

CASES

CASE 10-1 FUND-RAISING—A QUESTION OF TRUST

Any organization, profit or nonprofit, must have credibility with its key publics. In the case of charity organizations, credibility and trust are perhaps more essential than in most. They inspire confidence from the public that their donations will be used for their intended purpose. Can this kind of credibility and trust be rebuilt once doubts about them have been raised?

BACKGROUND AND HISTORY

As a paragon in the field of charity work, the United Way provides support and important services to the community. These services include substance abuse counseling, crisis intervention, job training and placement, disaster relief, and literacy programs. Their multifaceted approach is reflected in their mission: To increase the organized capacity of people to care for one another.

Services are provided at a local level by independent, separately incorporated organizations administered by local boards of volunteers known as the United Way. The United Way of America (UWA) is the National Service and Training Center for community-based United Ways. The national branch does not raise or appropriate money. Rather, it furnishes the community-based United Ways with marketing support, national resources, administrative and personnel programs, and computer software, and it acts as a liaison with other charities,

national media and opinion leaders, and organized labor.

The first United Way (UW) was founded in 1887 in Denver, by religious leaders calling themselves “The Charity Organization Society.” A year later the first “United Way” campaign raised \$21,700. Regulations for charitable organizations were established within 30 years.

For a century the organization continued along a smooth road to success. In 1985, United Ways raised \$2.33 billion, and the trend was toward an even greater increase in donations. By 1987, UWs numbered more than 2,300 across the country. In 1990, the United Way of America published the fifth annual environmental scan document—*What Lies Ahead: Countdown to the Twenty-first Century*—and for the first time, Americans gave over \$3 billion to local United Way campaigns. The organization was certainly speeding on a lucrative yellow brick road. However, it was not prepared for the potholes and detours that lay ahead in 1992.

THE CRISIS

On February 16, 1992, the *Washington Post* and *Regardies Magazine* released a story about alleged misconduct by United Way of America’s longtime president, William Aramony. After serving for 22 years, Aramony was publicly accused of wrongdoing and financial mismanagement.

The exposé examined such questionable issues as his:

- Management of the United Way of America
- Yearly salary of \$463,000 including benefits
- Use of United Way money for travel and personal discretion (e.g., chauffeurs and expensive condominiums)
- Hiring practices: employing friends and family
- Installation of United Way “spin-off” companies such as Partnership Umbrella and United Way International, created both for profit and nonprofit

THE ENSUING EVENTS

The day the exposé appeared, Senior Vice President for Corporate Communications, Sunshine Overkamp, sent a memorandum to the chief officers and communications directors of all the local United Ways across the country. This memo included the article from the *Post*, and a number of *talking points* in an attempt to be responsive to the concerns of key audiences involved, including:

- Contributors
- Volunteers
- Staff
- The public
- The media

The memo also gave the numbers of telephone lines set up to handle questions. Another internal investigation was under way, at Aramony’s recommendation, by outside counsel, Verner, Liipfert, Bernhard,

McPherson, and Hand. The results were to be reported April 2, 1992.

In the weeks to follow, there were numerous follow-up articles in the *Washington Post*, as well as the *New York Times*, *USA Today*, *Time*, *Newsweek*, *U.S. News and World Report*, and many other publications. Overkamp distributed copies of these articles to the local United Ways across the country in an effort to keep them abreast of the situation.

The national office initially supported Aramony under the auspice of innocent until proven guilty. However, 11 days after the exposé was released, Aramony resigned as president of United Way. As Aramony announced his retirement, he apologized for his “lack of sensitivity to perceptions” about his management and spending techniques.¹

The next day, a memo was sent to employees that Aramony’s retirement took effect immediately and that no successor was chosen. The search for a new president and an investigation was announced by Chairman of the Board, John F. Akers, CEO of IBM. Kenneth W. Dam, another IBM executive, was named interim president and CEO of the United Way of America in a March 5 news release. One of the first tasks at hand was a thorough review of policies, practices, and procedures of UWA.

NATIONAL RESPONDS

On the national level, United Way of America took these actions to try to regain its credibility:

- Initiated its own investigation of Aramony’s conduct.
- Updated local United Ways with breaks of new information and guides of how to respond.

¹*Washington Post*, February 28, 1992, p. A10.

- Responded immediately to the affirmation of Aramony's misconduct by forcing him to resign and finding a reputable replacement.
- Fully disclosed events to the public and the media.
- Reformed ethics policy to prevent similar situations in the future.

The national organization responded to a negative reaction by locals over the question of Aramony's continued salary and opted to discontinue it, giving him only the same coverage as other retirees under UWA's group health plan. It was busy over the next few weeks putting policy into action and trying to reassure the local chapters. Here are some examples of what they did:

- Answered questions at a *3-day annual conference for volunteer leaders* and organized a series of "*listening forums*" organized to give local representatives a chance to give input.
- *Gave local UWs seats on the board.*
- *Financially cut off United Way International from UWA and put its chief operating officer on leave.*
- *Created a 15-person search committee for a new chief for UWA, stating that the members were chosen with care "to represent a diverse balanced group of individuals dedicated to the United Way and the volunteer process."*
- *Interim CEO Dam initiated face-to-face communication with local United Way leaders and volunteers by visiting Connecticut to meet with them on April 21, 1992. He*

answered questions and gave suggestions on how to restore credibility. Dam told them, "The public relations nightmare ultimately may serve as a springboard to redefine the organization's mission." He emphasized that the organization must be seen as more than just a fund-raising mechanism; it needed to be a builder of communities.²

Dam sent each UW a copy of the full report on the investigation and the work done to date on recommendations and closed his memo with this thought, "From this crisis, we can, working together, become stronger."

PICKING UP THE PIECES: THE LOCAL LEVEL

Once the scandal broke and Aramony resigned, the focus then turned to concentrating on regaining the public's trust in the United Way, so as not to damage the local chapters. The strategies developed in order to facilitate this difficult task differed among local United Ways. Many had their own strategies, which included:

- *Fact sheets* that positioned themselves as *not* associated with the national organization by emphasizing their autonomy (See Figure 10-2).
- *Refusing to pay national dues* until satisfied with investigations and resulting changes. (Some continue to refuse paying dues to this date, and there is evidence that this was the real reason the locals so quickly distanced themselves from national.)

²*The Danbury News-Times*, April 22, 1992, p. 1.

They Look Alike but They're not the Same



It's not just the *fine print*... Let's look at the facts.

FACTS:

- UNITED WAY of the NATIONAL CAPITAL AREA is your local United Way whose sole purpose is to serve *this* community. It is one of over 2,000 *local* and *autonomous* United Ways across the nation.
- Your local United Way sees that more than 90 cents out of every dollar collected goes directly to services.

FACTS:

- UNITED WAY OF AMERICA is the national trade association for local United Ways. It is not a headquarters and neither raises nor allocates any funds
- United Way of America sets no policy for local United Ways and is supported by dues of one percent from local United Ways.

Our suspended dues will go to local services.

We take our stewardship seriously. Our immediate response to this troubling controversy at the United Way of America was to suspend our payment of dues and call for a full and open investigation of the United Way of America and its spin-off operations.

In keeping with our dedication to serve this community, **the suspended dues payments will now be made available for increased programs and services needed in our community.**

Geoffrey Edwards
Volunteer President
United Way of the
National Capital Area

Ronald Townsend
Chairman of
Trustees Assembly

Burt K. Fischer
1992 General
Campaign Chairman

Sheldon W. Fantle
Vice Chairman of Trustees
Assembly and Campaign
Advisory Chairman

Delano E. Lewis
1991 Campaign Chairman

FIGURE 10-2 Many local United Ways used posters or fact sheets to demonstrate the difference between the local and the national organizations.

(Courtesy of United Way of the National Capital Area.)

- *Considered changing their name.*
- *Many circulated letters from the leaders of prominent organizations who encouraged their employees to continue supporting the local United Ways.*
- *Organized advisory panels of key persons in the community to answer any questions and find the appropriate way to solicit them in the upcoming year.*

LOCAL UNITED WAYS FILE FOR DIVORCE

A prevalent strategy was to *utilize the local media in order to distinguish between the local and national United Ways*. Here are two examples of the specific strategies some UWs implemented.

Making Lemonade Out of Lemons

The United Way of Massachusetts Bay used the Aramony scandal to educate the public of the autonomy existing between the local organization and the national. It released the amount of money that goes toward service projects, 91.4 cents of every dollar. In addition, it asked the press to be sensitive to its plight and use headlines using “United Way of America” or “National Charity” to help people differentiate between the local and the national organization. It convinced two major papers to run full-page ads for free that spread this information. The area’s number one radio station ran a campaign two times a day saying, “Thanks to the employees at *x* company who last year contributed *y* dollars to the United Way campaign, 3,000 people were fed a hot meal at St. Francis House.” This message helped

make “the connection between when they gave money and where it is going, how it is making an impact,” explained Maureen Sullivan, director of public relations.

In addition to utilizing the local media, it maintained a policy of full disclosure and open communication by responding to every letter and call it received. It accepted invitations to meetings to further discuss the situation and urged CEOs to support the UW and to encourage their employees to do the same. Finally it planned a “Community Care Day” to gain community visibility, let donors know where the money goes, and have a positive impact on some lives.³

The United Way of Orange County (UWOC) response was to work with the local media to get a local perspective, with all the stories coming over the wire. It did a direct mailing of fact sheets to campaign coordinators of local companies, the local board of directors, and agencies that receive money from the Orange County United Way. This mailing included a position statement from UWOC. It planned attitudinal research at some organizations that conduct United Way campaigns to survey the damage and guide future tactics. It set up forums for the public attended by the local president and chairman of the board. It ran a pilot fund-raising campaign to find out what questions people might ask to help direct the fall campaign strategies.⁴

THE UNITED WAY RECOVERS

One year after the Aramony scandal rocked the United Way of America, the future looked difficult but not dismal. This comeback was partly attributed to the change in the structure and operation of the national organization.

³*pr reporter*, May 18, 1992.

⁴*New Milford Times*, June 4, 1992.

IT'S NOT JUST THE UNITED WAY

Until the United Way scandal occurred, charities often escaped public scrutiny because they tended to be judged on whether the cause they supported was worthwhile instead of that charity's actual performance, a reality that most for-profit organizations must contend with. Nonprofit organizations are not constrained by the marketplace pressures and electoral politics that regulate big business.

United Way is not the only nonprofit organization whose finances have been scrutinized. According to an article published in the *Wall Street Journal*, the financial expenditures of affiliates of the American Cancer Society create some difficult-to-answer questions. While many of these affiliates claimed spending

78 percent of their budgets on direct services to combat cancer, included in that amount was salaries and overhead, which is often up to 60 percent of the total budget.*

In addition, these charities often have huge cash reserves from which they are earning large amounts of interest. These cash reserves are often monies intended by donors to immediately be applied to combating cancer. Such asset holdings call into question both the fund-raising rhetoric and priorities of Cancer Society affiliates.

In the future, charities will not be given the free reign that they were given in the past. Americans now want positive proof that their money will be used for the purpose for which it was given.

**The Wall Street Journal*, March 13, 1992.

- *The Board was expanded to include members from local United Way chapters who make up a third of the total; this board now meets four times a year instead of two times.*
- *Created new volunteer oversight committees in an effort to greater regulate the national organization.*
- *Appointed Elaine Chao, former director of the Peace Corps, as president and CEO.*
- *Instituted a membership fee structure for local chapters that is lower than the previous 1 percent of campaign requirement.*
- *Changed its objective to focus on restoring confidence, instituting true accountability and quality management, and focusing on customer (local United Way organizations) satisfaction.*
- *Reduced salaries: banned first-class travel for UWA officials.*

The fund-raising results for United Way of America were not outstanding in 1992. Donations decreased 3.3 percent compared with those collected in 1991. However, according to evaluations completed by executives at the end of their corporation's UW fund drives, this decrease has largely been attributed to the recession and corporate downsizing, not to the Aramony

shake-up.⁵ In addition, other fund-raising organizations have been cashing in on the employee pledging programs, a trend that was prevalent even before the scandal. One dismal fact for UWA is that *almost one-third of local chapters still continued to refuse to pay dues*, which forced the UWA to cut its staff by one-third and its budget by millions.

ARAMONY CASE UPDATE

William Aramony was convicted in 1995 of defrauding the United Way of America of \$600,000. He was found guilty of fraud, tax, and conspiracy charges and received a 7-year prison sentence. Shortly after his conviction, he sued the United Way for pension benefits and was awarded \$4.4 million dollars. The United Way filed suit against him and a judge ruled that Aramony owed the

United Way \$2.02 million to cover salary and other funds he received while stealing from the organization. For a time, Aramony still stood to collect a balance of \$2 million. In 2001, however, the U.S. Court of Appeals reversed a lower court ruling that Aramony was entitled to \$2 million in pension benefits. This reversal cut his retirement award to just under \$8,000.

A new level of awareness has been established among the public, regarding how and where charitable organizations spend their money. Because of the Aramony scandal, people will not let charitable institutions go about their business unchecked in the future. Potential donors now have an “excuse” not to give money unless charitable organizations can convince those people of their dedication to the cause for which they are raising money. ■

QUESTIONS FOR DISCUSSION

1. In the trend toward social responsibility in the 1990s, ethical considerations are often foremost in importance for operating an organization. Do you believe that an established ethical credo is more, less, or equally important for profit and nonprofit organizations? Why?
2. Was the UWA wrong to stand behind Aramony at the beginning of the scandal? Do you believe this stance caused further damage to the organization’s credibility? Why or why not?
3. To keep a nonprofit organization running in the business world of today, managers often must adopt some of the standards of for-profit businesses. What limitations do you see for nonprofit organizations in adopting these standards and why? What advantages do you see?
4. Aside from the number of dollars campaigns bring in, what other ways can you think of to evaluate how successful local United Ways have been in distancing themselves from the national scandal?

⁵We thank Doris Burke, Director of Communications for United Way of Greater Manchester, New Hampshire, for the information provided for this case.