

Executive Compensation for Illinois Nonprofit Arts Leaders: A Study Commissioned by the Illinois Arts Alliance Foundation

Diane Grams, Ph.D.
Associate Director
Cultural Policy Center at The University of Chicago
The Irving B. Harris Graduate School of Public Policy Studies
1155 East 60th Street, STE 157
Chicago, IL 60637
PH 773-834-5995
fax 773-702-0926
email: dmgrams@uchicago.edu
website: <http://culturalpolicy.uchicago.edu>

© 2005 Diane Grams, Ph.D.

This study was commissioned by the Illinois Arts Alliance Foundation and funded by the Chicago Community Trust.

Executive Summary

As the arts represent only 10 percent of the universe of nonprofits in the United States and nonprofit arts executives fail to garner the highest salaries in the nonprofit arena, the arts typically are not the focus of compensation studies. Most studies highlight the largest organizations and highest paid executives, leaving unexamined compensation to the largest proportion of the sector – the small and mid-sized organizations, particularly those in the arts. Through use of a custom survey sent to 655 arts organizations statewide, *Executive Compensation for Illinois Nonprofit Arts Leaders: A Study Commissioned by the Illinois Arts Alliance Foundation (2004)*, provides a more detailed picture than was previously available on the top paid staff member at arts organizations in Illinois, their levels and types of compensation to these leaders, and the types and characteristics of their organizations. The story told by this study is first, one of small nonprofit businesses, and, second how these small businesses balance resources to compensate their staff. Factor analysis of survey data reveals four distinct organizational environments that balance the governance, volunteer labor, budget, executive pay, and benefits. These four benefits environments are: 1) a competitive environment; 2) a generous environment; 3) a restrained environment; 4) and a hard-working, struggling environment. The 40-page report provides a detailed picture of employment in the arts not previously available. These details are intended to generate new insight into work in the arts in Illinois, leading to a new understanding of how organizations might act to recruit, retain, and support their talented staff leadership.

Small Nonprofit Businesses:

While the majority of arts organizations have at least one full-time staff member, *40 percent of the arts organizations in Illinois do not have full-time staff and nearly one fifth have no paid staff at all.* Of those organizations that do have paid staff, 90 percent have less than 11 staff members. These figures point to the exceptional nature of the nonprofit arts economy, that is, many functioning organizations have budgets so small that they do not pay staff and are run totally by volunteers. Those that do have full-time, paid staff (61 percent) must still depend on a substantial amount of volunteer work, particularly from board members and other supporters. In most organizations, employee benefits are limited.

Executive Leadership:

Overall arts leaders are mature, highly educated, and highly skilled. Among those arts leaders who are full-time, paid employees of small to mid-sized organizations (budgets under \$5 million annually) the average age is 48; nearly 50 percent have a graduate degree. There are both new and seasoned leaders; half of those surveyed were in their leadership position for five years or less while the average length of time on the job was nine years. A quarter of respondents were very experienced with more than twenty-five years on this job. Overall, the average number of years in the field was 17. This study reveals that over 50 percent of the “new” executive directors are coming to their position after turning 40 years old, as a second, third, or fourth career; 25 percent are between ages 50 and 65, and 3 percent are over 65 years. This highlights another extraordinary characteristic to work in the arts.

Executive Compensation:

- Salary for top paid staff who are full-time employees of small to mid-sized organizations (budgets under \$5 million annually) ranges from \$3,600 to \$125,000. The average salary for a full-time executive director in Illinois is \$49,911. The most frequent salary amounts are \$35,000 and \$25,000.
- Among top paid staff who are full-time employees, 27 percent report receiving no benefits. The remaining 73 percent report the value of their benefits in the range between \$120 and \$120,000. The range of benefits examined in the survey included those associated with a direct cost to the organization, such as individual and family health insurance, other personal insurance, retirement fund, annual raise, performance-based cash incentives, one time awards (such as moving or contract signing), child or elder care, and paid pregnancy or family leave. Among those benefits that represent an indirect cost to the organization were maintaining access to a health insurance or retirement fund, flexible spending accounts, flex-time, compensatory time, and unpaid leave.
- Access to health insurance was the most typical benefit, with 72 percent of the respondents having access to a health insurance plan. However, only 50 percent of the full-time employees, 28 percent of the total sample, report health insurance as having any value in their compensation package, indicating their organization contributes to the plan. Those who benefit from available health insurance plans report their organization's contribution to health insurance to be between \$480 and \$10,000 annually, with \$4,000 as the median value for those receiving health insurance.
- The second most typical benefit is an annual raise, a benefit 43 percent of respondents report receiving.
- Only 10 percent of all respondents report that their organization contributed to a retirement fund. These leaders reported the value of their organization's contribution to their retirement account to range from \$1,000 to over \$120,000, with the median value of \$2,900.
- Nearly 15 percent of the respondents report having access to a "flexible spending account" and "other benefits."
- Fringe benefits, a third category of employee benefit, represent a range of expenses incurred by the organization in support of the employee's work and might include an expense account, club or professional memberships, personal use of facilities, or a car. Less than 10 percent of the respondents report these having value (ranging from \$100 to \$7,000) to their level of compensation.

Benefit Environments

Drawn from answers to survey questions, 159 variables were tested for how they correlated to level of executive compensation, value of benefits, and the number of available benefits. Among the variables that showed no significance to base salary or benefits were the type of organization and its age, number of audience members, leader's age, leader's level of experience, gender, ethnicity, work getting done during regular business hours, and percent of employees working for an organization who are artists, to name a few. A total of 23 variables showed significant correlations with the salary and benefits indexes. High communality among these variables indicated several factors might be involved. These variables were run through a factor analysis to identify

consistent patterns among the variables (covariance). Factor analysis revealed four distinct organizational environments that affect compensation levels:

1) A ***competitive environment*** is found in pacesetter organizations. This environment attracts star leadership and is characterized by high factor loadings on donated income levels from board members, foundations, and ticket sales, and compensation variables with cash values including the value of the organization's contribution to retirement fund, total value of benefits, and base salary.

2) A ***generous environment*** is found in benefit-friendly, standard-bearing organizations. These organizations include some institutions and some smaller, moderately stable organizations. They offer nearly every benefit available including health insurance, pregnancy leave, and contribution to retirement, but with less emphasis on the cash value of these benefits and more emphasis on access to benefits. Available benefits are not strongly correlated with budget size. The strongest loadings are on "all benefits index" representing the total number of benefits offered and "number of benefits representing an indirect cost to organization." In a few of the smaller organizations with this environment, "sometimes" the executive director's check is late.

3) A ***restrained environment*** is weak on benefits. This judicious organization balances staff management with strong institutional ties to government, strong ties to community leadership through its board, concern for the bottom line, and strong customer-service through ticket sales and food service. The strongest loadings are from "how many full-time staff," "line item from government," and "board donations," with comparatively weak loadings on base salary and other compensation variables. All the loadings on "benefits" are weak, with a negative loading on "organization pay a portion of health insurance." This environment attracts competent managers whose pay and benefits are not extraordinary. Strong governance through political and board relationships means it does not have to attract star leadership.

4) A ***hard-working, struggling environment*** is found in organizations with strong benefits principles and low income. It supports a strong work ethic with good, basic benefits. While always struggling to make ends meet, it is, nonetheless, as supportive as it can be of its very hard working leader. "Average weekly hours" and "organization pay a portion of health insurance" load the strongest in this factor. Health insurance as a benefit is likely a strong attraction to executive directors working for such organizations. "Check late index" appears in this factor, although weak, (-.137) indicating that "sometimes" the executive director's check is late.