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Back to the future: using the ethical climate questionnaire to understand ethical behaviour in not for profits

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Back to the Future: using the Ethical Climate Questionnaire to understand ethical behaviour in not for profits

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Abstract

The ethical climate of an organisation can be described as the lens by which employees determine what comprises ‘correct’ behaviour within that organisation. As an outcome of the organisation’s culture, many factors influence an ethical climate’s design and configuration, including the organisation’s history, its structure and management systems, the external environment and the individuals working within it. In order to work out the best ethical structure or ethical framework to support ethical behaviour, ethical climate must first be understood. The ethical climate questionnaire (ECQ), a tool developed more than 25 years ago by Victor and Cullen [34] has been designed for this purpose. The ECQ has been applied and refined in empirical research with a focus on private and public organisations, but what about not-for-profit organisations?

Through a focused literature review, this paper finds that the volume of empirical studies involving the ECQ in not-for-profit organisations is quite limited. Sample size, composition of the populations sampled and corresponding diversity in the intent or focus of these studies also limits broader application of their findings.

However, the admittedly limited research findings so far suggest that ethical climates in not-for-profits are different to those found in organisations from the private and public sectors, and cannot be established using a compliance or rule based approach to instilling ethics and integrity in organisations. Recent regulatory reform in the not-for-profit sector, increased community expectations, and the fact that services are often provided to vulnerable populations suggest a focus on the systems that support and demonstrate ethical decision making is long overdue.

Key words: corporate ethics, business ethics, ethical behaviour, ethical climate, ethical climate questionnaire, not-for-profit, charity
Introduction

Lewis [19] in his seminal study seeking to define business ethics, refers to two points commonly made about ethics. The first is that a person’s business ethics cannot be separated from his or her personal ethics, and secondly that business will never be more ethical than the people within the business. [19]

An ethical climate can be described as the shared perception and understanding of employees or ‘members’ of an organisation regarding its norms, values and behaviour. This shared perception defines how ethical issues should be dealt with and what is considered ethically correct behaviour. [23, 32, 35]

Despite the widespread implementation of ethics and compliance programs by organisations across the private, public and not-for-profit sectors, events continue to occur with a disheartening frequency, with ‘a concomitant moral collapses of trust among regulators and across the nation’ [24, p225]. Writing in the aftermath of the global financial crisis, Mark Blodgett admitted that ‘Business ethics controversies continue to arise in an era of global economic crisis, egregious corporate malfeasan ce, exorbitant CEO compensation, fraudulent investment schemes, proliferation of tort suits, and global human rights abuses’ [6, p39].

Nevertheless, many private companies, and their counterparts in the public and not-for-profit sectors, continue to adopt codes of ethics or conduct with the expectation (or hope) that doing so will positively affect the conduct of their staff, including executives and senior management, and enhance the standing of the company in the business community and wider society. Patrick Erwin, for example, regards a corporate code of conduct as a symbol of a company’s commitment to corporate social responsibility and a practical instrument for governing the behaviour of its employees which helps to establish a socially responsible and ethical organisational culture [13, p535]. For Erwin, ‘Ideally, codes of conduct affect the organizational culture by governing the actions and conduct of employees through the
promotion of ethical business practices, thereby avoiding legal consequences [such as high profile criminal and civil law suits]’ [13, p536].

Focusing on corruption in the public sector, James Lager insists that developing a code of conduct or ethics first and expecting an ethical organisational culture automatically to follow is really putting the cart before the horse. Despite its accompanying organisational challenges, he recommends that public sector agencies move from a compliance-based approach to ethics to one that has a greater values orientation and is more integrity-based. He points out that ‘Rather than emphasizing ineffective and costly approaches to depress the incidence of a specific objectionable conduct, a better approach would be to encourage government agencies to develop and maintain an ethical culture, where the difference between right and wrong is not measured against the terms of prescriptive regulations or legal counsel opinions, but by whether the action is inconsistent with the agency’s core values and mission’ [15 p76-77]. This highlights the need for organisations, perhaps especially for not-for-profits working in the social welfare, health, aged care and disability sectors, to ensure that their core values are fully aligned with their vision and mission and that their work in the communities they serve and conduct of their staff at all times exemplify these core values.

Moreover, a values-oriented or integrity-based approach to ethics helps to create a culture where employees are able to discuss ethical issues without shame or embarrassment, are recognised and rewarded for appropriate ethical conduct and in which ethical values are an integral part of leaders’ strategic decision-making. A values-oriented and integrity-based approach also helps to establish a good ethical climate ‘including better ethical awareness, employee integrity, and the belief that organizational decisions are better because of the ethics program’ [15, p77].
In Australia, the not-for-profit sector is a significant one. Approximately 600,000 entities were identified as belonging to the not-for-profit sector in 2012. In 2013, over 38,000 were registered as a charity by the Australian Charities and Not-For-Profits Commission (ACNC), with a combined income for 2012-2013 of more than 100 billion. [4, 21, 27]

As in other countries such as Japan, the United Kingdom, New Zealand and the United States, the Australian Government relies on the not-for-profit sector to deliver on social policy objectives by providing services that are considered critical to social cohesion and inclusion in a manner that is believed or hoped to be more efficient and effective than could be achieved by the government and public sector action alone. [17]

Australia’s reform agenda commenced in 2012 and follows a similar process to that instituted in Britain, Ireland. New Zealand’s Charity Commission was dismantled by the incoming Government in 2012 and merged back into existing departments for efficiency gains. The relatively new ACNC’s role was reviewed by the Federal Government in 2015 and at this time is set to remain in existence as the main not-for-profit regulatory agency at Federal level. [10, 26, 27]

Malloy and Agarwal [23] point to the widespread perception of not-for-profits as being more caring and trustworthy than their counterparts in either the public or private sector not only for individuals but for the community at large. Services are often delivered to people who are not able to afford to pay market prices for those services. Not distributing profits to shareholders is assumed to eliminate the agency dilemma and associated costs and stifle any potential for self-interested behaviour by board members (who are mostly volunteers) and executive management. [16, 23, 24]

However, issues around non ethical conduct can and do occur in not-for-profit organisations. High profile cases in the 1990s include the Canadian Red Cross where the organisation knowingly allowed blood tainted with Hepatitis C to enter the blood bank, and United Way of
America (UWA) in the 1990s which included unethical conduct by management relating to expenditure and running satellite businesses under the not-for-profit umbrella with questionable activities and accounting practices. In Australia, the findings of the ongoing Royal Commission into Institutional Responses to Child Sexual Abuse are likely to impact a number of not-for-profit organisations for some time to come. [11, 22, 31]

The section below provides an introduction to ethical climate theory with a brief account of its history and tracing its contours and links to organisational culture.

**Ethical Climate Theory**

Ethical climate theory has evolved from empirical studies of organisational climate across a range of organisations mostly in the private sector. Organisational climate, combined with an individual’s own ethical orientation, and the formal systems and rules of the organisation are all considered key variables in shaping the ‘ethical tenor’ of the conduct of employees. [22]

Ethical climates are considered against the background of an organisation’s history, external threats, internal influences, regulatory and professional requirements, the decision making structures or ethical frameworks that employees operate within, and individual employee factors (such as age, gender and ethical education). [8, 11, 22]

In the late 1980s, Victor and Cullen [8, 35] developed an ethical climate typology, based on a number of theories drawn from psychology, philosophy and sociology, some of which are identified below. The simplest way to explain and describe this typology is as a matrix. Nine ethical climates were identified in the matrix, with the vertical axis representing the ethical reasoning systems, and the horizontal axis representing the frame of reference for decision making, or locus of analysis. This is represented in Figure 1.

The vertical aspect of the matrix, Ethical reasoning systems, is drawn from Kohlberg’s individual moral development theory. This theory was founded on the three ‘bases’ that Kohlberg believed underpin moral judgement and corresponding to what he regards as the
three major classes of ethical theory – egoism, benevolence, and deontology (also described as self-interest, caring and abstract principle) [29, 30, 35]. In investigating possible ethical climates in organisations, Victor and Cullen [35] proposed that an organisation with a primarily benevolent climate would be expected to exhibit a consideration toward the wellbeing of others as the dominant ethical reasoning system. A climate that is classified as principled would predominantly use the application and interpretation of legal and moral principles in ethical reasoning, whereas in an egotistic climate, self-interest would be the dominant system. [35]

Figure 1: Theoretical Ethical Climate types

<table>
<thead>
<tr>
<th>ETHICAL REASONING SYSTEM</th>
<th>LOCUS OF ANALYSIS</th>
<th>SELF-INTEREST (Instrumental)</th>
<th>COMPANY PROFIT (Instrumental)</th>
<th>EFFICIENCY</th>
</tr>
</thead>
<tbody>
<tr>
<td>EGOISM</td>
<td>INDIVIDUAL</td>
<td>Self-interest*</td>
<td>Company Profit</td>
<td>Efficiency</td>
</tr>
<tr>
<td></td>
<td>LOCAL</td>
<td>(Instrumental)</td>
<td>(Instrumental)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>COSMOPOLITAN</td>
<td>Efficiency</td>
<td></td>
<td></td>
</tr>
<tr>
<td>BENEVOLENCE</td>
<td></td>
<td>Friendship (Caring)</td>
<td>Team Interest (Caring)</td>
<td>Social Responsibility</td>
</tr>
<tr>
<td>PRINCIPLE</td>
<td></td>
<td>Personal Morality (Independence)</td>
<td>Company Rules and Procedures (Rules)</td>
<td>Laws and Professional Codes (Law and codes)</td>
</tr>
</tbody>
</table>

*Ethical reasoning criterion.
Adapted from Victor and Cullen’s [35] dimensions as confirmed in empirical studies, with some climates later renamed by Malloy and Agarwal [22].

The horizontal axis of the matrix is defined as the locus of analysis and this has been derived by Victor and Cullen [35] from sociological theory (in particular, the work of Gouldner [14]) relating to roles and reference groups. The locus refers to the support or reference group in
which members of the organisation source their ethical reasoning. The local locus is defined as supporting ethical reasoning within the organisation itself, such as at the level of the team or business unit. A cosmopolitan locus has members of the organisation sourcing their ethical reasoning from somewhere external to the organisation, such as a professional association’s code of ethics (especially important for professions such as nursing, medicine, accountancy and the law). For the individual locus, the individual primarily engages and works within their own personal ethical framework. [35]

When reviewing the loci of analysis against each ethical reasoning system, the criteria used in making ethical judgements give rise to different dynamics, or contexts. Using egoism as an example, at an individual loci of analysis, this basic criterion (self-interest) sees the individual considering their own needs and preferences in terms of their own benefit, or to protect themselves. At the local loci, consideration would be given to what is in the best interests of the organisation (for example profit, market share or competitive advantage). The cosmopolitan locus of analysis defines considerations at a system level of interest (for example efficiency of a particular business system, such as specific components of the overall health care system). [35]

*Ethical Climate Questionnaire*

The ethical climate theory framework as outlined above provides the structure around which the ethical climate questionnaire (ECQ) was developed by Victor and Cullen [35] and the items included represent each of the nine theoretical ethical climate types, which were developed out of the original study.

The scale used is a six point Likert scale. Respondents are asked to complete the survey by responding to how it really is in the organisation as they see it, rather than how they would prefer it to be. The assumption is that responders are able to be objective in describing the organisation’s ethical climate to others outside of the organisation. To account for any
‘filters’ that could distort an individual’s perception of an organisation’s ethical climate, Victor and Cullen have attempted to emphasise descriptions rather than feelings, and not focus on the individual respondent’s behaviour (and whether this is ethical or not). [35]

Since its development the tool has been tested empirically by Victor and Cullen in various organisations [8, 35] and utilised in many studies in the for-profit sector, including Weber’s [35] seminal work which found a number of ethical sub climates within a single organisation. It is interesting to note that the repeat study by Weber and Seger did not find ethical sub climates [37]. Cullen, Parboteah and Victor’s [9] study assessed the effect of various organisational ethical climates on organisational commitment. Peterson’s [25] study explored unethical behaviour of employees and its relationship with the nine climates (as outlined in Victor and Cullen’s original ethical climate framework) and compared this with the five dimensions that had previously been identified in several empirical studies. More recently, Lemmergaard and Lauridsen [20] empirically tested Victor and Cullen’s ethical framework on a sample of Danish firms, confirming the strength of the original empirical model with some suggestions for further strengthening of the model.

Methodology

Through the use of key words, a number of relevant business databases were accessed to identify what empirical studies had been conducted using the ECQ in not-for-profit organisations. The search methodology is outlined below.
### Table 1- Journal Article search method

<table>
<thead>
<tr>
<th>Key Words</th>
<th>Databases</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Ethics</strong></td>
<td>Via Summon, databases searched include:</td>
</tr>
<tr>
<td><strong>Ethical climate</strong></td>
<td>ABI/Inform Complete</td>
</tr>
<tr>
<td><strong>Ethical climate questionnaire (ECQ)</strong></td>
<td>Australian/New Zealand Reference Centre</td>
</tr>
<tr>
<td><strong>Not-for-profits</strong></td>
<td>Business Source Complete and Corporate</td>
</tr>
<tr>
<td><strong>Non-profits</strong></td>
<td>Education Research Complete</td>
</tr>
<tr>
<td><strong>Charities</strong></td>
<td>Emerald Business, Ethics and Law (all)</td>
</tr>
<tr>
<td></td>
<td>Expanded Academic ASAP</td>
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<tr>
<td></td>
<td>Google Scholar</td>
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<tr>
<td></td>
<td>Health Business Elite</td>
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<tr>
<td></td>
<td>Health and Medical Complete</td>
</tr>
<tr>
<td></td>
<td>Health Business Full text</td>
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<tr>
<td></td>
<td>JStor (all)</td>
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<td></td>
<td>ProQuest Central</td>
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<td>SAGE</td>
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<td></td>
<td>Springer Online Journals Complete</td>
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<td></td>
<td>SpringerLink</td>
</tr>
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<td></td>
<td>Wiley online</td>
</tr>
</tbody>
</table>

The review was limited to peer reviewed journals in the English language, and full text articles available online. Studies relating to amateur sporting organisations were excluded from the results. The results of this review are summarised in Table 2.
## Table 2: Literature Review summary - use of ECQ in not-for-profit empirical studies.

<table>
<thead>
<tr>
<th>Authors</th>
<th>Summary of study</th>
<th>Ethical climates identified</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deshpande [11]</td>
<td>Surveyed a single not-for-profit organisation. Also measured ‘ethical optimism’ and the influence of different ethical climate dimensions on the ethical practices of successful managers. <strong>Location:</strong> United States <strong>Sample size and type:</strong> 252 mid-level managers in a single charitable organisation 69% response rate.</td>
<td>Professional, rules, caring and instrumental</td>
</tr>
<tr>
<td>2. Agarwal and Malloy’s [1]</td>
<td>Surveyed a single provincial sport federation. <strong>Location:</strong> Canada. <strong>Sample size and type:</strong> Executives, Board of Directors and coaches. Sample not provided in paper, noting 37% response rate to survey (148).</td>
<td>Individual caring and social caring.</td>
</tr>
<tr>
<td>3. Malloy and Agarwal [22]</td>
<td>Follow up of their earlier study [1], but with a comparison of ethical climates in the government and not-for-profit sectors. <strong>Location:</strong> Canada <strong>Sample size and type:</strong> 500 not-for-profit and 500 for-profit managers with supervisory responsibilities. 30% and 46% response rate respectively across government departments and not-for-profit organisations (including charities) in two provinces.</td>
<td>Shared ethical climate dimensions for both sectors included individual, caring, independence and efficiency.</td>
</tr>
<tr>
<td>4. Brower and Shrader’s [7]</td>
<td>Exploratory study regarding the difference between moral reasoning and ethical climate of different board members for seven profit and six not-for-profit organisations. Diverse industries including health care, research, manufacturing and charities. Included interviews. <strong>Location:</strong> United States <strong>Sample size and type:</strong> 83 (23 for profit; 60 not-for-profit. Response rate average 62% for-profit, 52% not-for-profit)</td>
<td>For-profit organisations - climates higher in egoism than not-for-profit organisations. Not-for-profit - climates higher in benevolence than for-profit organisations</td>
</tr>
<tr>
<td>5. Laratta [16]</td>
<td>Surveyed social services not-for-profits. Measured relative intensities of ethical climates and included interviews. <strong>Location:</strong> United Kingdom (7 organisations) and Japan (6 organisations) <strong>Sample size and type:</strong> Executive Directors. 148 (UK), 134 Japan with a 21.6 and 28.4 % response rate respectively.</td>
<td>Both countries – absence of a self-interest climate. Strong intensity of either individual caring or social caring climates. Law and codes strong climate in Japan, whilst independence strong in the UK.</td>
</tr>
<tr>
<td>6. Laratta [17]</td>
<td>Surveyed the not-for-profit and government sectors to compare ethical climates between the two sectors. <strong>Location:</strong> Japan <strong>Sample size and type:</strong> 500 public officials; 512 not-for-profit executive directors. Net sample of 441 questionnaires (not-for-profit) and 321 questionnaires (for government).</td>
<td>Laws and rules perceived as necessary by both not-for-profit and government sectors. Absence of egoism with not-for-profit executives. Individual caring climate (friendship) or social caring climate (stakeholder orientation) high for both sectors.</td>
</tr>
</tbody>
</table>
Findings

Since the development of the Ethical Climate Questionnaire in the late 1980s, a total of six empirical studies using the ECQ in not-for-profit organisations were identified in the database search. Deshpande [11] in his seminal empirical study, used Victor and Cullen’s ethical questionnaire to assess the ethical climate in a not-for-profit company in the United States, and also sought to measure ‘ethical optimism’ so as to assess the nature and range of behaviour by successful managers that was regarded as ethical. The study also examined the influence of different ethical climate dimensions on the ethical practices of successful managers. Deshpande found that the findings supported Victor and Cullen’s [35] early work with a single organisation having various types of ethical climates that co-exist within the organisation. However a dominant climate is typically identified. The majority of respondents reported only four different climate types (professional, rules, caring and instrumental). This was different to what had been reported in studies conducted in for-profit organisations by Victor and Cullen [9] who found the additional ethical climates of efficiency and independence in these organisations. Managers perceived a strong relationship between ethics and success when they also observed a greater level of caring and lower levels of instrumentalism (that is egoism) in decision making. The author recommended that managers need to review the perceived ethical climate within their organisation before developing strategies to change ethical behaviour of employees.[11]

Agarwal and Malloy’s [1] empirical study of ethical climate in not-for-profit organisations draws from Victor and Cullen’s [35] theoretical framework and examines ethical climate by surveying executives, board of directors and coaches of a provincial sport federation in Canada. The researchers applied a slightly modified ethical climate questionnaire from that used by Deshpande, Joseph and Prasad [12] and that originally devised by Victor and Cullen [35].
Agarwal and Malloy’s analysis found that two distinct climates emerged, that of individual caring and social caring. This result was different from earlier research by Victor and Cullen [9, 35] where it had been found that there was no difference between the loci of analysis relating to the benevolent criteria. [1]

Another key finding of the study is the absence of the local (organisational) locus of analysis, with a focus instead on the individual and cosmopolitan perceptions of organisational ethical behaviour. These findings indicate that individuals may perceive the ethical climate as supporting individual members to reference their own ethical framework or an external professional or legal code rather than the policy, code or rules for organisation they work in or volunteer for. This finding of individual loci reflects the earlier work by Deshpande [11]. [1].

Not-for-profit organisations may need to develop more a more formal culture, and an inward focus on their own systems in order to be able to better connect their members to these systems. This again echoes Deshpande’s [11] findings.

Malloy and Agarwal [23] followed up their earlier study with a comparison of ethical climates in the government and not-for-profit sectors in Canada. In comparing identified ethical climates, the authors found that the shared ethical climate dimensions between not-for-profit and government organisations included individual, caring, independence and efficiency with caring ethical climates perceived to be particularly relevant across the two sectors. It was noted by the researchers that this may contribute to the success of collaborations between the two sectors as there is a common acceptance of benevolence and trust in relationships that are based on the interests of the other.

Malloy and Agarwal observed that only limited empirical research had been conducted on not-for-profit ethical climates from the time of their first study 10 years previously. In this study they collaborated with Rasmussen to survey mid-level managers in government and
not-for-profit organisations in the health and social sector in one province in Canada. They used unstructured interviews based on the ECT framework to explore interpretation of ethical climate. Both groups displayed a lack of identification with ego, and equal agreement about the most cost effective way not always being the right way. However not-for-profits found themselves often prioritising cost effectiveness in decision making due to the perceived need to demonstrate efficient budget management on an often annual basis to government stakeholders. Considerable divergence between the two groups existed with their perception of benevolence, with government managers considering what is best for the public as their focus, and not-for-profit managers considering what is best for the individual client over the broader public. This confirmed earlier work by Agarwal and Malloy [1].

Another interesting finding related to compliance based behaviour or following strict legal and professional standards. The public servants interviewed expressed the belief that there was a strong expectation that standards would be followed and this was necessary in the environment they operate within. In contrast, not-for-profit managers were still committed to following the rules but viewed this more as an imposition, with the expectation that those providing services often were required to develop creative ways to meet individual client needs with the resources available, sometimes requiring deviation from the organisation’s rules and procedures. [28]

Brower and Shrader’s [7] empirical exploratory study examined the difference between moral reasoning and ethical climate of board members in seven profit and six not-for-profit organisations based in the same Midwestern state within the United States. The authors utilised moral development theory based on the work of Rest [30] a student of Kohlberg, and a slightly modified version of Victor and Cullen’s original ethical climate questionnaire. In relation to ethical climate, the authors proposed that for-profit and not-for-profit boards are different in their perceptions of ethical climate within their individual organisations and that
cultural climate (which they have equated to ethical climate) would impact moral reasoning in different ways when comparing for-profit with not-for-profit boards. [7]

The crossover of cultural climate and ethical climate is disconcerting, as other researchers such as Malloy and Agarwal [22] see the two as quite distinct. They define culture as comprising management’s and employees’ shared assumptions about how the organisation does and ought to operate. Culture is considered to encompass or incorporate climate. Climate is seen as the shared perceptions of all members of the organisations about how the organisation operates. Climate is thus viewed as a result or outcome of culture.

While Brower and Shrader found in their study that there was no significant difference between moral reasoning in for-profit and not-for-profit boards, they did identify statistically significant differences between ethical climates. For-profit boards were found to exhibit climates higher in egoism than not-for-profit boards. Not-for-profit boards were more likely to employ benevolence ethical reasoning than their for-profit counterparts.[7]

Larratta [16] compared ethical climates across multiple not-for-profit organisations in the United Kingdom and Japan based on the perceptions of Executive Directors (CEOs, Managing Directors, Associate Directors), using a modified version of the ECQ. His finding that an absence of self-interest, and a high emphasis on caring climates predominated in both countries appears to confirm previous findings from the not-for-profit sector, particularly that in the work of Agarwal and Malloy [1, 23].

A key difference was identified in the survey results and confirmed during the interviews. This related to the use of rules and law (principles) when making decisions. United Kingdom participants discussed their reliance on their individual moral values and ethical codes with a reduced reliance on rules and law, a finding which was not unexpected [23, 28]. However Japanese not-for-profit executive directors strongly identified with law and code when making decisions, whilst still maintaining a benevolent orientation (such as caring for the
good of the community). Laratta claims that this finding refutes Victor and Cullen’s [8, 35] ethical climate theory and the findings in subsequent studies based on it [11, 18]. If Laratta is correct, it suggests that organisations with an individual or social caring climate can and do apply laws and rules as their dominant form of reasoning.

However, in reviewing Laratta’s application of the ECQ, it should be noted that a number of the survey statements that participants were asked to respond to commenced with ‘decision makers around here’ rather than ‘people around here’ as in earlier studies. Thus it raises the question of whether Laratta’s research was measuring the organisation’s overall ethical climate (or climates) or just the ethical climate at the CEO level. If it is the latter, it would be important to know whether the CEO level perception of the ethical climate reflects the ethical climate as perceived by organisation members across the whole organisation.

Laratta’s second study [17] used the ECQ to survey the not-for-profit and government sectors in Japan to compare ethical climates with a view to understanding the differences and similarities between the two sectors. A slightly modified version of the ECQ tool was used, and this included a translation to the Japanese language. In this study, Laratta [17] found that there were a number of similarities between the ethical climate perceptions of executive directors of not-for-profits and government officials. Universal laws and rules were perceived as necessary by both sectors. This reliance had been identified for not-for-profit executives in Laratta’s previous study [16].

Also identified was a lack of identification with egoism with not-for-profit executives, along with strong perceptions of belonging to either an individual caring climate (friendship) or social caring climate (stakeholder orientation) for respondents from the two sectors. The primary concern of both groups was the well-being of others and to do what was best for users of the organisation’s service (individual responsibility) and the community as a whole (social responsibility). These findings support earlier work by Malloy and Agarwal [23]; and those of the other studies reviewed in this paper [7, 11, 17, 28].
Discussion

Commonality in findings between studies includes a general lack of egoism, an emphasis on caring, benevolent climates and the absence of an organisational or local referent or focus. These findings suggest that formal policies and rules regarding ethical decision making may not be as effective in a predominately caring climate type because rules and codes perhaps do not have the same importance to organisation members. In fact, a caring climate with an individual or cosmopolitan locus of analysis would place the welfare of individual care recipients, or indeed society as a whole, as being of greater importance. This may cause organisation members to override, overlook or circumvent existing organisational policies and rules. However this could vary between countries and according to their different cultures, traditions and histories.

It is important to acknowledge that all of these the studies have shortcomings, including limited sample size [1, 7], response rate [16], being limited to a specific management group [1, 7, 16, 17], or only conducted in a single country [1, 7, 11, 17, 22]. As already highlighted, many of these studies also mostly focus on executive and board level members of not-for-profit organisations, which offers limitations on what the actual perception of ethical climate for organisation members is at the service delivery level.

Although there have only been limited studies of not-for-profits and their ethical climates, there is a common theme that the ethical climates that exist in not-for-profit organisations are distinct from those found in the for-profit sector. The revision of Victor and Cullen’s ethical climate theoretical framework for not-for-profits, as proposed by Malloy and Agarwal [22] has some resonance with the findings common to all of the studies. Their revised model provides a potential platform for further fruitful exploration in the sector. This updated model or framework is outlined in Figure 2.
Figure 2: Proposed Ethical Climate Types (not-for-profit)

<table>
<thead>
<tr>
<th>Ethical Reasoning System</th>
<th>Locus of Analysis</th>
<th>Individual</th>
<th>Local</th>
<th>Cosmopolitan</th>
</tr>
</thead>
<tbody>
<tr>
<td>Egoism</td>
<td></td>
<td>Machiavellianism</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Benevolence</td>
<td></td>
<td>Individual caring</td>
<td>Social caring</td>
<td></td>
</tr>
<tr>
<td>Principle</td>
<td></td>
<td>Independence</td>
<td>Law and code</td>
<td></td>
</tr>
</tbody>
</table>

Adapted from: Malloy and Agarwal [23, p42]

Conclusion

Ethical frameworks are a reflection of the ethical climate (or climates) of the individual organisation. Therefore, in order to change or improve the ethical framework in an organisation, one must understand the existing ethical climate, and what the organisation wishes it to be. [9, 35]

The ethical climate questionnaire as developed by Victor and Cullen provides organisations with an opportunity to identify what their members perceive to be the ethical climate in their particular organisation. Since its development in the late 1980s the tool has had limited application in not-for-profit organisations, with only six empirical studies completed thus far and with some exceptions [17, 22] all with limited sample sizes and scope of application. The use of the questionnaire has varied considerably but it is interesting to note that no study
has utilised the questionnaire to get a cross-section of perceptions for all levels in a single organisation as was its original intent [9, 35].

The application of the ECQ in the not-for-profit sector mirrors research using the ECQ in other sectors. Arnaud [3] a critic of the tool and its usefulness, reports its application in approximately 75% of ethical climate research but makes little comment about the variations in the tool itself across different studies or of how it has been applied by them. In contrast, Simha and Cullen [34] note the inconsistent application and modification of the tool, which makes it difficult to compare findings across studies.

In reflecting on the lack of focus on ethical climate research in the not-for-profit sector, a combination of factors is suggested to have influenced this outcome. These include an initial and necessary concern with improving efficiency of not-for-profit business models, and the diverse and fragmented nature of the sector itself. These factors have often resulted in different government agencies having inconsistent and sometimes competing regulatory interest in the sector, diffusing the impact of regulatory pressure for greater accountability in the sector. [11, 17, 22, 28]

**Implications**

With the recent changes in regulatory landscape and subsequent raised expectations of accountability for not-for-profit organisations, including in Australia, it is timely that further consideration is given to the ethical climates of not-for-profit organisations, and their alignment with government and stakeholder expectations.

Of the limited research conducted so far, it is interesting and not unexpected to note that different ethical climate types have been identified in the not-for-profit sector as compared with the private and public sectors.

These findings support earlier comment by several writers that the implementation of more rules and policies simply may not work. Structures to support ethical decision making (such
as a code of conduct, ethics training and whistleblower programs) within any organisation can’t be effective until the existing ethical climate is understood.

With ongoing regulatory reform in the sector, and an increasing focus on reputational risk, what kind of ethical climate will a not-for-profit be expected to have and nurture in the future?
References:


30. Rest JR, Narvaez D, Thoma SJ, Bebeau MJ. A Neo-Kohlbergian Approach to Morality Research. JME 2000; 29 (4); 381-395


