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Administrative Ethics in Nonprofit Organizations

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I. INTRODUCTION

Nonprofit organizations generally escape the kind of ethical scrutiny directed at government and business, presumably because nonprofits have neither the power of the state nor the economic self-interest of the market. However, recent scandals involving United Way of America, NAACP, Goodwill Industries, and other nonprofits have served as a reminder that ethics is an important issue for nonprofits as well as for other types of organizations. One could even argue that nonprofits, far from being ethically exempt, need ethics even more than business or government. While all organizations depend to some extent on constituency trust, nonprofits critically depend on their trust relationships with clients, volunteers, donors, and other constituents, especially since it is often difficult to measure the quality and effect of nonprofit services (religious, counseling, social work, health, education, advocacy). Hansmann (1980, 1987) argues that this “information asymmetry” helps explain why people seek such services from nonprofit providers, which have little or no economic incentive to reduce quality. Fundraising experts (e.g., Mixer, 1993) report that long-time trust relationships are essential to soliciting major donations.

Ethics is hardly new to nonprofit organizations. Health care, much of which is delivered by nonprofits, has given careful attention to ethical issues at least since the time of Hippocrates. Nonprofit human service and education organizations frequently deal with ethical challenges because of the relative vulnerability of their clients. Religious organizations attend to a wide variety of ethical issues, often expressed in a particular theological viewpoint. Advocacy and cause organizations focus on societal ethical issues such as the rights of minority groups. In spite of all this attention and involvement, however, nonprofits—perhaps absorbed with their service-oriented and idealistic missions—have generally not developed explicit internal ethical mechanisms such as written codes, as government and business organizations have in recent decades.

The lack of formal attention is especially true with respect to administrative ethics in nonprofit organizations. The dominant ethical concerns of nonprofits have been those of direct service providers such as doctors, nurses, teachers, religious professionals, social workers, counselors, advocates, and the like. Relatively little attention has been paid to
ethical issues involving managers and board leaders of nonprofit organizations (for some exceptions, see Boris and Odendahl, 1990; Briscoe, 1994; Jeavons, 1992; Jurkiewicz and Massey, 1998; Koziol, 1998; and O’Neill, 1989, 1992, 1993, 1997). However, there has been some attention to administrative ethics in fields heavily populated by nonprofits, such as health care (Darr, 1991) and social service (Levy, 1982).

The rationale for giving special attention to nonprofit administrative ethics is based on the somewhat unique characteristics of nonprofit organizations and the special ethical challenges that face leaders of these organizations. While nonprofits are in many ways similar to business and government organizations, there are differences that have important implications for administrative ethics. The following are generally thought to be the most significant differences between nonprofit and other (especially business) organizations (see Billis and Harris, 1996; Mason, 1984, pp. 20–22; and O’Neill, 1998, pp. 1–4):

Basic purpose: Nonprofits exist to provide some service, whereas business firms exist to make a profit. “One generates the money in order to do the job. The other does the job in order to generate the money” (Mason, 1984, p. 88). This fundamental difference in organizational purpose distinguishes nonprofit from for-profit groups and shapes much of the behavior in the two types of organizations.

Values: Churches, cause organizations, private schools and colleges, and many other types of nonprofits are strongly value-oriented. While all organizations have some values, nonprofits are particularly likely to be value-driven.

Resource acquisition: Business gets its revenue largely from the sale of goods and services. Government gets its revenue largely from taxes. While there are many different forms and strategies of revenue acquisition in these two sectors, the fundamental structure of the revenue acquisition task is relatively simple. Nonprofits, on the other hand, acquire revenue through a combination of the sale of goods and services, fundraising, government contracts, and ancillary “for-profit” ventures.

Bottom line: Nonprofits do not have the same clarity regarding acceptable performance as that provided by the balance sheet for business and the election system for government. A nonprofit organization must proceed without clear bottom-line indicators and yet must continually persuade funders, clients, and other constituents that the agency’s work is effective and efficient.

Legal constraints: Nonprofits are prohibited from distributing financial surpluses to constituents (the central purpose of a business organization), are exempted from paying property or income taxes, receive tax-deductible contributions, and are prohibited from engaging in certain types of political activity.

Worker characteristics: Nonprofits differ significantly from business and government organizations in the composition of their work force. Volunteers play a major role in most nonprofits, often constituting 75–90% of the work force. The demographics of nonprofit paid staff differ from those of business and government: two-thirds of nonprofit employees are female, and nonprofit workers are more likely to be well educated and professional, due to the industries in which nonprofits specialize.

Governance: Nonprofits are governed by volunteers, usually appointed rather than elected, who act as trustees for the public interest and are prohibited by law from receiving any profit from the organization.
The partial uniqueness of nonprofit organizations underlies the partial uniqueness of nonprofit administrative ethics. Just as government administrative ethics is a special case due to such unique government characteristics as police power, taxation power, responsibility for the general welfare, and dependence on general elections, so nonprofit administrative ethics is shaped by characteristics that differentiate nonprofits from other kinds of organizations. The following examples illustrate how nonprofit managers, because of these organizational differences, face somewhat different ethical challenges than do their counterparts in business and government.

II. PROMOTING VALUES

Every organization has some value dimension, but values are not the dominant purpose of business or government whereas they are the dominant purpose of many nonprofit organizations including religious entities, private schools and colleges, and advocacy groups. Leading value-intensive organizations imposes unique demands on the leader. Such organizations demand that leaders behave in a manner consonant with the values that the organization is trying to foster. Novels such as The Scarlet Letter and Elmer Gantry, and reactions to recent scandals involving Covenant House and televangelist ministries, make the same point: when people assume a values-leadership role and then fail with respect to those values, their fall is a special kind of betrayal. Other examples would include a university administrator who plagiarized others’ work, a manager of a civil rights organization who told offensive jokes about minorities and women, a head of a Quaker school who practiced corporal punishment, an executive director of a soup kitchen who took a six-figure salary, and so forth.

One of the few clear results from the thousands of empirical studies on leadership is that leadership is importantly shaped by the characteristics of the organization and the task (Bass, 1985). A value-intensive organization demands leadership that is clearly consistent with and strongly permeated by the values of the organization. Most nonprofit managers, leaders of what Alexis de Tocqueville called “moral and intellectual associations,” have a special mandate to act in accordance with the ethical expectations of the organizations they head. To the extent that they neglect this organizational imperative, they become ineffective leaders and, in extreme cases, lose their leadership positions entirely if the organization perceives a radical discontinuity between their behavior and the organization’s values.

The obligations, however, do not stop there. The manager of a value-intensive organization is expected not only to adhere to but also to create, shape, and articulate the organization’s values in a special way. It is not enough for the preacher simply to get up and read the sacred text; he or she must also make it come alive, give it new and fresh meanings, apply it to new moral and social conditions. Similarly, the manager of an environmental or civil rights or free speech organization is constantly called upon to redefine and reapply the organization’s basic values; not to do so is a failure of leadership in such an organization.

III. RELATIONS WITH STAFF, BOARD, AND VOLUNTEERS

Ethical theory since Plato and Aristotle has centered largely on questions such as justice, honesty, and fairness. All managers are ethically bound to be just, honest, and fair. This
general responsibility has special implications for nonprofits because of their somewhat unique personnel characteristics. Managing professional workers is one example. Nonprofits are heavily concentrated in several human service fields (religion, health care, education, social work, mental health care) that call for a high degree of discretion and judgment by direct service providers. In such agencies, frequent managerial overruling of professional decisions could be not only poor management but also unethical, since it could easily result in damaging the quality of the organization’s professional services and harming the organization’s clients. Barnard (1938, p. 276) noted that “an executive position is exposed to more and more moral conflicts the higher it is.” Similarly, it is reasonable to assume that the manager of an organization whose principal work is morally complex—mental health care, for example—rather than non-complex, such as manufacturing rubber bands, will be more likely to face morally complex managerial decisions relative to the work and the workers involved.

Nonprofits differ dramatically from business and government agencies with respect to the role of volunteers. Business uses virtually no volunteer labor. Government uses relatively few volunteers and typically uses them in low-level roles such as playground supervisors, teachers’ aides, and “candy strippers.” Nonprofit organizations, by contrast, use tens of millions of volunteers (Hodgkinson et al., 1996), often in high-level and complex roles. Nonprofit volunteers do management work, fundraising, lobbying, sophisticated consulting (in marketing, computer usage, accounting, graphic design), public speaking, and a variety of other tasks that are handled exclusively by paid employees in the business and government sectors.

What is the fundamental relationship between nonprofit managers and nonprofit volunteers, and what—if any—is the ethical component of that relationship?

First and importantly, the relationship is not one of direct economic exchange. There is, in the volunteer-nonprofit relationship, no neat balance between work rendered and payment received. There are two other possibilities: either the labor donation is a “pure grant” with no semblance of mutual obligation or reciprocity, or the labor donation creates some form of non-economic mutual obligation. The latter, in fact, seems to be the case in many forms of volunteering. Volunteers donate their labor without expectation of personal remuneration, but they expect and assume that the organization will use their labor to achieve the stated goals of the organization. For example, if a dozen volunteers work hundreds of hours addressing and stamping envelopes for an environmental organization and later find that the organization has sold the results of their work to a commercial firm for advertising a non-environmental product, the volunteers would be outraged. They would intuitively understand that there was an implicit moral contract between themselves and the nonprofit organization: we give you our labor, you use our labor to achieve the stated goals of the organization. Nonprofit organizations and managers, by soliciting and accepting volunteer labor, create an ethical obligation to use that labor appropriately. Nonprofit organizations and managers are in this sense ethically accountable to their volunteers.

Nonprofit board members represent a special subset of nonprofit volunteers. They not only donate labor but also assume ultimate legal, fiscal, and societal responsibility for the organization. Drucker (1990) and others have emphasized the unique importance that boards play in nonprofit organizations, and Herman and Heimovics (1991) have produced empirical support for the importance of the CEO-board relationship in nonprofits. While this relationship is typically cast in technical terms, it has a clear ethical dimension. For instance, a board cannot fulfill its responsibility to the organization and the society without
full and adequate information. In practical terms, it is virtually impossible for the board to have that information without the active cooperation of the executive director. One of the most common temptations of nonprofit CEOs is “to put the best face on things” even and perhaps especially with the board. This sometimes leads to the CEOs concealing or conveniently omitting negative information without which the board cannot do its job. Such information restriction, however humanly understandable, could at times be a serious ethical violation on the part of the CEO; for instance, when a CEO keeps from the board negative information on financial threats to the agency that might lead to staff layoffs, severe cuts in services, or even dissolution of the organization.

IV. RELATIONS WITH CLIENTS AND THE BROADER SOCIETY

Goodpaster (1984, p. 4) has noted that the ethically relevant behavior of executives falls into two broad categories: transactions with the external environment of the organization as a whole and transactions with the internal environment of the organization. Business examples of the former include product safety, environmental protection, truth in advertising, and honesty with government regulators. Again, these basic moral imperatives apply equally to nonprofit organization managers, although the specific applications will often differ greatly. However, two characteristics of nonprofit work suggest a somewhat different ethical context in relations with the external environment: (1) the vulnerability of many nonprofit clients, and (2) the high degree of societal responsibility that many nonprofits assume.

Although some nonprofit organizations (certain private clubs, schools, colleges, churches, arts organizations, foundations, and hospitals) deal primarily with privileged and powerful clients, nonprofit agencies commonly work with and for individuals and families who hold a relatively weak, disadvantaged position in society: children, people of color, immigrants, the poor, the physically and mentally ill, older people, low-paid and low-status workers, and so forth. Other nonprofits work for categories of vulnerable or potentially vulnerable clients: environmental organizations, civil and legal rights organizations, women’s organizations, peace organizations, and biomedical research groups. Consequently, many nonprofits are much more likely than business organizations to be in a power relationship with their clients. The typical business client can buy a dress from Macy’s, a computer from Apple, or a head of lettuce from Safeway and not be or feel at the mercy of any of those organizations, aside from routine considerations about product safety. Many nonprofit clients, however, are by definition in a position of weakness relative to the serving organization. Confucianism reminds us that any time power enters a human relationship, ethics must follow. The work of nonprofit organizations takes on a special ethical dimension precisely to the degree that the organization’s work necessarily involves a power relationship with clients.

Ironically, this fact is probably the main reason so little attention has been given to nonprofit administrative ethics. The classic professions of religion, health care, and education, and newer professions such as mental health care and social work, have largely dominated nonprofit work. Since these professions have long had formal and informal codes governing the behavior of the direct service providers (doctors, teachers, counselors, social workers), it may not have seemed necessary to focus on the administrative ethics of organizations providing these services. However, the greatly increased size and com-
plexity of nonprofit service organizations have made such attention to administrative and organizational ethics, as distinguished from service provider ethics, a clear necessity.

REFERENCES