

# Determinants of Executive Compensation in Small Business Development Centers

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*We develop and test a model of nonprofit executive compensation based on theories of organizational science, economics, and agency theory. Our sample consisted of 114 directors of small business development centers in the United States. Consistent with our model, we find significant effects for human capital, organizational size, and organizational affiliation. We find tentative support for a significant pay-for-performance relationship. We find that when education, tenure, size, performance, and affiliation are held constant, female executives are compensated significantly less than male executives.*

EXECUTIVE COMPENSATION is a topic that has produced a proliferation of academic literature in past decades. The importance of the topic is difficult to overstate, especially given the widespread public perception of executive compensation as excessive, unfair, and difficult to explain. Executive compensation is generally recognized as a key variable in executive motivation, which can have great significance for the activities and direction of the organization (Finkelstein and Hambrick, 1988; Hoskisson, Hitt, Turk, and Tyler, 1989).

The bulk of executive compensation research has dealt exclusively with for-profit business firms (Benson and Hornsby, 2002; Gomez-Mejia and Balkin, 1992; Sanders, 2001; Tosi, Werner, Katz, and Gomez-Mejia, 2000). Conversely, very little of the work is concerned with the nonprofit sector. This is surprising given the importance of nonprofit organizations in society and the public perception regarding their levels of executive pay (Herzlinger, 1994).

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In addition, the same theoretical insights used in for-profit executive pay studies are likely to have relevance for understanding non-profit executive pay.

The purpose of this article is to develop and test a model of the determinants of executive compensation in the nationwide network of Small Business Development Centers (SBDCs). The slightly more than one thousand SBDCs in the United States provide training and consulting to small business owners and nascent entrepreneurs. Although SBDCs are partially funded by the Small Business Administration (SBA), they must rely on matching funds and client fees for over half of their operating budgets. SBDC directors have considerable discretion over the operation of their centers and have as their mission to respond to unique local needs (Small Business Development Center, 2001). In this sense, they are similar to the many non-profit organizations that are partially funded through various government grant programs. As a result, we believe that scholars will be able to generalize our research findings to many types of nonprofit organizations.

### Literature Review and Theory Development

The executive compensation literature is dominated by studies of the for-profit sector. The major theme of this literature focuses on the pay-for-performance issue and theory development based on agency theory (Eisenhardt, 1989; Jensen and Meckling, 1976). Agency theory suggests that the incentives of the executive (the agent) can be aligned with the preferences of stockholders (the principals in for-profit corporations) through compensation arrangements that reward executives for firm performance (Fama and Jensen, 1983; Jensen and Meckling, 1976). For example, executives who are compensated in stock or stock options have a financial incentive to engage in activities that increase the market value of the firm.

The bulk of the studies from this research stream show a positive relationship between pay and performance, although the observed effect sizes have frequently been quite small. In the most comprehensive meta-analysis to date, Tosi, Werner, Katz, and Gomez-Mejia (2000) reported that performance accounts for less than 5 percent of the variance in executive pay, whereas firm size accounts for more than 40 percent. In addition, the pay-for-performance relationship has been shown to be extremely sensitive to the manner in which both compensation and performance are conceptualized and measured (Gray and Canella, 1997). Nevertheless, the results so far provide considerable support for agency theory.

Agency theory also provides insights in analyzing executive compensation in SBDCs. Although directors of individual SBDCs have considerable autonomy, a lead office at the state level provides oversight. We believe that agency theory is applicable to this relationship and conceptualize the SBDC director as the agent and the

state manager as the principal. Viewed in this way, agency theory holds that SBDC directors' pay may be understood as a device that helps accomplish the objectives of the state manager. For example, the state manager's desire to increase the number of clients served could be facilitated by a compensation plan that pegs pay to the magnitude of counseling activities. Through the compensation plan alone, the incentives of the agent (higher pay) are aligned with the interests of the principal (more clients).

In addition to compensation arrangements, agency concerns may also be mitigated in nonprofits through monitoring by the principal as well as managerial self-selection and the resulting high trust levels (Handy and Katz, 1998). Still, given that the bulk of the compensation literature supports a pay-for-performance relationship, we expect to see some degree of relationship between SBDC executive compensation and organizational performance, even if the effect is weaker than for other variables under consideration.

*HYPOTHESIS 1. Executive compensation is determined in part by organizational performance.*

The human capital of the executive is also expected to affect the compensation level. Better educated and more experienced executives can be expected to perform better and hence lead their organizations to a higher performance level. Alternatively, highly qualified directors may demand a premium in the labor market because they have more employment opportunities elsewhere.

*HYPOTHESIS 2. Executive compensation is determined in part by the executive's human capital.*

Scholars have conducted very little empirical research on the determinants of compensation for nonprofit executives. Oster (1998) reported that executive compensation in nonprofits behaves somewhat like that in for-profits except that compensation is constrained by governance features. Oster found a significant effect for institutional affiliation on executive pay in nonprofit hospitals and social service organizations. In particular, university affiliation and religious affiliation have negative impacts on executive compensation.

We have valid reasons to expect an affiliation effect in our sample of SBDCs. Slightly over half of SBDCs are located on college campuses. We expect executive compensation in these to be different than in their noncampus counterparts due to space, policy, mission, and governance constraints of the affiliated educational institution. As Oster (1998, p. 217) pointed out, university affiliation seems to constrain salaries to keep them "more in line with the rest of the university." In addition, a campus location may yield nonpecuniary benefits such as prestige, a pleasant environment, or access to institutional resources. These benefits may serve as a pay substitute,

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resulting in lower observed salaries. Finally, being an executive in a campus SBDC may pose less risk to the executive, a form of compensation in itself for those who prefer stability (Gray and Canella, 1997). Although our rationale differs slightly from Oster's, we expect to find a relationship between executive compensation and affiliation.

*HYPOTHESIS 3. Executive compensation is determined in part by the organization's institutional affiliation.*

Organizational size has typically been treated as a control variable in for-profit compensation research, especially when pay-for-performance has been the focus of the research. We have reasons to believe, however, that size is an important theoretical variable in examining the determinants of nonprofit executive compensation. Agarwal (1981) argued that size is an important determinant of executive compensation because it represents a proxy for organizational complexity. The management of complex organizations places great demands on the executive and requires more skill and experience than does the management of smaller, simpler organizations. Large complex organizations may require executives endowed with greater human capital, which leads to a compensation premium (Hallock, 2002).

Economic theory also provides a rationale for the pay-for-size association. Roberts (1959) argued that individuals are paid according to their marginal productivity (their impact on the organization's total output). Even a small percentage gain, in a very large organization, would justify a substantial pay differential for the top executives. Because executives' impact is assumed to increase with the size of the organization, one would expect to find the high correlations between compensation and size reported in the literature.

The literature from the for-profit compensation research stream provides compelling support for a significant and positive relationship between executive compensation and organizational size. Because we believe the same theoretical rationales hold in nonprofits as well, we offer this hypothesis:

*HYPOTHESIS 4. Executive compensation is determined in part by organizational size.*

Because slightly more than one-third of SBDC executives are female, we are able to test for a gender bias in compensation. Prior research has suggested either the absence of a meaningful gender difference in nonprofit sector compensation (Oster, 1998), a smaller gender effect in nonprofits than for-profits (Preston, 1989), or a slightly positive differential for females in nonprofits (Leete, 2001). In the case of SBDCs, the sponsoring organization, the SBA, has a policy against gender discrimination. Although this could imply a lack

of gender-based discrimination in setting pay levels for SBDC executives, several factors suggest an opposing viewpoint.

The gender-based earnings gap in wages has a long history, and this effect is strong enough to be consistent over time and across national and cultural boundaries (for an early review, see Treiman and Hartmann, 1981). The extent of gender discrimination is certainly debatable (Benson and Hornsby, 2002), and the ability of other variables to account for at least part of the gap is well established (Roberts, 1980). Although the degree of the gender-based earnings gap has narrowed in recent decades in the United States (Bowler, 1999), the debate over the gap is clearly alive and well. In addition, most basic textbooks on human resource management make the point that simply having a policy against discrimination is not sufficient to guarantee that no one suffers from discrimination. The SBA policy of nondiscrimination is thus not a convincing argument that gender and pay will not be related.

Overall, the strength of gender differences in compensation is sufficiently documented that we propose to find differences in compensation of males and females in SBDCs, even when human capital, size, affiliation, and organizational performance hold constant.

*HYPOTHESIS 5. Executive compensation is determined in part by the executive's gender.*

The theory developed herein suggests a model of compensation for nonprofit executives based on characteristics of both the executive and the organization. In particular, we expect to see significant effects for human capital, organizational size, institutional affiliation, organizational performance, and the gender of the executive.

## Methods

We obtained a listing of all SBDCs from the SBA Web site (2001). From this universe we drew a random sample (stratified by state) of 250 centers, using a random number generator. We obtained the name of the director and the mailing address of each SBDC in the sample from the same Web site.

We developed the questionnaire and ran a pilot test on a small number of SBDCs. Based on feedback from respondents, we refined the instrument and mailed it to the sample directors in early 2001. The cover letter requested that only the director of the SBDC complete the questionnaire. We received 138 completed questionnaires for a response rate of 55.2 percent. As a test for nonresponse bias, we compared the percentage of female directors in the returned questionnaires (36.1 percent) to the percentage of known female directors in our total sample (34.3 percent). Missing data reduced the usable sample size to 114.

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The questionnaire measured demographic items including the director's gender, educational level, and number of years in office. We coded gender as a dummy variable (0 = female; 1 = male). We measured affiliation by a dummy variable for whether or not the SBDC was located on an educational campus (0 = no; 1 = yes). We measured organizational size by the SBDC's total budget for the most recent calendar year. We chose annual budget as our measure of size because temporal fluctuations in regional economic conditions are likely to have a greater short-term impact on other size measures (such as number of clients served).

We measured executive compensation as the director's total annual salary. We did not include fringe benefits because we assumed they would be relatively stable across SBDCs. For-profit executive compensation research commonly includes in the compensation measure many other nonsalary components such as stock options, stock grants, deferred compensation, bonuses, and loans with low interest rates (Gray and Canella, 1997). Our assumption was that these nonsalary items were not relevant in the context of SBDC executive compensation.

Scholars have long noted difficulties in evaluating the performance of nonprofit organizations (Au, 1996; Hallock, 2002; Holland, 1988; Kantor and Summers, 1987; Murray and Tassie, 1994) despite a growing need for nonprofits to increase their effectiveness (Salamon, 1997). In addition, organizational performance, whether for-profit or nonprofit, is a multidimensional construct, making its measurement a challenge in any context. Our response to the challenge was to use client satisfaction as a proxy for performance.

The literature provides considerable evidence on SBDC performance that supports this view. SBDCs are service organizations, and a major part of their mission is to facilitate regional economic development. The seminal SBDC economic impact studies by Chrisman, Hoy, and Robinson (1987) and Chrisman and Katrishen (1994) used client satisfaction as an indicator of the extent to which SBDCs affect the economy by assisting small businesses to increase revenues and create additional jobs. In other words, high satisfaction in SBDC clients has been linked to job creation, economic expansion, and additional tax revenues. Indeed, many SBDCs themselves use client satisfaction as a primary indication of organizational effectiveness (*Client Satisfaction Survey*, Virginia Small Business Development Center Network, 1997; New Mexico Small Business Development Centers, 1997).

Because the SBDCs themselves rely so heavily on this measure, we assume that the executives would know its extent. Different SBDCs, however, may use different scales and methods to measure client satisfaction. To counter this difficulty, we translated each SBDC's client satisfaction rating to a five-point Likert scale. An example of the instrument that SBDCs use to construct the

client satisfaction measure is available from the first author upon request.

The mean age of respondents was 48.5 (standard deviation [SD] = 8.9). A total of 36.1 percent reported their gender as female. The respondents reported their race as white (92.6 percent), African American (3.3 percent), Hispanic (1.6 percent), and other (2.5 percent). Highest diplomas or degrees attained were Ph.D. (2.4 percent), master's or law degree (64.2 percent), undergraduate (31.7 percent), and high school diploma (1.6 percent). Slightly over 62 percent reported that their SBDC was located on an educational campus.

### Results

Descriptive statistics and correlations of the variables under study are reported in Table 1. The salary range was \$26,119 to \$90,428, with a mean of \$47,075. As we expected, we found a positive and significant correlation between salary and organizational size and the two human capital variables of education and experience. A small but significant correlation appears between compensation and gender, indicating that males are paid more than females. The significant correlation between salary and affiliation indicates that directors of campus SBDCs are compensated less than directors of noncampus locations. Note that the signs on these two correlations (gender and affiliation) require care in their interpretation, as they are merely artifacts of the way we coded these dummy variables. No significant correlation appears between salary and performance. Also of interest is the negative and significant correlation between size and performance, suggesting that larger SBDCs experience lower client-satisfaction ratings.

We ran a linear regression analysis to test the hypothesis under study. Note that in compensation studies of for-profit organizations the dependent variable of salary is typically log transformed to correct for *heteroscedasticity*, a situation in which the error terms are not constant over the entire range of predicted salary values. This

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Table 1. Descriptive Statistics and Correlations

	Mean	SD	Salary	Gender	Education	Experience	Size	Affiliation
Salary	\$47,075	\$10,971	1.00					
Gender	0.64	0.48	0.20 <sup>a</sup>	1.00				
Education	4.67	0.55	0.23 <sup>a</sup>	-0.03	1.00			
Experience	6.26	4.11	0.26 <sup>b</sup>	0.13	0.06	1.00		
Size	248,067 <sup>c</sup>	354,034 <sup>c</sup>	0.63 <sup>b</sup>	0.00	0.12	0.07	1.00	
Affiliation	0.63	0.49	-0.22 <sup>a</sup>	0.09	0.06	-0.08	-0.08	1.00
Performance	4.40	0.48	-0.11	0.10	-0.12	0.03	-0.24 <sup>a</sup>	-0.04

Note: <sup>a</sup> $p < 0.05$ , <sup>b</sup> $p < 0.01$ , <sup>c</sup>annual budget.

condition is common in for-profit studies due to the extremes of this type of compensation. If left uncorrected, heteroscedasticity can render the model's significant tests invalid (Cohen and Cohen, 1983). A visual inspection of the residuals, however, indicated that this transformation was not necessary in this study. As an additional test of the robustness of our model, we ran a second regression analysis with the logarithm of salary as the dependent variable and found that this did not affect the interpretation of the results. For ease of exposition, we report only the nontransformed results.

Variance inflation factors indicate that multicollinearity was not influencing the regression results. This result was not surprising given the generally low intercorrelations. The results of the regression analysis are displayed in Table 2.

We evaluated Hypothesis 1 (pay for performance) by the sign and significance of the coefficient on our performance variable (client satisfaction). An examination of the regression results indicates the absence of a significant relationship between compensation and performance. We return to this issue later, as we believe that additional analyses are warranted before we can definitively reject Hypothesis 1.

Hypothesis 2 predicted a positive relationship between compensation and the executive's human capital. We evaluated the hypothesis with two independent variables: educational level and tenure in office. We also included the square of tenure as an independent variable to account for the possibility of a nonlinear relationship. The nonsignificant coefficients on square of tenure indicate this is not the case in our sample. The coefficients on both human capital

**Table 2. Regression Results, Executive Compensation**

<i>Variable</i>	<i>Coefficient</i>	<i>Standardized Coefficient</i>
Intercept	21,890.9 <sup>b</sup>	.22 <sup>b</sup>
Human capital		
Education	2,774.8 <sup>a</sup>	.14 <sup>a</sup>
Tenure	1,140.3 <sup>a</sup>	.42 <sup>a</sup>
Tenure <sup>2</sup>	-53.1	-.31
Size	0.2 <sup>c</sup>	.59 <sup>c</sup>
Affiliation	-3,881.9 <sup>b</sup>	-.17 <sup>b</sup>
Performance (client satisfaction)	-628.8	.03
Gender	4,874.2 <sup>c</sup>	.22 <sup>c</sup>
Model <i>F</i>	14.91 <sup>c</sup>	
Model <i>R</i> <sup>2</sup>	0.517	
Model adjusted <i>R</i> <sup>2</sup>	0.482	
<i>N</i>	114	

Note: <sup>a</sup>*p* < 0.10, <sup>b</sup>*p* < 0.05, <sup>c</sup>*p* < 0.01.

variables were positive and statistically significant, providing support for Hypothesis 2.

Hypothesis 3 predicted a significant relationship between compensation and institutional affiliation. Because we theorized that SBDCs located on educational campuses would be more constrained than noncampus SBDCs, we expected the directors of campus SBDCs to receive lower compensation. We coded the affiliation variable as a dummy (0 = noncampus; 1 = campus). Therefore, we expected to see a negative and significant relationship between compensation and affiliation in this case. As we mentioned earlier, the sign is solely dependent on the manner in which the dummy variable is coded. From an examination of Table 2, we can conclude that the evidence strongly supports Hypothesis 3. The regression results can be interpreted as meaning that, all else being equal, campus SBDC directors earn on average \$3,881.90 less than their non-campus colleagues.

Hypothesis 4 predicted a positive relationship between compensation and organizational size. Consistent with other research in both the profit and nonprofit sectors, we find strong support for this hypothesis. As a test of the robustness of the size effect, we ran three additional regressions (not reported in these tables) using number of employees, total payroll, and number of clients served as proxies for size. In each case we observed a large and significant size effect, providing strong support for Hypothesis 4.

Hypothesis 5 dealt with gender bias in the executives' compensation. We found a positive, significant, and substantial effect for gender. Because we coded the variable as 0 = female and 1 = male, we can interpret the results as indicating that males on average earn \$4,874.20 more than their female colleagues, after we partial out the effects of educational level and tenure in office. We interpret the sign and significance of the coefficient of gender as an indicator of gender bias. The evidence therefore supports Hypothesis 5.

Although the model was significant at the  $p < 0.001$  level, the adjusted  $R^2$  was slightly more than 48 percent. In other words, our model does not account for 52 percent of the variance in SBDC executive compensation. Note, however, that the for-profit empirical studies also tend to produce even lower values of  $R^2$ .

In order to gauge the magnitude of the effect sizes on each independent variable, we obtained the standardized regression coefficients and reported these results in Table 2. We find that the largest effect on executive compensation is due to organizational size. This finding is consistent with the empirical for-profit executive compensation literature (Tosi, Werner, Katz, and Gomez-Mejia, 2000). We also find a large effect size for human capital and gender.

As we mentioned earlier, we decided to revisit our pay-for-performance hypothesis (Hypothesis 1) with additional analyses. We were not satisfied that our single measure of performance, widely

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considered a multidimensional construct, was sufficient to test Hypothesis 1. Although we feel confident in concluding that SBDC directors are not rewarded according to client satisfaction, we also recognize the possibility that they are rewarded for other dimensions of performance such as resource efficiency. (The authors thank two anonymous reviewers for this insight.) We measured resource efficiency as employee cost per client served and report the regression results in Table 3.

These results strongly suggest that SBDC directors' pay increases with more efficient deployment of the organization's resources. We suggest at least two explanations. First, SBDC directors' pay raises may be determined in part by some internal measure of resource efficiency, and thus directors are actively rewarded for tight fiscal control. Alternatively, more efficient management of employee resources may simply mean that more money is available for the director's salary. In agency theory terms, the incentives of the director are aligned with the preferences of the principal. The director has a financial incentive to increase the number of clients served or decrease payroll expenses.

In summary, our regression analyses indicate that executive pay increases with human capital and organizational size. Compensation is also affected by the executive's gender and the organization's institutional affiliation. We found tentative support for a pay-for-performance relationship, contingent upon how one conceptualizes performance. Consistent with the theory, characteristics of the executive as well as characteristics of the organization are relevant determinants of nonprofit executive compensation.

**Table 3. Regression Results, Executive Compensation, with Resource Efficiency as Performance Measure**

<i>Variable</i>	<i>Coefficient</i>
Intercept	24,702.4 <sup>c</sup>
Human capital	
Education	3,078.9 <sup>a</sup>
Tenure	1,023.9
Tenure <sup>2</sup>	-47.1
Size	0.2 <sup>c</sup>
Affiliation	-3,612.5 <sup>b</sup>
Performance (resource efficiency)	2.6 <sup>b</sup>
Gender	4,645.5 <sup>c</sup>
Model <i>F</i>	15.39 <sup>c</sup>
Model <i>R</i> <sup>2</sup>	0.542
Model adjusted <i>R</i> <sup>2</sup>	0.507
<i>N</i>	111

Note: <sup>a</sup>*p* < 0.10, <sup>b</sup>*p* < 0.05, <sup>c</sup>*p* < 0.01.

## Discussion

Compensation research on for-profit organizations indicates an unclear role for human capital variables. Theoretically, the human capital of the executive—measured as differences in skill, ability, experience, knowledge, or other characteristics that could affect performance—should make a difference in the remuneration that the individual receives. This impact has not been conclusively demonstrated in the for-profit sector (Finkelstein and Hambrick, 1996). The relative robustness of our results for nonprofit executives provides an opportunity to explore the human capital effect in more detail.

According to the emerging resource-based view from the strategic management literature, for these human assets to add unique value to the organization, they must be rare and relatively inimitable (Barney, 1992, 2002). Some scholars have noted that top corporate executives have very impressive credentials in terms of education, experience, and other such human capital variables, but executives vary little along these dimensions; they all share these qualifications. Thus, little is unique about any one individual in these regards (Finkelstein and Hambrick, 1996). If researchers severely restrict the range of key variables for measuring human capital, they may not be able to relate compensation differences to corporate executives' backgrounds.

Our sample of SBDC directors, however, showed substantial variability in the human capital variables. For example, although few of the directors had less than a college degree, and relatively few had more than a master's degree, we found reasonable variability between those with either a bachelor's degree or master's degree. Likewise, consideration of the mean number of years of tenure and its SD suggests that a substantial amount of differentiation was present. This wider variance in the human capital variables strengthens the test of their impact. Thus, we are not surprised that the relationships for these variables in this sample were relatively strong. However, this large variance in human capital variables should weaken the relative impact of gender. As a result, we believe that our gender-gap findings are especially robust.

As we mentioned earlier, the evaluation of organizational performance in nonprofits represents a challenge to researchers and practitioners alike. For-profit organizations, by contrast, can rely on such bottom-line indicators as accounting profits or changes in market valuations to indicate overall performance. We believe that the more difficult performance is to measure, the more likely will be the impact of human capital variables as determinants of executive compensation. In other words, when outputs are not directly observable, inputs can be a valuable proxy, under the assumption that better qualified executives will be able to lead the organization to higher performance over the long run. This may be especially relevant when high quality outputs are desired (Leete, 2001).

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No research is perfect, and the present study is no exception. The biggest weakness in our statistical model is perhaps our measures of organizational performance, a problem that has long hampered development of research on nonprofit organizations. We cannot state with confidence whether our results on pay for performance represent consistency with the model or a research design that was less than ideal. We do, however, provide convincing evidence that the pay-for-performance relationship is highly sensitive to the manner in which the researcher measures performance. Our results also serve to remind researchers of the dangers of estimating the value of a multi-dimensional construct with a single proxy. Future research is warranted to identify and test additional measures of performance in the nonprofit organization.

Our results differ from those of Hallock (2002), who found no impact of performance on managerial pay in a large sample of nonprofits. Our results are more in agreement with Ehrenberg, Cheslock, and Epifantseva (2000), who found a weak pay-for-performance relationship when examining the compensation of presidents of private universities. We believe our findings offer a degree of support for nonprofit executive compensation based at least in part on organizational performance. Despite the widespread public perception that nonprofit executives should be paid less than their corporate counterparts (Herzlinger, 1994), there are increasing demands for accountability of executives and for improvements in the performance of nonprofit organizations. A visible link between pay and performance provides a mechanism for serving both needs.

Another limitation inherent in the study of pay-for-performance relationships in any context is also noteworthy. Consistent with agency theory, we conceptualized compensation as a function of performance. But the opposite relationship may hold—that performance is a function of pay. If so, endogeneity bias may be confounding our results as well as the results of many other studies from this tradition. Although our research design is consistent with prior studies from this research stream, we believe that future research should address this issue in depth.

Consistent with both the for-profit and the nonprofit executive compensation research, we find a large and positive relationship between executive pay and organizational size. These results are robust across four different measures of size. In this regard our findings replicate those of Oster (1998) and Hallock (forthcoming). Although the theoretical rationales for the size relationship, as we noted earlier, are certainly valid, we offer one additional explanation for the strong relationship between organizational size and SBDC directors. We can assume that larger SBDCs tend to be located in larger cities, with their accompanying high cost of living. These location differences may account for at least some of the size effect. Unfortunately, our research design did not allow us to test for a cost-of-living effect.

Our findings for the effect of affiliation on executive pay are consistent with prior research, albeit for slightly different reasons. Oster (1998), for example, found a similar effect for hospitals affiliated with universities. Oster reasoned that such compensation is constrained by governance features inherent in this relationship. Like Oster, we believe that the resources and management philosophy of the host schools further constrains executive pay in campus SBDCs. In addition, we believe executives at campus SBDCs may accrue nonpecuniary benefits as substitutes for pay. They may also experience less personal risk due to the relative stability of funding for their organization. As a result, their observed salaries tend to be lower than those for directors of noncampus SBDCs.

Our findings strongly suggest that female SBDC directors earn less on average than their male colleagues. The apparent gender gap is somewhat surprising given the organizations' policy of pay equality. Even though our findings merit replication, we believe that they warrant managerial action at the highest levels of the national SBDC network.

The nonprofit organization represents a rich and relatively unexplored opportunity for better understanding the complex phenomenon of executive pay. Our research suggests that nonprofit executive compensation can be best understood when modeled on theory integrated from multiple disciplines. Future research is needed in other nonprofit contexts for theory development to evolve. A great deal of the variance in executive compensation, whether in nonprofits or for-profits, remains to be explained.

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