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**Paper Title:** Determinants of Compensation for Fundraising Professionals

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**Summary of Research**

The proposed research study has been designed to address the research question: "What are the determinants of compensation for individuals who work in nonprofit organizations who serve in the role of fundraising professionals? This study uses a national sample of fundraising professionals to examine the determinants of compensation of fundraising professionals across several types of positions. Survey data were collected over a three year period of time and will be analyzed using regression models to determine the effects of performance, human capital, and organizationla variables on compensation.

**Description**

Determinants of Compensation for Fundraising Professionals

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ABSTRACT

Issues to be Addressed

In terms of compensation, nonprofits are different from for-profit firms (Steinberg, 1990; Weisbrod, 1983, 1986). Yet, there is a paucity of theoretical and empirical literature concerned with determinants of managerial compensation in this sector, even though hundreds of studies have been conducted examining determinants of managerial compensation in the for-profit sector. The proposed research study has been designed to address the research question: "What are the determinants of compensation for individuals who work in nonprofit organizations in the role of fundraising professionals? What are the key determinants of bonus and salary for these individuals? Does performance influence compensation? Are there gender and race effects for compensation?"

Relation to State of Knowledge in the Field

Although there has been some theoretical work on compensation in nonprofits (e.g., Steinberg, 1990; Weisbrod, 1988), we know little about the impact of incentives of managers within nonprofits (Brickley & Van Horn, 2002) and have less understanding of the actual determinants of compensation in nonprofits from an empirical point of view. There are several reasons why the lack of empirical research, theory development, and validation of incentive compensation systems in the nonprofit sector is troubling. First, nonprofits play an important and growing role in the U.S. economy (Hallock, 2002). Nonprofits are growing at an average of 5.1 percent annually—nearly double that of the for profit sector (Salamon, 2002). Second, compensation packages have exploded for many chief executives in the nonprofit sector (Schwinn & Wilhelm, 2003). Salaries paid in 2003 to the top executives of the nation's largest nonprofits rose by twice the inflation rate and the CEOs' salaries of the largest charities and foundations more than doubled from 1997 to 2002--receiving higher percentage raises than their counterparts in the corporate world (Schwinn & Wilhelm, 2003). Third, although use of performance-based compensation plans is a relatively new practice in nonprofits, such practices are becoming more prevalent and expected to increase in the future (Alvarado, 1996; Deckop & Cirka, 2000). Recent studies have found that 25% of nonprofits offer managers the opportunity to earn cash compensation—usually tied to achievement of performance measures (Rocco, 1991, 1992). Fourth, CEO pay in the nonprofit world is becoming more highly scrutinized. New legislation requires nonprofits to document how much they pay their top management as well as require that boards justify and outline the compensation determination process (Preston, 2002). "If the salaries are found to be higher than expected and higher than those found in similar charities," fines could be levied and boards could be required to return the amount overpaid (Hallock, 2002: 378).

Lastly, a substantial literature has begun to accumulate underscoring the differences between the for-profit and nonprofit sector (e.g., Salamon, 2001, 2002; Van Til, 2000), particularly with regard to nonprofit/for-profit wage differential (e.g., Leete, 2001; Ruhm & Borkoski, 2003) as well as compensation and incentive systems (e.g., Ballou & Weisbrod, 2002; Roomkin & Weisbrod, 1999). The reading of this literature suggests that we cannot presume that the research on executive compensation

in for-profit firms will invariably generalize to nonprofits. Furthermore, because reviews of the literature on pay for performance systems often combine results from all three sectors, the current literature could be over-or under representing some of the different sectors (Alvarado, 1996). Without a body of research that specifically focuses on the nonprofit sector, it is difficult to determine whether or not incentive systems that have been successful in the private sector will have their intended effects in the nonprofit arena.

## Approach

**Sample.** This is a national sample of 1860 fundraising professionals across all sub-sectors (e.g., education, religion, consulting, health nonprofit organizations, and other). These included professionals who were full-time (62%), more than half-time (32%), and less than half time (3%), in positions of Chief Development officer (CDO), Deputy Director, staff, and consultant. Mean age was 42; 67% of the sample was female; 94% white.

**Data Collection.** Three years of survey data were collected through the American Fundraising Professional compensation and benefits survey. Individuals were not matched across years. The following variables are included:

**Performance.** The main performance variable was contributions raised. The survey question asked “Approximately how much money did your organization raised in contributed fits from all sources in the fiscal year?”

**Compensation Measures.** (1) Base salary and (2) bonus (percentage of total compensation)

**Human capital variables.** (1) Age and age squared, (2) gender, (3) race, (4) education, (5) professional certification, (6) full-time equivalency of position, (7) experience.

**Organizational Measures.** (1) Organizational type, (2) geographic scope, (3) budget, (4) number of staff.

**Other control variables.** (1) Region of country, (2) position in organization, (3) under employment contract, (4) signing bonus on hiring, (5) used executive recruiter, (6) year completed survey

**Data Analysis.** Regression models (Pooled OLS) will be used to address the research question, “What are the determinants of compensation for fundraising professional?” We used log Salary and Bonus as dependent variables in regression models for (1) position-specific regressions and (2) as binary variables identifying the positions separately. The first model runs each regression separately for each position. The second model includes all positions relative to each other. Our main variables of interest are the performance variable (i.e., contributions raised), and race and gender. Additional analyses will test for differences in means for the (1) entire sample, (2) by gender, (3) by race—for each type of position (i.e., CDO, deputy director, staff, consultant).

## Contribution to the Field

We predict that this research will make a strong contribution to the literature on determinants of pay for fundraising professionals. By using three years of data, we will be able to conduct analysis with a large sample size that will allow us to determine what—if any—actually contribute to explaining the variance in compensation across several types of positions. Furthermore, there is a paucity of research that has been conducted on pay in the nonprofit sector. Having access to this large data set will allow us to examine test our research questions—controlling for human capital as well as organizational variables. Additionally, this research will provide practical information in aiding nonprofits in making better compensation policy decisions.

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