



**STANFORD**  
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**STANFORD** SOCIAL INNOVATION *review*

**Money Talk**  
**Top Foundation Leaders Reveal How They Set**  
**Payout Rates, Executive Salaries, and Trustee Compensation**

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# MONEY TALK

*Top foundation  
leaders reveal  
how they  
set payout rates,  
executive salaries,  
and trustee  
compensation*

*In light of the current focus in the press and Congress on foundation compensation and payout issues, the Stanford Social Innovation Review (SSIR) thought it would be useful to convene a roundtable discussion of these topics among foundation executives. John Healy, CEO and director of the Atlantic Philanthropies, Paul Brest, president of the William and Flora Hewlett Foundation, and Robert Joss, dean of the Stanford Graduate School of Business, were co-sponsors of the discussion. Stanford Law professor and SSIR associate editor Michael Klausner moderated. (See p. 54 for complete list of participants.)*

## EXECUTIVE COMPENSATION

**Michael Klausner:** Foundations have come under scrutiny recently for their compensation practices. What are your views, and what are your foundations' practices regarding compensation of CEOs and staff?

**PAUL BREST:** The president's compensation, and other executives' compensation, ought to be market-driven, subject to a "shock test." The market-driven part is easy. The shock test is harder – people will shock at different levels. I would be shocked by a foundation CEO having an annual salary of more than \$1 million, and possibly below that. At the very least, such a foundation would have something to explain.

**MK:** What do we mean by market-driven compensation, and how do we implement it? Are there really market forces constraining executive pay in the foundation sector?

**TED LOBMAN:** In theory, you pay somebody what you think you have to pay to get them and keep them. That's the market test. I don't think that the market for foundation professional staff is very clear, nor does it operate as in other fields. Foundations do not usually compete with each other for good people, even though they easily and often compare salaries. Foundation work is very attractive and it's possible that some foundations are paying more than what the market would require them to get and keep people.

**MK:** How do you know what that amount is? How do you know whether a less expensive candidate will do a worse job?



Michael Klausner

the education area, we benchmark based on both foundation program officer compensation and on compensation at education groups. For our director of technology, we benchmark based on the for-profit sector as well. Our technology director could work in the for-profit sector for more than we pay him. We pay him what we think we need to pay, taking into account the psychic rewards he gets from working in the nonprofit sector.

**JOHN HEALY:** We set the compensation of chief executives by reference to what other foundations pay their chief executives. There is a connection between the asset size of a foundation and the salary paid to the president. There is also a connection between compensation and the complexity of the foundation. Compensation, however, under certain circumstances moves from being a science to being an art. We were recently setting compensation for a newly created class of staff at Atlantic Philanthropies, and we got to a certain stage beyond the benchmarking and data and we had to just ask ourselves whether it felt right.

*This discussion took place at the Stanford University Graduate School of Business. In addition to Healy and Brest, participants included **SUSAN CLARK**, executive director of the Columbia Foundation; **ALEXA CORTES CULWELL**, CEO of the Charles and Helen Schwab Foundation; **DIANE FORD**, director of the Sobrato Family Foundation; **DIANE FEENEY**, president of the French American Charitable Trust; **BOB GAMBLE**, executive director of the Goldman Fund; **PETER HERO**, president of Community Foundation Silicon Valley; **TED LOBMAN**, former president of the Stuart Foundation; **CATE MUTHER**, president and CEO of the Skoll Foundation; **SALLY OSBERG**, president of the Three Guineas Fund; **MONICA PRESSLEY**, CFO of the San Francisco Foundation; **STERLING SPEIRN**, president of the Peninsula Community Foundation; and **KIRKE WILSON**, president of the Rosenberg Foundation. The Hewlett Foundation, an event co-sponsor, is among the funders of the Center for Social Innovation, which funds the Stanford Social Innovation Review.*

**ALEXA CORTES CULWELL:** We objectively benchmark all executive salaries. We have a clear compensation philosophy. We want to recruit the best people, and we pay at the top of the non-profit sector. We benchmark across different kinds of indicators, depending on the position we want to fill. We benchmark within the foundation sector and outside the sector. So, for example, for a program officer working in

**STERLING SPEIRN:** All the community foundations share their salary information. So long as our pay is in line with that of people at other community foundations, we can say we're paying a market rate. That doesn't help answer the question from journalists about why foundation executives are paid what they're paid. The journalists think, "Great, you all pay the same. That means you're all in cahoots." But assuming our boards diligently examine the salary schedules of similar foundations, etc., beyond the market test of comparability, we ought to be prepared to justify our salaries on performance, on whether our foundations actually do make the world better, and on how our leadership and management skills contribute to that work. Sadly, not too many journalists call to inquire about our performance and the accomplishments of our foundations. Perhaps our results should be reported in the business section, rather than having our events highlighted in the society section.



Sterling Speirn

**MK: To what extent would you lose chief executives or others if you were to reduce compensation?**

**KIRKE WILSON:** I don't see a lot of vacant foundation jobs, which leads me to doubt that these positions are underpaid.

**JOHN HEALY:** But the mere fact that there are not a lot of vacancies, and that it is easy to fill a position, does not mean you necessarily get the right person for each position.

**KIRKE WILSON:** True, but that raises another difficult question: How does a chief executive add value? Is he simply keeping the board happy? Or is he making the world better? I don't think we can answer that question, which is why the compensation issue is so inherently difficult, and why it is so difficult to explain to the public.

**MK: Alexa, you mentioned "psychic rewards" to working in the foundation sector, or the nonprofit sector generally. Do you view that as a key component of the package that comes with working for a foundation – a component that is important enough to reduce the market wage of a foundation executive?**

**ALEXA CORTES CULWELL:** Our board feels strongly, and I agree, that nonprofit service is in part about not being paid at



“ It’s hard for the public to understand the compensation for chief executives. It’s not entirely rational. ”



Alexa Cortes  
Culwell

the top of market because there is an inherent civic good being done and a psychic benefit that comes from that. I’ve negotiated with a lot of for-profit executives coming in to do work with the Schwab Foundation. I explain that stock options don’t exist, that many of the upsides of the for-profit sector are not present, and that at the end of the day, the person is making a tradeoff for the psychic rewards of working in the nonprofit sector.

**TED LOBMAN:** The psychic rewards are important, all right, and go beyond working in the nonprofit sector where employers can hire people for less than what industry pays for similar responsibilities. With money and status to give, foundation staff are usually treated very well. Staff at the most prominent foundations are usually expected to be learning all the time, which means constant stimulation and opportunities to attend conferences and cooperate with other foundations. A high fraction of the grantees and advisers that foundation staff associate with are congenial, intelligent, and often admirable.

Accountability is usually fuzzier than in other sectors and the pressure to produce results is lower than in other fields, especially if grants are intended to explore or test. There are some negative nonmoney factors – such as insecurity that people are interested in your opinions only because of your power to help them, or the necessity of vicarious satisfaction in other people’s work. But altogether, I think the psychic rewards are very powerful compared to most other lines of work, even in the nonprofit sector.

**MK:** Are there any other considerations that go into setting compensation for foundation executives?

**SUSAN CLARK:** There is another aspect of benchmarking that may not be related to finding a market-driven wage, but that is equally important. It is bad practice, both for foundations and for the whole nonprofit sector, for foundations to compare themselves only to other foundations in setting CEO or other compensation. I think the benchmark should reflect the nonprofit sector as a whole. It should take into account the salaries of nonprofits. Otherwise, we are saying, “We’re not a part of you.” If we have to defend foundation compensation in the press, we help the entire nonprofit sector if we can say the sector’s compensation practices are

interrelated and if we can explain what the sector does and how it has social value. The public would learn what it means to staff a service sector with professionals.

**BOB GAMBLE:** I disagree. For almost all positions in foundations, other than the chief executive, it seems to me that there is a market, there’s a lot of data available about that market, and that market is different from the rest of the nonprofit sector. That’s because the work done in other parts of the nonprofit sector on a day-to-day basis is different from the work done in foundations. Compensation is going to differ when the work is different.

**DIANE FORD:** My board bases executive compensation on that of executive directors in the nonprofit sector generally, not just counterparts in foundations. Part of our obligation is to ensure that the staffs of our grantee organizations are well-compensated. We’re specifically funding salaries for that purpose. We fund staff salaries. We conducted personal interviews with nonprofit executive directors about their greatest funding need and their overwhelming response was infrastructure support for staffing and space. A value of our foundation is to meet the needs of nonprofits as best we can; we therefore shifted our grantmaking strategy to specifically invest in an organization’s people and its physical capital needs. Over the last two years, we have exclusively provided operating and capital funding in the form of staff salaries and benefits, and rent subsidy as well as capital rehabilitation and renovations for more than 100 of Silicon Valley’s local nonprofits.

**MK:** That point leads back to Paul Brest’s observation that at some level of pay for a foundation executive, the public will be shocked regardless of whether there are market-driven justifications for his or her pay. Is this because the public does not understand the value of foundations?

**BOB GAMBLE:** Yes, it is hard for the public to understand the compensation for the chief executive because the compensation isn’t entirely rational or market-driven. This is really no different from the for-profit sector. The model of compensation isn’t so rational for corporate CEOs, either, as the *Wall Street Journal* points out nearly every day.



Diane Ford

# Foundations and Their Payout Rates

FOUNDATION	PAYOUT RATE	PHILOSOPHY	TYPE OF FOUNDATION
Atlantic Philanthropies	10%	Spend out in 12 to 14 years	Private
Community Foundation Silicon Valley	6.5%	Perpetuity	Community
Goldman Fund	10%	Spend down, but not out	Private
Peninsula Community Foundation	8%	Perpetuity	Community
Rosenberg Foundation	6.44%	Perpetuity	Private
Sobrato Family Foundation	based on community need	Perpetuity	Private
Stuart Foundation	5.5%-6%	Perpetuity	Private
Three Guineas Fund	6%-7%, excluding administration and operating costs	Spend down, but not out	Private operating
William and Flora Hewlett Foundation	5%	Perpetuity	Private

**JOHN HEALY:** But that is not a sector to emulate.

**PAUL BREST:** Part of the shock is because it is hard even for us to know how much value we're adding, much less for somebody outside to know that. Few people regard it as scandalous that the chief investment officer of a large foundation makes a huge salary. That's because his value is reflected in the return on the foundation's portfolio.

**KIRKE WILSON:** Apart from the fuzziness, another reason we have trouble explaining our value to society is that we want to give credit to the people who use the grants to provide charitable services. If we want more credit for what we're actually accomplishing, there's got to be more focus on the grant you made seven years ago that resulted in a great accomplishment, and why you think the program officer should have been well-compensated for it.

**ALEXA CORTES CULWELL:** But when journalists have interviewed me about compensation, none of them want to know what impact we're having. They just want to know what you're making, how it compares.

**JOHN HEALY:** It is not only a matter of measuring the value we produce. It is also hard to explain to the public that running a foundation is not an easy job. It's a complicated and difficult one. To the outside world, it appears to be a very

simple job. What can be nicer than to preside over a machine that hands out money to good causes? It's very tough to correct this misperception. The foundation world nonetheless has a responsibility to explain itself better in this regard.

**PETER HERO:** An added difficulty is that the public seems to believe that nonprofit work is or should be volunteer work. When Sally Osberg was running the Children's Discovery Museum in San Jose, I can't count the number of times a member of the public – or a sophisticated donor, for that matter – would ask: "Are you paid for this? You're a volunteer, aren't you?" And she was running a \$9 million institution in a major city. So we have a long way to go in terms of the public's understanding of our work.

**SALLY OSBERG:** Yes, the reality is that the general public is still locked into a Mother Teresa-style image of the work we all do. As the sector has grown and become more competitive, and as it is trying to apply metrics to its work, there's a disconnect between the reality and the public perception.

**KIRKE WILSON:** Remember the PR problem of Elizabeth Dole being paid \$200,000 for running the Red Cross? There were piles of letters to the editor furious that she should get paid so much, despite the fact that she was running an enormous, complex, controversial organization.

“ There is no research supporting the notion that trustee compensation results in higher levels of engagement, better grantmaking, or better work. ”



John Healy

## TRUSTEE COMPENSATION

**MK:** What about trustee or director compensation? Foundations commonly pay trustees, but other non-profits do not. Why is that? Why not ask trustees to volunteer?

**JOHN HEALY:** We pay our trustees. We pay them quite handsomely. I

would defend the notion of paying trustees. We're asking busy people who have other careers, sometimes in very specialized fields, to give us quite a lot of time. The number of days that we ask trustees to devote to our organization each year is quite significant. I don't think people would do it unless they were compensated. Also, if the relationship between two people is an economic one, the purchaser of the service has a right to demand a level of quality that doesn't exist if it's a purely voluntary relationship.

**DIANE FORD:** If a grant applicant paid trustees based on the same rationale, that would be fine?

**JOHN HEALY:** I would have no concern with that, unless of course the payment in some way offended against Paul's shock test.

**SUSAN CLARK:** One thing about trustee compensation that troubles me is it has the potential to change the dynamic between staff and the board. Especially if the CEO brings them on to the board, the trustees may behave like employees of the CEO, which is the opposite of how they should view themselves. If they are being paid, they are less likely to rise above the CEO's interest to promote the best interest of the organization.

**PETER HERO:** We've never had trouble attracting the kind of people we've needed as trustees – chairmen of banks, presidents of major institutions, and the like. There's no reason for us to pay trustees because we can get the kind of people we want – people who are willing to spend the time that we expect them to spend, acting as stewards of the foundation's assets – without doing so.

**PAUL BREST:** Trustees help us in two ways. First, you can't ever be sure of an argument or a strategy until you have to explain it to somebody else. So one thing the board of

trustees does is to serve as a forum. It's like having to go to a court and laying out and defending the argument. Foundation staff and presidents can get ingrown so that the staff does not serve this function of forcing us to examine our logic and habitual patterns. Second, if you have the right trustees, they will see an issue from a very different perspective. One board member of Hewlett, for instance, is of great value to us because he always sees an issue a little bit differently, which sometimes leads to strategic changes.

**ALEXA CORTES CULWELL:** The only argument I've heard in support of paying trustees is that if a foundation wants to diversify its board beyond the usual people of wealth and stature, paying people may become a way to bring other sorts of people on to a board. But that is not the context in which foundations typically pay trustees.

**DIANE FORD:** So is performance better in foundations that have paid trustees?

**KIRKE WILSON:** To my knowledge, there is no research supporting the notion that trustee compensation results in higher levels of engagement, better grantmaking, or better work. If a particular trustee plays an exceptionally important role in the analysis of an issue or the technical review of a particular grant, perhaps the trustee should be paid as a consultant. Trustees should not be paid merely for showing up at meetings.

## FOUNDATIONS AND PERPETUITY

**MK:** What are your views on payout rates generally? What do you say to foundations that say they want to adopt payout rates consistent with perpetual existence?

**PETER HERO:** Payout rates should depend on the goals of the foundation. If a foundation's mission is to acquire wilderness land before it disappears, it makes a lot of sense to do that now rather than spending small amounts over time. With community foundations, there is not only the opportunity but the obligation to aggregate wealth that's being created at the time it's being created because it may not be there forever. The first community foundation was created in Cleveland in 1914. Cleveland in 1914 was Silicon Valley in 2001, with the steel, coal, and oil industries creating enormous economic growth. By 1950, however, Cleveland had been passed by and its economy was deteriorating. It was the



Paul Brest

community foundation, which by then had aggregated close to a billion dollars, that led Cleveland’s downtown revitalization and helped bring the city back. Had the community foundation not captured and preserved that wealth from the Industrial Revolution, they wouldn’t have been able to do this. So given the mission of community foundations, it makes sense to preserve wealth for the future needs.

**BOB GAMBLE:** I agree. The question of perpetuity goes to the question of the foundation’s theory of change in the field that it’s working in. Some of those who are focused more on the needs of today believe that we’re at an inflection point in the progress or lack of progress on an issue and where, if we wait too long to deal with an issue, the world will change irreversibly regardless of how much money may be available in the future. The easiest examples of that are probably in the environment – global warming and the loss of endangered species or of habitat, for instance. So not all foundations are focused in such areas where the situation is going to be as bad or worse in 50 years or 100 years than it is today.

**STERLING SPEIRN:** We’re actually spending ourselves into existence. The more we do in the development arena, the better we provide donor support and donor services, and connect donors with what they care about, the more our endowment will grow in the future.

**MK:** Community foundations are unique in their ability to preserve local wealth across generations. Whether by adopting a high or low rate of spending, it seems that you both agree that your foundations should try to grow over time rather than spend down. What about private foundations? What is the rationale for having them preserve their assets in perpetuity?

**PAUL BREST:** The rationale for private foundations adopting a payout rate consistent with perpetual preservation of assets is that the donor wanted it that way. They wanted their names attached to something that would provide value to society in perpetuity.

**JOHN HEALY:** What seems to me to be interesting is that perpetuity is almost accepted as an article of faith. There is an assumption that foundations must be perpetual. Look at



Peter Hero

the mission statements of some of the larger foundations and ask yourself if there is something in that mission statement that says this foundation has to be perpetual. In fact, if you start to examine the mission statements, the opposite is true. So, this is an issue that is worthy of consideration by foundations because it seems to me that they’re accepting perpetuity as an immutable fact when it isn’t. Our own mission statement – “To bring about lasting changes in the lives of disadvantaged and vulnerable people” – implies a sense of urgency which compels us to spend down rather than seek perpetuity.

**ALEXA CORTES CULWELL:** Well, it’s also an issue of donor education. *The Wall Street Journal* published an article two years ago talking about the commitment of the Goldman Foundation and others to spend down, and it really framed the issues nicely. The Schwabs have not adopted a view regarding perpetuity.

**MK:** Some foundations advocate a high payout rate because they believe future generations of foundation executives will not be loyal to the donor’s views regarding how the foundation’s funds should be spent. How does that concern factor into the issue of perpetuity?

**PAUL BREST:** It is true that foundations may do things in the future that the donor would not like, but the donor takes that risk in specifying that a foundation will exist a long time. Also, if you have an institution that operates well and has developed institutional knowledge, then why should you limit its life span?

**SUSAN CLARK:** The problems that we’re trying to solve and the problems that many foundations are trying to solve are not going to be solved in our lifetime. If the foundation is effective and making headway on extremely complex global and systemic problems, the organization can preserve their learning across several generations and continue working on solutions. That is a reason for a foundation to exist a very long time, if not in perpetuity.

**JOHN HEALY:** Implicit in what you say is the notion that there will be no other foundations coming forward in years to come to work on the same social issues. If the capitalist



“ There is an assumption that foundations must be perpetual. In fact, if you examine the mission statements, the opposite is true. ”



Sally Osberg

system works as we wish it to work and as it has worked, one can assume that there will be many more foundations coming forward, some of which will work on the issues that interest you. As for organizational effectiveness over generations, how many foundations can you think of that were more effective in the second 50 years of their existence than they were in their first 50 years?

**SALLY OSBERG:** I'd point to Carnegie – the libraries in the early part of the century followed decades later by investments in the Public Broadcasting Service and Sesame Street – as a fine example of how a foundation can continue to innovate. Innovation matters because the world is getting more complex and the big problems are systemic – bacteria, for example, morph at such an alarming rate that you can't develop the vaccines to stop them fast enough. We have these six billion people in the world and the gap between the very wealthy and the impoverished continues to widen. Without innovation, philanthropy isn't even a finger in the dike. Innovation is our best hope for systemic impact, all of which argues for a commitment to the future.

**MK:** What do you think the impact of a higher minimum payout rate would be on the creation of foundations and the amount of donations to them? Would fewer people create foundations if their foundations could not exist in perpetuity? If public charities continue to be exempt from mandatory spend rates, would donations shift from foundations to public charities?

**STERLING SPEIRN:** One of the consequences of a minimum payout rate that precludes perpetual existence could be that funds move from the foundation to the favorite charities of the donor, and so it could be a windfall for the Boys & Girls Clubs and community foundations. They are not subject to minimum spend rates and could exist in perpetuity.

**SUSAN CLARK:** If that happens, and foundations had to spend down, while charities did not have to, the organizations that would benefit would be universities, churches, schools, and operas. There would be a half dozen to a dozen categories of operating charities that would be very appealing and easy for donors to endow. I am not sure that is an improvement to the current situation.

**DIANE FEENEY:** Studies have shown that you could easily pay out more than 5 percent and still be in existence in perpetuity.

**PAUL BREST:** The good studies suggest that if you want to keep your buying power the same in perpetuity and avoid substantial risk, the payout rate must actually be less than 5 percent.

**SALLY OSBERG:** We have a supporting organization, which is not subject to the 5 percent minimum payout requirement, and a private foundation. The two have different policies. For the supporting organization, we have a counter-cyclical one. We spend 6.5 percent or more when the economy is stressed because we think we should give out more when times are tough. It goes down to 4 percent when times are flush. For the private foundation, it's a 5 percent policy.

**DIANE FORD:** We don't have a payout policy per se. We have a grantmaking budget that is \$3.5 million in grants only and we haven't even spent that. But our payout has been between 6 percent and 7 percent over the last five years.

**PETER HERO:** Community foundations can be a little bit different, of course, and in our case, we're quite different. Of our \$575 million in assets, probably 90 percent are donor-advised funds. Our overall institutional payout is running 12 percent to 16 percent a year. Many of those donors, when they first set up their funds, are subject to irrational exuberance and they're eager just to get the money out, which is great. Also, they expect to have other windfall financial events in their lives that will enable them to add to their funds. Hence they advise greater payments now. Of our funds that are unrestricted, we pay out 5 percent calculated on a 13 quarter rolling average basis.

**MONICA PRESSLEY:** At the San Francisco Foundation, we have a similar payout. We have donor-advised funds and a substantial endowment. Overall, our payout is about 10 percent of our total assets. Our spending policy for endowed funds is 5 percent, including a 1 percent administrative fee. But we've committed to our grantees that we're keeping grantmaking at our 2002 levels. To do that, our payout rate will probably rise, depending on what the market does, to about 5.8 percent to meet that commitment. □