

# When newspapers close, nonprofit executive salaries go up. Way up

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Local newspapers are key to keeping residents informed about civic affairs, and the threat of negative media coverage keeps nonprofit leadership salaries in check, according to new University at Buffalo School of Management research.

Published in the *Journal of Accounting and Public Policy*, [the study](#) found that when a [newspaper](#) goes out of business, total executive compensation at local nonprofits goes up by more than \$38,000 on average—an increase of nearly 32%.

"Donors and volunteers expect their contributions to go to the execution of the nonprofits' mission, rather than leadership salaries, so unreasonably high compensation represents a serious problem for these organizations," says study co-author Joshua Khavis, Ph.D., assistant professor of accounting and law in the UB School of Management. "Newspaper closures exacerbate problems within these agencies, particularly when they lack internal governance and auditing."

To provide a comprehensive analysis of the relationship between local newspaper closures and nonprofit executive compensation, the researchers ran a series of tests using financial information of nonprofits from 2008 to 2017 obtained from the IRS, as well as local newspaper closure data from previous research studies and from the University of North Carolina's Center for Innovation and Sustainability in Local Media.

Their findings show that nonprofit executive spending increases the same year a local newspaper closes, and that persists over the next three years. They also observed a decline in residual cash and donations but did not find any changes in program spending or long-term investments, suggesting that the increased compensation is not due to increased performance, but rather the loss of the monitoring newspaper.

"We found declines in both endowments and donor contributions at nonprofits after a local paper closes," says Khavis. "This suggests that the executives' pay increases are funded by spending down endowments, and that donors react to the loss of external monitoring by withholding their donations—which is consistent with the findings of previous

studies."

**More information:** Robert Felix et al, The effects of local newspaper closures on nonprofits' executive compensation, *Journal of Accounting and Public Policy* (2023). [DOI: 10.1016/j.jaccpubpol.2023.107168](https://doi.org/10.1016/j.jaccpubpol.2023.107168)

Provided by University at Buffalo

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