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Nonprofit Ethics Case

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Where did the money go? \$500 million raised for Haiti after 2010 earthquake, 6 homes built so far.

Summary

On January 12, 2010, a 7.0 magnitude earthquake struck Haiti. Hundreds of thousands were found dead and injured and over one million people displaced.

Millions of people around the world donated to the American Red Cross for relief efforts, raising almost a half a billion dollars. It is said to be “one of the most successful fundraising efforts ever” (Elliott, J., & Sullivan, L., 2015, June 3). The American Red Cross vowed to rebuild Haiti and after five years (article was written in 2015), it’s hard to see where all the money went. Since the earthquake, the American Red Cross has built 6 houses but has claimed to have “provided housing for over 130,000 people” (Holley, 2015).

Description

The American Red Cross came under investigation in 2015, five years after the devastating earthquake. The investigation came after reports from ProPublica and NPR were released that claimed the American Red Cross had mismanaged half a billion dollars raised to “help Haitians rebuild” (Elliott, J., & Sullivan, L., 2015, June 3). The investigation was lead by United States Senator, Chuck Grassley and his staff (Elliot, J., & Sullivan, L., (2016, June 16).

This case study will outline the ethical issues surrounding this case and four application areas in which this case has relevant content: ethical leadership and accountability, street credentials and corporate social responsibility, ethical resource management, and paternalism.

The ethical issue at the forefront of this case study is the mismanagement of donor funds intended to aid and rebuild Haiti after the 2010 earthquake.

Gail McGovern, the CEO of the American Red Cross told CBS News, “Minus the 9 cents overhead, 91 cents on the dollar will be going to Haiti. And I give you my word and my commitment, I’m banking my integrity, my own personal sense of integrity on that statement.”

ProPublica found that in addition to the 9% of overhead costs that the American Red Cross incurred, 25% of the funds went to program management and “other” expenses, and 7% of the funds went to cover the overhead costs of partnering organizations. The 41% of overhead costs, fees, etc. are well over what the American Red Cross had originally disclosed (Elliot, J., & Sullivan, L., 2015, June 3).

In one case, the American Red Cross sent \$6 million to the International Federation of the Red Cross for rental subsidies to help Haitians leave tent camps. The IFRC then took out 26% for overhead and what the IFRC described as program-related “administration, finance, human resources” and similar costs (Elliot, J., & Sullivan, L., 2015, June 3).

This would mean that only 59% of the funds raised to aid Haiti were actually used to do so. All things considered, the big question remains- where did the money go?

To date, the American Red Cross has built six permanent homes and has provided homes for 130,000 people but the recipients of this claim are not able to be verified (Elliot, J., & Sullivan, L., 2015, June 3).

Applications

Ethical Leadership and Accountability

Executive leadership is critical for successful nonprofit organizations. A strong understanding of organizational systems and practices is essential in leading teams charged with such an important task.

After the earthquake in 2010, The American Red cross revealed a spending plan for development efforts, shelter, food, water, sanitation, health programs, etc. An emphasis was put on the sustainability of these projects and helping communities prepare for the future and disaster preparedness.

McGovern said:

“The crisis is far from over in Haiti, and the American Red Cross will continue to support the brave and resilient people of this country until the last dollar donated for Haiti is spent”.

Although her words demonstrate that she and The American Red Cross are committed to carrying out efforts to get Haiti back on its feet in a sustainable manner, the accusation of mismanaged funds, failure to comply with investigators, and failure to admit wrongdoing would suggest otherwise. The executive of a nonprofit organization must operate at all times, in alignment with the organization, its mission, values, and goals, and most important- its actions. Leaders “are going to be held responsible and they accept responsibility for mission accomplishment and public stewardship” (Renz, 2016 p.153). McGovern is suffering from what Sedlacek (2014) would call an “accountability deficit”. The American Red Cross has a responsibility to donors and the Haitian people to follow through with its promises.

The lack of transparency in addition to statements from McGovern and David Meltzer, The American Red Cross General Counsel that actively deny fault of any kind seem to fall flat against the surmounting evidence from NPR, ProPublica, CNN, and other reputable sources.

Street Credentials and Corporate Social Responsibility

Gail McGovern received her MBA from Columbia University and held top executive positions with Fidelity Personal Investments and AT&T prior to joining the American Red Cross in 2008.

Research on street credentials and management backgrounds states that “even though some nonprofit executives have spent most of their careers in the public sector or the business sector...nonprofit ethics matters a great deal for leadership” (Suarez, 2010, p.696). Suarez (2010) concluded that a little over half (56%) of his sampled leaders had management experience before their current position. Additionally, over half of the sample had experience in the business or government sector. Of transitioning sector leaders, only 20% moved from business or government into a top executive role to nonprofit executive roles, similar to Gail McGovern. Typically, extensive history within nonprofits establishes a path to more effective leadership.

Although McGovern has what Suarez (2010) would call street credentials, McGovern’s background isn’t necessarily calibrated with moral and ethical leadership skills necessary for nonprofit sector leadership. As we have learned, there is a correlation between nonprofit organizations and perceived levels of trustworthiness. Enhanced Corporate Social Responsibility performance (CSR) increases perceived trustworthiness and negative CSR leads to decreased perceived trustworthiness (Lin-Hi, N., Hörisch, J., & Blumberg, I., (2015). Lin-Hi et al. (2015) assert that it is valuable for nonprofit officials to devote attention to the management of organizational trustworthiness. It is McGovern’s responsibility and that of the executive management team to make decisions that promote positive CSR practices in order to be successful and sustain trust in the organization for the future.

Ethical Resource Management

While the American Red Cross has been clear about the 50 organizations it has funded and has provided the financial information, it doesn’t add up. An email from McGovern to Meltzer and the other emails that were uncovered, point to a level of negligence that isn’t appropriate for an organization handling \$500,000,00 dollars. The two discuss allocating \$10 million dollars to fund a project in an attempt to draw attention away from a failed project and to save face after a negative CNN story broke. In addition, the emails mention that the leadership team encouraged more spending in order to not lose momentum (in the media). This would imply that McGovern and Meltzer are not the only individuals involved in creating this ethical misstep and that they are focused on bottom line outcomes and saving face in the media and not making sound, ethical, sustainable decisions that would be helpful to the Haitian people.

“Any ideas on how to spend the rest of this?? (Besides the wonderful helicopter idea?)” McGovern wrote to Meltzer in a November 2013 email obtained by ProPublica and NPR. “Can we fund Conrad’s hospital? Or more to PiH[Partners in Health]? Any more shelter projects?”

The American Red Cross has an ethics unit that is charged with investigating waste, fraud, and abuse. The American Red Cross employs 200,000 people and their ethics office is comprised of three people and one of the three does not lead actual investigations (Elliot, J., & Sullivan, L., 2016c, June 16). Even if abuse was detected, it is not probable that a three-person ethics team would be able to address the situation properly and make the necessary changes to mitigate the damage that has already been done.

Paternalism

“Instead of making concrete improvements to living conditions, the Red Cross has launched hand-washing education campaigns. The internal evaluation noted that these were “not effective when people had no access to water and no soap.” (The Red Cross declined to comment on the project).

Although the structural damage might be the most visual sign of disaster, there are many others issues surrounding natural disaster such as: sanitation, public health, access to food, access to clean water, etc. It is important to understand the cultural and sociopolitical climate of a community in which you intend to provide a service or aid in some way. Paternalism, which can be defined as “the tendency of those who choose to work or volunteer for nonprofit organizations to treat problems as they perceive them, rather than as the clients perceive them” has the potential to have ill or no effect on a community (Powell, 2006, p. 6). After the earthquake, Haitian people didn’t have water to drink, let alone water to wash their hands with. Therefore, programs that focused on handwashing failed.

This in addition to other failed projects created an environment where residents began to reject the American Red Cross and its projects because they had seen so little improvement over years they had been involved (Elliot, J., & Sullivan, L., 2015, June 3). In order to use financial and material resources wisely, it is important to assess the feasibility and viability of programs prior to implementation. This application is important, not just international aid work but in all niches of the nonprofit sector.

Outcomes

There are many outcomes that emerge from this case study: the importance of ethical leadership, accountability, financial prudence, corporate social responsibility, and making decision with cultural and sociopolitical factors at the forefront of international aid. In an evolving world, it’s important to keep these foundational values at the forefront to build and lead organizations that create positive impact.

The American Red Cross has done and has the potential to do great work. Unfortunately, ethical crisis can diminish perceived trustworthiness and flaw the reputations of those involved. More important- the people who end up suffering the most are those who need the American Red Cross to follow through to establishing programs, rebuilding efforts, and sustainable systems for the future as they promised.

Video

<http://www.msnbc.com/road-map/watch/red-cross-mishandled-aid-money-in-haiti--report-461635139776>

Questions

- 1) What are the key ethical missteps within this case study?
- 2) At the systemic level, what should exist within nonprofit organizations to ensure ethical accountability for leaders?
- 3) If you were a consultant, how would you recommend that Gail McGovern and the American Red Cross leadership team address this ethical issue with donors, the media, and other stakeholders?
- 4) As future leaders, how can we prepare ourselves to create and support organizational culture that rewards ethical behavior?

- 5) In an evolving world and in the context of international aid, how can massive organizations like the American Red Cross leverage their resources and involve communities in the process?
- 6) What is the responsibility of organizations that fundraise on behalf of the American Red Cross for disaster relief (cell phone companies, benefit concerts, etc.) when ethical challenges such as this one arise?

Resources

The American Red Cross: <http://www.redcross.org/>

Haiti Disaster Relief and Recovery:

<http://www.redcross.org/about-us/our-work/international-services/haiti-assistance-program#Our-Work>

Endnotes

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