

A Beckman Consulting Worldwide White Paper



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Corporate Social Responsibility Series
Ethics in Nonprofits: a case study

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ETHICS *on* DEMAND

Corporate Social Responsibility is a critical attribute for growth, sustained positioning, and support within the communities a company serves. Beckman Consulting Worldwide believes in strengthening business and promoting transparency & exceptional corporate governance through best practices supported by industry-wide ethical principles.

This White Paper focuses on a case study involving a Los Angeles-based nonprofit that is a relevant example of how control disorders & collusion between a CEO and CFO translated into excessive policy violations, employee vulnerability & abuse, Board invisibility, and personal agendas being satisfied using public money. How did a small, nearly bankrupt NPO with an annual budget of less than \$3M move over \$250,000 into its reserve account in two years? We believe it happened through a manipulative, unethical process BCW calls “grating” that is explained at length in this paper. The direct and residual effects of a CEO lacking leadership skills, firing anyone who he perceived to be a threat, and creating an information bottleneck to the Board were concentrated and devastating.

When one director – Director A – challenged the unethical behavior, after having steadily risen to the top over 8 years, he was abruptly terminated for a disguised reason. His termination marked the beginning of an examination of business principles he learned while earning his MBA, specifically the impact ethics and governance have on each layer of an organization. Until his termination Director A remained committed to satisfying his ethical obligations to the employees and other stakeholders at risk for loss behind the decision-making by the CEO and CFO. While certain behaviors may be expected in the for-profit corporate world, it is reprehensible that a CEO charged with providing critical social services to a community would compromise public trust, weaken the integrity of an organization, threaten the safety of its employees, and hide the abuses from the Board and the stakeholders who believed in the mission and values so clearly stated in the contracts governing each of the services. This paper is about a new level of action based on experience, education, & ethics.

Keywords

Corporate Social Responsibility, Ethics, Founders Syndrome, Nonprofit, Governance, Transparency, Contract Service Agency, Wrongful Termination, At-Will Employment, Workplace Bullying, Discrimination, Whistleblowing, IRS, SAMHSA, SASCA, Prop 36, LAHSA, Veterans Administration, L.A County Public Health (ADPA), California Alcohol & Drug Programs (ADP), Billing Fraud, Public Funds, Political Activities in NPO's, transformational leadership, Ethics Framework, Grating, Workplace Mobbing, Conflicts of Interest, Professional Suicide, Beckman Consulting Worldwide, Contracts Management

THE COMPANY MISSION STATEMENT clearly indicated a commitment to serving a special, underserved population in Los Angeles County. Anyone looking at the agency would see a social services nonprofit corporation actively involved in the communities it served. For those looking in, the CEO appeared to be a steward of public trust, the company a beacon of hope and a solution to the growing social ills (e.g. homelessness, addiction, poverty) that pervade our communities. For those looking in, they would see the disguise only. Beneath the veneer was a nonprofit being corrupted by an infectious combination of a command-and-control management style, discrimination, fraud, Founders Syndrome, and different forms of reckless decision-making by the CEO and CFO.

After nearly a six month battle with the CEO and CFO, Director A was prevented from fixing a company prone to internal strife and unethical corporate behavior. Director A finally broke the silence to the Board of Directors and felt like he almost committed professional suicide in the process. After his termination, he set sail on a new journey and would commit to a carefully planned pursuit of fairness. He had no choice but to turn those lemons into lemonade. And, he had the business tools and industry support to do it.

Today, Director A's mission is to teach others about ethics, healthy organizational culture, transformational leadership, and becoming a true reflection of the mission, vision, and values of a transparent, socially responsible corporation.

At the Core: Founders Syndrome

Peter Drucker best summarizes the weight that integrity has in an organization: “the proof of the sincerity and seriousness of a management is uncompromising emphasis on integrity of character” (Drucker, 2004). Accordingly, without integrity, organizations are at risk. It is critical for any enterprise, including NPO’s, to analyze & evaluate the strata of its management so that disabling conditions like Founders Syndrome are met with reasonable, progressive action.

When Founders Syndrome compromises the life-cycle and maturity of an organization Board Members must take exact action to treat & reverse the pathology. This will only happen by understanding the syndrome, avoiding denial, countering executive-level manipulation with direct, inside control, and including key employees in the process. Transparency and ethics generally intersect Founders Syndrome, not run parallel to it. When this intersection happens, a complete disruption may occur as it did with the NPO in this case study.

Founders Syndrome is an organizational disease that affects the growth and viability of an organization. It is characterized by management shaped by and aligned with the personality and “style” of the “founder” rather than the overall mission of the organization. Further, command-and-control features at the executive level and sabotage among executive management is common. Founders Syndrome ultimately compromises employee protection, governance, and transparency. Consequently, the organization’s position (and the stakeholders) in the community suffers. The question at the heart of the syndrome is whether the “founder is more committed to what’s best for the NPO and its service to the community, or doing “it” their way. Too often, ego gets in the way of making that judgment – the classic example of the malady” (Lewis, 2004). In our case study, Director A upset the status quo three ways: 1) he practiced ethical, transparent executive management, 2) he challenged the decision-making of the CEO and CFO specific to contractual financial obligations and employee treatment and, 3) he formally filed a grievance against the CEO.

Initially, Director A had a fair working relationship with the CEO. Over time, however, the systems and structure of the organization seemed unsupervised at the Board level. Director A had concerns about the bottleneck between the CEO and the Board. Director A suspected that the chokehold of information to the Board by the CEO would compromise the protective shield of the organization’s policies and procedures and not allow for any challenge or change to the status quo. What the Board failed to recognize was the presence of Founders Syndrome. Once Director A identified the syndrome and expressed concerns specifically about financial activities and the treatment of the employees (including himself) he was targeted by the CEO for termination. At that point, Director A was seen as a threat, not as an asset. His job was gradually deconstructed and when he finally decided to blow the whistle about suspected financial misconduct and contract breaches Director A was fired.

The Board neglected grievance policy, supported the CEO’s decision, and sent a clear message that if an employee reaches out for help on the executive level there can be catastrophic consequences. Despite his termination, Director A still blew the whistle on the CEO and CFO. From an ethical viewpoint, Director A believed that the practice of “grating” started a financial feeding frenzy by the CEO and CFO that ultimately resulted in reduced client care, manipulation of financial statements, and false reporting. Manipulating contract service dollars to build a reserve fund while maintaining a hostile work environment (HWE) to control and cover abuses is symptomatic of an ego-driven system, not a platform of change and growth. When Director A asked to clear up his concerns about budget, billing, and financial activities he was denied fair treatment and was retaliated against by the CEO.



*Be careful. Be cautious.
Beware professional suicide.*

The Effects of Founders Syndrome

When an executive takes legal and ethical steps to confront unfair and illegal corporate behavior typical of a culture influenced by Founders Syndrome it is possible that he/she may commit professional suicide. This problem has stimulated research and action at BCW so that employee protection is not just a black-and-white buzz phrase. Rather, employers and employees can fully understand the characteristics and steps needed to create a healthy organizational culture that strengthens the beliefs, values, and assumptions of each stakeholder. We believe in balancing a strong culture with adaptive features for continuous change.

Founders Syndrome has a destabilizing effect on an otherwise effective process of freezing-unfreezing change situations. Further, the syndrome can produce a “wobbling” effect on the equilibrium between driving forces and restraining forces during those times. How? Change demands adaptive behavior and healthy situational control. Any executive exhibiting Founders Syndrome is unable and/or unwilling to model behavior needed for continuous change. Those with Founders Syndrome resist the forces for change and stay “stuck” in a pattern of saving face, fear of the unknown, fear of breaking routines, and supporting incongruent control systems and dysfunctional team dynamics.

The result: a defeat for healthy change. Our answer is to educate the public on effective methods for dealing with the effects of Founders Syndrome on the most valuable asset of any company - its employees.

Any corporation can create a high performance culture by eliminating the presence of Founders Syndrome and focusing on the planning, implementation, and cultivation of policy standards in the following areas:

- Communication
- Training (competency)
- Employee involvement
- Board leadership, presence, & involvement
- Executive leadership practices that are congruent with the mission, vision, values, and strategies of the organization
- Infrastructural practices that support the mission, vision, values, & strategies
- Policy development that strengthens and protects corporate behavior

An effective CEO will strengthen the organizational culture by introducing culturally consistent rewards, maintaining a stable & safe workplace, managing the cultural network, and optimizing the selection and socialization of the employees.

A transformational leader is not prone to Founders Syndrome and is able to focus on the “big picture” detailed in the company’s vision statement. Transformational leaders act according to honesty, forward/futures thinking, inspiration, and competence. Business excellence depends on eliminating the toxic effects of Founders Syndrome by replacing the afflicted CEO with a transformational leader. As a result, employees will experience the freedom and motivation to move closer to the company vision without threats, coercion, or other forms of manipulation.

Business excellence occurs when:

- The concept of teamwork is apparent throughout the organization
- The CEO, president, and senior management communicate and support the concept of business excellence
- Internal, as well as external, service is provided
- Creative thinking is encouraged throughout the organization
- Open communication is practiced with the freedom to voice opinions, share ideas, challenge the status quo, and make decisions
- Appropriate discipline is exhibited by all employees of the organization
- Team dynamics support high performance and dedication with a belief in continuous improvement and strong goal-setting
- On-going education is encouraged
- Bureaucracy, while not completely eliminated, ways and means are continuously being sought to reduce the unnecessary red tape
- A simple and consistent system of checks and balances, guidelines, principles, performance standards, and appraisals exists
- Fairness, caring, and integrity is consistently demonstrated by all
(Kaliprasad, 2006)

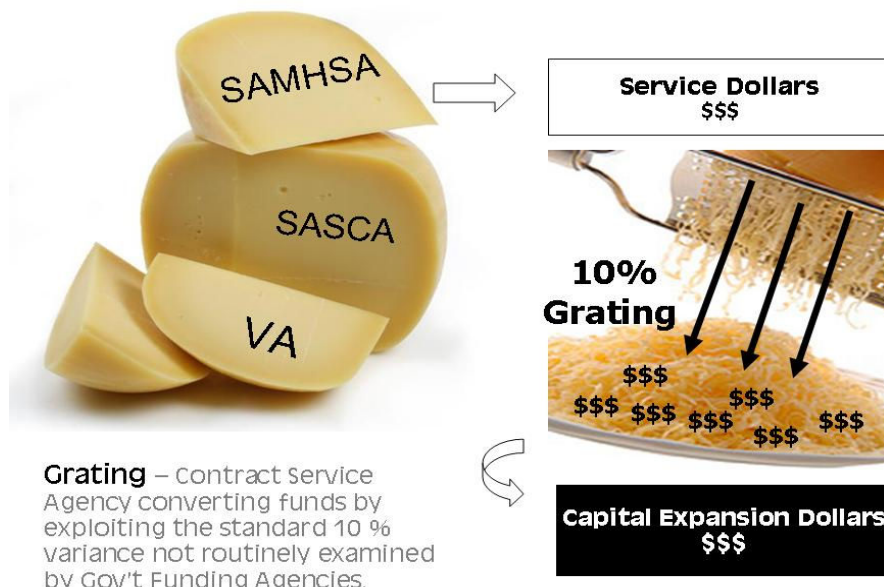
When Founders Syndrome is undetected and/or ignored by the Board of Directors, violations of each principle listed above can occur. The service line is weakened, integrity is compromised, employee protection is unavailable (even if it is written in a policy/employee handbook), and the consumer is offered substandard service. In the case of NPO Contract Service Agencies, stakeholders are ultimately and negatively affected by Founders Syndrome. Ethically, this is a serious matter, one that Director A addressed and was punished for.

Grating in NPOs: our case study

In our case study we examined how the NPO where Director A worked exploited an opportunity in order to acquire real estate property. The process of “grating” is simple: a contract service agency is generally allowed a 10% variance on any shortage or excess at the end of each fiscal year for each contract without triggering a review or full audit. In this case, instead of recycling or reinvesting an excess back into services the excess is parked in a reserve fund and used for disallowed financial activities. In short, if a contract service agency bills a government contractor (e.g SASCA) \$2000.00 per client per month for services rendered (fee-for-service) but only provides 90% service and “grates” 10% for a capital expansion plan, various ethical dilemmas surface: 1) the billing reflects 100% reimbursement for services even though 10% is “grated” and moved to a capital expansion fund, and 2) quality of service is compromised – a client is only getting 90% service rather than 100%. Without “grating” the agency could service 24 additional clients per year in this scenario.

The NPO employing Director A was almost bankrupt in 2006. With little wiggle room in the other County, State, and Federal contracts, Director A suspected that “grating” had occurred with the SASCA revenue block. In 2008 there was over \$250,000 in the reserve account that was ultimately used to acquire real estate. Between 2006 and 2008 there were no investment activities (or yields from any prior activities), no major donations, and no increases in current contract funding for services. Some funding even decreased. Director A suspected that if the NPO billed on 20-25 SASCA clients each month and “grated” 10% -20% from each client the NPO could accumulate close to \$100,000 per year simply by “grating” the contract. Director A suspected billing fraud and kept his silence until he felt safe to approach the Board. Once Director A contacted the President & Vice President they notified the CEO who abruptly terminated him for a disguised “budget” reason and moved quickly to cover up the fraud. The billing staff left soon after Director A was terminated. Board members resigned & contacted Director A commenting that never was his competency/KSA an issue. They were stunned.

When asked about the reorganization by the remaining BOD & CEO, Director A commented that “it’s almost as if the entire system was manipulated in order to keep the secrets in the family, so to speak. The smart ones simply left. An outsider being brought in to replace the CEO would clearly be a risk to the Board so they had to think about a new succession plan. People were defrauded and instead of being held accountable, the CEO and the BOD had time to cover things up. There are always holes though. There’s always documentation. It’s a matter of discovering the fraud by researching past billing/budget reports and paying attention.” Director A admits that the CEO’s unethical conduct angered him. “We’re in the business to help people, not satisfy our personal agenda using public money and at the expense of clients accessing care. Denying 20-30 people care each year because of grating for capital expansion may have caused someone to die on the street deep in their addiction, homeless & painfully aware of their condition. Ethics is a serious matter yet it’s being ignored in companies. Peoples’ lives depend on service providers to be there, act according to the company mission, and behave like a corporate citizen.”



Covering Up

According to Director A, in an effort to minimize exposure of billing fraud to government contractors/funding agencies, several actions were taken. The billing & A/R clerk who had detailed knowledge about each contract billing and reimbursement activity was separated shortly after Director A's termination. A key Board member who cleaned up a similar mess years prior resigned from the Board and became an employee of the agency in the finance department where billing was handled. Director A commented, "I'm unsure about how they cooked those books exactly, but the information I have and did have at the time is probably not reflected in the financial profile today. Given the financial situation between 2006 and 2008 there's no way the agency could have moved over \$250,000 into a reserve account without manipulating contracts and falsifying billing. It was simply impossible to do legitimately with the financial condition of the company at the time." The fact is this: the number of SASCA clients exploded in 2006 – 2007 and generated a lot of revenue that was channeled into the reserve account. Service dollars would ultimately be used for capital expansion instead of full service delivery or enhancement. Employees were told directly that if they said anything, anywhere to Director A that they would be fired immediately. One employee who was seen by a co-worker saying "hello" to the former director outside of work at a 12 Step meeting was abruptly terminated for the same disguised "budget" reason, even though his contract (CalWorks) never really dried up as the CFO and CEO claimed in his exit interview. This clearly seemed like a case of retaliation. Interestingly, a couple of months after the employee was separated because his "contract dried up", the former Director A – after having been separated from the agency for over a year - received a phone call from ADPA requesting the monthly billing on the very CalWorks contract that was supposedly cut from the budget and used as the reason for terminating the employee.

SAMHSA & Double Dipping

In 2006 the agency received a sizeable block grant from the Substance Abuse & Mental Health Services Administration (SAMHSA). Initially, Director A was charged with planning, implementing, & controlling the project. Director A was directly responsible for all programs in the agency, each governed by a specific contract, so this new SAMHSA grant was an exciting challenge. Between 2006 and 2008 Director A ramped up services and developed the program according to the grant requirements. The dilemma for Director A was that his salary was charged 80% to the SAMHSA contract which meant that the other 20% of his salary was to be allocated to 6-7 other service contracts (SASCA, VA, CalWorks, Prop 36, and others).

Prior to receiving the SAMHSA grant Director A's salary was spread across all contracts, mostly County funded, as a percentage depending on the staffing requirements for each contract. Accordingly, before the agency received the SAMHSA contract, the County in particular was being billed close to \$60,000 per year for Director A's salary. When the agency received the SAMHSA contract any billing to contract agencies should have reflected 80% for SAMHSA and 20% for others (e.g County). Director A became concerned that instead of billing ADPA accordingly, the agency billed them the regular \$60,000 per year even though Director A was spending 80% of his time (\$48,000 worth) each year on the SAMHSA contract. If this was a case of billing fraud or double dipping, the agency could have been reimbursed \$48,000 per year from SAMHSA (80%) plus \$60,000 per year from ADPA instead of \$12,000 (20%) per year according to a true allocation. If Director A was paid \$60,000 per year and reimbursed 100% by ADPA then \$48,000 could have been moved to the reserve account each year, undetected. Over two years, the agency could have moved the "grated" money from SASCA and reimbursements from the County and/or SAMHSA into the reserve account, which may explain how the agency stacked over \$250,000 into the reserve in only two years. Either way, the resource burden on different contracts was completely disproportionate and the service quality ultimately diminished.

Director A explains, "It's all in the billing. The County and Feds should look closely into this. I took on a major project and still did my job as the Director for the other programs. When I started to question how this money was being stacked so quickly, the CEO and CFO began deconstructing my job. They refused to let me see Performance Data Reports (PDR) and other billing reports that I normally reviewed for the budget each fiscal year. Finally, when I challenged the status quo because of my ethical concerns & approached the Board I was terminated. I approached the Board on Friday and was fired on Monday." Others in the industry were baffled by such an abrupt change in the organization. Director A explained, "In July 2008 I received an average of 4/5 on my performance review and was granted another raise of \$10,000. Three months later, I'm out of a job after 8 years of dedicated, clean service simply because I became a threat to someone acting unethically. Then again, we're talking about a CEO who uses treatment residents for political activities involving his friends on the City Council. It's about a CEO who used his personal social security number to ultimately enhance the creditworthiness of the agency. We're talking about a CEO who lies to the public and its officials about serving in Vietnam and one who will stop at nothing to secure his retirement from the agency. It's a case of willfully and maliciously carving talented and qualified staff from the agency in order to get to retirement with the appearance of outlasting everyone. This is about egomania."

While Director A's termination seemed illegal, it was clearly unfair even if he can't be remedied legally. When asked about his future Director A said, "I'm still supported in the industry and have been successful in my business. I still believe in the social model recovery program at that agency but hope that light is shed on the activities in the dark back office so that lives aren't compromised because of one person's set of problems."

He adds, "Personally, I'm grateful to be out of an abusive executive environment. Professionally, I'm grateful for the new freedom to accomplish my vision of helping people locally and abroad, unimpeded by some untrained, un-credentialed executive bully with Founders Syndrome. People in our communities and in the general public are impacted every day by addiction, homelessness, & poverty. These compelling issues demand transparency & governance by those entrusted with public money in all sectors, including nonprofit social service agencies. It's time for a close look at what's really happening. We also need to stop using the term 'whistleblowing'. This is about shedding light on serious issues. Whistleblowing is reserved for Bobby Cops & street criminals, not people playing by the rules and bringing truth to the table in corporate America. Too many people have been hurt by the stigma attached to one word and we need to change it."

What can we learn? BCW models itself after leaders like Microsoft. Director A brought a great article to our discussion and wished that the BOD at the agency in question would act according to the statement below. It is through alignment with the principles below that the agency once employing Director A can enjoy success:

Strong corporate governance at Microsoft starts with a Board of Directors that is independent, engaged, committed, and effective. Our Board establishes, maintains, and monitors standards and policies for ethics, business practices, and compliance that span the company. Working with management, we set strategic business objectives, ensure that Microsoft has leadership that is dynamic and responsive, track performance, and institute strong financial controls. — Bill Gates, Microsoft Chairman

There are multiple lessons learned from our case study. Best practices evolve over time and with a new understanding about Founders Syndrome, employee protection, whistleblowing, and corporate social responsibility (CSR) in nonprofits, Board members, executive managers, and other employees can build an organization that thrives. There's an old saying that "a tree dies from the top". Our team at BCW can help prevent that from happening. Explore our Ethics on Demand division at BCW and contact us today.

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