change in Compensation		Change in Performance		Revenue Growth		Change in Govt. Support	Change in Member Support
1990	30								
Change in Performance		-0.1657							
Revenue Growth		-0.5737	*	-0.0377	*				
Government Support		0.0365		0.1816		0.0908			
Member Support		-0.0337		-0.0401		0.0048		0.0175	
Direct Public Support		-0.0194		-0.1617		0.1021		0.0548	0.0275
1991	44								
Change in Performance		0.2910	*						
Revenue Growth		-0.4105	*	-0.6357	*				
Government Support		-0.0302		0.0910		-0.0085			
Member Support		-0.0044		0.0535		-0.0274		-0.0153	
Direct Public Support		-0.2739	**	0.0955		-0.1448		0.1207	0.0123
1992	49								
Change in Performance		0.1740							
Revenue Growth		-0.1559		-0.5014	*				
Government Support		-0.0332		0.0139		0.0139			
Member Support		0.0580		-0.3254	*	-0.3254	*	-0.0121	
Direct Public Support		-0.1855		-0.1474		0.7146	*	-0.0002	-0.1903
1993	56								
Change in Performance		0.2348	**						
Revenue Growth		-0.2192	**	-0.5440	*				
Government Support		-0.0633		0.1338		0.0537			
Member Support		0.0438		-0.0122		-0.0362		-0.0198	
Direct Public Support		-0.0043		-0.2191	**	0.4192	*	-0.0506	-0.0232
Pooled	179								
Change in Performance		0.1148							
Revenue Growth		-0.3767	*	-0.3767	*				
Government Support		-0.0228		-0.0228		0.0465			
Member Support		0.0074		0.0074		-0.0257		-0.0072	
Direct Public Support		-0.1226	*	0.1226	**	0.2236	*	-0.0208	-0.0069

* significance at the .05 level or better
** significance at the .10 level or better

The relationship between change in compensation and revenue growth is significant and negative in all four years for the following organizations: arts and cultural, health, human service, and public and societal benefit. The correlation coefficient is significant and negative in three of the four years for the environment/animal group and the religious group.

With respect to multicollinearity problems between the independent variables. the highest correlations are between the change in performance and revenue growth measures where there is a significant negative relationship for most organizations in the majority of sample years. The correlations are not suggestive of multicollinearity problems that may confound the results of the regression analyses (Kennedy, 1992).

The relationship between change in government support and change in compensation is negative and significant only in the public and societal benefit groups. The correlation between change in member support and change in compensation is positive and significant in two of the four years and in the pooled samples for arts/cultural and environmental/animal organizations. The positive coefficient suggests an ineffective monitoring relationship for these groups where increases in support lead to increases in compensation.

The relationship between change in compensation and change in direct public support is negative and significant in three of the four years and the pooled sample in the environmental/animal group. The pooled sample for health organizations also indicates a significant negative relationship. The negative relationships suggest effective monitoring by the direct public where increases in support are related to

decreases in compensation. The relationship is positive and significant in two of the four years and in the pooled sample for arts and cultural organizations indicating an ineffective monitoring relationship.

Regressions of Change in Performance on Change in Monitoring Variables

Table 4 (Panels A-F) show the results of regressions of change in performance on changes in the set of three monitoring variables[4]. The overall results are significant for most groups with the exception of health and religious organizations. The coefficient for the direct public support variable is negative and significant in three of the four years and in the pooled samples for environmental/animal, health, human service and public/societal benefit organizations. This result indicates that as direct public support increases, performance decreases, suggesting that the direct public is inefficient in monitoring the performance of these groups.

With respect to the member support monitoring variable, the regressions for the arts and cultural organizations show that this variable is positive and significant in each year. This result suggests that members of arts and cultural organizations are effectively monitoring performance and increases in support are related to increases in performance.

[4] In order to check for outliers and influential observations, a plot of the residuals as inspected. Analyses using logarithmic transformations were also conducted and resulted in similar results.

Table 4 - Panel A
Regression of Change in Performance on Change in Monitoring Variables
Organization Type: Arts/Cultural

	Intercept	Change in Govt. Support	Change in Member Support	Change in Direct Public Support	F	Adj. R sq.
1990	0.0338	0.0215	1.2450	-0.4395	10.2870	0.1256
	(2.49)	(0.15)	(2.00)	(-4.914)		
	*		*	*	*	
1991	0.0139	0.3242	1.9797	-0.0105	2.8720	0.0243
	(0.91)	(1.28)	(2.52)	(-.093)		
			*		*	
1992	0.0347	0.3205	1.3980	0.4117	14.8830	0.1433
	(2.62)	(2.04)	(3.26)	(6.21)		
	*	*	*	*	*	
1993	-0.0167	0.2520	4.3050	0.0847	18.7200	0.1666
	(-.865)	(0.08)	(7.42)	(0.80)		
			*		*	
Pooled	0.0143	0.2142	3.4448	0.1633	54.7470	0.1437
	(1.73)	(1.93)	(12.51)	(3.44)		
	**	*	*	*		

t -statistics shown in parentheses are based on White (1980)

* significance at the .05 level or better

* *significance at the .10 level or better

Table 4 - Panel B
Regression of Change in Performance on Change in Monitoring Variables
Organization Type: Environment & Animal

	Intercept	Change in Govt. Support	Change in Member Support	Change in Direct Public Support	F	Adj. R sq.
1990	0.0488	1.4015	-0.4058	-0.5517	4.4220	0.1420
	(1.98)	(1.80)	(-.496)	(-3.095)		
	*	**		*	*	
1991	0.0234	0.3760	1.4014	-0.3989	5.9120	0.1661
	(1.09)	(1.49)	(2.13)	(-2.374)		
			*	*	*	
1992	-0.0100	-0.1645	1.1866	-0.2753	2.3390	0.0490
	(-.388)	(-.368)	(1.48)	(-1.614)		
					**	
1993	-0.0015	0.1076	0.1034	-0.9293	12.4990	0.2839
	(0.07)	(0.36)	(0.15)	(-5.936)		
				*	*	
Pooled	0.0162	0.3154	0.4377	-0.5891	20.9580	0.1614
	(1.40)	(1.85)	(1.26)	(-7.033)		
		**		*	*	

t statistics shown in parentheses are based on White (1980)

* significance at the .05 level or better
* *significance at the .10 level or better

Table 4 - Panel C
Regression of Change in Performance on Change in Monitoring Variables
Organization Type: Health

	Intercept	Change in Govt. Support	Change in Member Support	Change in Direct Public Support	F	Adj. R sq.
1990	0.0638	0.2888	0.4800	-0.4677	2.2950	0.0344
	(2.19)	(0.94)	(0.18)	(-2.490)		
	*			*	*	
1991	0.0301	0.0124	-1.1862	-0.9481	16.3800	0.2547
	(1.33)	(0.04)	(-2.289)	(-6.961)		
			*	*	*	
1992	-0.0030	-0.1887	-1.0834	-0.5978	1.5630	0.0110
	(-.130)	(-.510)	(-.515)	(-2.065)		
				*		
1993	-0.0110	0.4231	0.1054	-0.0142	0.2060	-0.0141
	(-.535)	(0.78)	(0.05)	(-.084)		
Pooled	0.0157	0.0874	-0.7413	-0.5406	13.3320	0.0592
	(1.38)	(0.53)	(-1.502)	(-6.196)		
				*	*	

t statistics shown in parentheses are based on White (1980)

* significance at the .05 level or better
* *significance at the .10 level or better

Table 4 - Panel D
Regression of Change in Performance on Change in Monitoring Variables
Organization Type: Human Service

	Intercept	Change in Govt. Support	Change in Member Support	Change in Direct Public Support	F	Adj. R sq.
1990	0.0293	-0.1337	0.3113	-0.1059	3.8270	0.0217
	3.70	(-1.391)	(2.63)	(-1.603)		
	*		*	**	*	
1991	-0.0205	0.1210	0.0067	-0.0353	0.6980	0.0046
	(-.797)	(0.33)	(0.01)	(-1.336)		
1992	-0.0055	0.0418	0.0573	-0.3421	5.3430	0.0258
	(-.717)	(0.31)	(0.45)	(-3.646)		
				*	*	
1993	0.0310	-0.0975	-0.1218	-0.3788	4.0900	0.0147
	2.90	(-.733)	(-.814)	(-3.468)		
	*			*	*	
Pooled	0.0104	-0.0078	0.0339	-0.2671	5.0880	0.0060
	(1.46)	(-.080)	(0.29)	(-3.812)		
				*	*	

t statistics shown in parentheses are based on White (1980)

* significance at the .05 level or better
* *significance at the .10 level or better

Table 4 - Panel E
Regression of Change in Performance on Change in Monitoring Variables
Organization Type: Public/Societal Benefit

	Intercept	Change in Govt. Support	Change in Member Support	Change in Direct Public Support	F	Adj. R sq.
1990	0.0559	-0.8612	-0.0366	-0.2793	7.3970	0.0569
	(3.51)	(-4.094)	(-.129)	(-2.382)		
	*	*		*	*	
1991	-0.0077	-3.5493	-0.0113	-0.2082	10.0700	0.0721
	(-.282)	(-5.459)	(-.027)	(-.870)		
		*			*	
1992	-0.0199	-0.4605	-0.1237	-0.4283	1.5360	0.0044
	(-.662)	(-.813)	(-.208)	(-.2074)		
				*	*	
1993	-0.0031	-0.0413	0.2289	-0.3609	3.1830	0.0154
	(-.197)	(-.143)	(0.14)	(-3.056)		
				*	*	
Pooled	0.0059	-0.7580	-0.0093	-0.3384	9.4950	0.0165
	(0.52)	(-3.933)	(-.039)	(-3.955)		
		*		*	*	

t statistics shown in parentheses are based on White (1980)

* significance at the .05 level or better
* *significance at the .10 level or better

Table 4 - Panel F
Regression of Change in Performance on Change in Monitoring Variables
Organization Type: Religious

	Intercept	Change in Govt. Support	Change in Member Support	Change in Direct Public Support	F	Adj. R sq.
1990	0.0220	163.1039	-2.0187	-0.2574	0.5930	-0.0440
	(0.65)	(1.01)	(-.204)	(-.900)		
1991	-0.0154	-25.8198	1.1960	0.2699	0.3050	-0.0510
	(-.556)	(-.655)	(0.32)	(0.68)		
1992	0.0426	2.9262	-8.3684	1.1051	18.1880	0.5179
	(1.53)	(0.12)	(-1.923)	(6.63)		
			**	*	*	
1993	-0.0164	2.8430	-0.0197	-0.2970	1.1970	0.0106
	(-.669)	(0.95)	(-.109)	(-1.586)		
					**	
Pooled	0.0000	2.3248	-0.0165	-0.1787	1.4140	0.0065
	(0.00)	(0.84)	(-.094)	(-1.862)		
				**		

t statistics shown in parentheses are based on White (1980)

* significance at the .05 level or better
* *significance at the .10 level or better

The coefficients for government support are not consistently significant predictors of performance in most of the groups. The coefficients are negative in all four years for public/societal benefit organizations and significant in two years and the pooled sample. These results indicate that the governmental agencies supporting these organizations are not effective at monitoring their performance. In arts/cultural and environmental/animal organizations, the pooled results indicate a positive relationship between government support and performance suggesting that the governmental agencies supporting these groups are effective at monitoring (increases in support are related to increases in performance).

Regressions of Change in Compensation on Change in Performance, Revenue Growth and Change in Monitoring Variables

The association between the change in executive compensation, change in performance, revenue growth, and change in monitoring is examined using multiple regression with change in compensation as the dependent variable. The results for the changes model are illustrated in Table 5 (Panels A-F).

The regressions are presented for each year separately and with all years pooled. The pooled regressions indicate a significant positive relationship between compensation and performance in all organizational types except human service and religious organizations. The results also indicate a significant negative relationship between compensation and revenue growth in all organizational types. These results suggest that compensation is tied to performance in most types of nonprofit organizations similar to the results from research on for-profit entities. Furthermore,

the results for the revenue growth variable suggest that contrary to information from nonprofit salary surveys, as well as issues incorporated into the Taxpayer Bill of Rights, nonprofit organizations do not appear to increase compensation when revenues increase.

Table 5 - Panel A
Regression of Change in Compensation on Performance and Monitoring Variables
Organization Type: Arts/Cultural

		Performance		Monitoring				
	Intercept	Change in Performance	Revenue Growth	Change in Govt. Support	Change in Member Support	Change in Direct Public Support	F	Adj. R sq.
1990	0.0024	0.0119	-0.0116	-0.0164	0.0422	-0.0389	11.2010	0.2082
	(1.26)	(1.05)	(-3.542)	(-.8500)	(0.51)	(-3.055)		
			*				*	
1991	0.0012	0.0608	-0.0113	-0.0119	0.0753	0.0087	32.1210	0.4088
	(0.84)	(9.54)	(-3.4118)	(-.053)	(1.06)	(-.86)		
		*	*				*	
1992	0.0038	0.0402	-0.0433	0.0487	0.0529	0.0807	34.7859	0.4047
	(1.50)	(2.87)	(-6.463)	(1.71)	(0.67)	(-6.04)		
		*	*				*	
1993	0.0038	0.0400	-0.0051	0.0725	0.0922	0.0520	10.2010	0.1474
	(1.10)	(3.47)	(-3.728)	(1.31)	(0.80)	(-2.72		
		*	*				*	

t -statistics shown in parentheses are based on White (1980)

* significance at the .05 level or better

* *significance at the .10 level or better

Table 5 - Panel B
Regression of Change in Compensation on Performance and Monitoring Variables
Organization Type: Environmental & Animal

		Performance		Monitoring				
	Intercept	Change in Performance	Revenue Growth	Change in Govt. Support	Change in Member Support	Change in Direct Public Support	F	Adj. R sq.
1990	-0.0035	0.0028	-0.0010	0.0762	0.8124	-0.0723	3.5750	0.1719
	(-.466)	(0.07)	(-.470)	(0.44)	(3.41)	(-1.2560)		
					*		*	
1991	0.0042	0.0329	-0.0103	-0.0429	0.1198	-0.0148	11.8410	0.4228
	(2.14)	(3.09)	(-3.650)	(-1.914)	(2.00)	(-.957)		
	*	*	*	*	*		*	
1992	0.0159	0.1989	-0.0229	0.3364	-0.2773	0.0359	11.1350	0.3938
	(2.13)	(4.71)	(-.828)	(2.27)	(-1.177)	(0.73)		
	*	*		*			*	
1993	0.0063	-0.0084	-0.0602	0.0052	-0.1144	0.0605	74.7440	0.8091
	(1.05)	(-.259)	(-13.21)	(0.07)	(-.683)	(1.20)		
			*				*	

t -statistics shown in parentheses are based on White (1980)

* significance at the .05 level or better

* *significance at the .10 level or better

Table 5 - Panel C
Regression of Change in Compensation on Performance and Monitoring Variables
Organization Type: Health

		Performance		Monitoring				
	Intercept	Change in Performance	Revenue Growth	Change in Govt. Support	Change in Member Support	Change in Direct Public Support	F	Adj. R sq.
1990	0.0072	0.0122	-0.0192	0.0383	-0.1182	-0.1019	9.4830	0.2801
	(1.945)	(0.991)	(-3.916)	(1.014)	(-.370)	(-4.347)		
	*		*			*	*	
1991	0.0021	-0.0028	-0.0276	-0.0508	-0.0529	-0.0223	2.8370	0.0637
	(0.704)	(-.243)	(-3.683)	(-1.322)	(-.751)	(-1.05)		
			*				*	
1992	0.0065	0.0677	-0.0197	-0.0249	0.2388	0.0571	11.5440	0.2575
	(1.944)	(5.381)	(-2.398)	(-.452)	(0.806)	(1.383)		
		*	*				*	
1993	0.0029	0.0274	-0.0370	-0.0212	0.0527	-0.0417	59.0600	0.6293
	(1.507)	(3.081)	(-11.644)	(-.421)	(0.251)	(-2.534)		
		*	*			*	*	

t-statistics shown in parentheses are based on White (1980)

* significance at the .05 level or better

* *significance at the .10 level or better

Table 5 - Panel D
Regression of Change in Compensation on Performance and Monitoring Variables
Organization Type: Human Service

		Performance		Monitoring				
	Intercept	Change in Performance	Revenue Growth	Change in Govt. Support	Change in Member Support	Change in Direct Public Support	F	Adj. R sq.
1990	-0.0006	-0.0367	-0.0027	-0.0177	-0.0048	0.0009	1.7650	0.0099
	(-.230)	(-2.070)	(-2.003)	(-.508)	(-.117)	(0.038)		
		*	*					
1991	-0.0022	-0.0851	-0.0305	0.0408	0.0665	-0.0101	57.3320	0.3793
	(-.813)	(-6.472)	(-11.628)	(1.104)	(0.798)	(-.371)		
		*	*				*	
1992	0.0020	-0.0730	-0.0239	0.0004	0.0324	-0.0124	8.1130	0.0673
	(0.818)	(-4.854)	(-5.279)	(0.010)	(0.813)	(-.414)		
		*	*				*	
1993	0.0010	-0.0189	-0.0363	0.0232	0.0153	0.0227	12.4120	0.0842
	(0.450)	(-2.297)	(-7.826)	(0.885)	(0.518)	(1.035)		
		*	*				*	

t -statistics shown in parentheses are based on White (1980)

* significance at the .05 level or better
* *significance at the .10 level or better

Table 5 - Panel E
Regression of Change in Compensation on Performance and Monitoring Variables
Organization Type: Public/Societal Benefit

		Performance		Monitoring				
	Intercept	Change in Performance	Revenue Growth	Change in Govt. Support	Change in Member Support	Change in Direct Public Support	F	Adj. R sq.
1990	0.0019	0.0176	-0.0190	-0.1854	-0.0878	0.0066	30.1890	0.3146
	(0.913)	(2.363)	(-5.495)	(-7.013)	(-2.567)	(0.451)		
		*	*	*	*		*	
1991	0.0044	-0.0050	-0.0257	-0.0978	0.0286	-0.0133	11.9010	0.1347
	(2.332)	(-1.329)	(-6.766)	(-2.175)	(1.016)	(-0.826)		
	*		*	*			*	
1992	0.0002	0.0723	-0.0739	0.1004	0.0068	0.0544	40.9150	0.3541
	(0.058)	(9.099)	(-5.964)	(1.294)	(0.084)	(1.776)		
		*	*			**	*	
1993	0.0118	0.2013	-0.0194	-0.0044	-0.1279	0.0646	29.1600	0.2520
	(2.028)	(10.870)	(-1.431)	(-.042)	(-.217)	(1.432)		
	*	*					*	

t -statistics shown in parentheses are based on White (1980)

* significance at the .05 level or better

** significance at the .10 level or better

Table 5 - Panel F
Regression of Change in Compensation on Performance and Monitoring Variables
Organization Type: Religious

		Performance		Monitoring				
	Intercept	Change in Performance	Revenue Growth	Change in Govt. Support	Change in Member Support	Change in Direct Public Support	F	Adj. R sq.
1990	0.0139	-0.1215	-0.0944	41.3603	-0.6653	-0.0112	5.6290	0.4439
	(2.225)	(-3.232)	(-5.122)	(1.402)	(-0.381)	(-0.219)		
	*	*	*				*	
1991	0.0039	0.0238	-0.0970	1.3251	-0.1489	-0.3701	3.0140	0.1898
	(0.356)	(0.308)	(-2.370)	(0.088)	(-.107)	(-2.447)		
			*			*	*	
1992	0.0150	0.0830	0.0290	-1.9110	-0.1641	-0.1049	0.5620	-0.0479
	(1.284)	(1.059)	(0.409)	(-.189)	(-.089)	(-1.044)		
1993	-0.0095	0.0438	-0.0115	-0.3985	0.0134	0.0328	0.9060	-0.0087
	(-1.577)	(1.107)	(-0.882)	(-0.537)	(0.303)	(0.655)		

t -statistics shown in parentheses are based on White (1980)

* significance at the .05 level or better
* *significance at the .10 level or better

The regressions for human service organizations (Table 5, Panel D) indicate an interesting result contrary to the other groups. The relation between compensation and performance is significant and negative in all years. This indicates that as performance increases, compensation decreases. This result may be explained by several reasons. One possible explanation is that human service organizations have a diverse group of constituents and have traits that resemble collective, proprietary, and trust organizations. Another explanation is that there is likely a low amount of overlap in the constituent/donor relationship compared to other nonprofit groups. A further explanation may be that many human service organizations have missions that assist constituents with basic human needs such as food, clothing, and shelter and an emphasis on tying compensation to performance is not viewed as important. Finally, a further explanation may be that these types of organizations have not yet adopted compensation practices similar to other nonprofit organizations or for-profit entities.

The coefficients for the monitoring variables do not display any type of pattern or consistent relationship. In arts and cultural organizations the coefficient for direct public support is generally positive and significant in 1992 and 1993 and in the pooled sample, yet negative and significant in 1991. The relationship changed over the sample period and suggests that in the latter years of the study, the direct public that supported these organizations was ineffective at monitoring compensation or had less incentive to monitor. This is consistent with the collective nature of these groups where the donors are not likely to be constituents served by the organization.

The coefficient for member support is not consistent in any of the organizational types. Lack of a significant negative relationship between member support and compensation may be explained by an inability or lack of incentive to monitor the organizations. The relation between member monitoring and compensation may not be as strong in the organizations in the sample because they are primarily 501(c)(3) organizations. Future research on other types of nonprofits such as 501(c)(4-9) may provide more insight into this issue.

The coefficient for government support is positive and significant in the pooled regression for human service organizations (Table 5, Panel D). This result suggests ineffective monitoring by governmental agencies in these types of organizations where increases in support lead to increases in compensation. The other groups do not display a key pattern with respect to the government support variable with the exception of public/societal benefit organizations. The coefficient is negative and significant in 1990 and 1991 (Table 5, Panel E). This result is consistent with the government effectively monitoring the compensation practices of these organizations in these years. Lack of significance in the other years may be confounded by decreasing levels of government support received by these organizations (Table 2, Panel E). In summary, the results for human service organizations and public/societal benefit organizations are consistent with governmental agencies having more concern with monitoring organizations that serve specific sectors of the public rather than those that serve more general groups.

Overall, the results of the changes model indicate support for the compensation and performance relationship in the following organizations: arts and cultural,

environment and animal, health, and public and societal benefit organizations. The results also support a negative relationship between change in compensation and change in performance in human service organizations. In addition, the results show a significant negative relationship between revenue growth and change in compensation suggesting that increases in revenues are associated with decreases in compensation.

Levels Approach - Correlation Analysis

Table 6 (Panel A-F) show Pearson correlation coefficients for the level of compensation, performance, government support, member support, and direct public support. The correlations between level of compensation and level of performance are generally not consistent with the correlations between change in compensation and change in performance displayed in Table 3. The results for health and human service organizations indicate a significant negative relationship between compensation and performance. The relationship between level of compensation and performance for public/societal benefit organizations is positive 1991-1993, but only significant in 1991 and 1993.

Table 6 - Panel A
Pearson Correlation Coefficients for Compensation, Performance and Monitoring Variables
Organization Type: Arts/Cultural

	n	Compensation	Performance	Govt. Support	Member Support
1989	214				
Performance		0.20858 *			
Government Support		0.13624 *	0.11792 **		
Member Support		0.02093	-0.02587	-0.07604	
Direct Public Support		0.03996	-0.26042 *	-0.10904	-0.15927 *
1990	195				
Performance		0.1856 *			
Government Support		0.1726 *	0.0790		
Member Support		-0.0036	-0.0056	-0.0757	
Direct Public Support		-0.0340	-0.2570 *	-0.1492 *	-0.1359 *
1991	226				
Performance		0.2269 *			
Government Support		0.1162 *	0.0040		
Member Support		-0.0543	-0.0516	-0.0856	
Direct Public Support		0.0645	-0.1397 *	-0.1686 *	-0.1927 *
1992	250				
Performance		0.0453			
Government Support		0.1530 *	0.0086		
Member Support		-0.0104	0.1251 *	-0.0605	
Direct Public Support		-0.0164	0.0507	-0.1307 *	-0.1307 *
1993	267				
Performance		0.0777			
Government Support		0.0271	0.0324		
Member Support		0.0211	0.0157	-0.0301	
Direct Public Support		0.0027	-0.1203 *	-0.1681 *	-0.1129 *

* significance at the .05 level or better
** significance at the .10 level or better

Table 6 - Panel B
Pearson Correlation Coefficients for Compensation, Performance and Monitoring Variables
Organization Type: Environmental & Animal

	n	Compensation	Performance	Govt. Support	Member Support
1989	66				
Performance		0.11162			
Government Support		0.02764	0.16981		
Member Support		0.3444 *	0.00302	-0.12529	
Direct Public Support		0.07251	-0.36357 *	-0.20496 **	-0.09229
1990	63				
Performance		0.1179			
Government Support		-0.0327	0.0195		
Member Support		0.2857 *	0.1362	-0.1187	
Direct Public Support		0.0508	-0.4403 *	-0.1837 **	-0.2213 *
1991	75				
Performance		-0.0179			
Government Support		-0.0521	0.1137		
Member Support		-0.0457	0.0386	-0.1163	
Direct Public Support		-0.0143	-0.2354 *	-0.2397 *	-0.1344
1992	79				
Performance		-0.0383			
Government Support		-0.0376	0.0929		
Member Support		0.1104	0.1499	-0.0672	
Direct Public Support		-0.0093	-0.2482 *	-0.1302	-0.2033 *
1993	88				
Performance		0.0275			
Government Support		0.2813 *	0.2670 *		
Member Support		0.0503	0.1624 **	-0.0859	
Direct Public Support		-0.0351	-0.2565 *	-0.1122	-0.2418 *

* significance at the .05 level or better
** significance at the .10 level or better

Table 6 - Panel C
Pearson Correlation Coefficients for Compensation, Performance and Monitoring Variables
Organization Type: Health

	n	Compensation	Performance	Govt. Support	Member Support
1989	138				
Performance		-0.32709 *			
Government Support		0.11717	0.12558		
Member Support		0.09934	-0.03918	-0.10688	
Direct Public Support		-0.01853	-0.43794	-0.07198	-0.04269
1990	154				
Performance		-0.1749 *			
Government Support		-0.0652	0.0461		
Member Support		-0.0314	-0.0674	-0.1193	
Direct Public Support		0.1635 *	-0.0511 *	-0.1294 **	-0.0751 *
1991	174				
Performance		0.0016			
Government Support		-0.0111	0.0304		
Member Support		0.0294	-0.1103	-0.1335 **	
Direct Public Support		0.1869 *	-0.0091 *	-0.0548	-0.1304 **
1992	210				
Performance		-0.0076			
Government Support		-0.0237	0.0258		
Member Support		-0.0243	-0.1060	-0.1241 **	
Direct Public Support		0.1669 *	-0.1473 *	-0.1595 *	-0.1239 **
1993	213				
Performance		-0.2891 *			
Government Support		0.0227	0.0241		
Member Support		0.0343	-0.0963	-0.1373 *	
Direct Public Support		0.0286	-0.1369 *	-0.1497 *	-0.1133 *

* significance at the .05 level or better
** significance at the .10 level or better

Table 6 - Panel D
Pearson Correlation Coefficients for Compensation, Performance and Monitoring Variables
Organization Type: Human Service

	n	Compensation	Performance	Govt. Support	Member Support
1989	445				
Performance		-0.10556 *			
Government Support		-0.02981	0.18741 *		
Member Support		-0.01816	0.00821	-0.13023 *	
Direct Public Support		-0.0282	-0.27932 *	-0.11589 *	-0.07517
1990	384				
Performance		-0.0451			
Government Support		-0.0211	0.0308		
Member Support		0.0108	-0.0397	-0.1073 *	
Direct Public Support		-0.0178	-0.1447 *	-0.1288 *	-0.0680
1991	462				
Performance		-0.1344 *			
Government Support		0.0071	-0.0151		
Member Support		0.0379	-0.0436	-0.1095 *	
Direct Public Support		-0.0260	-0.2073	-0.1535 *	-0.0718 **
1992	494				
Performance		-0.1129 *			
Government Support		-0.0037	0.0442		
Member Support		0.0789 *	-0.0105	-0.1029 *	
Direct Public Support		-0.0316	-0.3060 *	-0.1383 *	-0.0763 *
1993	622				
Performance		-0.0652 **			
Government Support		-0.0219	0.0104		
Member Support		0.0064	-0.0149	-0.1009 *	
Direct Public Support		-0.0196	-0.1355 *	-0.1160 *	-0.0933 *

* significance at the .05 level or better
** significance at the .10 level or better

Table 6 - Panel E
Pearson Correlation Coefficients for Compensation, Performance and Monitoring Variables
Organization Type: Public/Societal Benefit

	n	Compensation	Performance	Govt. Support	Member Support
1989	354				
Performance		0.13285 *			
Government Support		0.10789 *	0.09331 **		
Member Support		0.08462	0.02544	-0.02542	
Direct Public Support		-0.15674 *	-0.05855	-0.23415 *	-0.19354 *
1990	319				
Performance		0.0230			
Government Support		0.1090	0.0971 *		
Member Support		0.1566 *	0.0098	-0.0406	
Direct Public Support		-0.0945 **	-0.0900 **	-0.2130 *	-0.2071 *
1991	351				
Performance		0.0135			
Government Support		0.1278 *	0.0487		
Member Support		0.1522 *	0.0025	-0.0445	
Direct Public Support		-0.1421 *	-0.0405	-0.2196 *	-0.2123 *
1992	365				
Performance		0.0063			
Government Support		0.1480 *	0.0365		
Member Support		0.2383 *	0.0080	0.0080	
Direct Public Support		-0.1029 *	-0.0755 **	-0.0755 **	-0.1722 *
1993	419				
Performance		0.0664			
Government Support		0.1908 *	0.0495		
Member Support		0.2133 *	0.0416	-0.0356	
Direct Public Support		-0.1432 *	-0.0755 **	-0.2244 *	-0.1915 *

* significance at the .05 level or better
** significance at the .10 level or better

Table 6 - Panel F
Pearson Correlation Coefficients for Compensation, Performance and Monitoring Variables
Organization Type: Religious

	n	Compensation		Performance		Govt. Support	Member Support
1989	38						
Performance		0.0977					
Government Support		-0.07662		-0.00268			
Member Support		0.5572	*	0.02421		-0.03367	
Direct Public Support		0.12337		-0.11191		0.17105	-0.15447
1990	30						
Performance		-0.0222					
Government Support		-0.0864		-0.0707			
Member Support		0.4635	*	0.0275		-0.0244	
Direct Public Support		0.0780		-0.1515		-0.0811	-0.1539
1991	44						
Performance		-0.0322					
Government Support		-0.0048		0.0196			
Member Support		0.5085	*	-0.0428		-0.0293	
Direct Public Support		-0.0440		-0.3699	*	0.2195	-0.1281
1992	49						
Performance		0.0421					
Government Support		-0.0626		-0.0180			
Member Support		0.4955	*	-0.0040		-0.0168	
Direct Public Support		0.0262		-0.0152		-0.0727	-0.0982
1993	56						
Performance		0.0942					
Government Support		-0.0699		0.0707			
Member Support		0.3280	*	0.0067		-0.0275	
Direct Public Support		0.0724		-0.1847		-0.0841	-0.1682

* significance at the .05 level or better
** significance at the .10 level or better

The correlation between compensation and direct public support is significant and positive for all five years suggesting that the direct public is an ineffective monitor of human service organizations and increases in level of public support are related to increases in compensation. The correlation between compensation and direct public support is significant and negative in all five years for public and societal benefit organizations. This result suggests that the direct public is effective in monitoring the activities of these types of organizations and an increase in support is related to a decrease in compensation. These results are consistent with the monitoring assumption that the direct public is more likely to be an effective monitor of organizations that serve a specific purpose and ineffective monitor of organizations that serve a general purposes such as human need.

Regressions of Level of Compensation on Performance and Monitoring

Table 7 (Panels A-F) presents the results of the level of compensation regressed on government support, member support, and direct public support. The regression using a levels approach does not show a consistent relationship between compensation, performance, and monitoring. In the health and human service organizations, a significant negative relationship between compensation and performance is shown in the majority of years. The result is consistent with the changes model for human service organizations and inconsistent with the changes

Table 7 - Panel A
Regression of Compensation on Performance and Monitoring Variables
Organization Type: Arts/Cultural

	Intercept	Performance	Govt. Support	Member Support	Direct Public Support	F	Adj. R sq.
1989	0.0599	-0.0244	-0.0037	0.0270	-0.0296	1.7010	0.0139
	(5.189)	(-1.632)	(-.169)	0.779	(-2.009)		
	*	**			*		
1990	0.0884	-0.0543	0.0116	0.0689	-0.0335	2.3600	0.0220
	(4.900)	(-2.417)	(0.390)	(1.325)	(-1.561)		
	*	*				*	
1991	0.0678	-0.0178	-0.0163	0.0558	-0.0274	1.8020	0.0114
	(5.039)	(-1.084)	(-0.673)	(1.464)	(-1.622)		
	*						
1992	0.0282	0.0156	-0.0048	0.0384	0.0461	2.6960	0.0212
	(2.450)	(1.132)	(-.155)	(0.884)	(2.860)		
	*				*	*	
1993	0.0700	-0.0268	-0.0206	0.0875	-0.0020	1.0420	0.0005
	(3.931)	(-1.292)	(-0.547)	(1.442)	(-0.086)		
	*						
Pooled	0.0583	-0.0150	-0.0053	0.0714	0.0070	3.2270	0.0071
	(8.012)	(-1.725)	(-.347)	(3.090)	(0.729)		
	*	**		*		*	

t -statistics shown in parentheses are based on White (1980)

* significance at the .05 level or better
* *significance at the .10 level or better

Table 7 - Panel B
Regression of Compensation on Performance and Monitoring Variables
Organization Type: Environment & Animal

	Intercept	Performance	Govt. Support	Member Support	Direct Public Support	F	Adj. R sq.
1989	0.0603	-0.0543	-0.0171	0.1451	0.0136	0.9580	-0.0027
	(1.488)	(-1.119)	(-.226)	(1.192)	(0.346)		
1990	0.0657	-0.0353	-0.0103	-0.0225	-0.0027	0.8820	-0.0057
	(3.283)	(-1.587)	(-.288)	(-.548)	(-.140)		
1991	0.0844	-0.0249	-0.0092	-0.1047	-0.0370	0.9100	-0.0042
	(3.191) *	(-.791)	(-.186)	(-1.448)	(-1.339)		
1992	0.0501	0.0835	-0.1652	-0.2084	-0.0354	1.7050	0.0272
	(1.223)	(1.623) **	(-1.401)	(-1.714) **	(-.794)		
1993	0.1367	-0.1234	0.1895	-0.0555	-0.0513	3.8100	0.0984
	(4.687) *	(-3.206) *	(2.384) *	(-.617)	(-1.629) **	*	
Pooled	0.0927	-0.0314	-0.0219	-0.1031	-0.0354	2.7750	0.0171
	(6.008) *	(-1.694) **	(-.658)	(-2.445) *	(-2.191) *	*	

t -statistics shown in parentheses are based on White (1980)

* significance at the .05 level or better
* *significance at the .10 level or better

Table 7 - Panel C
Regression of Compensation on Performance and Monitoring Variables
Organization Type: Health

	Intercept	Performance	Govt. Support	Member Support	Direct Public Support	F	Adj. R sq.
1989	0.0948	-0.0695	0.0054	0.0262	-0.0180	2.2030	0.0398
	(4.717)	(-2.810)	(0.268)	(0.498)	(-.763)		
	*	*				**	
1990	0.0939	-0.0542	-0.0130	-0.0299	0.0421	2.2640	0.0320
	(4.460)	(-2.102)	(-.530)	(-.457)	(1.817)		
		*			**	**	
1991	0.0390	0.0019	0.0189	0.0518	0.0673	1.8660	0.0196
	(2.213)	(0.094)	(0.876)	(0.844)	(2.644)		
	*				*		
1992	0.0467	0.0056	0.0010	-0.0012	0.0639	1.4840	0.0092
	(2.265)	(0.245)	(0.039)	(-.016)	(2.375)		
	*				*		
1993	0.1052	-0.0898	0.0068	0.0066	-0.0014	4.8070	0.0670
	(6.086)	(-4.297)	(0.445)	(0.146)	(-.079)		
	*	*				*	
Pooled	0.0775	-0.0358	0.0049	0.0020	0.0432	6.5760	0.0260
	(8.044)	(-3.228)	(0.433)	(0.059)	(3.583)		
	*	*			*	*	

t -statistics shown in parentheses are based on White (1980)

* significance at the .05 level or better
* *significance at the .10 level or better

Table 7 - Panel D
Regression of Compensation on Performance and Monitoring Variables
Organization Type: Human Service

	Intercept	Performance	Govt. Support	Member Support	Direct Public Support	F	Adj. R sq.
1989	0.1448	-0.1360	0.0349	0.0421	0.0330	14.4980	0.1161
	(9.037)	(-6.774)	(2.041)	(1.298)	(1.588)		
	*	*	*			*	
1990	0.0235	0.0304	0.0235	0.0478	0.0582	5.3620	0.0314
	(2.502)	(3.703)	(1.328)	(1.300)	(2.967)		
	*	*			*	*	
1991	0.0853	-0.0523	0.0464	0.0356	0.0197	9.7960	0.0567
	(8.288)	(-4.901)	(3.019)	(1.256)	(1.186)		
		*	*			*	
1992	0.1126	-0.0951	0.0326	0.0319	0.0180	20.4270	0.0931
	(10.716)	(-7.701)	(2.869)	(1.459)	(1.422)		
	*	*	*			*	
1993	0.0682	-0.0432	0.0211	0.0384	0.0412	12.5250	0.0562
	(8.612)	(-4.807)	(2.080)	(2.101)	(3.958)		
	*	*	*	*	*	*	
Pooled	0.0690	-0.0292	0.0307	0.0263	0.0362	21.5540	0.0268
	(14.891)	(-6.036)	(4.402)	(1.897)	(4.719)		
	*	*	*	*	*	*	

t -statistics shown in parentheses are based on White (1980)

* significance at the .05 level or better
* *significance at the .10 level or better

Table 7 - Panel E
Regression of Compensation on Performance and Monitoring Variables
Organization Type: Public/Societal Benefit

	Intercept	Performance	Govt. Support	Member Support	Direct Public Support	F	Adj. R sq.
1989	0.0599	-0.0138	-0.0032	0.0505	-0.0291	3.2770	0.0259
	(6.259)	(-1.131)	(-0.173)	(1.369)	(-2.872)		
	*				*	*	
1990	0.0595	-0.0115	-0.0017	0.0584	-0.0278	5.4370	0.0443
	(7.962)	(-1.378)	(-.108)	(2.218)	(-3.344)		
	*			*	*	*	
1991	-0.0115	0.1167	-0.0412	-0.0324	-0.0489	48.3910	0.3146
	(-1.068)	(13.489)	(-1.432)	(-.587)	(-3.041)		
		*			*	*	
1992	0.0553	0.0046	-0.0204	0.0275	-0.0368	6.4340	0.0429
	(9.772)	(0.972)	(-1.396)	(0.817)	(-4.585)		
	*				*	*	
1993	-0.0968	0.2456	-0.0496	-0.0405	-0.0380	69.1260	0.3612
	(-6.909)	(16.274)	(-1.726)	(-.612)	(-2.312)		
	*	*	**		*	*	
Pooled	0.0171	0.0630	-0.0217	0.0256	-0.0363	63.4290	0.1153
	(3.424)	(14.511)	(-1.766)	(0.997)	(-5.287)		
	*	*	**		*	*	

t -statistics shown in parentheses are based on White (1980)

* significance at the .05 level or better
* *significance at the .10 level or better

Table 7 - Panel F
Regression of Compensation on Performance and Monitoring Variables
Organization Type: Religious

	Intercept	Performance	Govt. Support	Member Support	Direct Public Support	F	Adj. R sq.
1989	0.0821	-0.0810	0.0987	0.0357	0.0708	1.5740	0.0651
	(1.901)	(-1.354)	(0.817)	(0.316)	(1.816)		
	**				**		
1990	0.1257	-0.1346	0.0671	0.0182	0.1103	2.5350	0.1249
	(2.099)	(-1.713)	(0.426)	(0.124)	(2.334)		
	*	**			*	*	
1991	0.1329	-0.1281	0.0900	-0.0107	0.0799	2.5250	0.0952
	(2.377)	(-1.876)	(0.505)	(-.061)	(1.596)		
	*	**				*	
1992	0.1214	-0.1283	0.1128	0.0179	0.0984	3.4150	0.1244
	(3.197)	(-2.426)	(0.754)	(0.125)	(2.678)		
	*	*			*	*	
1993	0.0787	-0.0783	0.1013	0.0087	0.0662	2.3960	0.0838
	(2.420)	(-1.703)	(1.003)	(0.133)	(2.227)		
	*	**			*	**	
Pooled	0.1155	-0.1153	0.0939	0.0032	0.0846	11.5620	0.1402
	(5.823)	(-4.330)	(1.314)	(0.054)	(4.540)		
	*	*			*	*	

t -statistics shown in parentheses are based on White (1980)

* significance at the .05 level or better
* *significance at the .10 level or better

analysis in health organizations. A similar result is found with the religious group where the coefficient for performance is significant and negative for four of the five years.

The coefficient for government support is significant and positive for three of the five years in human service organizations. This result suggests that the government is ineffective in monitoring the compensation practices of these types of organizations.

The coefficient for direct public support is negative and significant for all years in the public and societal benefit group. This relationship suggests that the direct public is an effective monitor of these organizations. An increase in direct public support predicts a decrease in compensation. This is consistent with the idea that the direct public has more incentive to monitor and support an organization that serves a specific need or specific group.

The coefficient for direct public support is positive and significant in four of the five years for religious organizations. This result suggests that contributors of religious organizations ineffectively monitor the compensation practices of these organizations.

In summary, the results of the levels regressions are not consistent with the regressions using change in compensation, performance, and monitoring with the exception of human service organizations.

Supplemental Analysis Based on Fundraising Activity

Table 8 presents regressions of change in compensation on change in performance and monitoring variables for organizations that have fundraising as their primary activity. The results show a significant positive relationship between change in performance and change in compensation. The coefficient for change in revenue growth is negative and significant. The coefficients for direct public support show significant results in all four years; however the signs are negative for 1990 and 1991 and positive for 1992 and 1993. The results for analyzing the data based on fundraising activity indicate that increases in performance are predictive of increases in compensation and increases in revenues are related to decreases in compensation. These results are consistent with the changes analysis based on type of nonprofit organization presented earlier in this section.

Table 8
Regression of Change in Compensation on Performance and Monitoring Variables
Organization Type: Fundraising

		Performance		Monitoring				
	Intercept	Change in Performance	Revenue Growth	Change in Govt. Support	Change in Member Support	Change in Direct Public Support	F	Adj. R sq.
1990	0.0019	0.0141	-0.0017	-0.0224	-0.0576	-0.0671	41.7630	0.5120
	(1.04)	(13.24)	(-1.986)	(-.918)	(-2.814)	(-4.009)		
		*	*		*	*	*	
1991	-0.0004	0.0093	-0.0018	-0.1120	0.0203	-0.0416	81.4670	0.6283
	(-.355)	(4.93)	(-3.093)	(-3.544)	(1.11)	(-.4662)		
		*	*	*		*	*	
1992	0.0077	0.0666	-0.0072	0.0358	0.1333	0.0804	44.8300	0.4313
	(3.72)	(9.68)	(-2.274)	(1.05)	(0.93)	(7.05)		
	*	*	*			*	*	
1993	0.0010	0.0097	-0.0362	0.1537	-0.0236	0.0660	103.3680	0.6205
	(0.64)	(3.65)	(-16.159)	(2.59)	(-.233)	(7.36)		
		*	*	*		*	*	

n=315

t -statistics shown in parentheses are based on White (1980)

* significance at the .05 level or better

* *significance at the .10 level or better

CHAPTER VII

CONCLUSION

This study examines the relation between compensation, performance, and monitoring in nonprofit organizations. Overall, the results suggest support for the conclusion that changes in performance, revenues, and monitoring as a set are predictive of changes in compensation in some types of nonprofit organizations. The results indicate that changes in performance and revenues explain more of the variance in change in compensation than changes in monitoring.

The results of the changes analysis indicate that increases in performance and revenue are predictive of changes in compensation such that increases in performance result in increases in compensation and increases in revenues result in decreases in compensation. The results indicate this relationship holds for the following organizations: arts/cultural, environmental/animal, health, and public/societal benefit. The findings for the compensation/performance relation are similar to conclusions drawn from compensation/performance studies that use for-profit entities. The findings for the compensation/revenue growth relation are not consistent with the results of research on for-profit entities. The results indicate that contrary to conclusions drawn by nonprofit compensation surveys and concerns raised in legislation that led to the Taxpayer Bill of Rights, increases in the support and revenues of nonprofit organization are not predictive of increases in executive compensation.

In the sample of human service organizations included in this study, changes in performance and revenue growth are significantly negatively related to changes in

compensation. This result suggests that the compensation practices of these organizations are the inverse of many other nonprofit groups as well as for-profit firms in that compensation does not appear to be related to performance. As discussed earlier, these results may be due to the type of mission, constituents, or lack of overlap in the client/donor relationship.

The conclusions of this study may be useful with respect to policy implications given recent changes in the regulatory environment regarding compensation practices in nonprofit organizations. The findings suggest that the nonprofit sector does operate similar to the for-profit sector in that executive compensation is related to performance. The results are consistent with the changing competitive environment nonprofits have been forced to operate in during the past several years and requiring them to adopt more "business-like" practices. The vague definition of excessive compensation in the Taxpayer Bill of Rights may present problems for some nonprofit organizations that are aggressive in designing their executive compensation packages.

Furthermore, the results of this study may be useful to policymakers in addressing issues regarding the usefulness of accounting information in nonprofit organizations. There has been little research on the acceptability or usefulness of accounting measures of nonprofit performance. The results of this study indicate that performance measures consistent with the new accounting standards can be useful in the design of compensation packages of executives of nonprofit organizations.

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APPENDIX I

Panel A
Organizational Description
Arts, Culture, Humanities

Organizations or activities that promote enjoyment or understanding of the visual, performing, folk, or media arts or the humanities (archeology, art history, modern and classical languages, philosophy, ethics, and theology, comparative religion); communications organizations (film, video, publishing, journalism, radio television); and organizations that promote the appreciation or understanding of historical events, including historical societies and genealogical or heredity-based organizations (e.g. Sons of the Revolution, Daughters of the Confederacy, etc.) Includes museums and halls of fame; historic preservation programs; groups of or services to artists, performers, entertainers, writers, or humanities scholars; programs which promote artistic expression of or within ethnic groups and cultures; and art and performing art schools, centers, and studios.

(Source: National Taxonomy of Exempt Entities (NTEE) coding scheme developed by the Internal Revenue Service Statistics of Income Division)

Panel B
Organizational Description
Environmental and Animal Organizations

Environmental Quality, Protection, and Beautification:

Programs that focus on the preservation and protection of the environment, including pollution control and abatement programs, conservation and development of natural resources (land, plant, water, energy), control or elimination of hazardous and toxic substances (including pesticides), solid waste management programs, botanical gardens and societies, urban beautification and open spaces programs, and environmental education.

Animal Related:

Organizations or activities that focus on the care, protection, or understanding of wildlife, pets, or specialty animals, other than livestock. Also includes groups whose primary focus is on the preservation and protection of fisheries resources and wildlife habitats. Includes humane societies, veterinary services, aquariums, and zoos.

(Source: National Taxonomy of Exempt Entities (NTEE) coding scheme developed by the Internal Revenue Service Statistics of Income Division)

Panel C
Organizational Description
Health Related Organizations
(excludes hospitals)

Mental Health, Crisis Intervention:

Programs that promote mental health and treatment of mental illness and research on causes and cures for individuals with mental illnesses; addiction and substance abuse treatment services; crisis intervention services, including suicide hotlines, rape victim counseling and rape hotlines.

Disease, Disorders, Medical Disciplines:

Health associations, support agencies, and services active in the prevention or treatment of diseases or disorders, such as the American Cancer Society. Also includes medical practices, specialties, and disciplines.

Medical Research:

Research institutes and activities whose purpose is to promote the advancement of knowledge about specific diseases, disorders, or medical disciplines.

(Source: National Taxonomy of Exempt Entities (NTEE) coding scheme developed by the Internal Revenue Service Statistics of Income Division)

Panel D
Organizational Description
Human Service Organizations

Crime, Legal Related:

Organizations that focus on protecting the public from antisocial elements, including crime and delinquency prevention services; police and other law enforcement agencies; detention and rehabilitation services for offenders and ex-offenders; services to prevent or protect individuals from neglect, abuse or exploitation; administration of justice services and organizations that promote or provide legal assistance to individuals and organizations, including groups whose primary purpose is to conduct public litigation.

Employment, Job Related:

Organizations or programs that help individuals to find and sustain gainful employment, including job training, retraining, and placement services; vocational guidance and counseling services; and vocational rehabilitation. Also includes labor unions and organizations whose purpose is to promote and protect the rights of employees to fair remuneration and safe working conditions.

Food, Agriculture, and Nutrition:

Organizations or activities that focus on the development and improvement of food resources, including preservation of farmlands, soil and water conservation for agricultural purposes; food services and distribution programs; home economics and home extension services; and programs that research or promote good nutrition.

(-continued-)

Panel D (continued)
Organizational Description
Human Service Organizations

Housing, Shelter:

Organizations that focus on promoting adequate housing for individuals families, and communities, including housing development and construction services, housing rehabilitation, shelters, and other non-recreational temporary housing facilities.

Public Safety, Disaster Preparedness, and Relief:

Organizations or activities which aim to prevent, predict or control the effects of disasters; educate or otherwise prepare individuals to cope with the effects of such disasters; or provide broad-based relief services to disaster victims. Also includes organizations that focus on preventing or providing relief to victims of accidents caused by human frailty or error; first aid training and services, automotive safety education and promotion, etc.

Recreation, Sports, Leisure, Athletics:

Organizations or activities that focus on promoting or providing services to meet the recreational needs of individuals and communities, including camps and camping programs; physical fitness and other recreational facilities such as parks, playgrounds, etc.

(-continued-)

Panel D (continued)
Organizational Description
Human Service Organizations

Youth Development:

Organizations that work to build character and develop leadership and social skills among children and youth, (e.g. Big Brothers, Big Sisters, Girls League, etc.)

Multipurpose human service organizations:

Organizations or programs that promote or provide a broad range of social or human services to individuals or families, even though specific programs operated within those agencies may be classified elsewhere (e.g. American Red Cross, YM, YWCA's, YM, family service programs, etc.)

(Source: National Taxonomy of Exempt Entities (NTEE) coding scheme developed by the Internal Revenue Service Statistics of Income Division)

Panel E
Organizational Description
Public, Societal Benefit

Civil Rights, Social Action, Advocacy:

Programs that focus on protecting and promoting the broad civil rights and civil liberties of individuals of individuals; improving relations between racial, ethnic, and cultural groups; promoting voter education and registration; and advocacy and citizen action groups that work to change public policy and opinion in a variety of areas.

Community Improvement, Capacity Building:

Organizations or activities that work to strengthen, unify, and build community spirit and increase the capacity of various community organizations to improve the quality of life for all.

Philanthropy, Voluntarism:

Organizations or programs that focus on promoting the practice of giving and volunteering or which represent and serve a wide range of philanthropy and charitable institutions.

Science and Technology Research Institutes, Services:

Organizations that promote or conduct research and study in the physical and life sciences, engineering, and technology.

(-continued-)

Panel E - continued
Organizational Description
Public, Societal Benefit

Social Science Research Institutes, Services:

Organizations or activities that promote the study or teaching, or conduct research in one or more of the social sciences including economics, psychology, political science, and demographics.

Public, Society Benefit - Multipurpose:

Organizations or programs that focus on promoting the effective functioning or government, public administration and public officials; includes organizations that conduct or promote research in multi-disciplinary public policy.

(Source: National Taxonomy of Exempt Entities (NTEE) coding scheme developed by the Internal Revenue Service Statistics of Income Division)

Panel F
Organizational Description
Religious Organizations

Religion Related, Spiritual Development:

Organizations or program operated for the purpose of worship, religious training or study, governance or administrations of organized religions, or the promotion of religious activities. Does not include other services operated under the auspices of specific religions or religious groups such as educational institutions, hospitals, social service agencies, etc.

(Source: National Taxonomy of Exempt Entities (NTEE) coding scheme developed by the Internal Revenue Service Statistics of Income Division)