

## Nonprofit Ethical Case: The American Red Cross

# **Where Did The Money Go? \$500 Million Raised And Only 6 Homes Built**

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# Summary

The American Red Cross came under investigation in 2015, five years after the 7.0 magnitude earthquake that struck Haiti. The investigation came after reports from ProPublica and NPR claimed that the American Red Cross has mismanaged half a billion dollars raised “help Haitians rebuild” (Elliott, J., & Sullivan, L., 2015a, June 3).

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., 2015a, June 3).





# Facts

- Jan 12, 2010, a 7.0 magnitude earthquake hits Haiti.
- Hundreds of thousands found dead and injured, over one million people displaced.
- American Red Cross raised \$500 million dollars.
- American Red Cross promised to provide aid, rebuild, and create programming around community needs.
- 2015 ProPublica and NPR release article covering mismanagement of funds by American Red Cross.
- American Red Cross claims they provided housing for 130,000 people and had built only 6 permanent homes.
- Investigation begins.
- September, 2016, 55,107 remain displaced.



# Compliance

The lack of reporting and transparency isn't necessarily a break of compliance measures but a breach of good faith. In addition, it's hard to say that the employees charged with compliance are any more effective than their three-person ethics team.



# Individual Responsibility

“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.”

-Gail McGovern

Two most outward facing American Red Cross officials, Gail McGovern and Davis Meltzer denied claims of financial mismanagement, did not cooperate with investigation, and both made statements in direct contrast to the findings.





# Organizational Responsibility

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.





# Systemic Responsibility

- Lack of understanding of moral and ethical behavior.
- Not enough knowledge about role of nonprofit sector leaders.
- Lack of systems to hold leaders accountable.





# Stakeholders Analysis

- Donors, supporters, advocates, and volunteers.
- Loss of trust and declining reputation.
- Loss of financial support.
- Less services and benefits offered to victims of natural disaster and/or tragedy.





# Alternative Solutions

- Increase Ethics Department staff and collaborate on current and future projects.
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- Accountability
- Organization
- Ethics and morals
- Leadership
- Communication (internal and external)



# 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?



# References

- <https://www.councilofnonprofits.org/tools-resources/ethical-leadership-nonprofits>
- <http://usfblogs.usfca.edu/nonprofit/files/2016/05/Poster-8-Lovett-2enf1p0.pdf>
- <http://www.ethicalleadership.org/>
- <https://www.usfca.edu/management/graduate-programs/nonprofit-administration>

# Thank You!

