Nonprofit Pay, Pay Transparency, and Governance

Eric W. Chan
McCombs School of Business
The University of Texas at Austin
eric.chan@mccombs.utexas.edu

Xinyu Zhang
S.C. Johnson Graduate School of Management
Cornell University
xinyuzhang@cornell.edu

February 2022
Preliminary Draft

We are grateful for research funding from the McCombs School of Business, the University of Texas at Austin, the S.C. Johnson Graduate School of Management, Cornell University, and the President’s Council of Cornell Women (PCCW) Affinito-Stewart Grant.
Nonprofit Pay, Pay Transparency, and Governance

Abstract

We experimentally examine how nonprofit managers’ pay level and transparency on their relative pay affect their investments in governance. When pay transparency is low, we find that both high pay and low pay managers similarly choose not to invest in strong governance and instead rely on donors’ trust. However, compared to low pay managers, high pay managers are more likely to use their discretion under weak governance opportunistically by allocating more donations for themselves and less towards the nonprofit mission. When pay transparency increases, we find that high pay managers increase their costly investment in governance as a self-disciplining mechanism, while low pay managers decrease such investment to save costs. Supplemental analyses suggest that managers correctly anticipate the effect of pay transparency on donors’ trust based on inferences donors make about the manager’s type. The consequence is that greater pay transparency leads both high pay and low pay managers to allocate more donations to the nonprofit mission.

Keywords: Nonprofit, pay transparency, wage level, governance

JEL Classification: D91, J31, L31, M40
I. INTRODUCTION

The nonprofit sector is the third largest sector in the U.S., providing over 11 million jobs and employing 10 percent of the nation’s workforce (Independent Sector 2020). There are roughly 1.8 million nonprofit organizations in the U.S, and charitable donations to these nonprofits reached the highest total of $471 billion in 2020, amidst the COVID-19 pandemic (Urban Institute 2021). Given the economic magnitude of the donations to nonprofits, there is increasing public and regulatory scrutiny over nonprofits’ management of their charitable assets. In particular, incidents of nonprofit managers’ misuse of donations funds have received widespread coverage in the press (e.g., Federal Trade Commission 2016; Newman 2016; Wall Street Journal 2017; Associated Press 2018).

To minimize the potential misuse of donation funds, nonprofits can invest in governance mechanisms similar to those in for-profit firms, such as by improving internal controls and hiring independent auditors (Yetman and Yetman 2012; Harris, Petrovits and Yetman 2017). However, despite the spotlight on nonprofits’ governance placed by nonprofit rating agencies and watchdog groups, many nonprofits continue to operate under weak governance (Harris, Petrovits, and Yetman 2015). One likely reason for this are the substantial costs associated with investing in governance. Such investments require redirecting donations away from a nonprofit’s direct beneficiaries towards funding its administrative expenditures, resulting in a lower program ratio (i.e., the proportion of mission-related program expenses to total expenses). In this study, we examine the potential factors that affect how nonprofit managers make the cost-benefit tradeoff of investing in governance for their nonprofit. Specifically, we provide theory and evidence on how the recent trends of rising nonprofit pay levels and greater pay transparency on nonprofit managers’ relative pay can jointly affect the investment in nonprofit governance.
Nonprofits have historically offered lower-than-market pay due to budgetary constraints (Roomkin and Weisbrod 1999; Ballou and Weisbrod 2003; Leete 2006). However, as charitable giving has risen rapidly in the last decade, nonprofits have substantially increased their pay levels (Rutherford 2015; Fuller 2017; Giving USA 2020). As nonprofit pay increases, there is also greater transparency on how individual nonprofit managers’ pay compares to similar managers in other nonprofits on a relative basis (hereafter, we define as “pay transparency” for expositional ease).¹ For example, charity rating agencies, watchdog groups, and the business press periodically report on instances in which specific nonprofit managers’ pay appears to be excessive (Andrzejewski 2019; Cause IQ 2019; CharityWatch 2022). The presumption is that nonprofit managers’ pay could be informative about their behavior, and greater pay transparency could help donors make more informed donation decisions. Our study extends this reasoning and develops formal theory to predict how nonprofit managers’ pay level and the extent of pay transparency will interact to affect managers’ investment in their nonprofit’s governance.

First, following prior research, we predict that nonprofit managers’ pay level can often reveal their manager type (e.g., Steinberg 1990; Handy and Katz 1998; Chen et al. 2020). Specifically, nonprofit managers who are willing to accept relatively low pay are primarily mission-focused and intrinsically motivated to advance their nonprofit’s mission. In contrast, nonprofits managers who will only work for relatively high pay are primarily self-focused and prioritize their personal pay and outcomes (Chan and Zhang 2021).

¹ We note that the term, pay transparency, has other definitions when used in other contexts. For example, vertical pay transparency typically refers to the pay ratio between the highest paid manager and the average employee (e.g., the Dodd-Frank Act), and horizontal pay transparency refers to the extent to which employees learn about their peers’ pay in similar positions within the firm. In this study, we focus on pay transparency that makes nonprofit managers’ relative pay level salient to potential donors.
When pay transparency is low, donors have insufficient relative pay information to distinguish managers’ type. In this case, we predict that both high pay and low pay managers will make similar investments in governance. Since the public has generally placed a high level of trust in nonprofits, we expect many managers to forgo investing in governance for their nonprofit to save costs (O’Neill 2009). Importantly, under a weak governance structure, we predict that high pay managers are more likely than low pay managers to exploit their discretion over their nonprofit’s donation funds to benefit themselves rather than advance the nonprofit mission.

However, when pay transparency is high, donors are better able to infer whether a nonprofit manager is self-focused or mission-focused based on their relative pay. We predict that, anticipating donors’ reaction to the pay information, high pay and low pay managers will take opposite actions regarding their investment in governance. Specifically, we predict that high pay managers will increase their costly investment in governance as a self-disciplining mechanism to restore donors’ trust. In contrast, we predict that low pay managers will decrease their investment in governance because they are more confident about donors’ trust towards them. In this case, strong governance is unnecessary and the related cost savings can be used to further advance the nonprofit mission. In summary, we predict an interaction effect whereby greater pay transparency will increase high pay managers’ investment in governance, but will decrease low pay managers’ investment in governance. As a result, pay transparency increases the amount of donation spent on the nonprofit mission for both high pay and low pay managers.

To test our hypotheses, we conduct a two-part, incentivized online experiment. In the first-part manager study, manager participants first select between a high pay nonprofit job that pays them more but donates less to charity, versus a low pay job that pays them less but donates more to charity. The managers will then complete a donation task sequentially with a matched
donor who will also complete the task in the second-part donor study. Their combined decisions will determine the additional amounts they will earn for themselves and raise for charity.

In the donation task, the donor will receive a fixed endowment and must decide either to directly donate it to charity, or to delegate it to the manager. The donor has incentives to maximize the amount donated to charity because they will receive an equivalent amount of pay. If the donor directly donates the endowment, the manager will receive no pay. If the donor delegates to the manager, the endowment is tripled, and the manager will make decisions on how to allocate the donation funds between donating it to charity and keeping it for themselves.

The manager’s main decision is to choose between strong or weak governance. If the manager chooses strong governance, a cost is incurred, but the manager commits to a specific allocation of the donation funds such that the donor is strictly better off delegating to the manager rather than donating directly. If the manager chooses weak governance, there is no cost, but the manager will have private discretion over whether to be more charitable or selfish with the donation funds. The donor will learn whether the manager chose strong or weak governance, but not whether the manager chose the charitable or selfish option under weak governance.

Using a 2 × 2 between-subjects design, we measure whether a manager selected the high pay (High Pay manager) or low pay (Low Pay manager) nonprofit job. We manipulate whether the donor only learns their matched manager’s absolute pay and donation from their selected job (Low Pay Transparency), or the donor will additionally learn the relative pay and donation related to the alternative job that the manager did not select (High Pay Transparency).

Consistent with our predictions, when pay transparency is low, we find that the majority of high pay and low pay managers choose not to invest in strong governance. However, high pay managers are significantly more likely than low pay managers to use their discretion under weak
governance to allocate more donation funds to themselves and less towards the nonprofit mission. When pay transparency increases, we find that high pay managers increase their costly investment in governance, while low pay managers reduce their investment in governance. Supplemental analyses support our theory that pay transparency differentially alters donors’ trust towards high pay versus low pay managers based on inferences they make about the manager’s type. Managers correctly anticipate this effect and adjust their governance decisions accordingly. The consequence of these separate effects is that greater pay transparency leads to higher donations being allocated to the nonprofit mission for both high pay and low pay managers.

Our study makes several contributions to theory and practice. First, our study advances our understanding of the effects of rising pay levels and greater pay transparency in the nonprofit sector (Newton 2015; Harris et al. 2015). As nonprofits increase their managers’ pay to compete for talents against for-profit firms, there are concerns that donors will lose their trust and reduce their donations (Charity Navigator 2016; Fuller 2017). Our study shows that nonprofits can combat this effectively by strengthening their governance. Although investing in governance is costly, our results suggest that such costs can be offset by the benefits of minimizing high pay managers’ opportunity to misuse donation funds, which in turn restores donors’ trust and increases the allocation of donation funds towards advancing the nonprofit mission.

Second, our study contributes to the nonprofit governance literature. The IRS has required nonprofits to publicly disclose their governance practices in the Form 990 since 2008, and many charity rating agencies have incorporated governance in their rating criteria (Piper 2020). Despite this, there is substantial variation in the adoption of governance practices across nonprofits, and many nonprofits continue to operate under weak governance (Harris et al. 2015; Boland, Harris, Petrovits, and Yetman 2020). Our study provides one explanation for this
phenomenon that is unique to the nonprofit sector and based on trust. Specifically, our results suggest that, as long as nonprofits have hired mission-focused managers whose values are aligned with the nonprofit mission and donors trust the managers not to misuse their donation funds, strong governance may not be necessary nor cost effective for these nonprofits.

Lastly, more broadly speaking, our study provides a novel perspective on the informational effect of manager pay. Our results suggest that managers’ pay not only directly affects their incentives, but it can also indirectly shape managers’ behavior when they anticipate how various stakeholders make inferences about their type based on their pay. As pay transparency continues to increase in practice in both the non-profit and for-profit sectors, our study suggests that it is important to take the potential informational effect of different pay schemes into consideration before implementing them.

II. BACKGROUND

Nonprofit Governance

Governance in nonprofits is defined as the “set of internal and external mechanisms designed to ensure that managers are working to fulfill their organization’s charitable mission and fiduciary responsibilities and, in turn, to minimize the misuse of charitable assets” (pp. 580, Harris et al. 2015). Under the agency theory framework, governance helps mitigate the agency conflict that exists when managers’ interests are misaligned with those of the owners (Jensen and Meckling 1976). Applying this framework to the nonprofit sector, the “owners” are the donors who fund the nonprofit, and their “return on investment” can be conceptualized as the achievement of the nonprofit mission per dollar donated, i.e., a nonprofit’s program ratio (Olson 2000). Nonprofit managers have the fiduciary duty to use the donation funds they receive effectively and efficiently to advance the nonprofit mission.
Over the years, there have been numerous well-publicized cases of nonprofit managers misusing donation funds for their own personal benefits, ranging from direct embezzlement (e.g., The Arc in Hawaii, Associated Press 2018; Healing Arts Initiative, Newman 2016; Cancer Fund of America, Federal Trade Commission 2016) to funding luxury perquisites and personal expenses (e.g., WonderWork, Wall Street Journal 2017; Young Adult Institute Network, Buettner 2011; American Bureau of Shipping, Evans 2012). As the risk of managers’ misuse of charitable funds increases, stronger governance could be necessary to curtail such behavior.

Examples of common governance mechanisms in nonprofits include internal controls, independent audits of financial reports, formal policies to resolve conflict of interests and whistleblowers’ complaints, independent audit committee and board members, etc. (Independent Sector 2015). Prior research shows that stronger governance is often associated with higher donations (Olson 2000; Kitching 2009; Saxton, Neely, and Guo 2014; Harris et al. 2015), more accurate financial reporting (Yetman and Yetman 2012), fewer perquisites for managers (Newton 2015; Balsam, Harris, and Saxton 2020), and lower likelihood of fraud (Harris et al. 2017). However, due to the absence of owners and shareholders, nonprofit managers are often responsible for making the decisions on whether to invest in governance for their nonprofits.

Since 2008, the Internal Revenue Service (IRS) has required all qualifying tax-exempt nonprofits to publicly disclose comprehensive information about their governance as part of their annual Form 990 filings. The stated goal of this filing requirement is to increase the accountability of nonprofits to their constituents. It also highlights regulators’ belief that governance in nonprofits is important and should be informative to donors. To make this information even more accessible to the public, charity rating agencies such as the Charity
Navigator and Give.org, assign governance and accountability ratings to each covered nonprofit based on their governance disclosures on the Form 990 and their websites (Piper 2020).

Despite the mandatory public disclosures on governance and pressures from charity rating agencies and watchdog groups, investments in governance across the nonprofit sector have been slow and varied. Harris et al. (2015) found that after the Form 990 was revised to require the disclosures on governance in 2008, a mere 3.2% and 1.1% of nonprofits adopted additional governance practices in 2009 and 2010, respectively. One clear obstacle against improving a nonprofit’s governance are the substantial costs associated with investing in governance. Further, opportunistic nonprofit managers can use their discretion to consume donation funds for their own personal benefits, so long as donors are not deterred by a nonprofit’s weak governance.

**Nonprofit Manager Pay and Pay Transparency**

Historically, nonprofits have offered substantially lower pay than comparable for-profit firms due to budgetary constraints (Roomkin and Weisbrod 1999; Ballou and Weisbrod 2003; Leete 2006; Frumkin and Keating 2010). However, nonprofit pay levels have grown steadily in recent years, and in some industries, are even competitive with the for-profit sector (Rutherford 2015). For example, the number of nonprofit executives who received annual pay greater than $1 million has increased by more than 30% from 2011 to 2014 (Fuller 2017). Many nonprofits view the increase in pay as a necessary means to acquire and retain the limited supply of talented managers (Chertavian 2013; Grasse, Davis and Ihrke 2014; Appiah 2018; High 2020). This is possible because of the concurrent growth in donations from individuals, corporations, and foundations (Giving USA 2020; O’Brien 2021). From 2010 to 2020, total charitable donations increased from an estimated $290 billion to $470 billion, which represents a 62% total increase. As long as corporate giving and philanthropy from the super-rich remain at the forefront during
the current “Golden Age of Philanthropy”, charitable donations are expected to continue to rise and support nonprofit managers’ increasing pay (Mikaelian 2021).

Although increases in nonprofit pay should improve nonprofits’ ability to attract and retain talents, this trend has also garnered negative attention from the business press, charity rating agencies, and watchdog organizations. Based on nonprofits’ annual Form 990 disclosures, these groups routinely publish articles that identify the highest-paid nonprofit managers and comment on their excessive compensation (Buettner 2011; Hancock 2013; Fuller 2017; Andrzejewski 2019; Cause IQ 2019). This negative publicity has placed a strain on highly paid nonprofit managers who expressed experiencing “salary angst” (Garry 2016; Abraham 2018). Indeed, evidence suggests that shortly after press coverage on specific nonprofit managers’ high pay, there is a notable decline in donations to their nonprofits (Balsam and Harris 2014; Galle and Walker 2016). As explained below, we posit that this result can be explained by how increased transparency over nonprofit managers’ relative pay level affects donors’ trust regarding the managers’ potential misuse of their donations.

III. HYPOTHESES DEVELOPMENT

Overview

We examine our research question in a general nonprofit setting in which managers select into a given nonprofit at high or low pay levels. Managers rely on donations to fund their nonprofit’s operations. A potential agency conflict arises in this setting because managers have discretion over the allocation of any donation funds received to either advance the nonprofit mission or consume as perquisites for themselves. To mitigate this agency conflict, managers can choose to invest in strong governance that limits their ability to use the donation funds on
themselves. However, investing in governance is costly and will reduce the total donation funds available for the nonprofit mission.

Below, we first predict the behaviors of low pay versus high pay nonprofit managers when pay transparency is low. We then predict the moderating effects of increasing pay transparency on nonprofit managers’ behaviors. Figure 1 depicts the conceptual model underlying our theory and hypotheses, which we will describe in detail next.

**Effects of Pay Level on Managers’ Decisions under Low Pay Transparency**

Prior research provides evidence that different nonprofit pay levels can influence the type of managers who select into a given nonprofit. Specifically, nonprofits that offer relatively low pay will predominantly attract *mission-focused* managers whose values are aligned with their nonprofit’s mission (Steinberg 1990; Handy and Katz 1998; Fehrler and Kosfeld 2014; Chen et al. 2020). In contrast, nonprofits that offer relatively high pay will mainly attract *self-focused* managers who are primarily concerned about their personal pay and outcomes (Chan and Zhang 2021). Following prior literature, we expect low pay managers are more likely to be mission-focused, whereas high pay managers are more likely to be self-focused, holding all else equal.²

Although nonprofit managers’ relative pay level is indicative of their type, such information is often not readily available to donors. Even though the absolute pay of a nonprofit’s top executives is a required disclosure on Form 990, donors often do not have the relevant benchmark information to infer whether a nonprofit manager’s pay is higher or lower pay than their peers. As a result, when pay transparency is low, donors cannot distinguish

---

² To isolate the effects of nonprofit pay level, we abstract away other possible individual differences that may relate to managers’ pay levels, such as their talent and past work experience. While nonprofits justify their managers’ high pay based on talent acquisition and retention, there is mixed evidence on the association between nonprofit pay and measures of nonprofit performance (Baber, Daniel, and Roberts 2002; Garner and Harrison 2013; O’Connell 2005; Sedatole, Swaney, Yetman, and Yetman 2013). Further, prior research has found that low pay in the nonprofit sector often attracts more highly educated workers than their high pay counterparts in for-profit firms (Leete 2006). Given these prior results and for theory-testing purposes, we hold constant all other factors.
between high pay versus low pay managers. Furthermore, because of the inherent prosocial nature of nonprofit jobs, we posit that donors’ trust towards both high pay and low pay managers is likely to be relatively high. This is consistent with empirical evidence suggesting that the public generally believes nonprofits to be trustworthy (O’Neill 2009). Understanding this, we predict that both high pay and low pay managers will have similar expectations about donors’ trust towards them when pay transparency is low.

Consequently, we predict that both high pay and low pay managers are likely to favor weak governance for their nonprofits, but for different underlying reasons. Specifically, we expect low pay, more mission-focused managers will prefer weak governance to save costs so that more donation funds can be directed towards advancing the nonprofit mission. In contrast, high pay, more self-focused managers prefer weak governance because it provides them with greater discretion and opportunity to use the donation funds for their personal benefit.

In summary, we predict that when pay transparency is low, both high pay and low pay managers will make similar decisions regarding their investments in governance. However, under weak governance in which managers have greater discretion over the use of donations funds, we predict that high pay managers will consume more of the donations in the form of perquisites for themselves, while low pay managers will allocate more of the donations towards advancing the nonprofit mission. We state our first hypothesis in two parts:

**H1a (null):** When pay transparency is low, both high pay managers and low pay managers will make similar investments in governance.

**H1b:** When pay transparency is low, high pay managers will allocate a lower proportion of donation funds towards the nonprofit mission than low pay managers.

**Joint Effects of Pay Transparency and Pay Level on Managers’ Decisions**
We next examine the moderating effect of increasing pay transparency on nonprofit managers’ governance decisions. When pay transparency increases, donors can better infer whether a given nonprofit manager is self-focused or mission-focused based on their relative pay level. Specifically, we expect donors to infer that high pay managers who are unwilling to sacrifice their pay to work for a given nonprofit will prioritize their personal outcomes over the nonprofit mission, and thus are likely to exploit their discretion over the donation funds to their own benefit. In contrast, we expect donors to infer that low pay managers who are willing to forgo a higher-paying job are aligned with their nonprofit’s values, and thus are likely to maximize funding for the mission. Together, we predict that pay transparency will decrease donors’ trust towards high pay managers, but increase donors’ trust towards low pay managers.

To the extent that managers anticipate donors’ reaction to the relative pay information, we predict that high pay and low pay managers will take opposite actions regarding their investments in governance. We predict that high pay managers will invest in stronger governance that limits their discretion over the use of the donation funds. Despite the costs of investing in governance, high pay managers likely view this as being necessary to restore donors’ trust, otherwise, they may attract inadequate donations from skeptical donors. In contrast, we predict that low pay managers will reduce their investment in governance because pay transparency gives them even more confidence that donors will trust them under weak governance. This way, low pay managers can further save on making costly investments in governance and maximize the donation funds for the mission.

These predictions are not without tension as managers could fail to anticipate donors’ reactions, and donors could fail to make the correct inferences about managers’ type even when pay transparency is high. For example, self-serving biases can cause high pay managers to
(falsely) believe that donors will still trust them in spite of pay transparency, and thus “double down” on having weak governance for them to continue to personally exploit (Thompson and Loewenstein 1992; Babcock and Loewenstein 2004). While these alternative scenarios are possible, to the extent that the agency conflict inherent to our setting encourages managers and donors to be strategic and infer each other’s incentives and motives behind their actions, we expect our theory and predictions to hold.

In summary, we predict a disordinal interaction effect whereby higher pay transparency will increase high pay managers’ investment in governance, but decrease low pay managers’ investment in governance. The first part of our second hypothesis is as follows:

**H2a:** Higher pay transparency will increase high pay managers’ investment in governance, but decrease low pay managers’ investment in governance.

Although increased pay transparency leads high pay and low pay managers to take opposite actions regarding their investments in governance, we predict that in both cases, the total donation funds allocated towards the nonprofit mission will ultimately increase. This is driven by the effects described earlier as low pay managers save on making costly investments in governance, and high pay managers are less able to use the donation funds for their own benefit. Overall, we predict a positive effect of pay transparency on the donation funds allocated towards the nonprofit mission. The second part of our second hypothesis is as follows:

**H2b:** Higher pay transparency will increase both high pay and low pay managers’ allocation of donation funds towards the nonprofit mission.

**IV. METHOD**

**Overview**

To test our hypotheses, we conduct a two-part, incentivized experimental study. We first conduct a manager study in which participants assuming the role of nonprofit managers will
decide whether to invest in governance that is costly, but limits their discretion over the use of any donation funds they receive. We then conduct a donor study in which new participants assuming the role of donors will be randomly and anonymously matched to a nonprofit manager. Donors will learn about certain decisions that their matched manager made in the manager study, and then they will decide whether to delegate a donation endowment to the manager. We will next describe the experimental tasks and procedures in detail.

Experimental Tasks

In the first-part manager study, participants first make a job selection decision between two nonprofit jobs that pay them a fixed pay for completing the study and raises a donation to the American Cancer Society (ACS) on their behalf. Participants are informed that both jobs require them to perform the same task and spend the same amount of time in the study. The only difference is that one nonprofit job pays them more but donates less to the ACS (High Pay), while the other nonprofit job pays them less but donates more to the ACS (Low Pay).

After making their job selection decision, manager participants learn that they will complete a donation task sequentially with an anonymously matched donor who will complete the task in the second-part donor study. In the donation task, the manager and donor will each make decisions individually, and their combined decisions will jointly determine any additional amounts that they will earn for themselves and raise for the ACS. That is, the payoffs from the donation task will be added to their fixed pay and the donation raised for the ACS from the manager’s job selection decision. Importantly, donors will receive additional pay that equals to

---

3 We used the American Cancer Society as the charity of choice for our study because prior studies find that it is among one of the most recognizable and highly rated charity by the general public (e.g., Balakrishnan, Sprinkle, and Williamson 2011; Chen et al. 2020).
the additional donation raised for the ACS in the donation task. Thus, donors are incentivized to make decisions that will maximize the amount donated to the ACS in the donation task.

In the donation task, donors will receive a fixed $2 endowment and must decide to either directly donate the $2 endowment to the ACS, or delegate it to the manager. If a donor chooses to directly donate the endowment, both the donor and the ACS will receive $2, but the manager will receive zero pay in the donation task. If the donor chooses to delegate to the manager, the $2 endowment will be tripled to $6 to represent the value added by the nonprofit (e.g., expertise, economies of scale), and the allocation of the $6 will then depend on the manager’s decisions.

The manager’s main decision in the donation task is to choose between a Strong Governance and a Weak Governance option. If the manager chooses Strong Governance, a cost of $1.50 will be deducted from the $6 delegated donation amount to represent the costs of investing in governance. Of the remaining $4.50 endowment, the manager commits to donate $3 to ACS and keep $1.50 for themselves. If the manager chooses Weak Governance, no cost is incurred, and the manager will make a second private allocation decision on the $6 donation. The manager can choose to either donate $4.50 to ACS and keep $1.50 for themselves (Weak Governance - Charitable option) or donate $1.50 to ACS and keep $4.50 for themselves (Weak Governance - Selfish option). This reflects practice in which weak governance provides managers with greater discretion over the use of their nonprofit’s donation funds.

Before the donor decides whether to directly donate or delegate to the manager, they will learn whether their matched manager has selected the Strong Governance or Weak Governance option. However, if the manager selected Weak Governance, the donor will only learn about the Charitable and Selfish options available to the manager, but the donor will not learn which allocation option the manager selected until after they have completed the study. Figure 2
summarizes the decisions the manager and donor will make, and how those decisions will affect the final payoffs. Both managers and donors are given this same figure in the instructions.

The donation task is adapted from the trust game (Berg, Dickhaut, and McCabe 1995), but modified to capture unique institutional features of our nonprofit setting. As depicted in Figure 2, the donor’s decision on whether to directly donate their endowment or delegate it to the manager is straightforward if the manager has selected the Strong Governance option. In this case, the donor is always better off delegating to the manager because the amount donated to ACS and their pay are strictly higher. However, if the manager has selected the Weak Governance option, the donor’s decision depends on whether they believe the manager has privately chosen the Charitable or Selfish allocation option. If the manager has chosen the Charitable option, the donor is better off delegating to the manager, but if the manager has chosen the Selfish option, the donor is better off directly donating their endowment. Our design captures the tensions of how the donor’s trust towards the nonprofit manager affects their donation decision, and how the manager’s anticipation of the donor’s decision affects their own governance and allocation decisions.

[INSERT FIGURE 2 HERE]

Experimental Design

We use a 2 × 2 between-subjects experiment design. The first factor, manager pay, is an endogenous variable based on the pay level that managers selected at the beginning of the manager study. In their job selection decision, managers must select a nonprofit job that either

---

4 In the experiment, we use neutral labels to describe the managers’ options to avoid possible negative connotations that may inadvertently influence their decision-making. Specifically, we label the “strong” and “weak” governance options as “commitment” and “discretion” options, respectively, and we label the “charitable” and “selfish” options under weak governance as “option 1” and “option 2”, respectively.
pays them a $3 fixed pay and donates $2 to the ACS (High Pay managers), or pays them a $2 fixed pay and donates $4 to the ACS (Low Pay managers).

The second factor, pay transparency, is an exogenous variable that manipulates whether the donor learns that the manager has selected a high (low) pay nonprofit job over a low (high) pay nonprofit job. In the Low Pay Transparency condition, donors only learn the details of the nonprofit job that their matched manager has selected (i.e., managers’ absolute pay and resulting donation). In the High Pay Transparency condition, donors additionally learn the details of the alternative job that the manager did not select (i.e., managers’ absolute and relative pay and resulting donation). That is, depending on their matched manager’s job selection decision, the donor will either learn that the (high pay) manager was unwilling to accept a job that has a lower fixed pay of $2 but would have resulted in a higher $4 donation to the ACS, or that the (low pay) manager was willing to forgo a job that has a higher fixed pay of $3 but would have resulted in a lower $2 donation to the ACS. In both conditions, the manager is informed of the donor’s pay transparency information before they make their governance and allocation decisions.

Procedures

Participants complete our online experiment on the Qualtrics software platform. They begin the study with reading the instructions and completing a short quiz, before proceeding to the experimental tasks described earlier. Participants then complete a post-experimental questionnaire (PEQ) about their decision-making process in the study, individual preferences, and demographics. All payments are made within ten business days.

---

5 We provide donors with managers’ absolute pay information even in the Low Pay Transparency condition as a conservative design that also helps us isolate the incremental effects of providing donors with managers’ relative pay information. In practice, when nonprofit pay is not transparent and salient to donors, donors may not necessarily search for nonprofit managers’ absolute pay information disclosed in the nonprofit’s Form 990. This design choice works against us finding results on the effects of pay transparency because it is possible that the absolute pay level could also influence donors’ trust.
V. RESULTS

Manager Participants

We recruited a total of 320 participants to complete the manager study from Amazon’s Mechanical Turk (MTurk) online labor market using the TurkPrime service platform (Litman, Robinson, and Abberbock 2016). Our participants are on average 39 years old, have on average 17 years of work experience, and are 55 percent female. We randomly assign participants to the Low Pay Transparency and High Pay Transparency conditions, and participants must select either the high pay or low pay nonprofit job at the beginning of the study. Among the 320 manager participants, 79 (25%) selected the low pay nonprofit job (Low Pay managers), and 241 (75%) selected the high pay nonprofit job (High Pay managers).

Selection Effects of Nonprofit Pay Level

Our theory suggests that Low Pay managers are more likely to be mission-focused, whereas High Pay managers are more likely to be self-focused. To examine this, we ask participants in the PEQ to answer four questions on a 7-point Likert scale ranging from 1 = “Not at all,” to 7 = “Extremely”: 1) To what extent do you think the ACS is helping people in need? 2) To what extent are you motivated to raise money for the ACS? 3) To what extent do you think it is important to you that the ACS receives an actual donation from this study? and 4) To what extent is it personal to you that the ACS receives an actual donation from this study? We use the average response to these four questions to measure the extent to which participants’ values are congruent with the ACS ’s mission (Cronbach’s alpha = 0.87). Consistent with our theory, we

---

6 Our study has been reviewed and approved by the university’s Institutional Review Board.

7 In the PEQ, we also measure participants’ risk preference (Dave, Eckel, and Rojas 2000; Charness, Gneezy, and Imas 2013), general trust (Siegrist, Gutscher, and Earle 2005), and social value orientation (Van Lange et al. 1997) that may have an impact on managers’ decisions in the donation task. All our main results remain robust after controlling these personal trait measures.
find that the value congruence measure is significantly higher for Low Pay managers than High Pay managers (mean 5.89 vs. 4.46, $t_{318} = 8.41$, one-tailed $p < 0.01$).

**Tests of H1a and H1b: Effects of Pay Level under Low Pay Transparency**

Our first set of hypotheses examines high pay and low pay managers’ decisions when pay transparency is low. Recall that managers’ main decision is to select either the more costly Strong Governance option that limits their discretion over the allocation of donation funds, or the Weak Governance option that allows them to then select either the Charitable or Selfish allocation option. Depending on which one of the three options the manager chooses, the donor’s decision to delegate to the manager will result in a donation of $3.00 (Strong Governance), $4.50 (Weak Governance – Charitable), or $1.50 (Weak Governance – Selfish) to the ACS, and the donor will receive the equivalent pay amount.

H1a in null form predicts that High pay and low pay managers will choose similar investments in governance for their nonprofit when pay transparency is low. In the context of our experiment, this prediction implies that there will be no significant difference in the percentage of High Pay versus Low Pay managers who select the Strong Governance option. As shown in Panel A of Figure 3 and Table 1, under low pay transparency, 19.0% of High Pay managers and 28.9% of Low Pay managers choose the Strong Governance option. A logistic regression indicates this difference is insignificant ($z = -1.36, p = 0.17$). In failing to reject our null H1a, this result suggests that when pay transparency is low, both high pay and low pay managers make similar investments in governance.

H1b predicts that High Pay managers will allocate less donation funds to the nonprofit mission than Low Pay managers. To test this, we analyze the average amount that managers
allocate to the nonprofit mission (i.e., ACS), assuming that the donor chooses to delegate to the manager. As reported in Table 1, under low pay transparency, High Pay managers on average allocated a significantly smaller amount to the nonprofit mission than Low Pay managers ($2.33 vs. $3.27, \( t_{159} = -4.47 \), one-tailed \( p < 0.01 \)). As predicted, given that a similar percentage of High Pay and Low Pay managers selected Strong Governance, this difference is driven by the different allocation decisions made by High Pay and Low Pay managers under Weak Governance.

Specifically, 62.9% of High Pay managers versus 26.7% Low Pay managers chose the Selfish option of allocating $1.50 to the ACS and keeping $4.50 for themselves (\( z = 3.97 \), one-tailed \( p < 0.01 \)). In contrast, 18.1% of High Pay managers versus 44.4% Low Pay managers chose the Charitable option of allocating $4.50 to the ACS and keeping $1.50 for themselves (\( z = -3.34 \), one-tailed \( p < 0.01 \)). These results are consistent with our theory that High Pay managers are more self-focused, whereas Low Pay managers are more mission-focused.\(^8\)

In summary, we find that when pay transparency is low, a majority of both high pay and low pay managers consider it unnecessary to invest in strong governance for their nonprofit. This is consistent with nonprofits generally having weaker governance in practice as compared to their for-profit counterparts. Under weak governance, high pay managers are more likely to allocate donation funds to benefit themselves, while low pay managers are more likely to allocate donation funds to further advance the nonprofit mission. As a result, when pay transparency is low, the selection effect of nonprofit pay level directly affects how efficient donations funds are used to advance the nonprofit mission.

\(^8\) We note that not all High Pay (Low Pay) managers chose the selfish (charitable) allocation option under Weak Governance. This suggests that the selection effect of pay level, though strong, is not universal. We conjecture that the small percentage of High Pay managers (18.1%) chose the charitable allocation option because they wanted to compensate for their earlier “selfish” job selection decision. Similarly, the small percentage of Low Pay managers (26.7%) chose the selfish allocation option by justifying it based on their “charitable” job selection decision.
Tests of H2a and H2b: Joint Effects of Pay Level and Pay Transparency

Our second set of hypotheses examines how increasing pay transparency will influence high pay versus low pay managers’ governance decisions. H2a predicts an interactive effect whereby higher pay transparency will lead more high pay managers to invest in strong governance for their nonprofits, but it will have an opposite effect on low pay managers. H2b predicts a main effect whereby higher pay transparency will increase managers’ allocation of donation funds to the nonprofit mission for both high pay and low pay managers. We test these predictions below.

Panel A of Table 2 presents the descriptive statistics for the percentage of managers who selected the Strong Governance option across conditions, and Figure 4 depicts the pattern of results. Consistent with H2a, when we compare the Low Pay Transparency versus High Pay Transparency conditions, we find that the percentage of High Pay managers who select Strong Governance increases from 19.0% to 36.0%, while the percentage of Low Pay managers who select Strong Governance decreases from 28.9% to 17.7%, respectively.

[INSERT FIGURE 4 AND TABLE 2 HERE]

In Panel B of Table 2, we report the logistic regression on managers’ selection of Strong Governance with Pay Level and Pay Transparency as the independent variables. As predicted, we find a significant interaction effect ($\chi^2 = 5.73, p = 0.02$). Panel C of Table 2 reports the two simple effects of pay transparency predicted by H2a. Consistent with our prediction, High Pay managers are significantly more likely to select Strong Governance under High Pay Transparency than Low Pay Transparency ($z = 2.91$, one-tailed $p < 0.01$). In contrast, Low Pay managers are less likely to select Strong Governance as pay transparency increases, and the effect is close to but not statistically significant at conventional levels ($z = -1.15$, one-tailed $p =$...
0.13). Overall, these results support H2a that increasing pay transparency has opposite effects on High Pay managers and Low Pay managers.

Panel A of Table 3 and Figure 4 present managers’ average allocation amount to the nonprofit mission (as defined earlier) across conditions. As predicted by H2b, pay transparency increases the managers’ allocation to the mission, regardless of their pay level. We formally test our prediction and report the ANOVA results in Panel B of Table 3. Consistent with H2b, Pay Transparency has a significant main effect on managers’ allocation to the nonprofit mission \((F_{1, 316} = 57.39, \text{one-tail equivalent } p < 0.01)\), and the interaction effect of Pay Transparency and Pay Level is insignificant \((F_{1, 316} = 1.76, p = 0.19)\).⁹

[INSERT FIGURE 4 AND TABLE 3 HERE]

Returning to Figure 3, we can find further evidence supporting our theory that explains why pay transparency has opposite effects on High Pay and Low Pay managers’ governance decision, yet both effects result in an increase in the managers’ allocation to the nonprofit mission. First, comparing Panels A and B of Figure 2, we find that while the small percentage of High Pay managers who select the Weak Governance – Charitable option is similar across the two Pay Transparency conditions \((18.1\% \text{ vs. } 16.8\%, z = 0.27, p = 0.79)\), the percentage of High Pay managers who select the Weak Governance – Selfish option drops significantly from the Low Pay Transparency to the High Pay Transparency condition \((62.9\% \text{ vs. } 47.2\%, \text{untabulated } z = 2.44, p = 0.02)\). This is consistent with our theory that self-focused High Pay managers who likely would have selected the Weak Governance – Selfish option are concerned about the potential loss of donors’ trust in the High Pay Transparency condition, and thus many switch to

---

⁹ Although we do not predict nor find a significant interaction effect, we conducted untabulated analyses to confirm that the simple effects of pay transparency on managers’ allocation to the nonprofit mission is significant in both the High Pay Transparency condition (one-tailed \(p = 0.08\)) and Low Pay Transparency condition (one-tailed \(p = 0.01\)).
Strong Governance to secure the donor’s delegation decision rather than risk the donor directly donating their endowment. Because Strong Governance prevents High Pay managers from selecting the Selfish allocation option, their allocation to the nonprofit mission increases.

Second, we find that Low Pay managers are significantly more likely to select the Weak Governance – Charitable option in the High Pay Transparency than in the Low Pay Transparency condition (70.6% vs. 44.4%, untabulated $z = 2.28, p = 0.02$). This is consistent with our theory that higher pay transparency increases Low Pay managers’ confidence that donors will trust them, and thus they select Weak Governance more often as they perceive a lesser need to invest in costly governance. Interestingly, we also observe a decrease in the percentage of Low Pay managers who select the Weak Governance – Selfish option in the Low Pay Transparency versus High Pay Transparency conditions (11.8% vs. 26.7%, $z = -1.59, p = 0.11$). One possible explanation for this result is that when Low Pay managers know that their previous “charitable” job selection decision is made known to the donors, they could feel additional social pressure to behave consistently in their private allocation decision. Overall, these results suggest that pay transparency shifts the percentage of Low Pay managers from selecting Strong Governance and the Weak Governance – Selfish option to selecting the Weak Governance – Charitable option, which increases managers’ allocation to the nonprofit mission.

**Managers’ Estimated Effect of Pay Level and Pay Transparency on Donor**

Our theory underlying H2a and H2b predicts that pay transparency affects managers’ decision-making by changing their expectations about donors’ trust towards them in reaction to their relative pay level. To provide corroborating evidence for our theory, we ask managers in the PEQ the extent to which they believe their matched donor’s knowledge of their job selection decision would increase, decrease, or not affect the donor’s decision to delegate the donation
decision to them ("Strongly Decrease" = -3; “No effect” = 0; “Strongly Increase” = +3). Recall that managers in the Low Pay Transparency condition are informed that the donor only learns about the job they selected and their *absolute* pay and donation, while managers in the High Pay Transparency condition are informed that the donor also learns about the job they did not select and thus their *relative* pay and donation. Therefore, to the extent that pay transparency has the predicted opposite effects on High Pay versus Low Pay managers’ expectations, we would observe an interactive effect of Pay Level and Pay Transparency on their responses.

As shown in Panel A of Table 4, in the Low Pay Transparency condition, both High Pay and Low Pay managers similarly estimate that the donor’s knowledge that they selected a nonprofit job on average increases their donor’s likelihood to delegate (0.81 vs. 0.96, untabulated $F_{1, 316} = 0.30, p = 0.58$; both significantly higher than zero, both $p$’s < 0.01). However, in the High Pay Transparency condition, High Pay managers estimate that the donor’s knowledge of their job selection decision significantly *decreases* their donor’s likelihood to delegate, whereas Low Pay managers estimate that this knowledge significantly *increases* their donor’s likelihood to delegate (-0.60 vs. 1.68, untabulated $F_{1, 316} = 61.72, p < 0.01$; both significantly different from zero, both $p$’s < 0.01). These results are supported by an ANOVA analysis (Panel B) that indicates a significant interaction effect of Pay Level and Pay Transparency on managers’ estimated effects of pay transparency on donor’s decision to delegate ($F_{1, 316} = 29.65, p < 0.01$). Simple effects tests (Panel C) provide additional evidence for the predicted pattern of results that explains why increased pay transparency causes High Pay managers to select Strong Governance more often, but Low Pay managers do so less often.

[INSERT TABLE 4 HERE]

**Donor Participants and Results**
After collecting data from the manager study, we recruited a total of 327 MTurk participants to complete the donor study using the same TurkPrime service platform and participant selection criteria. Similar to the demographics of the manager study, participants are on average 39 years old, have on average 17 years of work experience, and are 58 percent female. Using the Quota function in Qualtrics, we create quotas for $3 \times 2 \times 2 = 12$ conditions based on the actual number of managers who selected one of the three Strong Governance, Weak Governance – Charitable, and Weak Governance – Selfish options, across the two Pay Level and two Pay Transparency conditions. Donors are randomly assigned to these conditions, which essentially matches donors to the managers who completed the earlier manager study.$^{10}$

As described earlier, managers’ governance and allocation decisions are based on their anticipation of their matched donor’s behavior. Thus, it is useful to examine whether managers’ expectations are indeed consistent with the donors’ perceptions and donation decisions. We next perform a series of tests to examine the effects of pay level and pay transparency on donors.

First, we examine whether Pay Level and Pay Transparency influence donors’ perceptions about their matched manager’s type. We ask donors in the PEQ the following three questions on a 7-point Likert scale ranging from $1 = “Not at all,”$ to $7 = “Extremely”$: 1) To what extent do you believe the nonprofit manager cares about the ACS’s mission? 2) To what extent do you believe the nonprofit manager is motivated to raise money for the ACS? and 3) To what extent do you believe the nonprofit manager cares about his/her own pay? We reverse code participants’ response to the third question and use the average response to these three questions to measure the extent to which donors perceive their matched managers as being mission-

---

$^{10}$ Although we planned to recruit only 320 donor participants to match with the 320 manager participants who completed the earlier study. Our use of the “Quota” function in Qualtrics led to a small number of participants starting the study after our quota has been met but before all participants have submitted their completion codes.
focused (Cronbach’s alpha = 0.78). As reported in Table 5, we find a significant interaction of Pay Level and Pay Transparency on donors’ perception of managers’ type ($F_{1, 323} = 23.11$, $p$-value < 0.01). As expected, for High Pay managers, their matched donors perceive them to be significantly less mission-focused in the High Pay Transparency than in the Low Pay Transparency condition (4.04 vs. 3.15, respectively; $F_{1, 323} = 39.99$, one-tailed equivalent $p < 0.01$). In contrast, for Low Pay managers, their matched donors perceive them to be significantly more mission-focused in the High Pay Transparency than in the Low Pay Transparency condition (4.12 vs. 4.59; $F_{1, 323} = 3.65$, one-tailed equivalent $p = 0.03$). As predicted, these results suggest that when pay transparency is low, donors cannot distinguish managers’ type based on their pay level, but increased pay transparency gives donors better ability to do so.

[INSERT TABLE 5 HERE]

Second, we examine whether Pay Level and Pay Transparency influence donors’ trust towards their manager. To capture donors’ trust, we ask the donors in the PEQ to answer the question, “To what extent do you trust the nonprofit manager with your endowment?” on a 7-point Likert scale ranging from 1 = “Not at all,” to 7 = “Extremely”. As reported in Table 6, we find that Pay Level and Pay Transparency have a significant interactive effect on donors’ trust towards their managers ($F_{1, 323} = 4.55$, $p = 0.03$). Although increasing pay transparency does not have a significant impact on donors’ trust in the Low Pay condition (4.46 vs. 4.75; $F_{1, 323} = 0.70$, one-tailed equivalent $p = 0.20$), it significantly reduces donors’ trust in the High Pay condition (4.06 vs. 3.49; $F_{1, 323} = 7.99$, one-tailed equivalent $p < 0.01$). These results suggest that donors’ perceptions about their managers’ type carryover to affect their trust towards their managers.

[INSERT TABLE 6 HERE]
Third, we examine how Pay Level and Pay Transparency influence donors’ decision to delegate under Weak Governance. Recall that under Strong Governance, donors are strictly better off by delegating to the manager rather than directly donating their endowment.\footnote{Consistent with their economic interest, the overwhelming majority of donors (88\%) choose to delegate to their matched manager when the Strong Governance option is selected.} However, under Weak Governance, the donor should only delegate if they trust that the manager selected the Charitable allocation option and not the Selfish option. Thus, we focus on cases of Weak Governance to examine donors’ trust in action as represented by their decision to delegate.

Table 7 reports the descriptive statistics and the logistic regression analysis for an indicator variable that equals to 1 if a donor delegates the donation decision to their manager, and equals to 0 otherwise. Similar to our results on donors’ trust, we find that increasing pay transparency decreases the percentage of donors who delegate when matched with a High Pay manager (67.4\% vs. 44.4\%, $z = -3.03$, $p < 0.01$), but there is little effect on donors when matched with a Low Pay manager (81.8\% vs. 80.0\%, $z = -0.18$, $p = 0.85$). Although the interactive effect is not significant ($p = 0.24$), the pattern of results is consistent with donors having less trust towards their High Pay managers when pay transparency reveals managers’ self-focused type.

Table 7 reports the descriptive statistics and the logistic regression analysis for an indicator variable that equals to 1 if a donor delegates the donation decision to their manager, and equals to 0 otherwise. Similar to our results on donors’ trust, we find that increasing pay transparency decreases the percentage of donors who delegate when matched with a High Pay manager (67.4\% vs. 44.4\%, $z = -3.03$, $p < 0.01$), but there is little effect on donors when matched with a Low Pay manager (81.8\% vs. 80.0\%, $z = -0.18$, $p = 0.85$). Although the interactive effect is not significant ($p = 0.24$), the pattern of results is consistent with donors having less trust towards their High Pay managers when pay transparency reveals managers’ self-focused type.

[INSERT TABLE 7 HERE]

**Managers’ Payoff and Donations to Nonprofit Mission**

Lastly, we analyze the managers’ payoff and the final amount donated to the nonprofit mission in the donation task (i.e., the donation raised for the ACS, or equivalently the donor’s payoff) based on the manager’s and donor’s combined decision. First, as reported in Table 8, we find that High Pay managers receive a significantly lower payoff in the High Pay Transparency than in the Low Pay Transparency condition ($F_{1, 316} = 20.84$, one-tailed equivalent $p < 0.01$).

This decrease is a joint outcome of 1) the increase in the percentage of High Pay managers who
select Strong Governance as a self-disciplining mechanism, and 2) the decrease in the percentage of donors who trust and delegate to High Pay managers when they select Weak Governance. These results suggest that increasing pay transparency appears to be an effective external mechanism that suppresses self-focused managers’ ability to use donation funds for their personal benefits.

Second, as reported in Table 9, increased pay transparency leads to a significantly higher final donation amount to the nonprofit mission for both High Pay and Low Pay managers ($F_{1,316} = 39.66$, one-tailed equivalent $p < 0.01$). This result mirrors our previously reported result that pay transparency has a positive main effect on managers’ allocation of donation funds to the nonprofit mission. Overall, these results suggest that pay transparency affects donors’ trust towards their managers by increasing their ability to distinguish managers’ type, and because managers anticipate this, they change their governance and allocation decisions that result in higher donations to the nonprofit mission.

[INSERT TABLE 8 AND TABLE 9 HERE]

VI. CONCLUSION

In this study, we experimentally examine how two recent developments in the nonprofit sector – rising pay levels and growing transparency of managers’ pay – can affect nonprofit managers’ investment in governance. First, we document a selection effect of nonprofit managers’ pay whereby mission-focused managers are willing to accept low pay to work for a nonprofit, while self-focused managers will only work for a nonprofit for high pay. When pay transparency is low and donors cannot distinguish between the two types of managers, high pay and low pay managers tend to choose similarly weak governance to avoid making costly investments in governance. However, consistent with their manager type, high pay managers are
more likely than low pay managers to use their nonprofit’s donations to benefit themselves rather than the nonprofit mission. However, when pay transparency is high and donors can infer managers’ type by their pay level, high pay managers invest in stronger governance to restore donors’ trust, while low pay managers are even less likely to invest in strong governance to further save costs. Overall, our study contributes to theory and practice by showing how nonprofit pay levels and pay transparency can interact to affect donors’ trust and nonprofit managers’ decision to invest in costly governance in their nonprofit.

Our study is subject to certain limitations. One limitation is that we intentionally abstract away from our experimental setting any potential association between nonprofit pay levels and managers’ abilities. One might argue that if nonprofits use high pay to attract talents, then high pay managers are likely to have higher abilities than low pay managers, which can alter the donation outcomes under the difference scenarios. Contrary to this, prior research has found that low pay in the nonprofit sector often attracts more highly educated workers than their high pay counterparts in for-profit firms (Leete 2006). Further, there are mixed results regarding the association between nonprofit manager pay and measures of nonprofit performance (Baber et al. 2002; Garner and Harrison 2013; O’Connell 2005; Sedatole et al. 2013). Because there is no clear empirical evidence on the relationship between nonprofit pay levels and managers’ abilities, we chose not to incorporate this in our research setting.
REFERENCES

Abraham, T. 2018. We’re asking the wrong question when it comes to nonprofit executive wages (Jan. 22). Available at: https://generocity.org/philly/2018/01/22/nonprofit-executive-wages-human-services-public-assistance/

Andrzejewski, A. 2019. Top U.S. “Non-Profit” hospitals & CEOs are racking up huge profits. Forbes (June 26). Available at: https://www.forbes.com/sites/adamandrzejewski/2019/06/26/top-u-s-non-profit-hospitals-ceos-are-racking-up-huge-profits/?sh=541cd2ee19df


Associated Press. 2018. Hawaii accountant sentenced for stealing $7M from nonprofit. (August 16). Available at: https://apnews.com/article/cb87911933e143b5a4ca0f0e3f131032


Cause IQ 2019. The highest paid nonprofit CEOs. Available at: https://www.causeiq.com/insights/highest-paid-nonprofit-ceos/


Giving USA. 2020. Charitable giving showed solid growth, climbing to $449.64 billion in 2019, one of the highest years for giving on record (June 16). Giving USA. Available at: https://givingusa.org/giving-usa-2020-charitable-giving-showed-solid-growth-climbing-to-449-64-billion-in-2019-one-of-the-highest-years-for-giving-on-record/


Hancock, J. 2013. Grassley: Who approved these hospital CEO bonuses? (June 25) Available at: https://khn.org/news/grassley-who-approved-these-hospital-ceo-bonuses/


Notes:
The above figure is a graphical depiction of our conceptual model. First, we expect a selection effect of nonprofit pay level whereby high pay managers are more likely to be self-focused, whereas low pay managers are more likely to be mission-focused. Given this selection effect, we further predict an interactive effect of pay level and pay transparency on nonprofit managers’ governance and allocation decisions via changes to managers’ expectations about donors’ trust towards them.
Figure 2
Decisions and Payoffs of Donation Task

Notes:
The above figure summarizes the donor’s and manager’s decisions and the resulting final payoffs in the donation task.
Figure 3
Managers’ Governance and Allocation Decisions

Panel A: Managers’ Decisions in Low Pay Transparency condition

Panel B: Managers’ Decisions in High Pay Transparency condition

Notes:
1. The figure depicts the percentage of managers who select the Strong Governance option, the Weak Governance – Charitable option, and the Weak Governance – Selfish option in each condition.
2. See variable definitions in Table 1.
Figure 4
Effect of Pay Level and Pay Transparency on Managers’ Governance Decision

Notes:
1. The figure depicts the percentage of managers who selected the Strong Governance option in each condition.
2. See variable definitions in Table 1.
Figure 5
Effect of Pay Level and Pay Transparency on Managers’ Allocation to Nonprofit Mission

Notes:
1. The figure depicts the average amount that managers allocate to the ACS in each condition, assuming that the donor chooses to delegate their $2.00 endowment to the manager.
2. See variable definitions in Table 1.
Table 1
Managers’ Governance and Allocation Decisions in the Low Pay Transparency Condition

<table>
<thead>
<tr>
<th>Governance Type</th>
<th>High Pay Managers (n = 116)</th>
<th>Low Pay Managers (n = 45)</th>
<th>Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strong Governance</td>
<td>19.0% (0.39)</td>
<td>28.9% (0.46)</td>
<td>$z = -1.36$, $p = 0.17$</td>
</tr>
<tr>
<td>Weak Governance – Charitable</td>
<td>18.1% (0.39)</td>
<td>44.4% (0.50)</td>
<td>$z = -3.34$, $p &lt; 0.01$</td>
</tr>
<tr>
<td>Weak Governance – Selfish</td>
<td>62.9% (0.49)</td>
<td>26.7% (0.45)</td>
<td>$z = 3.97$, $p &lt; 0.01$</td>
</tr>
<tr>
<td>Managers’ Allocation to Nonprofit Mission</td>
<td>$2.33 (1.18)$</td>
<td>$3.27 (1.25)$</td>
<td>$t = -4.47$, $p &lt; 0.01$</td>
</tr>
</tbody>
</table>

Notes:
1. The table reports the percentage of managers selecting the Strong Governance option, the Weak Governance – Charitable option, and the Weak Governance – Selfish option in each condition.
2. High Pay (Low Pay) managers selected the nonprofit job that pays them a fixed pay of $3 ($2) and donates $2 ($4) to the ACS.
3. In the Low Pay Transparency condition, donors only learn that their matched manager selected a nonprofit job that pays them a fixed pay of $3 ($2) and donates $2 ($4) to the American Cancer Society. In the High Pay Transparency condition, depending on their matched manager’s job selection decision, donors additionally either learn that the (high pay) manager was unwilling to accept a job that has a lower fixed pay of $2 but would have resulted in a higher $4 donation to the ACS, or that the (low pay) manager was willing to forgo a job that has a higher fixed pay of $3 but would have resulted in a lower $2 donation to the ACS.
4. Managers’ allocation to the nonprofit mission is the average amount that managers allocate to the ACS, assuming that the donor delegates to the manager.
5. Reported significance for directional prediction is one-tailed and in bold face.
Table 2
Effect of Pay Level and Pay Transparency on Managers’ Investment in Strong Governance

Panel A: Descriptive Statistics: Mean (Standard Deviation)

<table>
<thead>
<tr>
<th>Pay Level</th>
<th>Low Pay Transparency</th>
<th>High Pay Transparency</th>
</tr>
</thead>
<tbody>
<tr>
<td>High Pay Managers</td>
<td>19.0% (0.39) (n = 116)</td>
<td>36.0% (0.48) (n = 125)</td>
</tr>
<tr>
<td>Low Pay Managers</td>
<td>28.9% (0.46) (n = 45)</td>
<td>17.7% (0.39) (n = 34)</td>
</tr>
</tbody>
</table>

Panel B: Contrast Analyses on Logistic Regression

<table>
<thead>
<tr>
<th></th>
<th>df</th>
<th>$\chi^2$</th>
<th>p-value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pay Level</td>
<td>1</td>
<td>0.43</td>
<td>0.51</td>
</tr>
<tr>
<td>Pay Transparency</td>
<td>1</td>
<td>0.14</td>
<td>0.71</td>
</tr>
<tr>
<td>Pay Level × Pay Transparency</td>
<td>1</td>
<td>5.73</td>
<td>0.02</td>
</tr>
</tbody>
</table>

Panel C: Simple Effects

<table>
<thead>
<tr>
<th></th>
<th>z</th>
<th>p-value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Simple Effect of Pay Transparency</td>
<td></td>
<td></td>
</tr>
<tr>
<td>High Pay Managers</td>
<td>2.91</td>
<td>&lt; 0.01</td>
</tr>
<tr>
<td>Low Pay Managers</td>
<td>-1.15</td>
<td>0.13</td>
</tr>
</tbody>
</table>

Notes:
1. The dependent variable is a dichotomous variable that equals to one if the manager selects the Strong Governance option, and zero otherwise.
2. See variable definitions in Table 1.
3. Reported significance for directional prediction is one-tailed and in bold face.
### Table 3
Effect of Pay Level and Pay Transparency on Managers’ Allocation to Nonprofit Mission

#### Panel A: Descriptive Statistics: Mean (Standard Deviation)

<table>
<thead>
<tr>
<th>Pay Level</th>
<th>Low Pay Transparency</th>
<th>High Pay Transparency</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Mean ($ ± Standard Deviation)</td>
<td>Mean ($ ± Standard Deviation)</td>
</tr>
<tr>
<td>High Pay Managers</td>
<td>$2.33 ($1.18) (n = 116)</td>
<td>$2.54 ($1.11) (n = 125)</td>
</tr>
<tr>
<td>Low Pay Managers</td>
<td>$3.27 ($1.25) (n = 45)</td>
<td>$3.88 ($1.05) (n = 34)</td>
</tr>
</tbody>
</table>

#### Panel B: ANOVA

<table>
<thead>
<tr>
<th></th>
<th>df</th>
<th>F</th>
<th>p-value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pay Level</td>
<td>1</td>
<td>57.39</td>
<td>&lt;0.01</td>
</tr>
<tr>
<td>Pay Transparency</td>
<td>1</td>
<td>7.66</td>
<td>&lt;0.01</td>
</tr>
<tr>
<td>Pay Level × Pay Transparency</td>
<td>1</td>
<td>1.76</td>
<td>0.19</td>
</tr>
</tbody>
</table>

**Notes:**
1. The dependent variable is the average amount that managers allocate to the ACS, assuming that the donor delegates to the manager.
2. See variable definitions in Table 1.
3. Reported significance for directional prediction is one-tailed and in bold face.
Table 4
Managers' Estimated Effect of Pay Level and Pay Transparency on Donor’s Decision to Delegate

Panel A: Descriptive Statistics: Mean (Standard Deviation)

<table>
<thead>
<tr>
<th>Pay Level</th>
<th>Low Pay Transparency</th>
<th>High Pay Transparency</th>
</tr>
</thead>
<tbody>
<tr>
<td>High Pay Managers</td>
<td>0.81 (1.34) (n = 116)</td>
<td>-0.60 (1.74) (n = 125)</td>
</tr>
<tr>
<td>Low Pay Managers</td>
<td>0.96 (1.35) (n = 45)</td>
<td>1.68 (1.20) (n = 34)</td>
</tr>
</tbody>
</table>

Panel B: ANOVA

<table>
<thead>
<tr>
<th></th>
<th>df</th>
<th>F</th>
<th>p-value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pay Level</td>
<td>1</td>
<td>38.29</td>
<td>&lt;0.01</td>
</tr>
<tr>
<td>Pay Transparency</td>
<td>1</td>
<td>3.10</td>
<td>0.08</td>
</tr>
<tr>
<td>Pay Level × Pay Transparency</td>
<td>1</td>
<td>29.65</td>
<td>&lt;0.01</td>
</tr>
</tbody>
</table>

Panel C: Simple Effects

<table>
<thead>
<tr>
<th></th>
<th>F</th>
<th>p-value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Simple Effect of Pay Transparency</td>
<td></td>
<td></td>
</tr>
<tr>
<td>High Pay Managers</td>
<td>53.33</td>
<td>&lt;0.01</td>
</tr>
<tr>
<td>Low Pay Managers</td>
<td>4.49</td>
<td>0.02</td>
</tr>
</tbody>
</table>

Notes:
1. The dependent variable is manager participants’ response to the question: “the extent to which they believe their matched donor’s knowledge of their job selection decision would increase, decrease, or not affect the donor’s decision to delegate the donation decision to them” on a 7-point Likert scale (“Strongly Decrease” = -3; “No effect” = 0; “Strongly Increase” = +3).
2. See variable definitions in Table 1.
3. Reported significance for directional prediction is one-tailed and in bold face.
Table 5
Effect of Pay Level and Pay Transparency on Donors’ Perception of Manager Type

Panel A: Descriptive Statistics: Mean (Standard Deviation)

<table>
<thead>
<tr>
<th>Pay Level</th>
<th>Low Pay Transparency</th>
<th>High Pay Transparency</th>
</tr>
</thead>
<tbody>
<tr>
<td>High Pay Managers</td>
<td>4.04 (0.95) (n = 118)</td>
<td>3.15 (1.27) (n = 127)</td>
</tr>
<tr>
<td>Low Pay Managers</td>
<td>4.12 (0.99) (n = 46)</td>
<td>4.59 (1.09) (n = 36)</td>
</tr>
</tbody>
</table>

Panel B: ANOVA

<table>
<thead>
<tr>
<th></th>
<th>df</th>
<th>F</th>
<th>p-value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pay Level</td>
<td>1</td>
<td>29.14</td>
<td>&lt;0.01</td>
</tr>
<tr>
<td>Pay Transparency</td>
<td>1</td>
<td>2.23</td>
<td>0.14</td>
</tr>
<tr>
<td>Pay Level × Pay Transparency</td>
<td>1</td>
<td>23.11</td>
<td>&lt;0.01</td>
</tr>
</tbody>
</table>

Panel C: Simple Effects

<table>
<thead>
<tr>
<th></th>
<th>F</th>
<th>p-value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Simple Effect of Pay Transparency</td>
<td></td>
<td></td>
</tr>
<tr>
<td>High Pay Managers</td>
<td>39.99</td>
<td>&lt;0.01</td>
</tr>
<tr>
<td>Low Pay Managers</td>
<td>3.65</td>
<td>0.03</td>
</tr>
</tbody>
</table>

Notes:
1. The dependent variable is the average of donor participants’ responses to the following three questions: “To what extent do you believe the nonprofit manager cares about the American Cancer Society’s mission?”, “To what extent do you believe the nonprofit manager is motivated to raise money for the American Cancer Society?”, and “To what extent do you believe the nonprofit manager cares about his/her own pay? (reverse-coded)” on a 7-point Likert scale (1 = “Not at all,” to 7 = “Extremely”).
2. See variable definitions in Table 1.
3. Reported significance for directional prediction is one-tailed and in bold face.
### Table 6
Effect of Pay Level and Pay Transparency on Donors’ Trust Towards Manager

#### Panel A: Descriptive Statistics: Mean (Standard Deviation)

<table>
<thead>
<tr>
<th>Pay Level</th>
<th>Low Pay Transparency</th>
<th>High Pay Transparency</th>
</tr>
</thead>
<tbody>
<tr>
<td>High Pay Managers</td>
<td>4.06 (1.50) (n = 118)</td>
<td>3.49 (1.71) (n = 127)</td>
</tr>
<tr>
<td>Low Pay Managers</td>
<td>4.46 (1.38) (n = 46)</td>
<td>4.75 (1.59) (n = 36)</td>
</tr>
</tbody>
</table>

#### Panel B: ANOVA

<table>
<thead>
<tr>
<th></th>
<th>df</th>
<th>$F$</th>
<th>p-value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pay Level</td>
<td>1</td>
<td>16.74</td>
<td>&lt;0.01</td>
</tr>
<tr>
<td>Pay Transparency</td>
<td>1</td>
<td>0.47</td>
<td>0.49</td>
</tr>
<tr>
<td>Pay Level × Pay Transparency</td>
<td>1</td>
<td>4.55</td>
<td>0.03</td>
</tr>
</tbody>
</table>

#### Panel C: Simple Effects

<table>
<thead>
<tr>
<th>Simple Effect of Pay Transparency</th>
<th>$F$</th>
<th>p-value</th>
</tr>
</thead>
<tbody>
<tr>
<td>High Pay Managers</td>
<td>7.99</td>
<td>&lt; 0.01</td>
</tr>
<tr>
<td>Low Pay Managers</td>
<td>0.70</td>
<td>0.20</td>
</tr>
</tbody>
</table>

Notes:
1. The dependent variable is donor participants’ responses to the question: “To what extent do you trust the nonprofit manager with your endowment?” on a 7-point Likert scale (1 = “Not at all,” to 7 = “Extremely”).
2. See variable definitions in Table 1.
3. Reported significance for directional prediction is one-tailed and in bold face.
### Table 7

Effect of Pay Level and Pay Transparency on Donors’ Decision to Delegate under Weak Governance

**Panel A: Descriptive Statistics**

<table>
<thead>
<tr>
<th>Pay Level</th>
<th>Low Pay Transparency</th>
<th>High Pay Transparency</th>
</tr>
</thead>
<tbody>
<tr>
<td>High Pay Managers</td>
<td>67.4%</td>
<td>44.4%</td>
</tr>
<tr>
<td></td>
<td>(0.47)</td>
<td>(0.50)</td>
</tr>
<tr>
<td></td>
<td>(n = 95)</td>
<td>(n = 81)</td>
</tr>
<tr>
<td>Low Pay Managers</td>
<td>81.8%</td>
<td>80.0%</td>
</tr>
<tr>
<td></td>
<td>(0.39)</td>
<td>(0.41)</td>
</tr>
<tr>
<td></td>
<td>(n = 33)</td>
<td>(n = 30)</td>
</tr>
</tbody>
</table>

**Panel B: Contrast Analyses on Logistic Regression**

<table>
<thead>
<tr>
<th></th>
<th>df</th>
<th>$\chi^2$</th>
<th>p-value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pay Level</td>
<td>1</td>
<td>11.19</td>
<td>&lt;0.01</td>
</tr>
<tr>
<td>Pay Transparency</td>
<td>1</td>
<td>2.23</td>
<td>0.14</td>
</tr>
<tr>
<td>Pay Level × Pay Transparency</td>
<td>1</td>
<td>1.35</td>
<td>0.24</td>
</tr>
</tbody>
</table>

**Panel C: Simple Effects**

<table>
<thead>
<tr>
<th></th>
<th>z</th>
<th>p-value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Simple Effect of Pay Transparency</td>
<td></td>
<td></td>
</tr>
<tr>
<td>High Pay Managers</td>
<td>-3.03</td>
<td>&lt; 0.01</td>
</tr>
<tr>
<td>Low Pay Managers</td>
<td>-0.18</td>
<td>0.43</td>
</tr>
</tbody>
</table>

**Notes:**

1. This analysis only includes the subsample of donor participants whose matched manager selected the Weak Governance option.
2. The dependent variable is a dichotomous variable that equals to one if the donor delegates to the manager, and zero if the donor directly donates to the ACS.
3. See variable definitions in Table 1.
4. Reported significance for directional prediction is one-tailed and in bold face.
### Table 8

**Effect of Pay Level and Pay Transparency on Managers’ Payoff**

#### Panel A: Descriptive Statistics: Mean (Standard Deviation)

<table>
<thead>
<tr>
<th>Pay Level</th>
<th>Low Pay Transparency</th>
<th>High Pay Transparency</th>
</tr>
</thead>
<tbody>
<tr>
<td>High Pay Managers</td>
<td>2.42 (1.94) (n = 116)</td>
<td>1.43 (1.58) (n = 125)</td>
</tr>
<tr>
<td>Low Pay Managers</td>
<td>1.93 (1.49) (n = 45)</td>
<td>1.46 (1.30) (n = 34)</td>
</tr>
</tbody>
</table>

#### Panel B: ANOVA

<table>
<thead>
<tr>
<th></th>
<th>df</th>
<th>F</th>
<th>p-value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pay Level</td>
<td>1</td>
<td>1.08</td>
<td>0.29</td>
</tr>
<tr>
<td>Pay Transparency</td>
<td>1</td>
<td>11.15</td>
<td>&lt;0.01</td>
</tr>
<tr>
<td>Pay Level × Pay Transparency</td>
<td>1</td>
<td>1.36</td>
<td>0.12</td>
</tr>
</tbody>
</table>

#### Panel C: Simple Effects

<table>
<thead>
<tr>
<th></th>
<th>F</th>
<th>p-value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Simple Effect of Pay Transparency</td>
<td></td>
<td></td>
</tr>
<tr>
<td>High Pay Managers</td>
<td>20.84</td>
<td>&lt;0.01</td>
</tr>
<tr>
<td>Low Pay Managers</td>
<td>1.56</td>
<td>0.21</td>
</tr>
</tbody>
</table>

**Notes:**

1. The dependent variable is the amount of additional pay that manager participants receive from the donation task based on both the manager’s and the donor’s combined decisions.
2. See variable definitions in Table 1.
3. Reported significance for directional prediction is one-tailed and in bold face.
### Table 9
Effect of Pay Level and Pay Transparency on Final Donations to Nonprofit Mission

#### Panel A: Descriptive Statistics: Mean (Standard Deviation)

<table>
<thead>
<tr>
<th>Pay Level</th>
<th>Low Pay Transparency</th>
<th>High Pay Transparency</th>
</tr>
</thead>
<tbody>
<tr>
<td>High Pay Managers</td>
<td>2.23 (0.95) (n = 116)</td>
<td>2.50 (0.90) (n = 125)</td>
</tr>
<tr>
<td>Low Pay Managers</td>
<td>3.04 (1.22) (n = 45)</td>
<td>3.35 (1.28) (n = 34)</td>
</tr>
</tbody>
</table>

#### Panel B: ANOVA

<table>
<thead>
<tr>
<th></th>
<th>df</th>
<th>F</th>
<th>p-value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pay Level</td>
<td>1</td>
<td>39.66</td>
<td>&lt;0.01</td>
</tr>
<tr>
<td>Pay Transparency</td>
<td>1</td>
<td>4.88</td>
<td>0.02</td>
</tr>
<tr>
<td>Pay Level × Pay Transparency</td>
<td>1</td>
<td>0.02</td>
<td>0.90</td>
</tr>
</tbody>
</table>

**Notes:**
1. The dependent variable is the amount of additional donation raised for the ACS in the donation task based on both the manager’s and the donor’s combined decisions.
2. See variable definitions in Table 1.
3. Reported significance for directional prediction is one-tailed and in bold face.