

The background of the slide features a large, faint watermark of the Rutgers University seal. The seal is circular and contains the text "RUTGERS UNIVERSITY" around the perimeter. In the center, there is a shield with various symbols, including a book and a plow. The seal is rendered in a light red color, matching the background.

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Rutgers Business School  
Newark and New Brunswick

# Ethical Leadership in *the Nonprofit Sector*

James Abruzzo, Co-founder  
Rutgers Institute for Ethical Leadership

Sobel & Co  
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# **Institute for Ethical Leadership Rutgers Business School**

**The Institute's mission is to promote and  
strengthen sustainable ethical leadership  
to enhance civil society**



# Programs and Services of the Institute for Ethical Leadership

- Nonprofit leadership development since 2005
  - Executive & Emerging Leader Certificate Program
  - Leaders Common Ground
- Provide education, training, research, internal and external programs and classes across all sectors
  - “Inculcating ethical” behavior
  - Conferences & research on ethics and leadership

## **Unethical Behavior occurs in all Sectors: Business.....**

- Drug industry paid out nearly \$20 billion in penalties over the past two decades for violations of the False Claim Act - Public Citizen
- Kenneth Lay, Enron
- Dennis Kozlowski, former CEO of Tyco International

## .....Nonprofit and Government

### *Nonprofit:*

- Stevens College
- Hackensack Medical Center
- UMDNJ

### *Government:*

- 44 Charged by U.S. in New Jersey Corruption Sweep
- Smithsonian Head Forced to Resign
- New York Governor resigns over sex scandal

## Three “C’s” of Ethical Behavior

- Compliance
- Conflict of Interest
- Compensation

## ERC Nonprofit Survey

- Comparably, Nonprofits still have stronger ethical cultures and align personal values with those of organization's mission

### **BUT....**

- Misconduct in nonprofits rising
- Nonprofit misconduct (in 2007) equivalent to business and government entities
- Financial fraud higher in nonprofits than in business or government entities
- Despite strong board engagement, high levels of misconduct found

# Why Does a Strong Ethical Culture Matter?

- Build employee morale
- Recruit quality staff, board, and volunteers
- Corporations see nonprofits as viable partners to achieve their social responsibility
- Nonprofit Watchdogs (i.e. Charity Navigator) and press
- One negative headline can hurt the brand

# Six components to Building an Ethical Organization at all levels...



**All components must be attended to when building an Ethical Organization**

# Nonprofit Compensation

- Executive Compensation
- Intermediate Sanctions
- Best Practices

# People and Processes

Strongly support first-line supervisors and managers and employees through:

- Training, policies and senior management enforcement
  - Effectively handle reports
  - Encourage and support reports of misconduct
  - Put effective and clear system of rewards and consequences in place to remove ambiguity of responses to reports of misconduct.
- Emotional, legal, human resources, upper management and cultural support

## **CEO Leadership:**

Model ethical behavior from the top

- **Employee Oversight**

- Strengthen whistle blowing systems
- Address retaliation perception and actions
- Ensure the quality and effectiveness of programs, products and services

- **Policy and culture visionary and enforcement**

- Oversight should be transparent to employees - in place and operating
- Follow ethical standards, ensure accountability, comply with the law
- Exercise operational & financial audits

- **Communication internally & externally**

## **Board Leadership:**

Model ethical behavior from the top

- Duty of care, loyalty & obedience
- Intermediate Sanctions
- Conflict of Interest
- SOX
- CEO evaluation and compensation
- Committee oversight & routine reporting on key aspects of the organization's financial condition, mission, etc.
  - Monitor, audit and approve
- Review, renew, & orient board members

# Establish Clear Policies

- How to recognize an ethical dilemma and policies how to address misconduct
- Communicate internally regularly to reinforce the policies
- Train employees on policies on intent and application
- Conduct oversight & enforce policy in practice

# Culture

- Establish & communicate core values of organization
- Build-in, communicate & train on expectation of ethical behavior
- Utilize ethical decision making processes at all levels: all leaders must walk-the-talk
- Develop and train managers to model ethical behavior, report employee misconduct, and prevent retaliation

## **Culture** (continued)

- Legal compliance as the minimum
- Incorporate ethical behavior into performance review
- Incorporate a cross-functional review board to evaluate the outcomes of reported ethical lapses, behavior and misconduct issues.

**Thank you!**

**[Leadership@business.rutgers.edu](mailto:Leadership@business.rutgers.edu)**

**[www.business.rutgers.edu/iel](http://www.business.rutgers.edu/iel)**

**(973) 353-1134**

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