

**NONPROFIT DIRECTORSHIP TIES TO FOR-PROFIT EARNINGS MANAGEMENT: DONOR
IMPRESSIONS OF A NONPROFIT ACCOUNTING CONTAGION?**

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ABSTRACT

Prior archival research findings of accounting contagions indicate that a for-profit firm's incentive to manipulate its financial disclosures intensifies when its board chair, through directorship service, is linked to another entity engaged in earnings management. Empirically extending this line of archival research to the nonprofit sector, this study explores, in an experimental setting, donor reaction to a potential nonprofit accounting contagion: a board chair's directorship association with corporate earnings restatements. Consistent with archival results in the for-profit field, the study finds that donors perceived a lower level of accounting disclosure quality when a nonprofit entity's board chair had directorship ties to for-profit earnings management. In addition to complementing archival findings from the for-profit area and expanding the domain of contagion research to the nonprofit sector, these empirical results suggest the practical importance of including in the nonprofit board appointment process a formal assessment of the possible impact of candidates' professional associations on donors' impression and perceptions.

Keywords: Nonprofit Accounting, Shared Directorships, Earnings Management, Contagion, Earnings Quality, Financial Disclosure Quality