

National kidney foundation leadership



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In 2005, National Kidney Foundation faced a leadership crisis that raised many public issues that became the subject of much scrutiny. A public issue is any issue that is of mutual concern to an organization and one or more of its stakeholders. With regards to National Kidney Foundation (NKF), both the organization and its stakeholders were concerned over the issue of funds being misused, a lack of transparency and the lack of enforcement of laws internally. The emergence of these issues has not only raised media attention but also became the subject of much controversy. It has resulted in public backlash and has definitely shaken public confidence in charitable organizations.

The main ethical issue which surfaced was NKF's misuse and mismanagement of the funds primarily donated by the public. As a non-profit organization, NKF's public mission was "to help needy patients". Though they were effective in using both the media and campaigns to garner donations to support their cause, these funds were misused. As stated in the case study, trials revealed that the claims made by an article published in the Straits Times in 2004, about NKF's Chief Executive Officer, T T Durai alluding to wastefulness and extravagance were in fact true. There was excessive spending made by T T Durai such as a gold tap that had been installed in the executive bathroom and personal luxuries including "a fleet of eight cars that came together with company drivers". In addition, given that TT Durai was entitled business class flight by SIA, as a trustee over donor's money, Durai should get best value on a business class seat instead of using it for first class on another plane (NKF v SPH: Court Transcript for July 11th 2005 Morning Session). Instead of using the funds for the right

purposes such as to help NKF's patients, T T Durai had misappropriately used the funds for his personal wants.

Another major issue to be discussed is the lack of transparency with regards to being accountable on how NKF's funds collected from donors were utilised. There was a lack of a transparent system in documenting management minutes at NKF. The meeting minutes was an important documentation reflecting the discussions and decisions of how NKF's funds should be utilised. The fact that it went missing may have given the public the impression that NKF was negligent in its duties. When the funds of the NKF were not properly accounted for, the public become skeptical and doubtful of NKF. People start to lose trust in the NKF as they become suspicious that NKF is just another bourgeois conspiracy.

Corporate governance refers to the process by which a company is controlled, or governed. In having systems of internal governance that determine the overall strategic direction and balance conflicting interests that may arise, such is crucial to the organizations performance. In helping to establish an effective internal governance structure, the board members play a central role. They are responsible for setting missions and aims that take into account stakeholder interests, develop comprehensive policies and appointing a committee of top-level personnel to execute these policies. However, in NKF's case, the lack of a enforcement of policies within the internal governance structure among the Board members has led to repercussions.

The actions of the Board members have contributed to these problems. Under the Executive Committee, approval of proposals were made by default without seeking the overall consensus of the board. Furthermore, the audit committee failed to receive necessary the necessary support from the EC and fellow members in implementing necessary internal control measures. As such, negligence from each department snowballed into an undesirable consequence that the NKF had to bear. Due to the fact that there was insufficient discipline in part by each committee, these were the main contributing factors to the problems. In addition, NKF provided no avenues for the public to give constructive feedback to improve its performance.

Essentially, the failure of the Board members to employ good corporate governance had brought to light serious concerns over Durai's fund raising strategies.

Despite NKF's mischief, its fund raising strategies were very efficient . As a non-profit organization, NKF's main aim was to look after its patients and encompassed drawing resources from society to contribute back to society as a whole. To do this, NKF has successfully employed an interactive stance in engagement with the public to raise funds for charity. The introduction of the NKF live charity show since 1994 incorporated stunts performed by foreign and local celebrities in exchange for donations. Such a method was effective as they appealed to the public, raising \$4. 5 million in 1994 which slowly grew to \$16. 8 million in the 2004 show. This suggests that NKF's fund raising strategies were effective as they involved enthusiasm in adopting creative and innovative methods to genuinely raise funds for the greater

good of patients. It was through these funds raised that patients benefited tremendously.

Optimists have also supported Durai's fund raising strategies as NKF has successfully reached out to different segments of the community, both the young and old. Besides having a charity show where the public can pledge their support, these additional strategies include using telemarketing techniques to recruit and retain donors, coupled with the recruitment of students and National Servicemen to raise funds via pledge cards. These initiatives illustrate Durai's inherent motivation in garnering increased donations for its patients. By promoting its fund raising strategies through different avenues, this helped NKF to reach out to a wider spectrum of people, targeting the public from different age and backgrounds.

Applying a two pronged approach, Durai's fund raising strategies can also be applauded for having long term vision. He realized that besides the direct implementation of policies to raise funds, what was needed for NKF to garner substantial funds was to build its brand image. Under his helm, NKF increased its brand image locally by implementing a complimentary Cabby Health Screening Program and engaging local media channels through programs such as " Health Maters' ". Through these, there was an emphasis that NKF strictly enforces a non-discriminatory approach when it comes to raising awareness about the disease in that every individual, regardless of background could be susceptible to the disease. Its network of dialysis centres was also expanded, providing accessible and affordable healthcare to the public.

In the international arena, Durai strived to increase brand recognition by getting endorsement from public and international leaders and having their ‘ success story’ written by credible sources. NKF’s programs were also promoted via renowned Brazillian soccer legend, Pele. Forward planning in directly raising funds and increasing brand image has thus helped NKF encourage a larger recognition of its practices and consequently, a substantial pool of donations.

However, critics have argued that such fund raising techniques are too aggressive and have deviated from the motto of its organisation. Although NKF recruited the younger generation to raise funds through pledge cards, this was not done purely out of goodwill but in exchange for monetary incentives.

Similarly, by consciously seeking and obtaining endorsements from public and international leaders as well as the employment of credible sources to write their ‘ success’ stories, their reputation and credibility is in question. Although these acts ultimately increase the brand recognition of the foundation, which is crucial to the attraction of donors, they display NKF’s aggressiveness and possible misdirection in their techniques. Although important, a charitable non-profit organisation’s branding is fundamentally secondary to it’s mission and purpose. The deontology approach is defined as the approach to ethics that focuses on the good and evil of the act alone, not necessarily the outcome. Using the deontology approach, T T Durai may be deem as unethical as the intent to fundraise may be a misrepresentation of the NKF and therefore deceiving the public to donate more. In this aspect,

his fund raising strategies are unethical as the means differ from what is advocated by the company.

Setting executive compensation is one important function of the Board members. In NKF's case, the lack of corporate governance has also caused Durai's compensation package to be the subject of much controversy. With the ongoing issues associated with NKF, cynics have felt that the compensation package remunerated to Durai was excessive. Durai was paid bonuses ranging between 4 months and 12 months which was not what one would expect to receive considering that he is working in a charitable organisation.

Prima Facie, although his bonuses may seem to be over evaluated, Durai is not overpaid as he deserves to be rewarded for the outstanding results he achieved for NKF. In building NKF's brand image and employing successful fund raising techniques, Durai managed to increase the amount of donations that were raised through the NKF charity show from \$4. 5 million in 1994 to \$16. 8 million in 2004. Under his leadership, he was also awarded the Public Service Bar by the Singaporean government in 1992 for his contribution to NKF and expanded NKF's network of dialysis centres for its patients. Thus, from the perspective of distributive justice, the benefit of Durai being highly paid is ethical as much of the success of NKF was due to Durai's tremendous efforts.

In relation to the average salary other top executives are paid, Durai is not overpaid as his salary of \$25, 000 a month coincides with what individuals holding top management positions are paid. Furthermore, Tan Choo Leng,

wife of former Prime Minister Goh Chong Tong commented that Durai's salary was "peanuts" compared with the donations the high-flyer raised for the organization. [1] This suggests that based on his contributions towards NKF, Durai, such a high salary is justified and will provide an incentive for motivation to increase NKF's performance.

In relation to Durai's compensation package, there will always be differing views and there is no right or wrong to it. The reason why individuals feel that Durai may be overpaid may be due to the fact that NKF is a non-profit organization that should not be so concerned with profits. Perhaps, NKF should consider the views of the public, compare the salary of top managers with those of average employees and quantify the efforts of the management relative to their remunerations.

In light of the 2005 NKF saga and its various spin-offs that have dominated the domestic news, there are several changes that can be adopted so that the same problems would not happen again. Essentially, there is a need for proper governance to ensure that corporate objectives are established, stakeholder interests are protected and the management's performance in check.

In proposing the possible changes that could be adopted, analysis of the Stakeholder Map is imperative to determine the various positions of the stakeholders in terms of salience and position on the issues put forth earlier. Through stakeholder's reactions to these issues, it is useful in determining possible changes that are crucial to ensure that NKF's decisions and actions are in line with stakeholder's interests, to prevent such problems in the

future. With collaborative involvement with these key stakeholders, the possibility of problems arising would be reduced as well.

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Position on the issue

Salience refers to how important an issue is, or how much attention it brings to NKF. When stakeholders have salience, they usually have power to assert a large impact on NKF, urgency in demanding NKF to do something about the issues or legitimacy which refers to the level of appropriateness of the stakeholders' actions towards the issues.

In the above stakeholder map, the public have the highest salience on the issue as they have high urgency and legitimacy. Since the funds of NKF are primarily contributed by the public, strong violations from these donors over the issue of misuse of funds would warrant much media attention.

In proposing the possible changes that could be made, NKF needs to recognize that they are not able to operate independently. The survivability and performance of NKF then hinges on its effectiveness in engaging with varied stakeholders and recognizing their interests, especially the public. By aligning the public's interests with NKF's objectives, this would prevent the widening of the performance – expectations gap, reducing the likelihood of these problems re-occurring.

Hence, one area that could be improved on is information transparency and disclosure to the public. Steps should be taken to ensure transparency where there is communication to ensure involvement of the public. The public should be informed on new developments either through press conferences or releases. The company's financial activity should also be made known to the public with clear intentions, and certified by known accounting firms. This can be done through regular emails or letters that are sent out to donors or invitations to annual general meetings so that the public can contribute their views. By being accountable for the funds, the public would be more informed on how the funds received by NKF are spent, increasing the reliability of NKF. This would increase their confidence in donating towards NKF.

Fostering a stronger relationship with the public will also help to reap benefits for NKF. NKF should reach out in engaging the general public through social media platforms such as Facebook and Twitter to provide the public with the opportunity to voice out their opinions on company decisions. Such an interaction will allow NKF to draw upon the public's reactions and societal expectations to further boost NKF's reputation. By constantly updating these platforms with information or messages NKF wishes to convey to the public, this helps in the public's understanding of what NKF is doing. Beyond that, the public will also feel reassured that their interests are considered, building support for NKF's practices.

Besides the public, the employees of NKF have low salience as they have been obscured on these issues. Due to the nature of their job, individual influence on any decision-making by the board is minimal. However, they

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must realise that they play a part on the issues revolving NKF's misconducts. By turning a blind eye to the misdeeds mentioned above or worse, taking part in it, these employees accommodate the problem and only allows it to escalate further. They must realise, that themselves being part of the organisation, they have a responsibility to act against any deviation from the mission of the foundation and a collective effort can prevent the history from repeating itself. Therefore, employees can have high salience if they collaborated and worked together, ensuring that the organization does not stray away from its core values.

Upon further analysis of the stakeholder map in relation to the employees of NKF, policies should also be employed to better ensure the organizations' governing structure. For example, a system based on adequate internal controls should be introduced. In the instance of NKF, it is evident that there was a failure to adhere to internal audit controls as it was stated that " the audit committee was to meet every 3 months to review audit plans and evaluate the adequacy of the internal control systems" but they had never met. Furthermore, the committee failed to implement recommendations spelt out by internal auditors due to lack of support.

Thus, NKF should outsource its internal audits to external auditors from independent accounting firms. Having such an unbiased third party ensures that corporate governance is enhanced as there is impartiality with regards to NKF's auditing processes. Although adoption of stringent practices may incur high costs, it is worth the investment to prevent the future misuse of funds. Such a practice would ensure that there is a system of checks to

ensure funds are managed in line with the organization's mission, preventing financial lapses in the future.

The members of the board should also only contain a few members that are current managers of NKF. The remaining members should be independent in the sense that they have no connection whatsoever to the corporation other than being a Board member. These members should either be appointed or elected by shareholders. In addition, the performance of each member should be reviewed regularly to assess if they were competent enough in assuming their responsibilities. Although NKF's Board members " were volunteers who served in the belief that every member was acting in the best interests of the foundation", they " normally approved proposals by default instead of through collective decision making". This meant that decisions were not made on a consensus basis but based on a hierarchal structure with the CEO having the dominant say, which resulted in the problems aforementioned. With a board comprising various key stakeholders, both internally and externally, greater transparency will be present and the individual interests of major stakeholders will not be compromised. With greater transparency, the public would be assured that NKF has no intentions of hiding certain facts but are assuming their responsibilities.

In moving forward to ensure that the NKF operates in an accountable and transparent manner, the initiative to align every committee members' and employees' responsibilities to NKF's mission is crucial. The Board members, together with the Chief Executive Officer have a responsibility to set future directions for the organization. The issues that surfaced at NKF were

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evidently due to the lack of governance in ensuring that stringent measures were implemented to ensure committees were compliant. Hence, the top management should incorporate regular discussions to remind employees of NKF's prime objectives, review performance and set new directions and foster team spirit in meeting these goals. NKF can also seek to provide employees with more say in broad decision making. Employees must also be made aware the channels for "whistling" and encouraged to flag when they feel that things are not right. By doing so, this will enforce that employees have a common and clear knowledge of the company's practices.

It is evident from the stakeholder map that the government has high salience pertaining to these issues due to power in asserting a large impact. The opinions of the government on NKF will greatly impact the reactions and actions of the public and thus, should not be neglected.

In hindsight, having a sound internal governing structure is the first step in preventing the future problems from occurring. The NKF saga was a result of a lack of accountability and mismanagement of funds which was further intensified as NKF was not transparent about meeting the public's interest and allocating the funds in the best possible manner. While the interest and needs of stakeholders are ever changing, NKF's attempts in balancing the varying interests and aligning them in the organization's direction is of utmost importance. This can only be achieved with good corporate governance. In doing so, the successful operation of NKF will establish trust within the government and translate to a win-win situation for both NKF and its stakeholders.