

The American Red Cross Faces Organizational Integrity Challenges

INTRODUCTION

The American Red Cross (ARC) is an independent organization supported by public donations and volunteerism. Its mission is to “provide relief to victims of disasters and help people prevent, prepare for and respond to emergencies.” On average, the ARC responds to more than 70,000 disasters annually. The ARC is the largest blood collection organization in the United States, supplying approximately 40 percent of blood products. The American Red Cross has made a significant contribution in emergency response and blood donations.

While there is no denying the importance of the ARC, the organization received much criticism in the early part of the twenty-first century. The ways in which it handled the September 11th attacks in 2001 and Hurricane Katrina in 2005 were widely criticized as being inadequate and poorly managed, and the ARC has also addressed allegations of fraud, bribery, and even theft on the part of volunteers and employees working for the organization. In addition, the ARC has faced a number of internal challenges due to high turnover, as well as charges of overcompensation and possible corruption among its board of directors and upper management.

A BRIEF HISTORY

Clara Barton founded the American Red Cross in 1881. She was inspired by the work of the International Red Cross while on a trip to Europe during the Franco-Prussian War of 1870–1871. Barton brought the Red Cross model back to the United States and subsequently led the organization through its first domestic and international relief missions, including assisting the U.S. military during the Spanish-American War in 1898. The ARC is one of a handful of organizations chartered by the U.S. government, receiving its first federal charter in 1900.

As a member of the International Federation of Red Cross and Red Crescent Societies, the ARC joins more than 175 other national societies in bringing aid to victims of disasters throughout the world. The ARC follows the seven fundamental bylaws to which all Red Cross societies must conform: humanity, impartiality, neutrality, independence, voluntary service, unity, and universality. In addition to disaster relief, the ARC provides community services, support for military members and their families, blood donation services, health and safety education, and international relief programs.

ORGANIZATIONAL STRUCTURE

Today the American Red Cross consists of roughly half a million volunteers and 35,000 employees. A board of governors oversees the organization and its management. The board is comprised of 12–20 members, including the chair, who is appointed and approved by the

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President of the United States. The board appoints a president and CEO to manage the business activities of the Red Cross. The ARC has more than 700 local chapters across the country, all of which receive funding from the national Red Cross. Directors of local chapters are authorized to run day-to-day operations. Representatives of the local chapters nominate members of the local boards of governors.

ORGANIZATIONAL AND LEADERSHIP UPHEAVAL

The first decade of the twenty-first century saw a high rate of turnover in the boardroom at the Red Cross. Since Elizabeth Dole's resignation as chair in 1999 the ARC has had seven different permanent or acting heads. President and CEO Bernadine Healy (1999–2001) was forced to resign following mismanagement of the response to the September 11th attacks. Similarly, President and CEO Marsha J. Evans (2002–2005) was ousted after the ARC's botched handling of Hurricane Katrina, though the official reason for her departure was communication problems with the board. Mark W. Everson was President and CEO for the brief period between May 29 and November 27, 2007. He was forced to resign after an inappropriate sexual relationship with a subordinate came to light.

This frequent executive turnover has significantly weakened the organization's ability to carry out its federal mandate. Some blame the oversized board of directors. "The board seems to think it is a hiring and firing agency, and does not see its role as building a strong Red Cross," said Paul C. Light, the Paulette Goddard Professor of Public Service at New York University. "The constant change in leadership is debilitating and does nothing to address the real problem, which is years and years of underinvestment in telecommunications, technology, and other infrastructure to help the organization with its mission." In the cases of both Healy and Everson, the board spent a considerable amount of time and money conducting a search for the "right person," nearly two years and 18 months, respectively.

The agency's reputation has been further tarnished by the ARC's history of awarding large severance packages to ousted executives, no matter how short the term served. Bernadine Healy received \$1.9 million in salary and severance pay upon her departure in late 2001. Marsha Evans received a total of \$780,000 in 2005; this comprised 18 months' severance pay. Speaking of the damage to the organization, Diana Aviv, president and chief executive of the Independent Sector, a nonprofit trade association, said, "The tragedy of this is that the American Red Cross is probably the best-known nonprofit organization in this country.

When the stories about it are more about governance and management and less about how it saves lives, it's sad and not just for the Red Cross."

Leadership troubles have extended into the local chapters as well. In a story on the ARC, CBS News cited a laundry list of misconduct: "the fundraiser in Louisiana caught padding her own bank account with donations; the manager in Pennsylvania who embezzled to support her crack cocaine habit; and the executive in Maryland who forged signatures on purchase orders meant for disaster victims." One of the biggest charity frauds in history occurred at the ARC's Hudson County chapter in New Jersey. Chief executive Joseph Lecowitch and bookkeeper Catalina Escoto stole well over \$1 million in Red Cross funds, squandering it on gambling and gifts to themselves. Escoto also gave herself at least \$75,000 in bonuses. Even after Congress mandated changes meant to do away with such problems, in 2007 an

executive in Orange County pleaded guilty to federal charges that she had embezzled at least \$110,000 of the organization's money.

ORGANIZATIONAL CHANGES

In 2006 Congress took action to try to improve the ARC's effectiveness and efficiency when Senator Charles E. Grassley filed legislation to overhaul the organization. Grassley's legislation also forced the organization to become more transparent. In 2006 the ARC disclosed thousands of pages of documents that had not previously been available to the public. This marked the first time in almost 60 years that Congress had moved to amend the organization's charter. The legislation sought to assuage the difficulties in the board by cutting its numbers by more than half, to 20 members by the year 2012. It also restructured the role of the President of the United States in making board appointments. In the past, the president appointed the chair and eight board members, typically cabinet secretaries who rarely attended meetings. Under the legislation, the board nominates a chair for approval and appointment by the president. All other presidential appointments to the board were abolished. An independent ombudsman position was created to take charge of annually reporting to Congress as well as assisting whistle-blowers should agency misconduct be reported.

The American Red Cross updated its Code of Business Ethics and Conduct in January 2007. All employees and volunteers are required to read and sign the two-page document. The ARC offers a 24-hour, confidential, anonymous hotline, the "Concern Connection Line," that provides American Red Cross staff, volunteers, and members of the public a way to report concerns or ask questions regarding potentially illegal, unsafe, or unethical conduct. The ARC also published an eight-page "Ethics Rules and Policies" statement that outlines how business funds, property, and time may be allocated, as well as addressing conflicts of interest, recordkeeping, and how to handle media inquiries.

SEPTEMBER 11, 2001

The American Red Cross was heavily criticized for its response to the September 11th attacks on New York City's World Trade Center. Over the ensuing months, these criticisms would continue to increase.

SLOW RESPONSE

The ARC was widely criticized for its response to the September 11th attacks on New York City's World Trade Center. The criticisms began the day of the incident, when the Pentagon called the office of Red Cross President Bernadine Healy at noon to ask, "Where the hell are you guys? Where is the Red Cross?" For more than a day afterward, the Virginia-based command center known as the Disaster Operations Center (DOC) failed to activate the specialized teams normally sent out after a plane crash or similar disaster. The trouble did not stop there. In the days and weeks following the attacks, the ARC was criticized for its management of financial donations.

MONETARY DONATION MISMANAGEMENT

Monetary donations poured in at an unprecedented rate after September 11th. Healy set up a separate fund, the Liberty Fund, for donations earmarked for victims. By the end of October, the fund had received \$543 million in pledges. It had, however, distributed less than one-third of those funds to actual September 11th relief efforts. The ARC announced that more than half would be spent to increase the organization's ability to prepare for and respond to future catastrophes instead.

Angry outcries prompted a U.S. congressional hearing in November 2001. Healy attempted to defend the use of the money, saying it was clear to donors that not all gifts would go directly to immediate relief efforts. To this Representative Billy Tauzin replied, "It was specially funded for this event, for September 11, and we're also being told parenthetically, 'by the way, we're going to give two thirds of it away to other important Red Cross needs.'" The ethical issue of asking for funds for 9/11 relief efforts, and then appropriating those funds for other purposes, created an explosive debate. At the time of the hearing, Healy had already been forced to resign as ARC president. The ARC subsequently announced that all Liberty Fund monies would go to September 11th victims and their families.

HURRICANE KATRINA

With the disastrous impact of Hurricane Katrina, the ARC was caught by surprise. Although it responded to the emergency, it was soon inundated with the extent of the disaster and the number of volunteers offering to help.

ARC AND FEMA MISCOMMUNICATION

During August and September of 2005 the American Red Cross responded to the disastrous effects of Hurricanes Katrina and Rita, the largest national emergencies in the history of the organization. Katrina hit New Orleans on August 23 as a category 3 storm, making it the sixth strongest hurricane ever recorded in the Atlantic. It was also the costliest hurricane in history. Hurricane Rita hit the coast of Louisiana and Texas only a month later and was an even larger category 3 storm. The ARC raised more than \$2 billion in private donations to fund massive relief efforts for both these disasters.

Yet again, following this outpouring of charitable giving, the American public was left largely unsatisfied by the inadequate and untimely relief efforts depicted in the media. These subpar emergency responses were the outcome of a host of fraudulent, questionable, and inefficient decisions made by the ARC, as well as its federal, state, and local disaster relief counterparts. As a result of these faulty responses, and at the request of various congressional committees, the Government Accountability Office (GAO) wrote a report detailing the inadequacies of the ARC and the Federal Emergency Management Agency (FEMA).

The GAO found that the National Response Plan written by the Department of Homeland Security (DHS) in December 2004 was not properly followed and that coordination between the ARC and FEMA was not satisfactory. The DHS plan depicted the ARC as the primary

agency responsible for coordinating federal mass care assistance in support of state and local governments and other voluntary organizations in charge of meeting needs such as shelter, food, and emergency first aid. During their disaster relief efforts, FEMA and ARC officials disagreed about their roles and responsibilities and failed to communicate appropriate points of contact for each agency. Additionally, ARC staff was criticized for rotating support positions every two to three weeks. This made it difficult for ARC staff to maintain working relationships with counterparts or to gain expertise in their job functions. Lastly, FEMA failed to implement a comprehensive system to track requests for assistance received from the ARC. One of the ARC's main objectives is properly categorizing and responding to requests for specific goods or necessary services by state and local governments as well as other voluntary organizations.

MISMANAGEMENT OF FUNDS AND VOLUNTEERS

Along with the failures in communication between FEMA and the ARC, there have been numerous accusations relating to improper management of donated funds and volunteers following Hurricanes Katrina and Rita. A *New York Times* article notes, "The accusations include the improper diversion of relief supplies, failure to follow Red Cross procedures in tracking and distributing supplies, and use of felons as volunteers in the disaster area in violation of Red Cross rules."

Numerous Katrina volunteers reported the disappearance of rented cars, electricity generators, and even some 3,000 air mattresses. During the relief efforts, the ARC had more than 235,000 volunteers working in the hurricane disaster areas, more than five times the previous peak of 40,000 volunteers for other relief efforts. It was reported that several of these volunteers had arrest warrants or other felony charges in their backgrounds. The ARC has a screening process that normally would detect potential volunteers with criminal backgrounds, but during Katrina, the organization was so overwhelmed with people seeking to volunteer that it dropped its usual standards.

Other volunteers complained of unauthorized possession and use of Red Cross computer equipment by staff and volunteers. This equipment contained software to add donated money to debit cards for immediate use by hurricane victims and could easily be misused by unscrupulous volunteers. Other incidents included an ARC call center employee writing money orders in the names of various relief victims and fraudulently cashing them herself.

The ARC launched an investigation into claims that, as an organization, it had virtually no cost controls, little oversight of inventory, and no mechanism for basic background checks on volunteers who were given substantial responsibilities. These examples of mismanagement of charitable funds and volunteers pose questions about the ARC's ability to prevent fraud and protect resources amid the chaos of major national disasters.

ISSUES WITH MONETARY DONATIONS

The American Red Cross has also experienced problems with monetary donations. Some of these problems occurred because the ARC was not prepared to deal with the amount of

donations provided during recent national disasters. Additionally, the ARC has also been criticized for its corporate partnerships.

CORPORATE PARTNERSHIPS

ARC's acceptance and choice of corporate partnerships became controversial. During the Hurricane Katrina relief efforts, many corporations were eager to help. In a national emergency, these corporate partnerships help to provide access to resources that otherwise may not be available. Examples of corporate partnerships during the Katrina disaster relief efforts included Coca-Cola donating water, Anheuser Busch canning and delivering water, MasterCard and JP Morgan issuing ATM cards with access to ARC-donated funds for relief victims, and the Southwest Drycleaners Association's (SDA) monetary donations.

Corporate donations are an essential part of the American Red Cross' overall disaster relief strategy. However, because the ARC is a nonprofit organization and the lead agency in charge of the disaster relief, some critics believe that the ARC has a duty to scrutinize its corporate donations. Large corporate donations could make the Red Cross appear to be biased toward certain corporations. The critics argue that the ARC must be especially careful with whom it is willing to partner during times of national disaster so as not to appear to be using a disaster to promote corporate products.

However, an article published in the *Harvard Business Review* states that entities such as the ARC would benefit from greater cooperation and partnerships with private businesses. According to the article, "It's a good thing when companies pitch in after natural or other calamities. It would be a far better thing if they partnered with aid agencies to make plans before disaster struck." For example, Abbott Laboratories and the ARC created a corporate partnership through which Abbott donates pharmaceutical and nutritional products to people in need.

DONATION ACCEPTANCE AND INSUFFICIENT CAPACITY

The American Red Cross has also struggled to develop the infrastructure to support electronic donations during disasters. The ARC's website has become the main source for receiving individual charitable donations. After September 11, 2001, the organization had to expand its web-based infrastructure to accommodate additional traffic. After the tsunami in Southeast Asia, the ARC found itself once again overwhelmed with Internet donations. Internet technology staff was forced to offload some of the expansion capabilities work to contractors in the technology processing industry.

The magnitude of donations for Hurricane Katrina victims was unprecedented in the ARC's history. Internet donors immediately overwhelmed the ARC website's capacity. More than 50 Internet technology staff members worked around the clock to expand capacity six-fold, and the ARC once again outsourced some of the workload.

However, by utilizing mobile phone technology, the American Red Cross raised \$30 million for relief efforts for the 2010 Haiti earthquake via text messages, with over \$2 million donated in the first 24 hours. The ARC partnered with a mobile services company called

Mobile Accord to accept millions of donations in \$5 to \$10 increments with a limit of five donations per phone. Michelle Obama and the National Football League both advertised the text message donation system on national television, and the process revolutionized charitable giving.

Dave Clarke, former chief technology officer at the ARC, believes that it would be a good idea to partner with various Internet technology firms to alleviate long-term problems regarding online capacity needs, as well as to deter the ARC from dealing with each disaster on a case-by-case basis, thus better serving the increasingly large online donor community.

PROBLEMS WITH BLOOD DONATIONS

The American Red Cross has been scrutinized by the Food and Drug Administration (FDA) for its management of blood donations. The ARC is the world's largest blood steward, controlling 40 percent of America's blood supply. Red Cross blood is among the safest in the world, but allegations of unsafe practices began to surface in 1993. Because of problems reported in FDA investigations, the ARC paid over \$21 million in federal fines between 2003 and 2008 related to mismanagement of screening and collection as well as failing to discard potentially unsafe donations. Additionally, while the ARC was aware of these problems, the organization repeatedly failed to investigate the consequences of its mistakes.

Part of the problem is the size of the American Red Cross' blood donation program. The system is comprised of 36 regions with five testing laboratories, making internal communication difficult. The ARC is in the process of developing a comprehensive database to track donations, but the project is severely over budget. The high employee turnover rate and low wages also make it difficult for the organization to properly train its employees on how to screen donors and collect donations.

MARKETING CHALLENGES AT THE RED CROSS

After much bad press, the American Red Cross faces many challenges in marketing itself as an ethical and transparent nonprofit organization. The ARC must effectively reduce perceived risk associated with donations and must carefully choose partnerships with private corporations that will continue to encourage blood donations. The organization must also effectively handle any lawsuits that might damage its reputation. Lastly, the ARC must focus on marketing the positive impacts the organization has on society, including the vital role it plays in disaster relief. These marketing efforts will ideally translate into increased positive exposure and enhanced support for the organization.

PERCEIVED RISKS OF CHARITABLE GIVING

Unfortunately for the ARC, many donors have been put off by the numerous reports of fraudulent use of donations. They question whether the funds will be used properly. In addition, the number of nonprofit charities searching for donor funds has increased dramatically in the past twenty years. There are more than 1 million charities in the United States, a 59 percent increase in the last decade alone. This growth obviously increases competition for charitable donations, especially in tough economic times. In order to

maintain a strong donor base and continue to increase donations, the ARC must increase transparency to assure donors that their money is being used responsibly.

PARTNERSHIPS IN MARKETING

In 2004 the ARC joined in a unique marketing partnership with the independent film studio Lionsgate to co-market the release of a horror film entitled *Saw IV* while promoting blood collection services. The *Saw* “Give Till It Hurts” blood drive was a key element of the marketing campaign for the fourth installment of the most successful horror franchise of all time. Due in large part to promotions like the *Saw* blood drive in 2004, blood donations increased from 4,200 pints to 41,000 pints by 2007. In 2008 the *Saw* franchise again held a nationwide blood drive to draw attention to the release of *Saw V*. These marketing efforts benefitted both the film producers and the ARC. Many marketers believe that this sort of age-specific marketing strategy, accompanied by word-of-mouth advertising, is the best way to reach a new pool of potential volunteers.

THE RED CROSS SYMBOL

The ARC benefits from brand recognition in the form of its internationally recognized Red Cross symbol, although this symbol also has generated controversy in the form of a lawsuit filed by Johnson and Johnson regarding licensing the Red Cross icon for use on commercial products. In 1887 Johnson and Johnson began using a red cross on its surgical packages and registered the trademark for commercial use with the U.S. Patent Office in 1906. The ARC, on the other hand, cites its federal charter from the year 1900 as the adoption date for its emblem, and further points out that the image was developed in Switzerland in 1863 by the International Committee of the Red Cross, where the group decided that “volunteer nurses braving battlefields shall wear in all countries, as a uniform distinctive sign, a white armlet with a red cross.”

The ARC has sold first aid kits, preparedness kits, and related products that have generated over \$2 million in revenue. Johnson and Johnson believed that the ARC was benefiting from consumers confusing the ARC packages for those of Johnson and Johnson, which has very similar packaging. The lawsuit was resolved in 2008, with both parties dismissing their suits and countersuits.

FOCUSING ON POSITIVE INTERNATIONAL EFFECTS

From a marketing perspective, the greatest strength the ARC possesses is its ability to focus on the positive doings of its sister international organizations. The International Federation of Red Cross and Red Crescent Societies (IFRC) wrote a report discussing discrimination against women, the elderly, and the disabled in disasters. The IFRC concluded that these situations, as well as sexual violence, can be prevented with an improvement in disasterpreparedness programs. This conclusion states that with stronger support from charitable organizations, such abuse can be reduced or eliminated in the future.

Even in negative circumstances, positive coverage of the ICRC benefits the overall marketability of the ARC, such as when the International Committee of the Red Cross (ICRC) was forced to leave Myanmar in 2006. An article in *The Economist*, for example, noted, “Last year the [ICRC] paid individual visits to more than 3,000 prisoners in 55 places. It has also been providing aid—foods, medicines, help with sanitation, and so on—to villages on the border.”

CONCLUSION

The American Red Cross faces many ethical risks and challenges. Some are common challenges for any organization of its size, such as executive compensation, preventing and handling employee misconduct, and considering all stakeholders in its operating model. Other risks are unique to the Red Cross, such as transparent and accurate representation of the organization’s need for, and use of, monetary donations, volunteer time, and blood donations. As recently as 2013, the ARC was criticized for the way it handled a program for helping Hurricane Sandy victims move from transitional to permanent housing. Among accusations that it changed the eligibility requirements midway through the program, the ARC eventually reached an agreement with Attorney General Eric Schneiderman to provide \$6 million in additional relief for the program. The ARC also agreed to increase the transparency of its fundraising after natural disasters. It is important that the ARC exercise significant transparency to maintain trust and avoid criticism that it is not handling funds properly.

Employee misconduct also has been an issue, from the discrimination in disbursing relief after disasters to employee embezzlement. Addressing stakeholder needs, particularly those of the ARC’s thousands of donors, is an ongoing challenge. Donors need open, honest communication about how the ARC allocates its resources. The ARC must also maintain effective and efficient operations to respond to disasters and transparent reporting of the organization’s accomplishments, failures, and opportunities for improvement in disaster response activities.

The ARC must also address the ethical risks specific to a disaster-relief organization. Clear and efficient communications with federal and local government agencies is a challenge. The ARC must develop strategic plans to better accomplish disaster response goals. These plans must include how to respond to organizational missteps and failures. Transparent, honest reporting of the ARC’s goals, accomplishments, opportunities for improvement, and mistakes would go a long way toward restoring the country’s trust in the organization.

In short, the American Red Cross has a stakeholder obligation to fulfill its charter’s expectations effectively and efficiently. Charitable donations fund the nonprofit’s operations, and volunteers comprise 95 percent of its workers. The ARC staff and volunteers need to be managed by capable directors and executives within ARC. Improvements to the ARC as an organization must begin with executive leadership and flow downward to every level of the group. Congressional oversight and interaction with federal, state, and local organizations must continue to be reviewed and modified to suit current needs.

Disaster relief cooperation in the form of partnering with private corporations to provide efficient and effective responses to victims of disasters should be continued. Joint marketing practices between the ARC and private businesses should also continue, as long as unethical interactions or associations do not compromise the mission of the ARC. The many stakeholders of the ARC, including donors, staff, volunteers, and society, must continue to monitor the American Red Cross in order to ensure its long-term success.

QUESTIONS

1. Explain the possible problems in the ethical culture of the Red Cross that created the issues discussed in this case.
2. Name some of the problems the ARC has encountered with handling donation money.
3. What are some of the reasons for the ARC's ethical dilemmas, and how can the organization guarantee that these problems will not recur in the future?
4. What effect do organizational structure and compensation have on ethical behavior among chief executives at ARC?

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