

Ethical Climate in Government and Nonprofit Sectors: Public Policy Implications for Service Delivery

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ABSTRACT. An important factor that leads governments to engage in public service contracts with nonprofit organizations is the belief that they share similar ethical and value orientations that will allow governments to reduce monitoring costs. However the notion of the existence of similarities in ethical climate has not been systematically examined. The purpose of this paper is to investigate the ethical climate in government and nonprofit sectors and to determine the extent to which similarities (and differences) exist in ethical climate dimensions. Using survey data and structural equation modeling technique, the factor structure equivalence and measurement invariance of the ethical climate in the two sectors are tested. Results indicate that while there is a significant overlap in shared perception of ethical climate dimensions, there are also key differences between the two sectors. The outcome of this research provides important preliminary insights for public policy makers in government to better understand the implications of using the nonprofit sector for service delivery.

KEY WORDS: ethical climate, nonprofit, government, structural equation modeling

Introduction

As the relationship between the government and nonprofit sector continues to evolve, the need to better understand the ethical orientation of each sector becomes more important. This is the case particularly when there is an increasing reliance on the nonprofit sector to implement a variety of government public services (Hall, 1994; Smith and Lipsky, 1993; Tait, 2000). The primary rationale for government involvement in these relationships is efficiency in program delivery, and divergent goals obviously are not conducive to good business or governance. On the other hand, the

nonprofit rationale for partnership with government agencies is primarily to garner needed funds to operate their programs and serve their particular clientele (Gazley and Brudney, 2007). As a consequence there may be opportunity for philosophical and administrative conflict as one party seeks efficiency for the commonweal and the other seeks financial support to service a particular interest.

Governments rely on a range of different instruments to guide its relations with nonprofit organizations, but most often the relationship is contractual. Occasionally these contracts create a genuine and long lasting partnership between organizations (Brown and Trout, 2004). For governments, however, contractual relations with outside organizations have many well-documented perils (Gazley and Brudney, 2007; Prager, 1994). To limit the dangers and uncertainties of contracting, governments have been urged to enter into relations with organizations with similar ethics and value systems (Brown and Potoski, 2003). It is possible that similar ethical values may play a role in helping government overcome its “agency” problem in situations in which goals and missions are not closely aligned (Provan and Milward, 1995; Smith, 1989). Similarities in ethical values perceptions should add to the willingness of the two to engage in less rigid contractual arrangements and more values-based relationship (Brown and Trout, 2004). In other words, in order to sustain long-term relationship both sides should be driven by philosophy and ethical values that go beyond merely providing efficient solutions to societal problems. It has been argued that various combinations of trust and ethical values are sometimes cost effective alternatives to

regimes of intensive performance management (Pollit, 2000). Osborne (2002) states that

Values concern the core aspirations and *raison d'être* of both government and voluntary and community sectors...values are fundamental to a real and meaningful on-going relationship. There is a significant debate to be had at the local level about the different value assumptions that local government and the voluntary sector bring to a number of key issues. (p. 18)

The concept of ethical climate in particular is a powerful one. Despite attempts by organizations to formally create an ethical workplace, it is the perception of these policies, procedures, myths, reward and punishment systems, and behaviors that are manifested in actual ethical conduct of the members (cf., Hodgkinson, 1996; Sims, 1992; Trevino, 1992). As a result, ethical climate and the notion of trust weigh in heavily when organizational rhetoric is incongruent with organizational reality. What then can measures of ethical climate tell us about government-nonprofit relational fit and their policy implications for service delivery? Indeed, the costs of monitoring contracts with private sector are often prohibitive and thus a motivation to use nonprofit organizations (Prager, 1994). If these costs can be reduced even further due to congruence in ethical climates, then it can make nonprofit organizations even more attractive partners for government.

The purpose of this paper is to investigate ethical climates in government and nonprofit sectors and to determine the extent to which similarities (and differences) exist in ethical climate dimensions. This study provides a theoretical and empirical starting point from which government and nonprofit organizations can explore their own ethical orientations and their potential commonalities and differences. The outcome of this introspection could be the basis for a more in-depth awareness of ethical perceptions of each sector and the enhanced sense of trust that each may bring to the table in their intersectoral negotiations. Results of this study provide important insights into similarities and differences in ethical climate that may allow policy makers in government to better understand the implications of using nonprofit partners to deliver services. In the next section we discuss the relationship between government and nonprofit sectors.

Government–Nonprofit relationship

In relation to efficiency, government sees nonprofit participation in terms of their service delivery role in offering customized service packages with greater efficiency in areas marked with government and market failures. One reason for this efficiency is that nonprofits are not subject to the same requirements for equity and accountability as governments are, and hence are less bureaucratic and more flexible. Furthermore, nonprofits are often *perceived* to be more trustworthy than government and market-based service providers, due to the non-distribution constraint and the assumption of humanitarian and altruistic mindsets, thus mitigating principal-agent problems related to contract failure (Mansbridge, 1998). The conventional wisdom is that the non-distribution constraint limiting the distribution of profits provides a disincentive for nonprofits to exploit their clients or patrons (Hansmann, 1987; O'Neill, 1992). This constraint against distribution of profits is useful because it “explains the existence of the nonprofit sector and keeps it honest, ensuring the dedication of assets and effort toward performing good deed” (Brody, 1996, pp. 461). On the other hand, the measurement of success in terms of profit margins provides an explicit measure of accountability to shareholders that is lacking in the nonprofit sector.

Indeed successful relationships are most often built on trust and as such governments have been advised to choose to contract and partner with nonprofit organizations because they are less likely to behave in the opportunistic fashion usually associated with for-profit organizations. This view though must be held with some caution as even within the context of non-distribution, nonprofit organizations are subject to forms of opportunism that are unique to their particular context (Gardner, 1987; Gazley and Brudney, 2007). For example, many nonprofits are not held as accountable as their government or for-profit counterparts due to the fragmentation “between the community-at-large, the fiduciary board, the funding source, and management, each of which at times plays an ownership role...the interworking of the not-for-profit system, thus are difficult to balance and often in conflict” (Gardner, 1987, pp. 7–8). However, research in this field generally bears support that nonprofit organizations are less prone to opportunism than are private sector

firms, which are *perceived* to be hard-edged and uncaring favoring private over societal issues; as a consequence there may be greater success in non-profit-government arrangements (Brinkerhoff, 2002; Brinkerhoff and Brinkerhoff, 2002; Light, 2000).

There have been other arguments that have suggested that nonprofits are more likely to be trustworthy partners for government, particularly those related to their selection of managers and leaders. That is, if we assume that managers have a range of motivations from self interest and power-seeking to personal goals and public ideals, then because nonprofits operate under a non-distribution constraint the pool of managers will sort itself out automatically. In this case, the more public-spirited and value-driven managers will be going to the nonprofit sector and the more self-seeking and profit-driven will be going to the private sector (Brinkerhoff and Brinkerhoff, 2002). Thus the nonprofit sector is perceived to be more trustworthy because of the kinds of people that it attracts who tend to be more benevolent and public spirited.

The humanistic view leads directly to the proposition that under conditions of information asymmetry, nonprofit organizations will be a better choice than for-profit organizations because they will behave in a more caring and trustworthy manner toward clients who are not paying for the service they are receiving. Generally, nonprofit organizations are perceived to be more caring and trustworthy not only for the individual but for the community at large (Agarwal and Malloy, 1999). This perception is particularly salient in the social service sector where one is hoping to have a stronger caring relationship between say the elderly and those providing care, or young children in a day care environment. Indeed, according to Weisbrod (1988), nonprofit organizations should be superior in a relationship where there is a separation between the person paying for the service and the person receiving the service precisely because most people tend to perceive the nonprofit sector as more trustworthy.

While there is evidence that most nonprofit organizations share a public interest motivation with government that is absent in private sector organizations, there are still unresolved issues centering around differing accountability requirements. Nonprofit organizations do not have the same accountability

requirements as governments and tend to be more concerned about their own mission and goals (Dicke and Ott, 1999). For example, Wilensky and Hansen (2001) argue that nonprofits struggle continually with accountability issues because, unlike the clear financial targets of for-profits, their goals are based on fulfilling often imprecise and challenging “soft” human issues and responding to the diverse needs of multiple contingencies. This might not be a problem if the goals of both organizations were simply directed at improved client well-being, but in almost all cases this is not the only goal for nonprofit organizations or government agencies. Nonprofit organizations are accountable to the intensifying demands of multiple funding agencies and foundations, to diverse boards of directors, and to their own particular clients and projects (Brinkerhoff and Brinkerhoff, 2002; Salamon, 1987), while governments are accountable to citizens and legislatures.

However, the public-spirited nature and greater trustworthiness associated with the nonprofit sector are still seen to be reasons why governments have less to fear in their contractual activities with the nonprofit organizations especially in the use of performance contracts (Brown and Troutt, 2004; Pollit, 2000). That is, performance contracts rely more on performance specifications and ties part of the compensation to the achievement of results (Kettner and Martin, 1995). The use of performance contracts is intended to allow for a simplified monitoring process while at the same time improving accountability by focusing on and documenting the results of service provision. Yet this means a much looser arrangement between government and its nonprofit partners, and as such issues relating ethical climate become even more important as governments try and reduce the costs of monitoring contracts. In the next section, we discuss the theoretical framework for ethical climate.

Theoretical framework

The research investigating ethical climate in for-profit organizations is voluminous. However, relatively few studies have been conducted in nonprofit contexts (e.g., Agarwal and Malloy, 1999; Brower and Shrader, 2000; Deshpande, 1996a, b; Malloy and Agarwal, 2001, 2003) and, to the authors’ knowledge, no empirical research has been

conducted in the governmental sector apart from a recent qualitative study by Rasmussen et al. (2003). Their findings revealed that government participants identified the law and code and social caring climates as being prevalent, whereas nonprofit participants identified individual caring, independence, and team caring as the prevailing ethical climates. Of the research that has been conducted in ethical climate, the vast majority appears to be based upon the theoretical framework developed by Victor and Cullen (1987, 1988) who define ethical climate as “the shared perceptions of what is ethically correct behavior and how ethical issues should be handled.” We briefly discuss this framework, which juxtaposes ethical theory with the locus of analysis construct.

Ethical theory

Victor and Cullen (1987, 1988) developed a framework for measuring the perception of ethical orientation by combining the theoretical constructs of ethical theory and locus of analysis. They draw from the findings of Kohlberg’s research (Higgins et al., 1984; Kohlberg, 1984) that indicates that the individual’s cognitive ability to reason through moral dilemmas is developmental and that the “moral atmosphere” or “higher stage environment” that is created by the collective or the “just community” is a powerful moderator for this process. Extrapolated to the context of the organization, work climate may function to establish and reinforce aggregate norms, values, and beliefs that may or may not be ethically enhancing or consistent with the institutional view of how things ought to be done around here (Trevino, 1986, 1990; Wyld and Jones, 1997).

Three ethical theories form the basis of Victor and Cullen’s (1987, 1988) model. Ethical theory consists of three dimensions that parallel the pre-conventional, conventional, and post-conventional orientations of Kohlberg’s (1969) model. They include egoism (hedonism), benevolence (utilitarianism), and principled (deontology) ethical grounding. It is interesting to note that these three ethical theories conceptually and philosophically overlap significantly with the three generally accepted dimensions of trust, namely, ability (i.e., skills and competencies), benevolence (i.e., non-egocentric motive), and

integrity (i.e., personal and moral principles) (Mayer et al., 1995).

The first theory is *egoism*. Egoism represents organizational behavior that attempts to avoid punishment and seeks reward for the individual and the organization (e.g., Kohlberg’s (1969) pre-conventional stage). This often leads to a climate in which the primary goal is individual and organizational efficiency and success in terms of productivity and cost-effectiveness. Egoism parallels the *ability* dimension of trust (Mayer et al., 1995) as it focuses on the competence of the party to deliver results in the particular domain of interest.

The second theory is *benevolence*. This approach describes organizational behavior that seeks the greatest goodness or pleasure and the least pain for the members as a whole. It is democratic, utilitarian (Mill, 1863/2002), and conventional (Kohlberg, 1969) in orientation. The benevolence theory aims at fostering friendship, interpersonal relationship, group cohesion, and public good. This dimension shares significant similarity with the *benevolence* dimension of trust which denotes friendship or kinship bonds that develop into mutual understanding and that is devoid of egocentric motive (Mayer et al., 1995). Mayer and Norman (2004) suggest that benevolence “reflects a belief that the other party holds the trustor’s interests as important” (p. 228).

The final theory in this framework is termed *principle*. Unlike the previous two teleological-based theories, this approach places emphasis not on the happiness or pleasure of the individual or group, but rather its focus is upon abstract impersonal rules of conduct (Kant, 1785/1983; Kohlberg, 1969). These rules manifest themselves in the form of personal morality, organizational rules and procedures, and legal and professional codes of conduct. This dimension is similar to the *integrity* dimension of trust which refers to the trustor’s perception that the trustee adheres to a set of principles related to fairness and integrity that is deemed acceptable to the trustor (Mayer et al., 1995).

Locus of analysis

This construct contains three different reference points for an individual’s decision making and

functions to “shape the behaviors and attitudes of role incumbents” (Victor and Cullen, 1988, p. 106). These three perspectives include individual, local, and cosmopolitan viewpoints. Decisions made at the *individual* locus are ideographical in nature and based upon personal inclinations or well-considered existential convictions. The *local* referent is the immediate work group or the firm generally as well as the individual’s community of significant others. Norms, values, and behaviors derived from this immediate work or social community are internalized or at least generally operationalized by the individual actor. The local locus is indicative of decisions made as a function of the will or the pressure of the group. Finally, *cosmopolitan* decisions are made as a result of their perceived universality as opposed to what is good for the individual or the group. At this level, behavior is shaped by normative systems that have the potential to operate within the organization but are generated and maintained externally (e.g., professional codes of ethics as opposed to firm-specific behavioral norms).

Ethical climate

The outcome of the juxtaposition of these loci of analyses and three ethical theories is a nine-cell climate matrix presented in Table I. We have added Mayer et al.’s (1995) dimensions of trust to illustrate their conceptual relationship with ethical theory.

While these nine cells exist theoretically in Victor and Cullen’s framework, however, empirically, fewer climate types present themselves (see Table I). For example, in the vast majority of studies conducted in the for-profit sector (including Victor’s and Cullen’s original study), five climate types seem to re-occur (e.g., Barnett and Schubert, 2002; DeConnick and Lewis, 1997; Peterson, 2002; Vardi, 2001; Victor and Cullen 1988). While some research identifies similar ethical climates in the nonprofit sector (e.g., Deshpande, 1996a, b), other studies demonstrate notable variations (e.g., Agarwal and Malloy, 1999; Brower and Shrader, 2000). For example, the study conducted by Agarwal and Malloy (1999) reveals that the nonprofit sector has a more discriminating perception of benevolent and caring climate as opposed to the justice-oriented “law and code” climate. In the next section, we

empirically test the theoretical matrix (in Table I) to explore similarities and differences in ethical climate dimensions in government and nonprofit sectors.

Methodology

Data collection

We contacted by mail 1,000 potential respondents (500 in the government sector and 500 in the nonprofit sector) who received a self-addressed stamped envelope, the survey instrument (Ethical Climate Questionnaire, Victor and Cullen, 1987, 1988), and a cover letter explaining the purpose of the study. We requested access from the senior administration for the initial mailing. Surveys were distributed as part of the internal mail system and were not to be distributed by supervisors personally in order to avoid any perceived coercion to respond. While mail surveys are known for the low response rate, it offers a high degree of perceived anonymity, which is an important consideration here given the nature of this study. An official letter of endorsement was obtained from the Kahanoff Foundation (one of the funding sources) to enhance the response rate. Subjects were informed, in writing, that their participation would be voluntary and that their responses would remain anonymous and confidential. The study received approval from the Research Ethics Board from the authors’ affiliated university. A second wave of reminder letters was also mailed after six weeks to enhance the response rate. In the nonprofit sample, 152 questionnaires were filled and returned yielding a response rate of about 30%. In the government sample, 230 questionnaires were filled and returned yielding a response rate of about 46%. Due to some missing values, a net sample of 147 questionnaires (for nonprofit) and 214 questionnaires (for government) were used for subsequent analysis.

The research is based at the provincial (state) level due to the close linkage between the two sectors. For example, in Canada, the provincial government shares a constitutional responsibility in the important areas of education, health, labor, and social services. Further, access to data is greatly facilitated at the provincial level. For our purposes, we included two Canadian Provinces. Data from the government sector was collected from various provincial governmental departments such as education, health,

TABLE I
Theoretically based ethical climate matrix (Victor and Cullen, 1987)

	Individual	Local	Cosmopolitan
Egoism (Trust: ability)	Self-Interest (<i>Machiavellian*</i>)	Company Profit	Efficiency
Benevolence (Trust: Benevolence)	Friendship (<i>Individual Caring*</i>)	Team Interest	Social Responsibility
Principle (Trust: Integrity)	Personal morality (<i>Independence*</i>)	Company Rules and Procedures (<i>Rules and Procedures*</i>)	Law and Professional codes (<i>Law and Code*</i>)

Description of goals in theoretically derived ethical climates (adapted from Victor and Cullen, 1987, 1988)

Self-Interest: A climate in which the primary goal is individual success and not necessarily that of the organization or of society (*Machiavellian**).

Friendship: A climate in which the primary goal is a sense of individual acceptance and interpersonal relationships (*Individual Caring**).

Personal Morality: A climate in which the primary goal is for individuals to be authentic (*Independence**).

Company Profit: A climate in which the primary goal is success for the organization.

Team Interest: A climate in which the primary goal is to develop a sense of group cohesion and effectiveness.

Company Rules and Procedures: A climate in which the primary goal is to abide by organizationally based policy (*Rules and Procedure**).

Efficiency: A climate in which the primary goal is to strive to make the system-at-large (e.g., government) as productive and cost-effective as possible.

Social Responsibility: A climate in which the primary goal is to foster the public good.

Law and Professional Codes: A climate in which the primary goal is to adhere to the global principles as outlined by the legal or professional jurisdictions (e.g., the Canadian Charter of Rights and Freedoms or the Canadian Medical Association (*Law and Code**)).

*Empirically derived ethical climates by Victor and Cullen (1988).

social services, and labor. Data from the nonprofit sector was collected from several organizations that had full-time employees and managers with supervisory responsibilities, such as United Way, Canadian Blood Services, Canadian Cancer Society, Sports Federations, and Ducks Unlimited.

Respondent characteristics

The nonprofit sample consisted of respondents with the following characteristics: 68% were females and 32% males with an average age of 45 years. 24% had secondary education, 51% had a bachelor's degree, and 25% had at least a master's degree or higher. The average length of service in their current organization was about 11 years. About 45% of the organizations employed 10 or fewer employees, 40% employed between 10 and 50 employees, and 15% employed in excess of 50 employees.

The government sample consisted of respondents with the following characteristics: 43% were females and 57% males with an average age of 48 years. Fifteen percent had secondary education, 44% had a bachelor's degree, and 41% had at least a master's degree or higher. The average length of service in their current organization was about 16 years. About 30% of the organizations employed 100 or fewer employees, 40% employed between 100 and 1000 employees, and 30% employed in excess of 1000 employees.

Results

Nonprofit sector

Exploratory factor analysis (EFA)

The instrument for this study was based upon the Ethical Work Climate Questionnaire developed by Victor and Cullen (1987, 1988). This 36-item

instrument has been validated with desirable psychometric properties and has been widely cited in prior research (Agarwal and Malloy, 1999; Deshpande et al., 2000; Peterson, 2002). A common factor analysis using principal axis factoring was conducted utilizing the oblique rotation method. The rationale for using common factor analysis, as opposed to principal components analysis as used by Victor and Cullen (1987, 1988), was the assumption that ethical climate factors were non-orthogonal based upon theoretical considerations. Victor and Cullen (1988) stated “[w]hile greater scale independence may be desirable to tap the better uniqueness of each type of climate, the theoretical relationship among the constructs does not demand strict independence” (p.62). For example, a theoretical relationship may exist between individual benevolence and social benevolence as is suggested by Gilligan’s (1982) advanced stage of moral reasoning.

Both Bartlett’s Test of Sphericity (2446.53; degrees of freedom = 630 at $p = .000$) and the Kaiser-Meyer-Olkin (KMO) Measure of Sampling Adequacy (.78) indicated that factor analysis was appropriate for the data. The resulting analysis yielded ten factors. Five factors yielded eigenvalues greater than unity extracting about 47% variance. These were 7.15, 4.39, 2.44, 1.59, and 1.22. The five dimensions of ethical climate are consistent with prior research and were thus selected. The pattern matrix with factor loadings is reported in Table II. These dimensions of ethical climate were termed as follows: *Social Caring*, *Efficiency*, *Independence*, *Rules and Procedures*, and *Individual Caring* (See Table III). The definitions of ethical climate dimensions are included as footnotes in Table I.

Confirmatory factor analysis (CFA)

Confirmatory factor analysis is an appropriate method to test the measurement properties as well as the goodness of fit of the common factor model. As in Table II, twenty items pertaining to the five dimensions were included. The covariance matrix of these variables was generated using PRELIS 2 and was subjected to LISREL 8.3 (Joreskog and Sorbom, 1996). The measurement model with covariances among the constructs was tested using maximum likelihood estimation. The results were: [χ^2 (159) =

313.41, CFI = .84, GFI = .83, RMSEA = .07, Normed $\chi^2 = 1.97$, CAIC = 599.64]. A careful inspection of the LISREL output revealed that three items had significant cross-loadings and were conceptually better linked with other factors outside the five-factor solution (see Footnote Table II). On the other hand, one item was added to a factor within the five-factor solution because of superior conceptual linkage (see Footnote Table II). Hence to refine the measurement model, we subjected a net of 18 items again to LISREL. The new model fit results were: [χ^2 (125) = 257.24, CFI = .85, GFI = .85, RMSEA = .07, Normed $\chi^2 = 2.05$, CAIC = 509.46]. While the recommended level for CFI and GFI is $>.90$ and RMSEA and Normed χ^2 is $<.08$ and <3.00 , respectively, a global evaluation of all indices taken together indicates a satisfactory model fit.

Reliability and validity

Internal consistency was assessed by Cronbach’s alpha which are: Social Caring (.81); Efficiency (.64); Independence (.61); Rules and Procedures (.83); and Individual Caring (.78). Composite reliabilities of the constructs are: Social Caring (.82); Efficiency (.63); Independence (.61); Rules and Procedures (.83); and Individual Caring (.78). As indicated, three of the composite reliabilities are well above the recommended .70 level and two are above the .60 level (Bagozzi and Yi, 1988; Bollen, 1989). Convergent validity is established if all item loadings are equal to or above the recommended cut-off level of .60 (Chin et al., 1997). Of the 18 items in the measurement model, 13 items had loadings above .60, 4 items had loadings close to the .60 level, and 1 item had a loading of .45. All the factor loadings were statistically significant at $p < .005$. Overall, taking all indexes together (i.e., internal consistency, composite reliabilities, and individual factor loadings), we believe that a reasonable degree of convergent validity was established. Discriminant validity is the extent to which an item does not relate to measures of other constructs. Discriminant validity is achieved if the square root of the average variance extracted (AVE) is larger than correlation coefficients (Fornell and Larcker, 1981). All the correlation coefficients met this criterion. Results in Table IV show that discriminant validity among the constructs in the nonprofit model is established.

TABLE II
Results of exploratory and confirmatory factor analysis

Dimensions of ethical climate	Non profit		Government	
	EFA λ	CFA λ	EFA λ	CFA λ
Ind. Caring CR1 = .78/CR2 = .87 (Shared Dimension)				
12. <i>The most important concern for your organization is the good of all its members.</i> [BI]	.51	<u>.75</u>	.65	<u>.77</u>
16. In this organization our major concern is always what is best for the other person.* [BI]			.58	
21. <i>Our major consideration is what is best for everyone in the organization.</i> [BI]	.58	<u>.73</u>	.77	<u>.90</u>
27. Decision makers view organizational team spirit as important.* [BL]			.58	
31. <i>Decision makers are very concerned about what is generally best for members in the organization.</i> [BI]	.77	<u>.69</u>	.84	<u>.75</u>
32. <i>What is best for each individual is a primary concern in this organization.</i> [BI]	.66	<u>.57</u>	.80	<u>.72</u>
35. It is expected that each individual is cared for when making decisions here.* [BI]			.55	
Efficiency CR1 = .63/CR2 = .72 (Shared Dimension)				
2. <i>The major responsibility of decision makers in this organization is to consider efficiency first.</i> [EC]	.60	<u>.45</u>	.71	<u>.61</u>
4. Decision makers are expected to do anything to further the organization's interests.* [EL]	.66			
17. Decision makers are concerned with the organization's interest – to the exclusion of all else.* [EL]	.42			
25. <i>In this organization, each decision maker is expected above all to work efficiently.</i> [EC]	.34	<u>.64</u>	.55	<u>.63</u>
19. <i>The most efficient way is always the right way in this organization**.</i> [EC]		<u>.71</u>	.70	<u>.78</u>
Independence CR1 = .61/CR2 = .60 (Shared Dimension)				
3. In this organization, decision makers are expected to follow their personal and moral beliefs.* [PI]			.50	
9. <i>Each decision maker in this organization decides for themselves what is right and wrong**.</i> [PI]	.72	<u>.61</u>		<u>.60</u>
11. <i>The most important concern in this organization is each decision maker's own sense of right and wrong**.</i> [PI]	.35	<u>.59</u>		<u>.72</u>
22. <i>In this organization, decision makers are guided by their own personal ethics.</i> [PI]	.51	<u>.55</u>	.75	<u>.40</u>
Rules and Procedures CR = .83 (Unique to Nonprofit)				
7. <i>It is very important to follow strictly the organization's rules and procedures here.</i> [PL]	.68	<u>.75</u>		
15. <i>Everyone is expected to stick by organization rules and procedures.</i> [PL]	.80	<u>.76</u>		
18. <i>Successful decision makers in this organization go by the book.</i> [PL]	.69	<u>.74</u>		
20. In this organization, decision makers are expected to strictly follow legal or professional standards.* [PC]	.58			
23. <i>Successful decision makers in this organization strictly obey the organization's policy.</i> [PL]	.66	<u>.71</u>		
Social Caring CR = .82 (Unique to nonprofit)				
26. <i>It is expected that you will always do what is right for the client and public.</i> [BC]	.74	<u>.59</u>		
28. <i>Decision makers in this organization have a strong sense of responsibility to the outside community.</i> [BC]	.65	<u>.73</u>		

TABLE II
continued

Dimensions of ethical climate	Non profit		Government	
	EFA λ	CFA λ	EFA λ	CFA λ
30. <i>Decision makers in this organization are actively concerned about the client's and the publics' interests. [BC]</i>	.69	<u>.90</u>		
34. <i>The effects of decisions on the client and the public is a primary concern in this organization. [BC]</i>	.69	<u>.66</u>		
Instrumental CR = .61 (Unique to Government)				
4. <i>Decision makers are expected to do anything to further the organization's interests. [EL]</i>			.57	<u>.71</u>
8. <i>Work is considered below standard only when it hurts the organization's interests. [EL]</i>			.45	<u>.61</u>
9. Each decision maker in this organization decides for themselves what is right and wrong.* [PI]			.42	
11. The most important concern in this organization is each decision maker's own sense of right and wrong.* [PI]			.43	
Law and Code CR = .76 (Unique to Government)				
13. <i>The first consideration is whether the decision violates any law. [PC]</i>			.67	<u>.60</u>
14. <i>Decision makers are expected to comply with the law and professional standards over and above other considerations. [PC]</i>			.83	<u>.86</u>
20. <i>In this organization, decision makers are expected to strictly follow legal or professional standards. [PC]</i>			.56	<u>.66</u>
24. In this organization, the law or ethics of the profession is the major consideration.* [PC]			.56	

Notes:

*item was deleted to refine the measurement model; **item was added to refine the measurement model

EFA – Exploratory Factor Analysis; CFA – Confirmatory Factor Analysis; λ – Factor Loadings

CR – Composite Reliability; CR1 – Composite Reliability for Nonprofit Sample; CR2 – Composite Reliability for Government Sample

Items in italics and CFA loadings in italics and underlined were used in the confirmatory factor analysis in each of the samples.

Abbreviations

Ego-Individual – [EI]; Benevolent-Individual – [BI]; Principle-Individual – [PI]; Ego-Local – [EL]; Benevolent-Local – [BL]; Principle-Local – [PL]; Ego-Cosmopolitan – [EC]; Benevolent-Cosmopolitan – [BC]; Principle-Cosmopolitan – [PC]

*Government sector**Exploratory factor analysis (EFA)*

As in the nonprofit sample, a common factor analysis using principal axis factoring was conducted on the government sample utilizing the oblique rotation method. Both Bartlett's Test of Sphericity (3817.06; degrees of freedom = 630 at $p = .000$) and the Kaiser-Meyer-Olkin (KMO) Measure of Sampling Adequacy (.87) indicated that factor analysis was appropriate for the data. The resulting analysis also

yielded ten factors of which five factors yielded eigenvalues greater than unity extracting about 48% variance. These were 9.24, 3.49, 2.19, 1.39, and 1.02. Therefore, these five dimensions of ethical climate were selected. The pattern matrix with factor loadings is reported in Table II. These dimensions of ethical climate were termed as follows: *Individual Caring*, *Efficiency*, *Instrumental*, *Law and Code*, and *Independence* (See Table V). The definitions of ethical climate dimensions are included as footnotes in Table I.

TABLE III
Empirically based ethical climate dimensions in nonprofit organizations

	Individual	Local	Cosmopolitan
Egoism			Efficiency (4.39)
Benevolence	Individual Caring (1.22)		<i>Social Caring</i> (7.15)
Principle	Independence (2.44)	<i>Rules and Procedures</i> (1.59)	

*Eigenvalues.

Shared ethical climate dimensions are in bold.

Values in parentheses indicate eigenvalues of each ethical climate dimension.

TABLE IV
Test for discriminant validity – nonprofit sample

Ethical climate dimensions	Correlation				Square root of AVE
	2	3	4	5	
1. Social Caring	.07	-.10	.34	.50	.73
2. Efficiency		.20	.57	.37	.61
3. Independence			-.12	.24	.58
4. Rules and Procedures				.27	.74
5. Individual Caring					.69

TABLE V
Empirically based ethical climates in government organizations

	Individual	Local	Cosmopolitan
Egoism		<i>Instrumental</i> (2.19)	Efficiency (3.49)
Benevolence	Individual Caring (9.24)		
Principle	Independence (1.02)		<i>Law and Code</i> (1.39)

Shared ethical climate dimensions are in bold.

Values in parentheses indicate eigenvalues of each ethical climate dimension.

Confirmatory factor analysis (CFA)

Twenty items pertaining to the five dimensions extracted from exploratory factor analysis were included for confirmatory factor analysis. The covariance matrix of these variables was subjected to LISREL. Similar to the nonprofit sample, the measurement model with covariances among the constructs was tested using maximum likelihood estimation. The results were: [χ^2 (159) = 345.42, CFI = .88, GFI = .86, RMSEA = .07, Normed χ^2 = 2.17, CAIC = 664.30]. Given that there was an overlap of three factors between the two samples (i.e., Individual Caring, Efficiency, and Inde-

pendence) it was appropriate to use the same measurement items as in the nonprofit sample. Therefore, to refine the measurement model, 3 items were deleted from Individual Caring, 2 items from Instrumental were transferred to Independence for better conceptual linkage, 1 item each deleted from Independence and Law and Code (see Footnote Table II). The resulting 15 item measurement model was again subjected to LISREL. The new model fit results are: [χ^2 (80) = 183.09, CFI = .90, GFI = .90, RMSEA = .07, Normed χ^2 = 2.28, CAIC = 435.82]. Overall, the model fit was acceptable.

Reliability and validity

Internal consistency was assessed by Cronbach's alpha which are: Individual Caring (.87); Efficiency (.70); Instrumental (.61); Law and Code (.74); and Independence (.60). Composite reliabilities of the constructs are: Individual Caring (.87); Efficiency (.72); Instrumental (.61); Law and Code (.76); and Independence (.60). Three of the composite reliabilities are well above the .70 level and two are at or above the .60 level. As far as convergent validity is concerned, of the 15 items in the measurement model, 14 items had loadings above .60 (ranging from .60 to .90) and only 1 item had a loading of .40. All the factor loadings were statistically significant at $p < .005$. Again, taking all indexes together (i.e., internal consistency, composite reliabilities, and individual factor loadings), we believe that a reasonably high degree of convergent validity was established. Regarding discriminant validity, all the correlation coefficients met the criterion (i.e., the square roots of AVE of each construct is larger than all correlations). Results in Table VI show that discriminant validity among the constructs in the government model is established.

Two-group simultaneous CFA

In order to further verify and test for equivalence of factor structures in the two samples, we ran Multi-Sample LISREL. Multi-group CFA is a powerful and versatile approach for testing cross-sample measurement invariance through a series of tests involving nested models (Steenkamp and Baumgartner, 1998). Because multi-group CFA requires identical

dimensions and number of items across groups for establishing equivalence, we imposed the factor structure of the nonprofit sample on the government sample. That is, both the nonprofit and government samples were simultaneously tested using the same 5 factors and 18 items used in the confirmatory measurement model in the nonprofit sample. These five factors were: *Social Caring*, *Efficiency*, *Independence*, *Rules and Procedures*, and *Individual Caring* (see Table II). However, before proceeding further with the series of tests, we first ran the constrained measurement model for the government sample on the same 18 items and 5 factors that emerged for the nonprofit sample. The model fit results were [$\chi^2(125) = 250.05$, CFI = .91, GFI = .88, RMSEA = .07, Normed $\chi^2 = 2.00$, and CAIC = 557.58]. Each of the factor loadings in each construct was statistically significant at $p < .05$. We next proceed with the hierarchy of tests involving nested models.

Constrained government model

The first test was the equality of factor structure or factorial similarity (i.e., whether or not the two samples have the same five factors). The *configural invariance model*, which is the baseline model, was estimated first. The hypothesis did not impose any equality constraints on parameters except that it stated that the number of factors is the same for both groups. The model fit results were [$\chi^2(250) = 507.29$ at p -value of .00, CFI = .89, GFI = .88, RMSEA = .07]. Although the chi-square was significant, the RMSEA of .07 indicated an acceptable fit, and the CFI and GFI were very close to the commonly recommended .90

TABLE VI
Test for discriminant validity – government sample

Ethical climate dimensions	Correlation				Square root of AVE
	2	3	4	5	
1. Individual Caring	.35	-.18	.35	-.05	.79
2. Efficiency		.41	.28	.03	.68
3. Instrumental			-.13	.50	.66
4. Law and Code				-.13	.71
5. Independence					.59

AVE – Average variance extracted.

level. All factor loadings were highly significant in both samples. Thus it can be concluded that configural invariance (i.e., factorial similarity) was partially established. This seems reasonable since, as noted earlier, only three of the five factors were common in both samples (individual caring, independence, and efficiency).

Second, we tested for the *metric invariance model* in the hierarchy of tests. To test for metric or factorial equivalence (i.e., equality in factor loadings), we set the factor loadings invariant between the two samples. The model fit results were [$\chi^2(263) = 527.81$ at p value of .00, CFI = .88, GFI = .87, RMSEA = .07]. The model fit indices are very similar to the configural invariance model. A chi-square difference test between the two models (i.e., configural invariance model and metric invariance model) revealed no significant difference in factor loadings [$\Delta\chi^2(13) = 20.52, p > .08$]. This establishes metric equivalence and supports the hypothesis of equality of factor loadings.

Third, we tested for the *error variance invariance model* in the hierarchy of tests. In order to test for measurement error variances, we added the additional constraint of error variance invariance. The model fit results were [$\chi^2(281) = 628.16$ at p -value of .00, CFI = .85, GFI = .85, RMSEA = .08]. A chi-square difference test between this model and the previous model (i.e., metric invariance model) revealed highly significant difference in error variance [$\Delta\chi^2(18) = 100.35, p < .00$]. At the same time the model fit deteriorated. Finally, we tested for the *variance-covariance invariance model* between the two samples. To test for equality of variance-covariance matrix, we added the additional constraint of variance-covariance invariance. The model fit results were [$\chi^2(296) = 659.16$ at p value of .00, CFI = .84, GFI = .84, RMSEA = .08]. A chi-square difference test between this model and the previous model (i.e., error variance invariance model) revealed significant difference in variance-covariance [$\Delta\chi^2(15) = 31, p < .01$].

The factor means of the latent constructs were also compared by fixing kappa to zero in the nonprofit sample and freeing it in the government sample. By comparison, the factor means of the constructs of the government sample were: Social Caring (-.41), Efficiency (-.15), Independence (.07), Rules and Procedures (-.30), and Individual Caring (1.13). We used chi-square difference tests to

evaluate differences in individual factor means between samples. Results were Social Caring - $\Delta\chi^2(1) = 34.3, p < .001$, Efficiency - $\Delta\chi^2(1) = 3.18, p > .05$, Independence - $\Delta\chi^2(1) = .42, p > .50$, Rules and Procedures - $\Delta\chi^2(1) = 113.95, p < .001$, and Individual Caring - $\Delta\chi^2(1) = 99.59, p < .001$. This indicates that the factor means for social caring and rules and procedures are significantly greater in the nonprofit sample and individual caring significantly greater in the government sector. No significant difference was observed in factor means for independence and efficiency.

Constrained nonprofit model

In the second case, we performed a converse analysis by imposing the factor structure of the government sample on the nonprofit sample. That is, we constrained the nonprofit model to align with the factor structure of the government model. Both government and nonprofit samples were simultaneously tested using the same 5 factors and 15 items used in the confirmatory measurement model in the government sample. These five factors were: Individual Caring, Efficiency, Instrumental, Law and Code, and Independence (see Table II). As before, we first ran the measurement model for the nonprofit sample on the same 15 items and 5 factors that emerged for the government sample. The model fit results were [$\chi^2(80) = 159.60$, CFI = .84, GFI = .87, RMSEA = .08, Normed $\chi^2 = 1.99$, and CAIC = 399.52]. Each of the factor loadings in each construct was statistically significant at $p < .05$. The fit of the constrained government measurement model was somewhat worse off than the constrained nonprofit model (as in earlier analysis). We next proceed with the hierarchy of tests involving nested models.

Only three of the five factors were common in both samples (individual caring, independence, efficiency). Following a similar approach as in the first case, we first tested for the *configural invariance model*. Model fit results were [$\chi^2(160) = 340.14$ at p value of .00, CFI = .88, GFI = .90, RMSEA = .07]. As before, while the significant p value indicates that the factor structure is significantly different between the two samples, other indices indicate acceptable model fit. Hence, configural invariance was partially supported.

We next tested for *metric invariance model* (i.e., equality in factor loadings). The model fit results for the test for equality of factor loadings were [$\chi^2(170) = 343.76$ at p value of .00, CFI = .88, GFI = .90, RMSEA = .07]. A chi-square difference test between the two models revealed no significant difference in factor loadings [$\Delta\chi^2(10) = 3.62$, $p > .96$]. As before, this establishes metric equivalence and supports the hypothesis of equality of factor loadings. Next, we tested for the *error variance invariance model* and the model fit results were: [$\chi^2(185) = 442.89$ at p value of .00, CFI = .82, GFI = .87, RMSEA = .09]. A chi-square difference test between this model and the previous metric equivalence model revealed highly significant difference in error variance [$\Delta\chi^2(15) = 99.13$, $p < .00$]. Finally, we tested for the *variance-covariance invariance model* and the model fit results were [$\chi^2(200) = 467.15$ at p value of .00, CFI = .82, GFI = .86, RMSEA = .09]. A chi-square difference test between this model and the previous error variance equivalence model revealed significant difference in variance-covariance [$\Delta\chi^2(15) = 24.26$, $p < .05$].

Similarly, the factor means of the latent constructs were also compared by fixing kappa (to zero) in the nonprofit sample and freeing it in the government sample. The factor means of the constructs of the government sample were: Individual Caring (1.14), Efficiency (−.16), Instrumental (.13), Law and Code (.10), and Independence (.07). Again, we used chi-square difference tests to evaluate differences in individual factor means between samples. Results were: Individual Caring – $\Delta\chi^2(1) = 101.87$, $p < .001$, Efficiency – $\Delta\chi^2(1) = 3.25$, $p > .05$, Instrumental – $\Delta\chi^2(1) = 1.09$, $p > .25$, Law and Code – $\Delta\chi^2(1) = 1.42$, $p > .20$, and Independence – $\Delta\chi^2(1) = .40$, $p > .50$. Individual caring is the only factor that is significantly different in terms of latent factor mean (i.e., greater for the government sample as compared to the nonprofit sample). As before, independence and efficiency were not significantly different.

In summary, the preceding two-group analyses reveal that the two samples have somewhat different factor structures. However, since three of the five dimensions are common in both samples, we could establish equality of factor loading equivalence as chi-square difference showed no significant difference. Further tests of equivalence could not be established. While different factor structures emerged in the two

samples, a sub-set of these factors (*individual caring, independence, efficiency*) were statistically invariant. Further, factor mean comparisons revealed that *social caring* and *individual caring* were significantly greater for the nonprofit and government samples, respectively.

Discussion

The results of this study demonstrate both similarities and significant differences between the governmental and nonprofit sector. The nonprofit sector identified five climates that were statistically significant – *individual caring, independence, rules and procedures, efficiency, and social caring* (Table III). Social Caring was the most strongly perceived ethical climate that emerged as the predominant factor. Self-Interest, Instrumental, Team Interest, and Law and Code were not identified by the nonprofit organizations. The government sector also identified five climates – *individual caring, independence, instrumental, efficiency, and law and code* (Table V). Individual Caring was the most strongly perceived ethical climate that emerged as the predominant factor. The shared ethical climate dimensions between nonprofit and government organizations include the following: Individual Caring, Independence, and Efficiency.

It is interesting to note that both government and nonprofit organizations perceived the notion of *caring* in general to be extremely relevant climates. This perhaps bodes well for government–nonprofit collaboration where a common acceptance of benevolence and trusting relationships based upon the other's interests (Mayer et al., 1995) pervades these two organizational types. The outcome of this shared sense of caring may be that the treatment of employees (and volunteers) will be perceived to be less personally intimidating as may be the case in the predominantly machiavellian and efficiency- and effectiveness-driven climates of for-profit organizations (Victor and Cullen, 1988). However, it is possible that this isomorphism in individual caring may have emerged as a function of nonprofits' search for the best way to interact with government for the purposes of attracting resources and exercising influence (Brinkerhoff and Brinkerhoff, 2002; Gazley and Brudney, 2007). For the sake of clarity,

we have chosen in the following discussion to address the comparison of sectors in terms of the three loci of analysis – individual, local, and cosmopolitan.

Individual locus of analysis

Both sectors identified Individual Caring and Independence climates as being present in their organizations corresponding to benevolence and integrity dimensions of trust. *Individual Caring* was by far the most dominant climate perceived by the government sector organizations in comparison to the nonprofit organizations. This climate fosters friendship and concern for the individual *qua* individual. The employees in both government and nonprofit organizations are perceived to be worthy of care and their happiness is of concern in and of itself apart from their particular role in the organization. As a result of this congruence between the government and nonprofit individually based climates, the individual worker and/or volunteer will be received with care and respect in their relationship with either sector. The antecedent of trust here is the belief in the goodwill of the partners – they believe that the other will not necessarily act out of self-interest and egocentric motive.

Independence promotes behavior that is existential and post-conventional in nature (Kohlberg, 1969). Individuals are encouraged to examine decisions authentically and take responsibility for all outcomes. They are perceived to be creative and the product of their creativity is respected by the organization. Trust is based upon the belief that others will abide by their principles and thus the need for direct supervision is reduced and independence is enhanced (e.g., Inkpen and Li, 1999). While these climates could be perceived as welcoming by many, the extent to which an individual interprets “independence” may be some cause for concern for governmental service downloading (i.e., quality control). In other words, to what extent do organizations wish employees to have the freedom to “free wheel” as opposed to follow policy? Interestingly, neither sector acknowledged Self-Interest (i.e., Machiavellianism) as existing. In contrast, however, this has not been the case in much of the “for-profit” literature where the climate of ‘Machiavellianism’ is promoted (e.g., Peterson, 2002; Victor and Cullen, 1987).

Local locus of analysis

Climates diverge at the local or organizational level. The *Instrumental* climate corresponding with the *ability* dimension of trust was only perceived by the government sector. This climate fosters behavior that is geared toward the health and survival of the organization. Consistent with Deshpande’s research (1996a, bb; Deshpande et al., 2000), *Rules and Procedure* corresponding with the *integrity* dimension of trust was perceived by nonprofit organizations. This however is in contrast to the Agarwal and Malloy findings (1999) in which no climates were perceived in the local locus of analysis construct. This climate encourages behavior that is guided by rules developed within the organizational context. This finding is curious as one might expect government offices to be more driven by rules of the interorganizational bureaucracy than their nonprofit counterparts. However, in terms of bureaucracy in the more global perspective, as is discussed below, the government results are as one would expect. Thus the point of distinction lies in that the government focuses upon instrumental operation whereas the nonprofit sector places emphasis upon organizational rules. This may be a promising step for the government changing the culture from a “rule-bound” bureaucracy to a catalytic partner in collaboratively addressing the needs of the community. It may also be a positive step for nonprofit organizations that are often painted with the broad brush of disorganization and inefficiency, in formalizing structures of intra-organizational coordination as means toward greater accountability and professionalization (Gardner, 1987; Milne et al., 1996; Salamon, 1990). However, this may also create a potential conflict in expectation between the sectors as the government’s emphasis at this level is on consequence or results and the nonprofits emphasis is upon process or means. This may reflect a rather distinct preference for ability as opposed to integrity with regard to the antecedents for trusting relationships.

Cosmopolitan locus of analysis

Finally, at the cosmopolitan level there is similarity and difference. In this locus of analysis both sectors perceived *Efficiency* as a climate (similar to the *ability*

dimension of trust) existing in their organizations and share the concern for the efficiency of the “system-at-large” (e.g., social services, justice, or environment). Efficiency refers to the perceived concern that the particular “system” runs well from a global perspective. For example, whether one is approaching issues relating to the environment from for-profit, nonprofit, or public sector, the global good of the particular system (e.g., the environment or public safety) is the objective. While it is true that government grapples with providing a responsive, efficient, and equitable solution to societal problems, efficiency-equity tradeoffs are not necessarily inevitable (James and Birdsall, 1992). It is, arguably, an encouraging finding that both sectors in this study perceive efficiency climate as existing. This finding alone may be the most significant in terms of fostering shared vision within intersectorial relationships. This is particularly hopeful in relation to the needed cooperation between these sectors in the development and delivery of services.

Not surprisingly, the nonprofit sector also perceived the existence of the *Social Caring* climate. This climate (corresponding with *benevolence* dimension of trust) focuses not upon the well-being of the organization (i.e., Instrumental) or the individual (i.e., Individual Caring) but rather upon the health and welfare of society in general. The nonprofit sector then perceives the global utility of the system and the impact of the system upon society as being important. Taken together, nonprofits consider social caring as their mandate that needs to be achieved with the greatest efficiency. This is not surprising given that service beneficiaries want to be more than customers offered services in an efficient manner; rather they want to retain their role as citizens that are cared for and whose causes are well heard and represented at the policy level (Ferlie et al., 1996). Hence, it has been argued that nonprofit-government relationships should broaden out of the service delivery mode that emphasizes efficiency only and allow nonprofits to adopt a greater advocacy role to build social capital (Brinkerhoff and Brinkerhoff, 2002). Unlike the governmental sector, however, the nonprofit does not perceive universal laws and codes as necessary. As expected, the government sector perceived *Law and Code* (i.e., *integrity* dimension of trust) as an existing climate. Government, in theory and practice, is bureaucratic in

nature and as such relies on universal rules as its means of operation to set policy and to deliver services (Hodgkinson, 1996).

Interestingly, in this global context the government chooses to accentuate process (*Law and Code*) as well as outcome (*Efficiency*). This perspective, termed rule-utilitarianism, advocates that the rules that ought to be followed are ones that lead to the greatest good for the greatest number (or the greatest efficiency). One might also argue that this particular dual purpose represents the post-conventional level of the justice orientation promoted by both Kant (1785/1983) and Kohlberg (1969). The nonprofit sector, in contrast, emphasizes system efficiencies yet places greatest concern with *Social Caring*. This distinction is philosophically interesting, as it appears to contrast the government’s ethics of justice (Kant and Kohlberg) with the nonprofit’s ethics of caring (e.g., Gilligan, 1982). This distinction is also of practical concern as the global rules with which the government operates may be overlooked by the nonprofit sector in favor of the perceived immediate need of social wellness. This difference in cosmopolitan climates may influence the manner in which downloaded services are delivered. For example, a nonprofit organization could make decisions that meet the perceived needs of the clientele yet do so without strictly adhering to governmental policy.

Implications

While it has been generally assumed that nonprofit organizations would make better partners for government because they are less likely to behave in an opportunistic manner, the results of this research indicates that governments would be wise to exercise caution in their arrangements with the nonprofit sector. An understanding of ethical climate differences might well prove significant in dealing with relationships between government and nonprofit organizations because neither organization is chasing a single goal like profit. Indeed, as has been noted in previous studies, the strong commitment of serving clients within the nonprofit sector often results in managers sometimes creating an “illusion of compliance” (Bernstein, 1991, p. 139). Thus while the motivation between nonprofit and for-profit

organizations may be different, governments need to recognize that by relying on nonprofits they do not necessarily sidestep the issue of monitoring contract performance. Rather they will likely have to spend similar amounts monitoring for other types of behavior that may be inconsistent with the objectives of government.

The divergence in ethical climates is also worth noting in that it is increasingly clear that performance management is coming to the nonprofit sector and with it comes the potential to distort long established relationships (Lindgren, 2001). In this case of nonprofit organizations we need to recognize that they have traditionally had strong performance cultures of their own, and it is accepted that nonprofit organizations have more incentives than for-profit delivery agents to be concerned about outcomes of the delivery of services (Hansmann, 1987). What governments need to do is recognize the differences between the two sectors and avoid the classic problems associated with “goal displacement” (Perrin, 1998). That is, in the creation of contracts, a primary responsibility of government is that they must not destroy the varied and effective incentives for performance that already exists.

Yet because there are differences in ethical climate, it does not necessarily follow that governments should in any sense avoid increasing its contracting activities with the nonprofit sector. In fact, engaging in contracts that provide more room for independent and discretionary behavior with the nonprofit sector coincides with the growing body of evidence which suggests that democratic regimes tend to operate more effectively when they foster strong networks of interdependence producing more deliberation, civility, and trust (Putnam, 2000). Thus nonprofit networks, which are growing by the choices made by politicians, public servants, and other social actors, are seen as being capable of enhancing social capital and with it the quality of governance in society precisely because they require trust between the parties. While there are inherent challenges, there is a vast opportunity for nonprofits to represent the interests of weak and marginalized groups and build social capital to empower them to command more responsiveness from government agencies (Brinkerhoff and Brinkerhoff, 2002). And while the use of nonprofits are an end in themselves in some literature, those nonprofits that involve the

expenditure of public funds and employ public authority need to be made publicly accountable. There is really no reason for not making them part of the commitment to performance management so long as government facilitates the use of performance management and does not impose it. Forcing them to participate is likely to be directly contrary to the secondary outcomes of greater trust, openness, deliberation, and civility that may make the informal system work.

What is required is a system of performance contracts in which the details of getting to outcomes are not explicitly spelled out but instead the nonprofit organizations are allowed to make the kinds of adjustments that has made the system function in the past. While consultation on outcome measures should take place, nonprofit organizations should not be compelled to have identical measures with the government contractor. Freedom from controls is an asset if governments hope to have the nonprofit sector be the innovator and incubator of new ideas and practices. Governments might well even ignore certain types of behavior, including behavior they would not have tolerated in the past in the name of maintaining and improving trust, and also increasing the proper spirit of innovation.

Finally, at the intuitive level there appears to be a close relationship between the three dimensions of trust proposed by Mayer et al. (1995) – i.e., ability, benevolence, and integrity – and Victor and Cullen’s (1987) ethical theories – egoism, benevolence, and principle. Trust is a source of cooperation when it results from non-egotistic sources such as values, norms, and ethics of proper conduct as well as bonds of friendship, kinship, and empathy (Hosmer, 1995). Nooteboom et al. (1997) argue that such institutionalization of values and norms corresponds with the integrity dimension of trust while friendship or kinship bonds that develop into familiarity and mutual understanding correspond to the benevolence dimension of trust. Pragmatically, if one is aware of the heightened awareness of a particular trust dimension, it would be logical to place greater emphasis on it in the early stages of negotiation. For example, if a nonprofit is bidding for a government contract, it would be prudent to emphasize benevolence as it appears to be the dominant antecedent for trust in the government climate of individual caring. Certainly, the dimensions of trust and its

relationship to ethical climate deserve further exploration and empirical study.

Conclusion

Based on empirical findings, results of this study indicate that there are differences in the perception of ethical climates between the government and nonprofit sectors. However, quite interestingly, there was also a significant overlap in shared perception of some ethical climates. There should be an effort to build on the commonalities so as to provide an effective framework to build trusting relationships between the two sectors. At the same time, differences in perceptions need to be understood so as to minimize potential conflicts in the implementation of new contracting arrangements. The findings of this study should, however, be interpreted with some degree of caution. As with any research, this study is not without limitations. Due to pragmatic constraints, this study was limited to a sample of nonprofit and government managers in only two provinces in Canada. As a result it may not be representative of the diversity of the Canadian nonprofit-government cultural milieu. A broader sample that incorporates nonprofit, government, and for-profit agencies nationally and globally would be valuable for future research. Further research in this area would be useful to enhance our understanding of the viability of three-way relationships.

Despite these limitation, we believe that the current study provides important preliminary insights on the orientation of ethical climates within nonprofit and government organizations. This study is the first quantitative investigation that compares government and nonprofit ethical climates based on a well-established theoretical framework of ethical climate. For the government-nonprofit service delivery arrangement to evolve into a long-term relationship (i.e., a “win-win” paradigm that is supposed to be mutually beneficial to both parties) it is well-advised that governments plan performance contracts with nonprofits after fully understanding intersectoral ethical climates. We hope that the findings and implications of this study will provide fertile ground to raise refined and directed research questions in this important area of inquiry.

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