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### **Nonprofit Ethics Case**

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NPA 601: Nonprofit Ethical Leadership

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Fall / 2017

#### 1. **Title**

Where's the goodwill at Goodwill Omaha?

#### 2. **Summary**

The CEO of Goodwill Omaha, Frank McGree, resigned in 2016 after the World-Herald Investigation found that top dollar executive pay consumed much on the charity's profit and left little for its programs that were to help the needy and disabled. The investigation also uncovered the mission drift of the organization with movement towards a profit-first mentality to the detriment of their constituents. As a result of the scandal many major donors of the organization pulled their support. The organization has undergone changes in the wake of the scandal, with the exit of more executives and the board bringing in a third-party to assess its organization and governance.

#### 3. **Applications**

This case study can apply to a nonprofit's examination of compensation as well as a lesson in caution for nonprofit organizations that rely heavily on revenue. This case study can also apply to the responsibility of the board to oversee the organization.

#### 4. **Outcomes**

After reading articles on this case study there seems to be a hole in all the news articles that I have read, which begs the questions: how responsible is the board of directors responsible for Goodwill Omaha to continue paying their executives high wages but a smaller fraction of the donations earned were actually being contributed to job creation programs? Board of directors are responsible for allocating executive pay, but the bad guy in this case study seems to be the

CEO, Frank McGee. While McGee should also be held accountable for the daily operations and allocation of resources he managed that scantily went to the programs that the mission of the Goodwill promotes that the organization funds, the board of directors only began firing McGee and other executives after the World Herald newspaper came out with a report on the imbalance of donations allocated to the organization and executive pay. The World Herald used the organization's own IRS tax forms to see where their money was being spent, which was public information and out there in the open for anyone to see. However, this for a lay person not involved in investigative journalism or the nonprofit world may seem difficult to obtain. The main outcome we would propose that we want people to take away from this case study would be to have nonprofits to list their executive pay on their website as well as include how much of their funding is being allocated to the programs that their mission statement says that they do. Likewise, the board of directors in instances like this need to hold themselves more accountable and be more involved in looking where resources are being allocated. Ultimately the board was responsible for the executives' pay grade and although the news stories I have read villainize McGee, an internal assessment of board competence should happen at the Omaha Goodwill and regular assessments of the board should be a staple within organizations. While ultimately transparency was not the issue, as the World Herald was able to find this issue through the organization's public tax forms, there seems to be an internal ethics issue to allow for this misallocation of resources to continue, which begs the need for more checks and balances and internal review of funding, leadership, and board members.

## 5. Video

Include here a link to a relevant video

<https://www.youtube.com/watch?v=s7lhGn17sqq>

## 6. Description

### Case Study Purpose

This case study examines the failure of Goodwill Omaha in honoring their mission to change lives and strengthen communities through education, training and work.

### Background

This was prompted due to an expose at the Omaha World-Herald that found the executive pay at Goodwill Omaha consumed far more of the profits than it should have, given its charitable status.

The World-Herald contacted Goodwill Omaha in mid - August wishing to interview Frank McGree and a representative of the board of trustees regarding high executive compensation and the appearance that the thrift store revenue was not going to the charitable mission of the organization. Goodwill Omaha declined the interview request and stated that the World-Herald would have to settle on written statements only from Frank McGree and board chairman Joe Lempka. After the World Herald's numerous unanswered attempts for response by Goodwill Omaha, the report was published on October 23, 2016.

On October 28, 2016, CEO of Goodwill Omaha, Frank McGree announced he would be resigning and taking an early retirement. Frank McGree had been CEO of Goodwill Omaha for 30 years.

**What did the report ultimately find?**

The millions of dollars that Goodwill Omaha generated in revenue from its stores ended up going to cover the compensation of its top executives instead of being devoted to the mission of the organization which is its job programs for the disabled and others who be at a competitive disadvantage in the job market.

**Where did the money go?**

The World-Herald began looking at the 990s of Omaha Goodwill starting with its 2014 990. It discovered of the CEO of Goodwill Omaha, Frank McGree, and his executive total compensation that was close to \$1 Million.

***Frank McGree Pay in 2014***

Base Pay:	\$249,948
Retention Bonus (One-time):	\$519,000
Incentive bonus:	\$95,000
Retirement and deferred pay:	\$52,000
Benefits:	\$13,808
Other compensation*:	\$3,688

(\*likely includes country club membership)

McGree's pay, among the 150 independent U.S. affiliates of Goodwill Industries International, stands out. It should be noted that there are CEO's at other Goodwill affiliates pulling in large pay packages. However, it's the overall executive pay that makes Goodwill Omaha stand out the most. Executive pay was higher than other comparable Omaha nonprofits, and higher than at most comparable Goodwill organizations around the country. In 2015, over 15 executives were making \$100K or more in total compensation, which differs sharply from other Goodwill stores of the comparable size.

**The Mission is Left Behind**

According the report, out of the 4 million in revenue that Goodwill Omaha thrift stores generated, approximately \$557,000 was spent on job related programs. Much of the additional revenue was spent on overhead costs. The funding for much of its programs was funded by school districts, state and federal grants, and contracts with businesses for labor services.

Former employees detail a profit-first mentality at the organization. Specifically, the jobs program. After at-risk youth or those with disabilities complete the program they would not have the opportunity to be hired to work in the retail stores. They were considered "too much work" and would hurt the store's efficiency and profitability. It should also be noted that many of the workers in the store had low wages, and some of the workers with disabilities were getting paid

below minimum wage. Now while this is technically legal, it is a major failing of Goodwill Omaha as it does a disservice to the mission of the organization.

### **The Consequences and What Did the Organization do after?**

In the wake of the story, a number of foundations and major donors pulled their support from Goodwill Omaha. Questions have also emerged about the charitable nature of the retail stores, calling into question their property tax exemption.

The organization states that it is undergoing sweeping changes, including the exits of more top executives, a top-to-bottom evaluation of its pay structure and a commitment to put more thrift store profits into its mission of serving the disabled and others with barriers to employment.

Additional steps the embattled charity now plans also include getting a third-party assessment of its operations and governance, undergoing a review of its ethics through another outside organization, and ending the controversial practice of paying some disabled workers less than the minimum wage.

Five weeks after the World Herald story was released, the board issued a statement that the former CEO's pay was reasonable and justifiable. The board refused to release information regarding the salary surveys it used, citing the information as privileged and confidential. The board did blame the McGee for the outsized salaries for the other executives, essentially claiming it was not their job to set those salaries. The board also claims that it was "unaware" of the mission drift of the organization. There have also been departures of two of the board members.

## **7. Questions**

1. What checks and balances should be in place to ensure executive compensation does not exceed or overshadow contributions made the organization's mission?
2. What kind of accountability measures should be in place at the board level, beyond what may or may not already be in place at nonprofit organizations?
3. What kind of information should be available on a company's website in terms of executive compensation? Should this type of information always be on a nonprofit organization's website, even though we do not expect the same from our for-profit counterparts?
4. Do you think McGee should get his severance package as promised (allegedly) under the terms of his employment contract? Why or why not?
5. Do you see any ethical challenges that this organization has with employing McGee's daughter as an executive and one of the individuals getting paid a six-figure salary?

6. Do you agree with the board's decision to fire all executive staff and start again?

**8. Resources**

Add a website of the organization(s) and program(s). Add any other link to helpful and relevant readings to analyze the case.

[http://www.omaha.com/news/metro/goodwill-omaha-ceo-frank-mcgree-resigns-following-world-herald-investigation/article\\_40c32854-9d22-11e6-a002-8b246be12469.html](http://www.omaha.com/news/metro/goodwill-omaha-ceo-frank-mcgree-resigns-following-world-herald-investigation/article_40c32854-9d22-11e6-a002-8b246be12469.html)

<http://dataomaha.com/media/news/2016/goodwill/>

[http://www.omaha.com/news/metro/ceo-of-nonprofits-council-goodwill-scandal-not-the-norm/article\\_56215dac-94f6-52c3-bcda-eecca46cff29.html](http://www.omaha.com/news/metro/ceo-of-nonprofits-council-goodwill-scandal-not-the-norm/article_56215dac-94f6-52c3-bcda-eecca46cff29.html)

[http://www.omaha.com/news/metro/goodwill-omaha-refocuses-on-mission-as-more-high-paid-executives/article\\_c16e06ef-8bba-5b52-b0f0-4d4ce865ca0e.html](http://www.omaha.com/news/metro/goodwill-omaha-refocuses-on-mission-as-more-high-paid-executives/article_c16e06ef-8bba-5b52-b0f0-4d4ce865ca0e.html)

[http://www.omaha.com/news/metro/goodwill-trustees-defend-former-ceo-s-pay-citing-his-leadership/article\\_e109f3ab-ef0d-514d-b1cf-3c77276a2b83.html](http://www.omaha.com/news/metro/goodwill-trustees-defend-former-ceo-s-pay-citing-his-leadership/article_e109f3ab-ef0d-514d-b1cf-3c77276a2b83.html)

<https://www.goodwillomaha.org/about/>

[www.boardsource.org](http://www.boardsource.org)

<https://www.dol.gov/whd/workerswithdisabilities/about.htm>