

Nonprofit Management and Governance

by

Kamala Raghavan

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*To my mother
for her unwavering support*

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Journal of Management Science, Journal of Accounting and Finance, Journal of Business and Accounting, International Journal of Disclosure and Governance, Bank Accounting and Finance, Journal of Health and Human Services Administration, and other peer-reviewed outlets. She is a frequent presenter at national and international conferences in accounting, finance, and technology.

Dr. Raghavan currently serves as Treasurer of the Fulbright Association National Board and holds leadership roles on the boards of several nonprofit organizations engaged in community welfare and education. She serves as an advisor to three nonprofit boards in the Houston area and is active in mentoring entrepreneurs and nonprofits through SCORE.

Preface

Organization of This Text

This text is designed for use in graduate nonprofit management programs, executive education, and professional development settings. It is organized to build sequentially from foundational sector knowledge through governance, operations, financial management, and emerging technology—while also supporting modular use, where individual chapters may be assigned independently alongside case materials or primary sources. The chapter summaries below are intended to help instructors, students, and practitioners navigate the text and locate the frameworks most relevant to their context.

Part I. Introduction

Chapter 1 defines the nonprofit sector, explains the legal and ethical features that distinguish nonprofit organizations, and examines the organizational capacities associated with high-impact performance. Topics include the non-distribution constraint, tax-exempt status, the double bottom line, and five strategic capacities—theory of change, data use, financial resilience, collaboration, and adaptive capacity—that distinguish high-impact nonprofits from reactive organizations.

Part II. Governance and Leadership

Chapters 2 and 3 address board governance and board leadership as distinct and complementary disciplines. Chapter 2 examines the legal framework, fiduciary duties, theoretical frameworks for

analyzing board behavior, board structure and committee design, the governance–management boundary, performance measurement, and compliance obligations. Chapter 3 addresses what high-performing boards do above the legal floor: generative governance, the board–CEO partnership, board culture and development, external relationship cultivation, and emerging challenges including AI governance and community accountability models.

Part III. Operations and Management

Chapters 4 through 7 address the operational core of nonprofit management. Chapter 4 examines strategic human resource management, the hybrid paid-volunteer workforce, compensation constraints, performance management, legal compliance, and organizational culture. Chapter 5 covers nonprofit marketing: brand identity, social media strategy, donor stewardship, and volunteer engagement. Chapter 6 addresses fundraising strategy, donor acquisition and retention, fundraising channels, and the integration of AI and data analytics into development operations. Chapter 7 examines grant writing as a strategic discipline, drawing on resource dependence theory and institutional legitimacy theory, and addresses the full grant development cycle from funder research through proposal construction, submission, and post-award stewardship.

Part IV. Financial Management and Risk

Chapter 8 addresses fund accounting, financial reporting and analysis, audits, internal controls, regulatory reporting, and IRS Form 990. Chapter 9 examines nonprofit fraud risk through governance and behavioral lenses, covering the fraud triangle,

internal control frameworks, illustrative cases, and board-level response strategies. Chapter 10 addresses cybersecurity as a fiduciary board responsibility, drawing on agency and stewardship theory, and covers threat identification, governance implementation, generative AI risks, cyber insurance, and a cybersecurity code of ethics.

Part V. Current Issues and Future Directions

Chapter 11 addresses the data maturity model, accelerating AI adoption, governance gaps, high-value application areas including humanitarian and international development contexts, AI-enabled fraud threats, and a five-component framework for responsible AI adoption. Chapter 12 presents two integrative capstone case studies—The Beacon Family Center and Water for All—that require students to apply concepts from across the textbook, including governance, financial management, program design, data maturity, and cross-cultural leadership, to complex organizational scenarios.

Part I
Introduction

Chapter 1

Introduction to Nonprofit Management

Mission, Accountability, and Organizational Effectiveness

CHAPTER PREVIEW

Nonprofit management is a distinct discipline shaped by a foundational legal rule—the non-distribution constraint—that redirects all organizational surplus toward mission rather than private gain. That single structural feature creates the defining challenge of nonprofit leadership: the double bottom line, the requirement to achieve social impact and maintain financial sustainability simultaneously. It should not be viewed as business management applied to charitable work.

This chapter introduces the nonprofit sector as a major institutional domain, distinguishes it legally and operationally from the for-profit and public sectors, and examines the organizational capacities that separate high-impact nonprofits from organizations that remain reactive and resource-constrained. The chapter concludes with a framework for understanding why ethical governance is a structural imperative—not merely a values statement—for leaders who hold donated resources in public trust.

Learning Objectives

Upon completing this chapter, students will be able to:

- **Define** the legal, financial, and governance features that distinguish nonprofit organizations from for-profit and public sector entities. (*Remember — Bloom’s Level 1*)
- **Explain** the non-distribution constraint and its implications for strategy, accountability, and organizational leadership. (*Understand — Bloom’s Level 2*)
- **Explain** how nonprofit organizations balance mission achievement with financial sustainability through the double bottom line. (*Understand — Bloom’s Level 2*)
- **Identify** the five organizational characteristics associated with high-impact nonprofits—theory of change, data use, financial resilience, collaboration, and adaptive capacity. (*Remember — Bloom’s Level 1*)
- **Analyze** the managerial challenges created by multiple stakeholders, hybrid workforce complexity, and ethical risk. (*Analyze — Bloom’s Level 4*)
- **Apply** the logical model framework to map a nonprofit’s inputs, activities, outputs, outcomes, and intended long-term impact. (*Apply — Bloom’s Level 3*)
- **Recognize** current trends shaping the nonprofit sector in the mid-2020s, including digital transformation, evolving funding models, and workforce sustainability pressures. (*Remember — Bloom’s Level 1*)

Section 1: The Nonprofit Sector in Context

The Nonprofit Sector in Context

Society is often described as organized through only two sectors: markets and government. That framing is incomplete. A substantial share of social and economic life takes place in the nonprofit sector, commonly referred to as the third sector, civil society, or the social sector. In the United States, the sector employs over 10 percent of the workforce—more than manufacturing or construction—and encompasses organizations as varied as major research universities, community health centers, international humanitarian agencies, local food pantries, and professional advocacy associations (Independent Sector, 2023). The economic and social scale of this domain makes nonprofit management one of the most consequential fields of organizational leadership.

What unites these diverse entities is institutional purpose: they are organized to pursue public or collective benefit rather than to distribute profits to owners. Nonprofit management therefore requires sustained attention to mission fidelity, public trust, board governance, stakeholder accountability, and the ongoing challenge of mobilizing scarce resources toward long-term social aims. Figure 1.1 maps the three-sector landscape, including the hybrid organizations that increasingly blend nonprofit and market characteristics.

Figure 1.1: The Three-Sector Landscape and Hybrid Organizations

PRIVATE SECTOR	NONPROFIT SECTOR	PUBLIC SECTOR	
For-profit firms Profit distribution Shareholder accountability	Mission-driven Non distribution constraint Public accountability	Government agencies Tax-funded Voter accountability	
<i>Social enterprises; B-Corps</i>	<i>Hybrid zone: mission + market</i>	<i>Government- funded nonprofits</i>	← <i>Hybrid zone</i>

Note. Hybrid organizations blend characteristics of two or more sectors. Adapted from Salamon (1997) and Hansmann (1980)

Types of Nonprofit Organizations

Nonprofits are primarily categorized under the Internal Revenue Code (IRC). The most consequential classifications for management purposes are the 501(c)(3) charitable, educational, and religious organizations—the largest category, in which donors may deduct contributions—and the 501(c)(4) social welfare organizations, which may engage in unlimited lobbying but for which donations are not tax-deductible. Additional categories include labor and agricultural organizations (501(c)(5)), business leagues and chambers of commerce (501(c)(6)), and veterans’ organizations (501(c)(19)). Table 1.1 summarizes the comparative characteristics of the three sectors.

Table 1.1: Comparative Analysis of the Three Sectors

Feature	For-Profit (Private)	Government (Public)	Nonprofit (Social)
Primary Goal	Profit maximization for owners/shareholders.	Public service; protection of rights; policy implementation.	Mission accomplishment; social impact.
Primary Revenue	Sales of goods and services.	Taxes.	Mix of donations, grants, and earned income.
Governance	Board is accountable to shareholders.	Elected officials accountable to voters.	Board is accountable to the public trust and mission.
Success Metric	Financial ROI.	Re-election; social stability; constituent satisfaction.	Social return on investment (SROI); changed social conditions.
Workforce	Primarily paid employees.	Paid civil servants and contractors.	Employees, volunteers, and hybrid combinations

The Global Context

Internationally, nonprofit organizations are studied as Non-Governmental Organizations (NGOs) or Civil Society Organizations (CSOs). Their structures vary with the government-civil

society relationship in each country. Global NGOs face a distinctive challenge practitioners call the context gap: a metric or program design that succeeds in one environment may fail in another because of differences in infrastructure, culture, or local power dynamics. Effective global organizations respond through participatory evaluation, in which beneficiaries and local communities define success indicators rather than receiving externally designed measurement frameworks (ActionAid International, 2021). Evidence from direct cash-transfer programs such as GiveDirectly in East Africa further illustrates how rigorous evaluation can challenge long-standing program assumptions—in several studies, unconditional cash transfers outperformed traditional aid programs on nutrition and business investment outcomes (Haushofer & Shapiro, 2016).

Section 2: Defining the Nonprofit Organization

Defining the Nonprofit Organization

The term nonprofit is commonly assumed to mean that such organizations are prohibited from generating revenue more than expenses. In practice, many healthy nonprofits produce annual surpluses. The critical distinction is not whether earnings exist but whether they may be distributed for private benefit. The central legal principle is the non-distribution constraint, which prohibits residual earnings from being distributed to individuals who control the organization (Hansmann, 1980).

A nonprofit may accumulate resources, invest in growth, and build operating reserves, but those resources must be directed toward mission advancement rather than private enrichment. This

legal structure has three practical consequences: any surplus must be reinvested in programs, organizational capacity, or reserves; if the organization dissolves, remaining assets must be transferred to another eligible nonprofit; and tax-exempt recognition, most commonly 501(c)(3) status in the United States, confers income tax exemption and tax deductibility for donors, providing significant financial advantages in exchange for compliance with public accountability requirements.

Table 1.2: Comparative Characteristics: Nonprofit and For-Profit Organizations

Area	Nonprofit Organizations	For-Profit Organizations
Primary objective	Mission achievement and social impact.	Profit generation and shareholder value.
Revenue stability	Grants and donations (often uncertain and restricted).	Sales and contracts (generally more predictable).
Compensation	Limited; subject to public scrutiny and IRS oversight.	Market-driven and flexible.
Workforce	Employees combined with volunteers.	Primarily paid employees.
Performance metrics	Outcomes, impact, and mission fidelity.	Revenue growth, profitability, and productivity.
Governance	Board oversight; accountability to the public trust.	Executive/owner-driven; accountability to shareholders.

Area	Nonprofit Organizations	For-Profit Organizations
Regulatory scrutiny	High: donors, IRS, state regulators, and the public. Scrutiny increases significantly with organizational size.	Moderate: securities regulators and market competition.

Because nonprofits rely on public trust, donated and subsidized resources, and favorable tax treatment, they are expected to meet rigorous standards of transparency, ethical conduct, and stewardship. The Financial Accounting Standards Board (FASB) and Governmental Accounting Standards Board (GASB) have developed reporting standards specifically for nonprofit and governmental entities, recognizing that these organizations receive resources from donors without expectation of proportional return, pursue public service missions rather than profit, and lack transferable ownership claims (FASB, 1980). Nonprofit financial reports are designed to serve multiple audience boards, regulators, donors, grantors, creditors, and the public—and should support resource allocation decisions, assessment of organizational capacity, and long-term sustainability analysis.

Accountability, Compliance, and Financial Reporting

Once established, nonprofits navigate a continuing cycle of regulatory obligations that spans organizational formation, tax-exemption application, required filings, ongoing reporting, and major events such as audits or dissolution. These requirements signal whether an organization is acting as a responsible steward

of public resources and donor trust. Later chapters examine financial reporting, internal controls, and stewardship responsibilities in greater detail.

Sidebar 1.1 The IRS Lifecycle of a Tax-Exempt Organization

The U.S. Internal Revenue Service identifies five stages in the life cycle of a tax-exempt nonprofit, each carrying distinct compliance obligations:

- Starting Out: Incorporating under state law, obtaining an Employer Identification Number, and identifying the appropriate federal tax classification.
- Applying for Exemption: Completing Form 1023 or 1023-EZ and interacting with the IRS during the review process.
- Required Filings: Annual Form 990 returns, unrelated business income tax filings, and other required notices.
- Ongoing Compliance: Maintaining tax-exempt status, meeting disclosure requirements, managing employment taxes, and satisfying state reporting obligations.
- Significant Events: Audits, private letter rulings, mergers, and formal dissolution procedures.

Full lifecycle guidance: <https://www.irs.gov/charities-non-profits/life-cycle-of-an-exempt-organization>

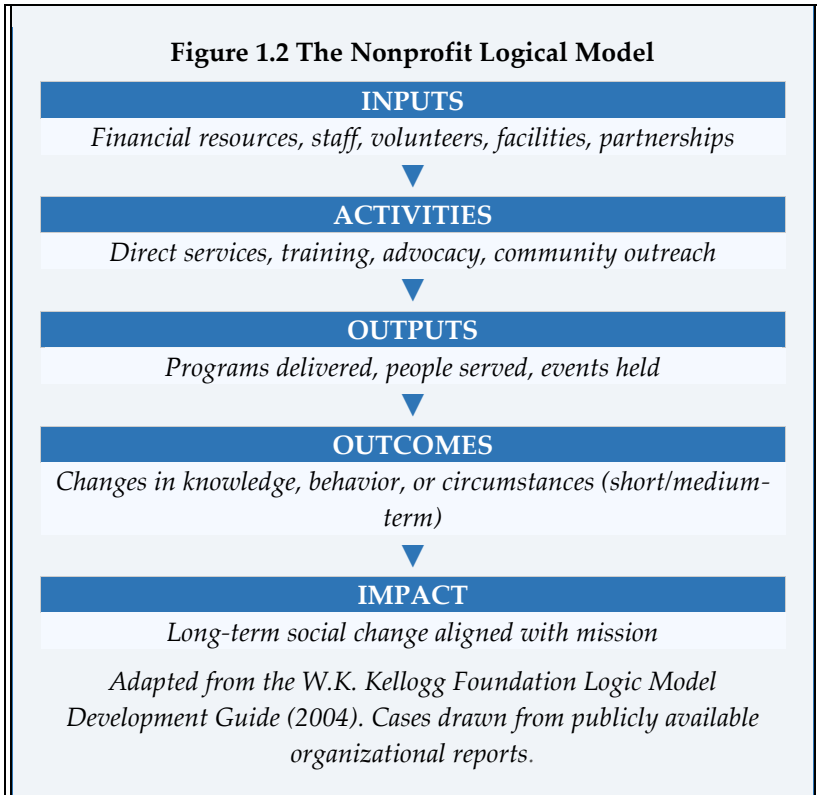
Section 3: Characteristics of High-Impact Nonprofits

Characteristics of High-Impact Nonprofits

Defining the nonprofit form is only the first step. A more important question is why some organizations generate more durable public value than others. The answer is never purely managerial: nonprofits operate within policy environments, funding systems, labor markets, and community relationships that shape what can realistically be accomplished. Research and practice consistently suggest that high-impact organizations develop five internal capacities that help them use limited resources more strategically (Foster & Fine, 2007; Kania & Kramer, 2011). Each capacity is examined below and illustrated with an example drawn from publicly available organizational reports.

A Clear Theory of Change

A theory of change is a disciplined framework that links an organization's day-to-day activities to its long-term mission. It helps prevent mission creep—the tendency to pursue funding opportunities that pull the organization away from its core competencies and intended impact area. High-performing nonprofits express their strategy through a logical model: inputs lead to activities, which produce outputs, which generate outcomes, which contribute to long-term impact (W.K. Kellogg Foundation, 2004). Figure 1.2 illustrates this model.



Example — YW Boston. YW Boston confronted the broad challenge of systemic racism and refined its theory of change to focus specifically on the intersection of race and gender in corporate leadership. By narrowing its intervention to inclusive leadership pipelines, the organization developed more specific and measurable programs including Lead Boston, that produced traceable changes in the composition of Boston’s major institutional leadership (YW Boston, 2023). The clarity of its theory of change enabled both more effective program design and more credible impact reporting to funders.

Data Use and Learning Orientation

In many nonprofits, data collection remains largely compliance-driven—shaped by grant requirements and external reporting templates. High-impact nonprofits go further by using data for organizational learning. They build feedback loops that help leaders refine programs, test assumptions, allocate resources more effectively, and respond to changing client needs and environmental conditions (Pfeffer & Sutton, 2006).

Example — Starlight Children’s Foundation. Starlight’s ‘Power of Play’ campaign used live-streaming platforms to reach digitally native donors and beneficiaries. By treating viewer participation and engagement data as a strategic resource, rather than simply a reporting metric, the organization refined campaign design in real time and expanded its reach to mission-aligned communities (Starlight Children’s Foundation, 2024 Annual Report).

Financial Resilience and Diversified Funding

High-impact nonprofits develop funding models that align revenue diversification with mission and reduce vulnerability to revenue shocks. They invest in administrative capacity and infrastructure, avoiding what researchers call the starvation cycle, the pattern in which organizations chronically underinvest in systems required for long-term effectiveness because of pressure to minimize overhead ratios (Goggins Gregory & Howard, 2009).

Example — Charity: Water. Charity: Water responded to donor distrust by structuring two separate bank accounts and securing private donors to cover 100 percent of operating costs, enabling a public guarantee that retail contributions will fund water projects

directly. This transparency substantially expanded small-dollar donor participation (Charity: Water, 2023 Annual Report).

Networked Leadership and Collaboration

Many problems addressed by nonprofits—homelessness, educational inequality, food insecurity—are systemic rather than isolated. They involve interdependent causes and actors across sectors. High-impact nonprofits address them by treating collaboration, coalition-building, and cross-sector coordination as strategic capabilities rather than optional supplements to direct service delivery (Kania & Kramer, 2011).

Example — Strive Partnership. The Strive Partnership confronted fragmented nonprofit activity in Cincinnati and Northern Kentucky by adopting a Collective Impact model—convening school superintendents, nonprofit leaders, and foundation heads around shared goals and data indicators. By aligning existing players rather than competing with them, measurable improvements in student outcomes were achieved that no single organization had accomplished independently (Strive Together, 2022 Network Report).

Adaptive Capacity

Adaptive capacity refers to the ability to respond intelligently to changing technologies, client expectations, funding environments, policy shifts, and demographic trends. Because mission-driven organizations work with vulnerable populations and manage sensitive personal information, adaptation must be paired with ethical judgment rather than driven by technological enthusiasm alone.

Example — Crisis Text Line. Crisis Text Line replaced voice calls which many young callers were reluctant to make, with text-based crisis intervention and subsequently deployed natural language processing to identify high-risk cases and route them to counselors more quickly (Crisis Text Line, 2022 Impact Report). This adaptive response both expanded access and improved the precision of crisis intervention.

Figure 1.3: From Reactive to Strategic: Organizational Capacity Patterns

Dimension	◀ Reactive Pattern	Strategic Capacity ▶
Mission orientation	"We need to fund our programs."	"We need to solve this problem."
Data use	Collected for grant compliance.	Applied to organizational learning.
Peer relationships	Knowledge is held closely.	Practices shared with peers.
Technology	Treated as a cost.	Treated as a strategic multiplier.
Workforce	Informal volunteer management.	Workforce treated as strategic priority.

Note. Based on Foster, W., & Fine, G. (2007). How nonprofits get really big. Stanford Social Innovation Review, 5(2), 45–55

Section 4: The Nonprofit Workforce: Professionals, Volunteers, and Sustainability

The Nonprofit Workforce: Professionals, Volunteers, and Sustainability

Nonprofit organizations face workforce challenges that differ from those of for-profit firms. Most operate with a hybrid workforce that combines paid professional staff with unpaid volunteers. In some organizations, particularly small community-based associations—volunteers constitute the entire workforce. In larger nonprofits, staff and volunteers work alongside one another, sometimes performing complementary functions, sometimes performing identical tasks under different conditions of employment.

Paid staff must be recruited and retained in a labor market where compensation often cannot match private sector levels. Mission alignment, professional development, organizational culture, and meaningful work frequently serve as the primary non-compensation retention tools available to nonprofit managers. Volunteers must be recruited, screened, trained, supervised, and recognized—all without the leverage of monetary compensation. Research on volunteer motivation consistently identifies opportunities for meaningful contribution, social connection, skill development, and values expression as the primary drivers of engagement and retention (Clary et al., 1998).

The nonprofit sector has experienced significant workforce sustainability pressures in recent years. Burnout among mission-driven professionals—particularly those in direct service roles in health, social services, and education—has been documented

across multiple studies (Maslach & Leiter, 2016). Leaders who fail to address workforce sustainability risk individual harm to employees and organizational harm through turnover, loss of institutional knowledge, and declining program quality. Human resource management in nonprofits is addressed in depth in Chapter 4.

SIDEBAR 1.2 Ethical Failures and Public Trust

The nonprofit sector's privileged tax status rests on the assumption that leaders function as faithful stewards of donated resources. When that trust is violated, the consequences extend beyond a single organization; they erode public confidence across the entire sector. Understanding how and why ethical failures occur is therefore a foundational management competency.

The Scale of the Problem

Unethical conduct is not confined to any single sector. The National Nonprofit Ethics Survey found that slightly more than half of nonprofit employees observed at least one act of misconduct in the previous year, roughly the same proportion as in for-profit and government organizations. Of those who witnessed misconduct, nearly 40 percent did not report it, citing beliefs that reporting would produce no corrective action or fears of retaliation (Rhode & Packel, 2009). This pattern of underreporting means that many ethical failures remain invisible until they become crises.

A Case in Point

EduCap Inc., a multibillion-dollar student loan charity, provides a cautionary illustration. Internal Revenue Service records revealed that EduCap had charged excessive interest on student loans and directed millions in compensation and