



## MASTER OF NONPROFIT ADMINISTRATION

*Change the World with Nonprofit Leadership*

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### **Nonprofit Ethical Leadership Case Study: Feed the Children**

#### **1. Title:**

Repeat Offenders: Illegal and/or Unethical?

#### **2. Summary:**

Feed the Children, founded in 1979, is a well-known charity organization that aims to provide food to low-income children starving and unable to afford food, both in the US and around the globe. In 2009, Larry Jones, the founder and the CEO of Feed the Children, was sued by his daughter and the Board of Directors for a series of unethical behaviors, including misuse of organizational funds, nepotism, and mismanagement of the organization. In 2009, Feed the Children was also hounded for its out of control spending on fundraisers as well as overstating the amount of aid it provided to Haiti. Since Jones was made to step down from his position, they have not found a leader that can restore the organization. It is currently in a legal battle with the latest CEO, J.C. Watts, who sued the company for firing him after reporting problems at the charity to the state attorney general's office. Many issues this organization is facing may not be illegal in nature but would certainly be characterized as unethical. Will Feed the Children be able to survive? If so, what will it take to transform the culture of this organization?

#### **3. Applications:**

- Ethical challenges of nonprofit leadership
- Nonprofit governance and management
- Nonprofit finance and accountability
- Nonprofit human resources
- Nonprofit marketing and communication

#### 4. Outcomes:

- Recognize legal and ethical failures exhibited in the (mis)management of a Nonprofit Organization
- Identify dysfunctional patterns in organizational leadership
- Explore NPO's accountability in financial and programmatic reporting

#### 5. Video:

- Theoretical Foundation (TED talk): Illegal vs. Unethical?  
<https://www.youtube.com/watch?v=veXPk4ZeqtK>
- Post Scandal Founder's Interview  
<http://newsok.com/multimedia/video/51724087001#gsc.tab=0>

#### 6. Description:

In 2016 alone, individuals gave \$390 billion away to nonprofits and charities. But what do we really know about these charities we contribute to and how our donations are being used by them? Feed the Children, a nonprofit based in Oklahoma City, OK, is a billion dollar charity whose mission is to help end hunger across the globe. The charity has made news headlines in 2009 about unethical practices performed by its CEO. Larry Jones, the CEO and founder of Feed the Children, went through a very public and ugly family feud in 2009 with his daughter, during which many of his unethical behaviors and practices as a leader of this well-known nonprofit organization became widely publicized. His daughter was found to be living on the charity's dime in a \$1.2 million home in Los Angeles and engaging in illegal schemes to cover up unpaid taxes. His daughter turned against Larry Jones, and accused him of much worse. She and Feed the Children's Board of Directors stated that Jones took bribes and kickbacks, gave unauthorized pay raises to himself and his wife, even as far as to wiretap executive's offices. Many will find it most shocking that "Reverend" Jones, a leader of this "Christian" organization, was found with incest-related pornography in his office. This organization, which was founded in the 60s and has done seemingly good and important work through millions of donated dollars, was now completely tainted with unethical behaviors of its leader whose countless misdemeanors were revealed as shocking and inexcusable.

Another key area of dysfunction at Feed the Children has to do with its spending and finance reporting. It became evident during the reporting of Larry Jones' case that only 21-23% of gifted donations to the organization actually went toward program services. In addition, the nonprofit spent 54% of its total revenue on television advertising. An organization that was created to support the global food crisis was doing little related to its mission. After hurricane Matthew swept through Haiti, Feed the Children announced that it had started a camp in Haiti to help with the relief efforts. They reported that their camp was helping 12,000 Haitians a day. However when the U.S. news team went to fact check, it became clear that the organization was only

helping about one hundred people a day at most. News investigative crews who travelled to the camp in Port au Prince found it to be nearly empty with nowhere near the numbers of staff (doctors) and patients Feed the Children proclaimed to have had. In fact, the camp was run by a religious order in Haiti and not at all by Feed the Children. One of the original employees at that camp stated that no funds from Feed the Children ever actually reached the camp. Haiti wasn't the only place where Feed the Children had falsely reported on its involvement. Their presence is simply not found in many places where they claim to be working in to feed the hungry. Also the dollar amount they report on their tax exempt documents to the IRS may be inflated, as it turns out that the donations they receive are often not in cash but in-kind. Since Jones' resignation, Feed the Children has reported much lower income, and one cannot help but wonder about the financial status of this troubled organization.

Since the demise of its founder Larry Jones, Feed the Children has had a few more leaders than they would like at the helm. Two years after Jones' departure Kevin L. Hagan, a seasoned nonprofit executive with a track record of turning a troubled organization around, was hired as the new President/CEO. But he did not stay longer than the initial 3-year contract. Since then J.C. Watts, a former U.S. Congressman, filled that position but in less than a year, he abruptly left the organization with a lawsuit against it. He claimed that the organization was only interested in his fundraising abilities "and did not want any interference with the long-running practices of the organization." [1] Now Feed the Children is counter-suing former CEO J.C. Watts for payments it made to settle another lawsuit over a job offer that was rescinded. It sounds like we are going to hear more trouble from this organization in the days to come.

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[1] Clay, N. (2017, April 11). J.C. Watts sues Oklahoma City-based Feed the Children. Retrieved October 22, 2017, from <http://newsok.com/article/5545029>

## 7. Questions:

1. There are nonprofit organizations that suffer from a disease called "Founder's Syndrome." When a founder of the organization is no longer relevant or effective as the organization evolves, s/he becomes more of a hindrance to the organization than an inspiration. This becomes evident when the founder lacks the necessary skills to lead and manage the growing organization. Sometimes the cultish personality of the founder becomes disengaged from the evolving identity of the organization. What should be the proper responses when an organization is faced with such issue? Are there ways to prevent it from happening?
2. What are some of the leadership shadows that Larry Jones has casted on the day-to-day management of Feed the Children? How about on the legacy of this organization? How can you identify dysfunctional leadership pattern in an unethical leader?

3. One study shows that while “60 percent of nonprofit employees who observed misconduct reported it, nearly 40 percent of witnesses remained silent, due largely to feelings of futility or fear of retaliation. Indifference is harder to combat than fear.”[1] What is the best way to deal with your leader’s unethical behaviors—1) if you were his subordinate? and 2) if you were sitting on the Board?

4. Discuss the industry best practice in dealing with and reporting on in-kind donations. How do you collect and account for them and how do you make a financial report on them as tax-exempt income? What are the common mistakes organizations make (knowingly and unknowingly) in reporting sources of income derived from in-kind donations?

5. “The goal of nonprofit marketing is to have a way for nonprofits to market their causes in a way that encourages people to help, which could be a dramatically different way than a traditional business would be able to get attention.”[2] Feed the Children is well known for having produced many heartbreaking TV advertisements, often with celebrities speaking on behalf of the starving children, urging viewers to donate their money to end hunger for these sad, helpless children. Feed and Children is reported to have spent 54% of its cash revenue on television advertising. How much is too much for a nonprofit to spend on marketing? What are some other ways in which Feed the Children could have communicated their message to engage the public and increase donors?

6. When there is a revolving door at the top of the organization’s leadership, one cannot help but wonder what deeply-rooted internal issues would allow such phenomenon. If you were the Human Resources Director at Feed the Children, what might you suggest to prevent this quick turnover? Or, is this a symptom of dysfunctional governance practice and relational breakdown that exists at the Board level? How would you diagnose this problem and what might you suggest as a solution?

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[1] Bowman, W. (2013, June 14). Nonprofit Accountability and Ethics: Rotting from the Head Down. Retrieved October 22, 2017, from <https://nonprofitquarterly.org/2012/10/26/nonprofit-accountability-and-ethics-rotting-from-the-head-down/>

[2] Lake, L. (n.d.). What is Nonprofit Marketing? Retrieved October 22, 2017, from <https://www.thebalance.com/what-is-nonprofit-marketing-2295530>

## **8. Resources:**

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[https://ssir.org/articles/entry/ethics\\_and\\_nonprofits](https://ssir.org/articles/entry/ethics_and_nonprofits)

## 9. Notes:

Included in the text above