Charity Finances and Executive Salaries: Is There Any Evidence of a Problem?

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Highlights

- 64% of charities operate with annual revenues of less than $100,000. 80% have revenues of less than $250,000.
- 60% of charities that receive government funding have revenues of less than $250,000. Together they receive only 5% of all government funding.
- Hospitals and Teaching Institutions account for almost 60% of the revenues in the sector and close to 70% of all government funding.
- 38% of charities have no full time staff. 21% have only one full time staff person.
- 76% of senior executives earned less than $50,000 in 1993, according to survey results.

Federal members of parliament appear poised to enact a bill (Bill C-224) that will require charitable and non-profit organizations that receive public funds to declare the remuneration of their directors and senior officers. Bill C-244 is a private member's bill that has been put forward by John Bryden, Liberal MP for Hamilton-Wentworth. He has expressed concern about the public accountability of charitable and non-profit organizations and about the extent to which revenues are being "frittered away — soaked up in excessive salaries, improper contracts or bureaucratic inefficiencies." (Bryden, 1995a). He views Bill C-224 as a first step in bringing public accountability to charitable and non-profit organizations.

Few would argue about the merits of public accountability. However, mandated accountability through legislated reporting incurs significant costs. Non-profits must shoulder the administrative expense of preparing reports while the public ultimately pays for the bureaucratic structures that must be developed to monitor non-profit organizations. Before such costs are incurred it is important to ask whether there is
evidence of financial abuses or excessive executive salaries to support a call for closer government scrutiny of the sector.

In this Bulletin, I review what the available data have to say on these matters and argue that there is little evidence to warrant increased government oversight of the financial affairs of non-profits. Much of the research that will be discussed was presented to the Standing Committee on Government Operations as part of the brief that the Canadian Centre for Philanthropy was invited to provide regarding Bill C-224.

There are close to 175,000 non-profit organizations in the country (Quarter, 1992) of which about 70,000 are registered charities. Unfortunately, there is very little information available about non-profits that are not charities. As a consequence little can be said about the operation of these organizations. However, the Centre's research program has a great deal of data regarding registered charities and their finances.

Our research employs data from two sources. The 1991 Public Information Returns (Form T3010) that all charities are required to file with Revenue Canada, and a survey of charities that the Centre conducted in 1993. The survey results presented here should be regarded as only tentative. Although the data are based on the responses of over 4,000 charities, the response rate was low (6%). However, the survey data provides the only information available about employment and salary levels in the charitable sector.

As will be seen, the majority of charities in Canada operate with modest revenues, receive only small amounts of government funding, and appear to operate with few staff. Hospitals and Teaching Institutions (e.g., universities and colleges) are the exception to the rule. With regard to the specific issue of the salaries senior executives receive, the levels of remuneration appear to be quite modest.

**The Size of Charity Revenues**

According to our estimates, the charitable sector had total revenues of approximately $84 billion in 1993. However, 65% of charities operate on annual revenues of less than $100,000 (see Figure 1). Eighty-one percent operate on revenues of less than $250,000.

It is important to know that most of the revenues that accrue to the charitable sector go to a small number of large organizations. As Figure 1 shows, 2% of charities with revenues greater than $5 million accounted for over 75% of the sector's revenues (Sharpe, 1994). Hospitals and Teaching Institutions (see Figure 2) are the largest categories of charities in this select group. Therefore, it is not surprising that these two types of charities alone account for almost 60% of all revenues that flow into the sector.

**Charities and Government Funding**
Some legislators believe that charities should be accountable to government because they receive public funds. Although 56% of the total revenues of Canadian charities come from government (Sharpe, 1994), only 32% of all charities receive government funding.

As Figure 3 shows, 40% of the charities that receive government funding have annual revenues of less than $100,000. Sixty percent have revenues of less than $250,000. However, these 60% account for less than 5% of all government funds to the sector. The amount of government funding that goes to the majority of charities is minimal. Seventy-five percent of government funding to the charitable sector goes to the 2% of charities that have annual revenues over $5 million.

Two types of charities, Hospitals and Teaching Institutions, account for 69% of government funding to the sector (see Figure 4). It should be noted that these two groups of charities are already under close scrutiny from provincial governments, their primary funders, because they account for a large proportion of provincial spending. The degree of public accountability for the financial operations of these organizations is already quite high.

Charities and Staff Size

What is the potential for excessive spending on the staffing of charities? One would expect that with relatively modest annual revenues, the majority of charities would not have large numbers of paid staff. Our research confirms this. According to the Centre's survey, 38% of charities have no full time staff (see Figure 5). Another 21% are run with only one full time paid staff person. This means that almost 60% of charities have either no full time staff or only one paid member of staff.

Current Salary Levels

Lastly, what is the evidence on the specific issue of executive compensation in the charitable sector? Our survey results indicate that 76% of senior executives earned less than $50,000 in 1993 (see Figure 6). These results, tentative as they are, still beg the question — where is the evidence for the abuse of compensation?

Conclusion

Arguments for increased government oversight of charity finances of the kind proposed in Bill C-224 fail to recognize that the potential for widespread financial abuse in the charitable sector is small. Most charities operate on a "shoe string", with modest revenues and few staff, and provide only moderate levels of remuneration to senior executives. The
larger charities that account for the bulk of revenues and government funding (Hospitals and Teaching Institutions) are already under close scrutiny because of the amount of government financing they receive. Although alarms have been sounded about a lack of public accountability, there is little evidence that the potential benefits of additional government oversight are sufficient to justify the costs and administrative burdens that would be created.

References


Clarification

In the last issue of the Research Bulletin we classified charities into thirteen categories (e.g., Social Service, Hospitals, Health-Related). The Canadian Cancer Society was used as an example of the kinds of organizations that were categorized as Health-Related charities in our classification system. The Bulletin showed that Health-Related charities, as a group, received 56% of their funding from government. There was no intention to imply that *all* Health-Related charities depend upon government for the bulk of their funding. The Canadian Cancer Society advises that it does not depend on government funding as a source of revenue for its programs.

*Figure 1*: Distribution of Charities and Revenues by Size of Revenue
Figure 2: Types of Charities With More Than $5 Million in Revenues
Figure 3: Charities Receiving Government Funds According to Size of Revenues
Figure 4: Percentage of Government Funding Received According to Charity Type
Figure 5: Number of Full Time Staff Employed
Figure 5: Number of Full Time Staff Employed

Figure 6: Annual Earnings of Charity's Most Senior Executive
Figure 6

Annual Earnings of Charity’s Most Senior Executive

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$1-$49K  | 76 |
$50-$74K | 18 |
$75-$99K |    |
$100K+   |    |

Salary Range

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