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# Upfront

## A Mixed Bag: Variation is the rule when it comes to foundation expenses and compensation. By Alana Conner Snibbe

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# A Mixed Bag

## *Variation is the rule when it comes to foundation expenses and compensation*

While Congress threatens to regulate how much foundations can spend on themselves, three organizations have amassed data that should make legislators think twice about adopting a cookie-cutter approach. The Urban Institute's Center on Nonprofits & Philanthropy, the Foundation Center, and GuideStar examined the expenses and compensation practices of the 10,000 largest (by giving) independent, corporate, and community foundations in the United States. They not only discovered that foundations vastly differ in whether and how they spend money on themselves, but also teased apart which factors lead to more or less spending.

"The most important factors are whether [foundations] are staffed, and their number of staff," says Elizabeth T. Boris of the Urban Institute, the study's lead author. "It's common sense, but no one has demonstrated it before. That's the major breakthrough." The authors also found that foundations with more staff members tend to have international giving programs, run direct charitable activities (such as conference centers, museums, or research laboratories), or make grants (such as scholarships, fellowships, or prizes) to individuals – all functions that require many hands.

Boris further notes that although there were a few foundations with "extraordinary" expenses and salaries, these were far outnumbered by foundations that are "basically being run by volunteers," she says. A full 30 percent of the 10,000 largest foundations have neither operating nor administrative expenses. And 66 percent do not pay any compensation to staff or trustees.

"We hope that this will be the basis of a more informed debate on expenditures and help policymakers see that this is not a one-size-fits-all field," says Boris.

Other authors of the report, titled "Foundation Expenses and Compensation: How Operating Characteristics Influence Spending," include Loren Renz and Asmita Barve, both of the Foundation Center, and Mark A. Hager and George Hobor, both of the Urban Institute. *–Alana Conner Snibbe*

# What Profits Do for Nonprofits

## *A rare study shows how earned income helps agencies – and how it doesn't*

The field of social enterprise is long on stories but short on numbers. Baorong Guo, an assistant professor in the School of Social Work at the University of Missouri-St. Louis, is trying to change that. Her research article in the March 2006 *Nonprofit and Voluntary Sector Quarterly* is one of the first to explore empirically how commercial income affects human service agencies.

Guo's numbers tell a mixed story. On the one hand, commercial revenues do not help organizations fulfill their missions, deliver their services, or attract donors or volunteers, report the survey's participants. These findings jibe with neither the hype nor the early reports, which lauded venturing as both a sharpener of mission and enhancer of services, Guo says. She speculates that earned income does not translate into improved programs, because organizations are often thrown off balance by the demands of managing a business.

On the other hand, generating income gives organizations greater self-sufficiency, helps them attract and retain staff, and bestows on them a better reputation. Guo further finds that improving an organization's reputation creates an enterprising cycle, whereby the improved reputation increases sales, and increased sales improve reputation. These findings are "consistent with the prevailing view" that venturing helps nonprofits, she notes.

Guo's data come from a survey of nonprofit business ventures, which was conducted by the Yale School of Management and the Goldman Sachs Foundation. For the survey, one manager or employee from each of 519 organizations answered questions about the nonprofit's characteristics and outcomes. Guo concentrated only on data from the study's 67 venturing human service agencies.

The study has its shortcomings, notes Cynthia Massarsky, former co-director of Yale University's Partnership on Nonprofit Ventures and one of the original survey's researchers. First is that its sample is not representative of income-generating nonprofits, and so its findings may not accurately reflect their usual experiences.

She also cautions that many venturing nonprofits "would not want to