Ethics in Practice:
Nonprofit Management in the Arts

Master's Project presented to the Arts and Administration Program and the Graduate School of the University of Oregon in partial fulfillment of the requirements for the degree of Masters of Arts Management.

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<u>Masters Research Project</u>
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<u>Abstract</u>
This project seeks to understand and describe the relationship between explicit and implicit ethical standards and management practice. The research question asks how that relationship might contribute to community engagement in nonprofit arts organizations. Through field research the study investigates ethical leadership in practice by interviewing stake-holders to gather qualitative data. The project results in recommendations that will assist organizations to discuss ethical issues and develop a code of ethics.

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Chapter 1: Introduction

Introduction to the Study

The purpose of this study is to examine the role of ethics and accountability in nonprofit arts organizations and examine the ethical situations faced by administrators, managers, and leaders of these organizations. The study seeks to understand the role of ethical decision making in nonprofit arts management and its influence on those organizations that emphasize community engagement. As more laws are passed to address ethics and accountability in both the for-profit and nonprofit sectors, it becomes necessary for arts managers to be aware of changing policy and to be sure that the organization is in compliance. The study is based on a literature review, a questionnaire, and interviews with arts managers to discover the current state of ethics and accountability in Oregon.

The study is divided into five chapters. This, the first chapter, provides background information on the topic area and introduces how the study was conducted. The second chapter details the methodology for how the study was conducted. The third chapter is comprised of a literature review on nonprofit ethics and cultural policy related to nonprofit ethics and accountability. The fourth chapter is a summary of findings from the questionnaire and interviews. The fifth, and final, chapter summarizes and highlights current issues, offers some recommendations, and considers areas for future research.

Background to the Problem of Ethics in Nonprofit Management

Significant attention has been given to unethical behavior in recent news due to a number of corporate scandals. Scandals and scams are not solely the territory of large corporations. In April of 2005 the Senate Finance Committee began a hearing titled "Charities and Charitable

Giving: Proposals for Reform." The purpose of the hearing was "to address issues of valuation of non-cash contributions, excessive compensation, transparency and the sharing of information" (OMB Watch, 2005, p. 1). IRS Commissioner Everson attributed much of the growth of problems to "weak governance practices" and "a culture that has become more casual about compliance" (OMB Watch, 2005, p. 1). The issue of ethics in nonprofit management and leadership is a current and pressing one.

Mason (1992) writes that "No organization can rise above the ethical level of its manager" (p. 30). It is the leadership that shapes, either positively or negatively, the ethical climate and behavior of the organization's members (Harrington, 1991; Malloy & Agarwal, 2001; Merrill, 2002; O'Neill, 1992). For-profit companies are interested in protecting profits when choosing to integrate ethics into business practices (Harrington, 1991; O'Neill, 1992; Wood, 2000). Nonprofits, on the other hand, focus on ethical behavior because of the public trust and because of the unique relationships they have with clients (Independent Sector, 2004; O'Neill, 1992).

Considerable research needs to be done on ethics in nonprofit management (Malloy & Agarwal, 2001; Merrill, 2002; O'Neill,1992). "Given the nonprofit sector's historical involvement and interest in ethical issues, it is somewhat startling…to see…virtually nothing on nonprofit ethics in general" (O'Neill, 1992, p. 211).

Focus of the Study

The study is guided by the areas identified in the conceptual framework (Figure 1.1). Investigation into ethical nonprofit management and the administrative capacities that lead to ethical conduct involved research in:

- cultural policy impacts on ethics and accountability

- executive leadership methods and administrative capacities,

- models for ethical decision making,

- ethical business practices such as in fund development and financial management,

- and upholding public trust in nonprofit organizations.

These areas for research form the structure of the conceptual framework (Figure 1.1) and will be fully developed in the literature review in chapter three.

Conceptual Framework

Context: Nonprofit arts organizations
Issue: Ethics in Nonprofit Management
Goal: Ensure public trust and fiscal responsibility

Cultural Policy Impacts

Enhanced Community Engagement

Explicit or Implicit Ethical Standards
•Codes of ethics
•Management control

Relationship

Management Practice
•Decision making
•Leadership methods
•Financial management

Cultural Policy Impacts
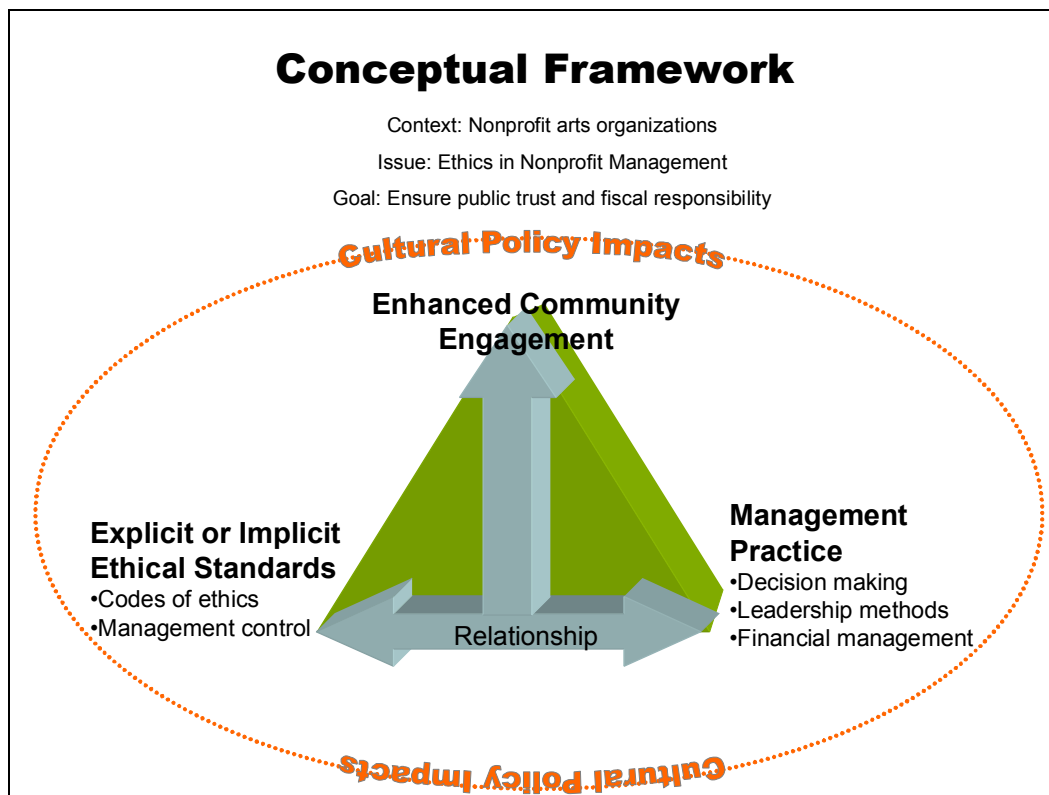
Figure 1.1

As shown in the conceptual framework (Figure 1.1), cultural policy provides the greater context within which nonprofit arts organizations function. The leaders of these organizations whether board members or staff, are well advised to remain aware of and engaged in the policy arenas that affect the arts and culture sector. In the area of ethics and accountability, this means

staying informed of changes in Internal Revenue Codes, legislation, and funding decisions, as well as many other areas.

The list of leadership methods and styles is quite long, and in the end each manager will have to decide which is most appropriate to her personality and organizational structure. However, there may be some characteristics, styles, and methods that are more common or more appropriate in nonprofit organizations. Ciulla (2004) writes "We ask a lot of nonprofit leaders. We want them to be as productive and competent as corporate CEOs. But we also want them to be people who are strongly motivated by the intrinsic rewards of the job and not by money" (p. 74). Nonprofit leadership requires the individual to "align their personal behavior with the values of the organization" (Ciulla, 2004, p. 76).

Additionally, there may be specific administrative capacities that are required for arts managers. "The work of nonprofit organizations, and the executive responsibility of nonprofit managers, takes on a special ethical dimension precisely to the degree that the organization's work necessarily involves a power relationship with clients" (O'Neill, 1992, p. 208). Research investigates what capacities lead to strong ethical organizations. "Leadership's role is to help make those values the collective standards of the organization so that there is congruence between what the organization says it believes and how it acts" (Merrill, 2002, p. 2). Arts managers may have additional responsibilities to the extent that they provide experiential learning for those who are not powerful in the society. They therefore have an obligation to conduct those relationships ethically and with sensitivity.

Research on ethical business practices included discussion of financial management control procedures. This is integral to ethical management because part of upholding the public trust is responsible use of donated funds and grant money. Further, Ford and Zussman (1997)

note that nonprofit organizations are being given the responsibility of delivering social services funded by public money and are subject to greater scrutiny and accountability (as cited in Malloy & Agarwal, 2001, p. 40).

The purpose of the field research conducted for this study was to understand the ethical implications for administrators, managers, and leaders in nonprofit arts organizations. Research focused on the special ethical considerations for working with the community in arts organizations.

The main research question under consideration was:

- Within the context of nonprofit arts organizations, what might be the relationship between ethical standards and management practice that lead to achieving organizational goals and objectives in the area of community engagement?

Sub-research questions in this area were:

- What recommendations for ethical conduct in for-profit companies can be applied in nonprofit organizations?

- What tools might assist arts managers in aligning practice with organizational values?

- How might arts managers work to create an ethical culture to enhance community building outcomes?

Definition of Terms

For the purposes of the study the phrase *code of ethics* is defined as a written document that guides the organization's decision making process regarding ethical issues. *Ethics* are defined as "the discipline of dealing with what is good and bad, and with moral duty and obligation" by the Merriam Webster's Collegiate Dictionary (as cited in Merrill, 2002, p. 1).

"Public trust is defined as an aggregate of mutual trust, fiduciary trust and social trust that concerns the attitude of the public toward an administration" (Feldheim & Wang, 2004, p. 65). This concept will be further developed in the literature review in chapter two. *Cultural policy* is a significant concept throughout the study. "Policies that concern arts and culture emanate from many federal departments and agencies operating in a variety of policy areas, such as education, taxes, communications, immigration, trade, charitable and business incentives, international cultural exchanges, trade regulations, broadcast licenses, copyrights, and grant making" (Cherbo & Wyszomirski, 2000, p. 12).

"*Community engagement* is the process of working collaboratively with and through groups of people affiliated by geographic proximity, special interest, or similar situations to address issues affecting the well-being of those people. It is a powerful vehicle for bringing about environmental and behavioral changes that will improve the health of the community and its members. It often involves partnerships and coalitions that help mobilize resources and influence systems, change relationships among partners, and serve as catalysts for changing policies, programs, and practices" (Fawcett, Paine-Andrews, Francisco, Schultz, Richter, Lewis, Williams, Harris, Berkley, Fisher, & Lopez, 1995). For the purposes of this study, community engagement is defined as a deep and reciprocal relationship between a nonprofit arts organizations and the community that it serves.

Chapter 2: Methodology

Purpose Statement

The purpose of this field research is to understand the ethical implications for administrators, managers, and leaders in nonprofit arts organizations. The primary goal is to understand the role ethical decision making in nonprofit management and its influence on those that use arts as a tool for community engagement.

Research Objectives

The research gathered data on current ethical decision making practices in nonprofit arts organizations. Specifically, data was gathered through questionnaires and interviews with professionals in the field. The research sought to answer the questions:

- Within the context of nonprofit arts organizations, what might be the relationship between ethical standards and management practice that lead to achieving organizational goals and objectives in the area of community engagement?

- What recommendations for ethical conduct in for-profit companies can be applied in nonprofit organizations?

- What tools might assist arts managers in aligning practice with organizational values?

- How might arts managers work to create an ethical culture to enhance community building outcomes?

Research Design

My main methodological paradigm is interpretivist. This is because my primary goal is to understand the role of ethics in nonprofit management and its influence on those that use arts as a

tool for community engagement. Neuman (2003) explains, "The interpretive approach is the systematic analysis of socially meaningful action through the direct detailed observation…in order to arrive at understandings and interpretations of how people create and maintain their social worlds" (p. 76). Data was gathered through literature review, a questionnaire and interviews with purposively selected arts leaders.

The interpretivist considers everyday life and people to be significant, and emphasizes a practical orientation. (Neuman, 2003, p.76). I am aligned with this orientation, as I have investigated what role ethical considerations have in day-to-day practice. However, I also believe, as do critical social scientists, that research should help people affect change in their conditions (Neuman, 2003, p. 81). Additionally, critical social science includes the voices of the researcher and the respondents, leading to a more balanced and rich description. Therefore I am positioning myself as a critical interpretivist, drawing on approaches from both schools of thought. My bias as a researcher is that organizations need to develop ethical standards as both a method for preventing unethical conduct and to implement a standard system to respond to unethical conduct should it occur.

The methodological paradigm has influenced my research design as I have primarily used field research to gather qualitative data. This includes the questionnaire and the interviews. Additionally, my research design has emerged through the data gathering process and become solidified only as the research was conducted.

The research focuses on the question of the relationship between ethical standards and management practice and how that relationship might contribute to achieving organizational goals in the area of community engagement. Combining the approaches of the interpretivist and constructivist allowed me to dig deeply into the organizations studied and develop an

understanding of the role of ethics in organizational behavior and, hopefully, to use the results to assist in making positive change. Through fieldwork I was able to gather rich data by conducting interviews, observing social interaction, and analyzing documents. This allowed me to compare written documentation with behavior and statements.

I utilized field research as I sought to understand and describe the role of ethics in nonprofit arts organizations, and to discover what capacities might be required of leaders in these organizations. Neuman (2003) states that using field research is "appropriate when the research question involves learning about, understanding, or describing a group of interacting people" (p. 364). Interviews were conducted to gather rich data. Interview techniques vary widely depending on the researcher and the research questions. "Rather than write research reports, qualitative researchers translate social experiences and construct narratives" (Glesne & Peshkin, 1992, p. 11).

The study examines the relationship between administrative capacities, leadership practice, and explicit or implicit ethical standards. The main research question is: Within the context of nonprofit arts organizations, what might be the relationship between ethical standards and management practice that lead to achieving organizational goals and objectives? There are ethical considerations when conducting research. The responsibility of representing people's stories accurately is a weighty one. Watkins (2005) writes:

> Any qualitative researcher who is not asleep ponders moral and ethical questions: Is my project really worth doing? Do people really understand what they are getting into? Am I exploiting people with my "innocent" questions? What about their privacy? Do respondents have a right to see my report? Why good is anonymity if people and their colleagues can easily recognize themselves in a case study? When they do, might it hurt

or damage them in some way? What do I do if I observe harmful cases? Who will benefit

and who will lose as a result of my study? Who owns the data, and who owns the report?

(p. 4).

Attention to the effect of the research on the participants, both during and after the interview is

necessary for responsible research.

Site and Participant Selection

Research participants were purposively selected, based on their leadership position within

nonprofit arts organizations in Oregon, to receive questionnaires. Interviewees were selected

based on their willingness and ability to serve as key informants. All interviewees were adults.

Sites were chosen in Oregon through purposive sampling to find sites that provided rich data.

Sites were nonprofit organizations that utilize the arts as a tool for community engagement.

Participants included managers who may be involved in developing ethics programs and who

could speak about ethics and values of the organization.

Organizations were recruited through publicly available information, such as email

addresses and telephone numbers. All data from participants who chose to respond to the

questionnaire is reported in aggregate. No individual or organization is identified. There are

ethical implications for conducting the research about ethical and unethical practices. Ethical

implications are relevant to ensuring study design issues of validity and reliability as well as

issues regarding potentially damaging information that may be shared with the researcher. While

the risk to participants was minimal, they were informed of the purpose of the research and were

advised to speak with their supervisor prior to participating in the study if they had any concerns.

Additionally, participants signed consent forms.

While there was no direct benefit expected for participants, there are anticipated benefits for the field of arts administration and nonprofit management. The lack of information regarding the topic of ethics is a serious problem. The research provides the necessary information and recommendations for organizations attempting to develop their code of ethics.

Data Collection and Analysis

Multiple steps were involved in collecting data. The data collection schematic (Appendix B) details the process. Data collection included a literature review, a questionnaire, and interviews with key informants.

A recruitment letter (Appendix G) detailing the purpose of the study was sent with each questionnaire. Questionnaires were be sent by electronic mail to fifty nonprofit arts organizations in February and March 2006. Participants in the first phase of data collection were asked to complete the questionnaire only. Participants then chose to include their contact information if they wanted to participate in the second phase of the study and be contacted for a follow up interview. There was a separate recruitment letter (Appendix H) and consent form (Appendix I) used for interviewees. During the interview process data was collected through field notes and audio recordings.

Data collection instruments were developed for each type of data. These included an interview form and preliminary interview questions (Appendix E). A coding and evaluation sheet for documents (Appendix F) collected was also developed. Lastly, a questionnaire (Appendix D) was prepared. An acknowledgement of consent was incorporated into the questionnaire. Additionally, an optional section on the questionnaire asked participants if they were interested in being contacted for a follow-up interview.

Coding was based on the conceptual framework (Appendix A). The conceptual framework identifies four key areas of data. The first is the area of cultural policy and its impacts on ethics and accountability in nonprofit. The second area is management practice. This includes decision making processes, leadership methods, and financial management procedures. Data in this area was collected primarily through interviews. The third area of data collected was explicit or implicit ethical standards, such as codes of ethics, management control procedures, and employee manuals. This data primarily came through a literature review. The last area for coding was the area of community engagement. The study asked the question about the perceived relationship between ethical business practices and community engagement.

Techniques are in place to ensure validity. The first technique is triangulation of data. Data was collected through multiple sources including interviews, questionnaires, and literature review. The second technique is member checks. Interview participants had the option to review any quotes used in the final report of this study, as well as any future publications possibly resulting from this inquiry.

Researchers Expectations

In the field the researcher expected to find information on codes of ethics and the variety of processes for development of codes of ethics. Data regarding decision making and leadership models were also anticipated.

Limitations & Delimitations

I believe that full understanding of the topic requires significant time in the field as in a longitudinal study. However, due to the time actually available, I created and distributed a

questionnaire, and interviewed three art leaders to gather rich data. The study participants were delimited to arts organizations in Oregon to allow the researcher to travel for interviews. There are limitations to the study because it is dealing with qualitative data. This means that generalization to all nonprofit arts organizations will not be possible. Findings take the form of recommendations. Additionally, as is the case in qualitative research, data may be interpreted differently by another researcher with the same information.

It is my belief that an organization committed to ethical practice will spend time and resources to build an ethical environment. If, as O'Neill (1992, p. 211) states, there is little written on the topic of nonprofit ethics, then the research into this area will provide much needed guidance to those working in the field. Additionally, the project is practice based and results in useful guidelines for assessing an organization's ethical climate and recommendations for future research. The objective is to provide a framework within which managers and staff can align day-to-day practices with the organizational values.

In these times of increased scrutiny and accountability for nonprofit organizations, there is a need and desire for information regarding ethical business practices. The purpose of the research is twofold. The first is to fill, at least in part, the gap in the research regarding ethics in the nonprofit sector. Second, the research results in guidelines and recommendations for organizations beginning the process of developing their own code of ethics. In chapter three, the literature review examines, in depth, the effect of cultural policy on the area of ethics and accountability. Data from the questionnaire and interviews are examined in chapter four. The study concludes with a summary of the study and recommendations in chapter five.

Chapter 3: Literature Review

Ethics are defined as "the discipline of dealing with what is good and bad, and with moral duty and obligation" by the Merriam Webster's Collegiate Dictionary (as cited in Merrill, 2002, p. 1). Merrill (2002) elaborates, "Ethical decisions require us to make decisions based on right versus right choices. Often there is no 'correct' answer. Instead we must weigh both sides and make a decision based on a core value or belief" (p. 1). Generally, values are agreed to be the foundation of ethics and ethical behavior (Merrill, 2002; Independent Sector, 2004; O'Neill, 1992). This literature review follows the conceptual framework (see Figure 2.1) for the study, examining the cultural policy impacts on ethics and accountability, motivations for ethical conduct in nonprofit organizations, the role of leadership, models for ethical decision making, and ethical business practices.
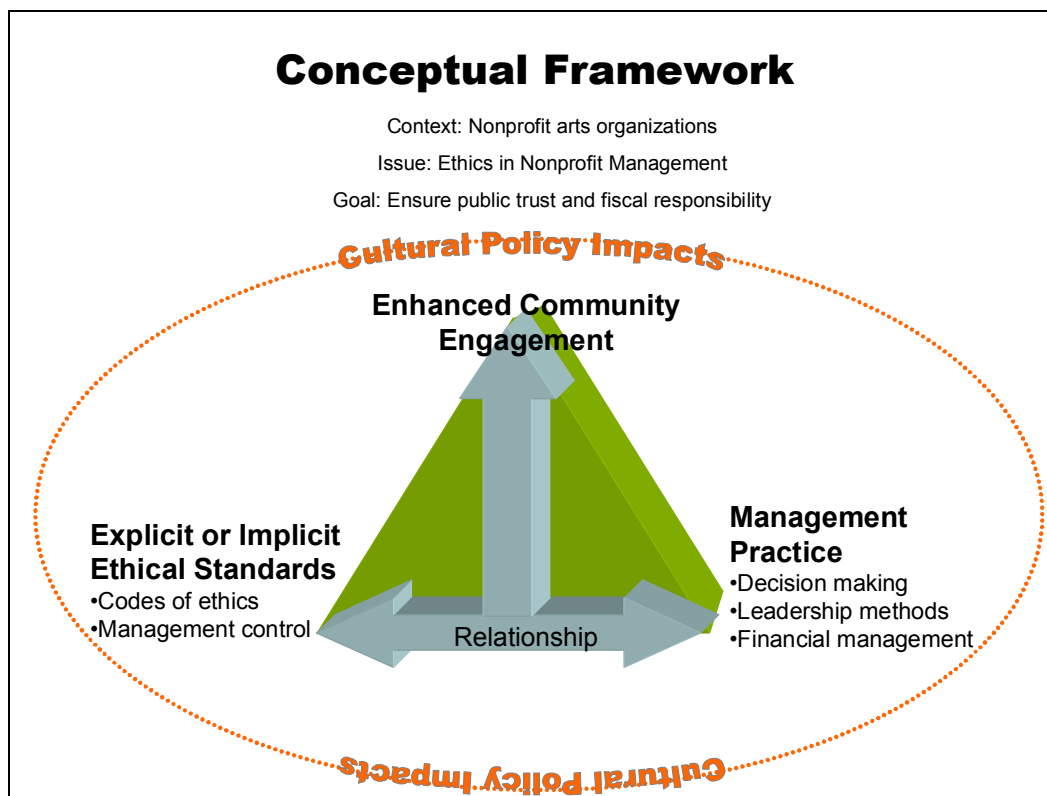

Figure 2.1

Cultural Policy

This section seeks to understand and describe the relationship between government policies and nonprofit arts management in relation to ethics and accountability practices. The literature review investigates how new trends in accountability legislation might impact arts administrators in nonprofit arts organizations. Through document analysis and literature review, this chapter investigates current and pending federal policies related to nonprofit ethics and accountability and the impact of those policies on the cultural sector. Specifically, it will examine recent and pending legislation related to financial accountability, reporting and evaluation in nonprofit organizations and research in the areas of nonprofit accountability and cultural policy. While much of the literature is about the nonprofit sector as a whole, examining the governmental policies that impact the areas of ethics and accountability will provide valuable and necessary information for arts managers.

In order to better understand the details of the topic there are a number of terms to be defined. Wittmer (2001) defines an *ethical situation* to be "one in which ethical dimensions are relevant and deserve consideration in making some choice that will have significant impact on others" (p. 481). This broad definition of an ethical situation makes planning a necessity rather than an option for careful, effective, and ethical management. Menzel (2003) describes two kinds of ethics strategies. First, "formal ethics management strategies involve mandatory employee training, use of ethics as a criterion in the reward structure, and the adoption of organizational rules that promote the ethical climate, such as requiring financial disclosure and approval of outside activities" (p. 20). He goes on to say that "informal ethics management strategies involve reliance on role models and positive reinforcement and are behaviorally based" (p. 20).

Other terms include public trust, accountability, integrity, legitimacy and transparency. While most have a general understanding of these terms, they are often difficult to clearly define in relation to policy making. As Farkas and Molnar (2005) explain:

> For some, the concepts of accountability, transparency and trust are inseparable. In general, accountability implies both a measure of *answerability* and *enforceability*, and is often used interchangeably with the similar concepts of responsiveness, responsibility and representation. Besides, accountability is linked to a variety of other terms in its practical usage, such as surveillance, monitoring, oversight, control, checks, restraint, public exposure and punishment, all reinforcing the widespread appropriation of the term. (p. 2)

With such loaded terms being interpreted differently by different audiences, coming to conclusion on the issues is made even more difficult.

Farkas and Molnar (2005, p. 10) apply the following framework (see Figure 2.2) to describe the areas involved in nonprofit accountability. Procedures and practices must be in place to address each issue area. They do acknowledge the impact of public policy and affairs on accountability; however, it can be argued that cultural policy impacts each of the issue areas in their framework. It could be argued that for arts organizations cultural policy would be best represented as a larger circle that surrounds Farkas' and Molnar's (2005, p. 10) framework. For example, one major part of public policy that impacts each issue area is that of the Internal Revenue Code (IRC) that establishes the existence of tax exempt organizations in the United States tax structure. However, the framework is a useful way to understand the components of accountability.

Figure 2.2. (Farkas & Molnar)

Policy Impacts

       The Internal Revenue Code is only one aspect of cultural policy in the United States. Cultural policy "includes a number of issues that touch upon the activities of many arts disciplines and are invested in many federal departments and agencies and levels of government" (Cherbo & Wyszomirski, 2000, p. 13). More obscure or unknown policy developments have an impact on the day to day functions of nonprofit arts organizations. For example, simple changes in the United States Postal Service rule regarding discounted postage for nonprofits could alter the operations of some organizations. Additionally, each state has different mandates by which nonprofits must operate. While this paper cannot detail the laws of each state, it is important to note that one aspect of the complexity of nonprofit management in the United States is that laws are different at the federal and state level.

       There have been changes in policy for nonprofits as a result of the September 11th attacks and resulting legislations such as the Patriot Act (Independent Sector, 2004). This serves as an example of the variety and complexity of the cultural policy system that nonprofit arts managers must navigate. While cultural policy may seem to be a fragmented system, it is the context within which arts organizations must function. Responding to the notion that the United States

has little or no cultural policy Mulcahy (2000) writes "The American system of cultural patronage is, in effect, much broader and stronger than it may appear at first glance" (p. 139). Cultural policy in the United States is a compilation of disparate laws that require nonprofit arts organizations to be engaged in and aware of multiple areas of public policy.

The impact of cultural policy on accountability and ethics begins with the Internal Revenue Code that created the tax exempt status for certain organizations involved in meeting various public purposes. Nonprofit organizations are commonly referred to as 501 (c)(3)'s, but what does this mean? "To qualify for exemption [from taxes] under section 501(c)(3), an organization must be organized exclusively for purposes described in that section. . . . The exempt purposes set forth in IRC Section 501(c)(3) are charitable, religious, educational, scientific, literary, testing for public safety, fostering national or international amateur sports competition, and the prevention of cruelty to children or animals" (IRS[1]). The Internal Revenue Code recognizes arts and culture organizations as qualifying for tax exempt status as educational organizations (IRS[2]). In all, there are 22 distinct categories for tax exempt organizations, though, for the most part, nonprofit arts organizations are included in the 501 (c)(3) category.

Young (2000) posits that there are three lenses through which to understand government relations with nonprofits. The first lens posits that nonprofits operate independently as supplements to government. The second says that nonprofits work as a complement to government. The third argues that nonprofits are engaged in an adversarial relationship with government. He is clear that the systems are not simple, and that no one lens applies in isolation. Young's (2000) examination of government-nonprofit interactions in four countries provides a multinational historical understanding. In the United States the relations have changed overtime. Young (2000) describes the current status of government-nonprofit relations:

Viewed through the adversarial lens, units of government at all levels in the

United States now seem more willing to challenge the tax exemptions of

nonprofit

organizations or to limit their voices in the policy arena. Thus, although

holding down its own resource commitments to social needs, government

appears also to be hampering the ability of nonprofits to function successfully,

both in raising their own resources and in speaking out for those who may be

ill-served under a new regime of limited government responsibility. (p. 158).

Young's (2000) lenses help to understand the complex and dynamic nature of policy that arts

administrators must negotiate.

Scandal and Legislation

As previously stated, the tax laws are only the starting point for examining the

relationship between policy and nonprofit ethics and accountability. "Laws and regulations

governing nonprofit organizations and their requirements for information disclosure are the very

basic accountability mechanisms intended to ensure a minimum level of transparency" (Farkas &

Molnar, 2004, p. 8). The BoardSource (2003) reports that:

Significant attention has been given to unethical behavior in recent news due to a number

of corporate scandals. The Sarbanes-Oxley Act was passed in 2002 in response to the

corporate and accounting scandals of Enron, Tyco, and others of 2001 and 2002, the

law's purpose is to rebuild public trust in America's corporate sector (p. 2).

Indeed, there is speculation that "ethics legislation is a function of an ethics scandal process"

(Goodman, Hop & Ludwig, 1997 as cited in Menzel, 2003, p. 11). As is often the case with

cultural policy, it is up to the arts managers to seek information about changing laws that are intended to impact the for-profit sector as well as those aimed at the nonprofit sector.

The Sarbanes-Oxley Act has two provisions that directly effect nonprofit organizations. These are whistle-blower protection and document destruction. The law states that no retaliation of any kind can be taken against an employee who reports suspected illegal activities. There are criminal penalties for those who retaliate against whistle-blowers. The Sarbanes-Oxley Act also makes it illegal to "alter, cover up, falsify, or destroy any document to prevent its use in an official proceeding" such as a law suit or investigation (BoardSource, 2003, p. 10). While these are the only two provisions of the law that directly effect nonprofits, it is recommended that "Nonprofit leaders should look carefully at the provisions of Sarbanes-Oxley, as well as their state laws, and determine whether their organizations ought to voluntarily adopt best governance practices, even if not mandated by law" (BoardSource, 2003, p. 2).

While Sarbanes-Oxley is primarily focused on corporate governance, there has been recent legislative action specifically aimed at the nonprofit sector. In April of 2005 the Senate Finance Committee began a hearing titled "Charities and Charitable Giving: Proposals for Reform." The purpose of the hearing was "to address issues of valuation of non-cash contributions, excessive compensation, transparency and the sharing of information" (OMB Watch, 2005, p. 1). IRS Commissioner Everson attributed much of the growth of problems to "weak governance practices" and "a culture that has become more casual about compliance" (OMB Watch, 2005, p. 1).

The Senate Finance Committee encouraged the Independent Sector to convene the Panel on the Nonprofit Sector to research and make recommendations on improving accountability and ethical conduct in nonprofit organizations (Independent Sector, 2005, p. 1). Young's (2000)

argument that the relations between nonprofits and government are currently adversarial is apparent in the Panel's Final Report. "Some of those who testified urged caution when considering new legislative options, particularly given the diverse way in which the charitable sector is organized. . . . Moreover, legislation should not be so onerous as to stifle the generous inclination of Americans to give and volunteer" (Independent Sector, 2005, p. 14). Farkas and Molinar (2004) agree:

> It is necessary to critically examine the different ways in which accountability is applied to key development actors including governments, nonprofit organizations, international institutions, and corporations, where the diverse mandates and ways of operating of these institutions present unique challenges for promoting and enforcing accountability. (p. 13).

The Independent Sector (2005) therefore carefully addresses the difference between various organizational structures and sizes of organizations. The Panel on the Nonprofit Sector's final report (Independent Sector, 2005) provided recommendations for three groups involved in setting various aspects of cultural policy: Congress, the Internal Revenue Service, and the charitable sector.

The recommendations to Congress include improving enforcement of current and proposed regulations by increasing funding for the IRS and states to increase oversight (p. 85). Additionally, they recommend that Congress should assist in improving the quality of information available to government regulators and the public by reforming various aspects of reporting through Form 990, the form that nonprofits with budgets above $25,000 are required to file with the IRS. Other recommendations include steps to ensure public trust in the nonprofit sector by imposing penalties on board members and managers who "approve self-dealing or excess benefit transactions, including excessive compensation" (p. 88) and ensuring that board

members "meet minimum requirements to fulfill their fiduciary responsibilities" (p. 89). The recommendations to the IRS are focused on revisions to the Form 990. The purpose of the recommended revisions is "to ensure accurate, complete, timely, consistent, and informative reporting, and to provide clear information needed by state and federal regulators to enforce laws governing charitable organizations" (p. 89).

The last section of recommendations focuses on what the Panel on the Nonprofit Sector calls the charitable sector. There are three main areas of recommendations. The first is accurate reporting and financial transparency through Form 990, regularly reviewing financial practices, and providing information through the organization's website and other methods to the public (p. 91). Like BoardSource's (2003) recommendations based on the Sarbanes-Oxley Act, the Panel on the Nonprofit Sector (2005) also recommends a strong conflict of interest policy and whistle-blower protection. The Panel on the Nonprofit Sector's most strenuous recommendation for the nonprofit sector is in the area of education. They encourage the sector to educate itself about financial reporting, board composition and responsibilities, auditing, and "procedures . . . to facilitate reporting of suspected malfeasance and misconduct by organization managers" (p. 91).

The Senate Finance Committee's decision to create new legislation could be described as anticipatory or reactionary as "Underlying the Finance Committee's concerns was a conviction that many nonprofit organizations lack effective financial and programmatic accountability procedures and that nonprofit boards are not adequately performing their oversight responsibilities" (Salamon, 2005, p. 1). These were assumptions, made without evidence that proved a significant and widespread problem in nonprofit organizations (Salamon, 2005). This led the Johns Hopkins Listening Post Project to undertake a survey of nonprofit organizations in five key fields (children and family services, community and economic development, elderly

housing and services, museums, and theaters) with the goal of documenting what ethics and accountability procedures were being used by nonprofits.

The survey asked in depth questions about six areas of nonprofit operations: "(1) transparency and financial accountability, (2) board roles and responsibilities, (3) conflict of interest and related ethics protections, (4) adherence to "best practice" standards, (5) changes in organizational structure and mission, and (6) board awareness" (Salamon, 2005, p. 1). Each of the research areas focused on the same areas that had raised concerns in the Senate Finance Committee. This policy making process is fascinating because the recommended legislation is not supported by independent research. Nonprofits could potentially reject the proposed legislation as unnecessary. However, such a reaction may lead to a negative perception of the sector by the public.

Salamon's (2005) research uncovered that most nonprofits have sufficient procedures in place to address each of the issues. The majority are already in compliance with the Finance Committee's recommendations in each area. There are two areas where nonprofits seem to be lagging. First, is having written policies in place to ensure whistle-blower protection. The second area is board awareness of federal and state nonprofit laws. Other than these two areas nonprofits are overwhelmingly meeting the expectations of the Finance Committee. "The dire assessments emanating from alarmist media accounts seem significantly overdrawn. The nonprofit sector is well along toward getting its organizational house in order and legislative fixes premised on worst-case scenarios should therefore be approached with considerable caution" (Salamon, 2005, p. 15).

An important question to ask is whether or not policy can have any real impact ethical behavior in nonprofit organizations. Certainly, highly enforced regulations can impact some

aspects of accountability and transparency, but they do not necessarily inspire more ethical behavior. Schaefer and Zaller (1999) state:

> While methods such as ethics training, legal inspections, the creation of conduct codes, and consistent reaction to ethical violations all have their place in ensuring ethical practices and policy development, they have serious shortcomings:
>
> 1. These measures are reactive, not proactive.
>
> 2. Used as typical managerial control systems, they emphasize the short-term and obvious.
>
> 3. They are either descriptive or prescriptive, lacking in the area of self-reflection.
>
> 4. They focus on helping the individual make a decision separate from the context of the nonprofit's core values. They are based on such areas as moral reasoning, personal values, decision styles, or moral philosophies, which reflect an intense individual grounding. Such an approach defies the reality of how ethical behavior occurs in organizations. People act according to how they perceive the culture of the organization as a whole. (p. 43).

These challenges are why the Panel on the Nonprofit Sector encourages "vigorous sector- wide education" (p. 91).

While arts organizations and individual artists may be wary of government involvement in the arts, Young (2000) sees the role of government regulation of nonprofits in a different light. He writes, "the trustworthiness of nonprofit organizations depends in part on the credibility of the nondistribution constraint and the integrity of the nonprofit governance structure. These, in turn, must be policed, and that is government's role" (p. 156). Therefore it is because of the

public trust that nonprofits hold that government has the responsibility to ensure it is a well-placed trust.

Public Trust in Nonprofit Organizations

As previously mentioned, corporate scandals have received a lot of attention from the press. However, the heightened awareness should not lead one to believe that the topic is one that is newly considered or discussed. "Between 1983 and 1986 most surveys estimated that approximately 30 percent of companies had ethics training" (Harrington, 1991, p. 21). In the for-profit sector the desire to promote ethical behavior has, at its root, a desire to prevent incidents that negatively impact the company's profits (Harrington, 1991; O'Neill, 1992; Wood, 2000). Harrington (1991) argues that the inclusion of ethics training aims to raise awareness of ethical issues, aid decision making and draw attention of specific ethical issues that an employee may face. Further, Harrington asserts these trainings can increase compliance with laws and regulations related to employee safety, discrimination, white collar crime, and theft, thereby reducing lawsuits and scandal.

Nonprofits are not immune to scandal, nor are employees of nonprofits incapable of unethical behavior; however, in the nonprofit sector there is no financial motivation for improved ethical behavior. Ethical behavior is therefore based on something less tangible. The Independent Sector (2004) states:

> The nonprofit and philanthropic community should adhere to the highest ethical standards because it is the right thing to do. As a matter of pragmatic self-interest, the community should do so because public trust in our performance is the bedrock of our legitimacy. (p. 2).

Further, Ford and Zussman (1997) note that nonprofit organizations are being given the responsibility of delivering social services funded by public money and are subject to greater scrutiny and accountability (as cited in Malloy & Agarwal, 2001, p. 40). While for-profit companies may be trying to simply avoid lawsuits (Harrington, 1991), nonprofits should go beyond obeying the law by integrating transparency and responsiveness to public concerns into their behavior (Independent Sector, 2004).

The responsibility of the public trust requires a distinct approach to managing nonprofits (Independent Sector, 2004; O'Neill, 1992; Malloy & Agarwal, 2001; Merrill, 2002). O'Neill (1992) points out three distinctions between managing nonprofit and for-profit organizations. First, he identifies nonprofits as having the direct purpose of promoting values. Managers must therefore consistently uphold the values of the organization. Second, he recognizes the unique relationships between managers with their board, staff and volunteers. "Nonprofit managers, by soliciting and accepting volunteer labor, create and ethical obligation to use that labor appropriately" (O'Neill, 1992, p. 207). Lastly, he discusses the power relationship between a nonprofit and its clientele. "The work of nonprofit organizations, and the executive responsibility of nonprofit managers, takes on a special ethical dimension precisely to the degree that the organization's work necessarily involves a power relationship with clients" (p. 208).

All organizations, whether public, for-profit, or nonprofit, are more successful when the public can trust their products, services, and operations. Feldheim and Wang (2004) lay out the following model (see Figure 2.3) for generating public trust (p. 68). Generally, values are agreed to be the foundation of ethics and ethical behavior (Merrill, 2002; Independent Sector, 2004; O'Neill, 1992) and Feldheim and Wang's (2004) model begins with the same foundation of

values. Starting with values leads to ethical organizational behavior, this in turn leads to

enhanced public trust. Conversely, the lack of a foundation in values will lead to unethical

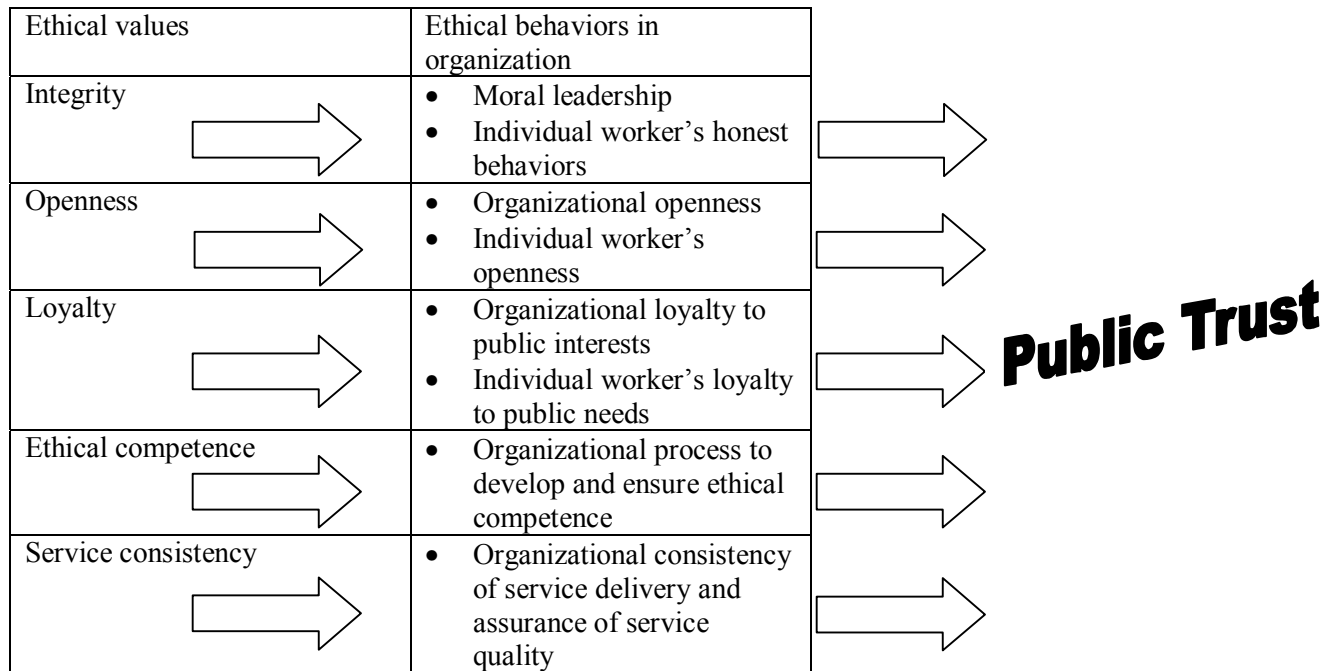| Ethical values	Ethical behaviors in organization
Integrity	• Moral leadership • Individual worker's honest behaviors
Openness	• Organizational openness • Individual worker's openness
Loyalty	• Organizational loyalty to public interests • Individual worker's loyalty to public needs
Ethical competence	• Organizational process to develop and ensure ethical competence
Service consistency	• Organizational consistency of service delivery and assurance of service quality

Public Trust

Figure 2.3. Model of Ethics and Public Trust
(Feldheim & Wang)

behavior and a lessening of the public trust. This can significantly undermine a nonprofit

organization's ability to achieve its mission. "Once donors and employees observe unethical

behavior by the organization, they will no longer offer their support and loyalty" (Schaefer &

Zaller, 1999, p. 42).

The public trust is an overarching theme in nearly all the literature regarding ethics in

nonprofit organizations (Feldheim & Wang, 2004; Irvin, 2005; O'Neill, 2001). It is the

leadership that shapes, either positively or negatively, the ethical climate and behavior of the

organization's members (Harrington, 1991; Malloy & Agarwal, 2001; Merrill, 2002; O'Neill,

1992). Mason (1992) writes that "No organization can rise above the ethical level of its

manager" (p. 30). For-profit companies are interested in protecting profits when choosing to

integrate ethics into business practices (Harrington, 1991; O'Neill, 1992; Wood, 2000).

Nonprofits, on the other hand, focus on ethical behavior because of the public trust and because of the unique relationships they have with clients (Independent Sector, 2004; O'Neill, 1992). Further, Ford and Zussman (1997) note that nonprofit organizations are being given the responsibility of delivering social services funded by public money and are subject to greater scrutiny and accountability (as cited in Malloy & Agarwal, 2001, p. 40). While for-profit companies may be trying to simply avoid lawsuits (Harrington, 1991), nonprofits should go beyond obeying the law by integrating transparency and responsiveness to public concerns into their behavior (Independent Sector, 2004).

The responsibility of the public trust requires a distinct approach to managing nonprofits (Independent Sector, 2004; O'Neill, 1992; Malloy & Agarwal, 2001; Merrill, 2002). O'Neill (1992) points out three distinctions between managing nonprofit and for-profits. First, he identifies nonprofits as having the direct purpose of promoting values. Managers must therefore consistently uphold the values of the organization. Second, he recognizes the unique relationships between managers with their board, staff, and volunteers. "Nonprofit managers, by soliciting and accepting volunteer labor, create and ethical obligation to use that labor appropriately" (O'Neill, 1992, p. 207). Lastly, he discusses the power relationship between a nonprofit and its clientele. "The work of nonprofit organizations, and the executive responsibility of nonprofit managers, takes on a special ethical dimension precisely to the degree that the organization's work necessarily involves a power relationship with clients" (p. 208).

It is the responsibility of a nonprofit organization to uphold the public trust through responsible management practices. This is not only an obligatory response to the tax-exempt status given to nonprofits. Ethical behavior also benefits the organization as Irvin (2005) explains:

A distrustful public might withhold contributions if they receive the impression from the media that fraud is rampant in the nonprofit sector, even if media reports are based on isolated incidents. Solomon (2002) attributes a recent drop in public confidence in nonprofit organizations to the widely publicized financial irregularities of a few organizations in 2001 and 2002. (p. 166).

It is beneficial for nonprofit organizations to conduct themselves ethically in order to maintain donor relationships and community support.

Executive Leadership Methods and Administrative Capacities

As O'Neill's (1992) points imply the manager or leader holds an influential position in shaping organizational ethical behavior (Harrington, 1991; Malloy & Agarwal, 2001; Merrill, 2002). In fact, O'Neill (1992) writes that morality is not only central to management, but its most important component" (p. 201). As Malloy and Agarwal (2001) recommend:

…That leaders of nonprofit organizations should be aware of the manner in which they make decisions and the manner in which they behave generally; these internal cultural and political components are of great importance to the member's perception of ethical climate. (p. 49)

Merrill (2002) supports that claim by saying "One of the most important challenges for leaders is to identify collective values, and then translate those values into behavior" (p. 2).

One of the common themes in the literature is that organizations should base ethical decisions on shared values. Bensman (1967) writes that "There can be no unethical behavior where there are no ethical standards" (p. 176). Often leadership sets the tone for ethical behavior. O'Neill (1992) says "Organizational leaders …significantly shape organizational values and

codes; indeed, some organization theorists argue that shaping and communicating organizational values is the heart of the leadership role" (p. 200). Schaefer and Zaller (1999) write "People act according to how they perceive the culture of the organization as a whole. They perform behaviors, ethical or unethical, that the organization rewards. Those behaviors may have nothing to do with the organization's detailed code of ethics" (p. 43).

Models for Ethical Decision Making

Codes of ethics are cited as "one of the tangible ways to examine whether organizations have recognized the need for ethical behavior and have established a commitment to that need" (Wood, 2000, p. 287). The Independent Sector (2004) recommends that "each organization in the independent sector should have a formally adopted code of ethics with which all of their trustees, staff and volunteers are familiar and to which they adhere" (p. 1). While O'Neill (1992) agrees that codes of ethics can be useful for focusing attention on ethics, he cautions that "There is also a danger: focusing too much attention on a piece of paper that can easily be put in a drawer" (p. 210). Additionally, Mathew's (1987) study of manufacturing firms in the U.S. found that codes of conduct and corporate violations did not have a discernible relationship. He also found that codes of conduct were not able to enforce self-regulation by the corporation (as cited in Wood, 2000, p. 288).

How then are arts organizations to reach a higher standard of ethics and accountability? O'Neill (1992) and the Independent Sector (2004) point out that the process by which the code of ethics is developed is an important factor in its usefulness. It is reasonable to conclude that an ascribed code of ethics would be less effective than one that is collaboratively developed by the staff and members of an organization. While there are templates available for organizations to

adapt from or copy outright, Kolb (1999) explains that "a code of ethics must reflect the culture of the organization… A successful code of ethics must be embraced by the organization's employees at all levels; therefore, the process of developing and communicating the code is extremely vital to the code's ultimate success" (p. 5).

Kolb's (1999) recommends that as an organization develops its code it should include certain provisions based on his study of the United Way. Kolb (1999) examined the United Way as it developed a code of ethics after facing considerable scandal. The United Way made significant changes in its operations to prevent any future unethical behavior and to regain the public's trust in the organization. The code should include a preamble, explaining the mission and values of the organization. A section on personal integrity is also recommended. A section on professional excellence, described by Kolb as "a list of expected behaviors" is also recommended. The next area for a code of ethics to discuss is accountability. The United Way code examines accountability, efficiency, responsibilities to volunteers and relationships with vendors. Equal opportunity, while required by law, is also an issue of ethics and values and should be addressed in a code of ethics. Lastly, financial accountability should be addressed. "Provisions on conflict of interest, preclusion of personal gain, and accurate expense recording all relate to a charitable organization's stewardship over resources" (p. 8).

Schaefer and Zaller (1999) propose an extensive ethics audit that is carried out periodically like a financial audit. They cite "Eight Rules of Ethical Thinking" that they recommend as steps for an ethics audit (Salamon & Hanson, as cited in Schaefer & Zaller, 1999, p. 43). The rules are:

- Consider others' well-being and avoid actions that will hurt others.

- Think of yourself as a member of a community, not an isolated individual.

- Obey—but don't depend only on—the law. An action may be legal yet unethical.

- Think of yourself and your organization as part of society.

- Obey moral guidelines. Consider them "categorical imperatives" with no exceptions.

- Think objectively to be sure your action is truly ethical and not rationalized self-interest.

- Ask, "What sort of person would do such a thing?" Or, as Peter Drucker has said, "Can you look at your face in the mirror in the morning?"

- Respect others' customs—but not at the expense of your own ethics.

Were arts managers and organizations to base their actions and decisions on these values, or their interpretation of them, it would likely lead to more ethical conduct, which, in turn may lead to enhanced public trust.

Of course, there is not agreement on what would be the most effective ethics strategy. Farkas and Molnar (2005) call for self-regulation through nonprofit networks and professional organizations based on a general framework of standards. "The idea behind such self-regulation and accountability mechanisms is that the sector itself should be actively engaged in promoting certain set of values and norms as part of maintaining a public reputation for professionalism and high ethical behavior, and therefore ensure public trust" (p. 9). The framework that they offer (Figure 2.2) suggests adopting standards in eight areas: mission and programs, governance, finances, fundraising, human resources management practices, and public policy and affairs. Each of these areas must necessarily be addressed both by the sector and by individual organizations if we are to, as Farkas and Molnar (2005) suggest, "move from accountability as a spectacle . . . to accountability as a norm" (p. 13).

While much of the current literature focuses on the nonprofit sector as a whole, the arts sub-sector does have a model within its ranks. Museums have been at the forefront of instituting formal ethics programs. The International Council of Museums first adopted their Code of Professional Ethics in 1986. Since that time it has been revised to reflect changes in the field, most recently in 2004. The American Association of Museums has a code of ethics that outlines ethical practices for volunteers, staff, and board members. In fact, many countries have professional associations of museums and many of those associations have extensive codes of ethics.

Many agree that significant research needs to be done on ethics in nonprofit management (Malloy & Agarwal, 2001; Merrill, 2002; O'Neill,1992). Additional areas for study should include specific research on ethical models and decision making frameworks in nonprofits and recommendations for interacting with traditionally underserved and vulnerable populations. Additionally, ethical implications of raising and spending donated funds should be addressed.

In summary, ethical considerations are important in both nonprofit and for-profit organizations, though for different reasons. For-profits are likely to consider profits and losses when choosing to integrate ethics into business practices (Harrington, 1991; O'Neill, 1992; Wood, 2000). Nonprofits, on the other hand, focus on ethical behavior because of the public trust and because of the unique relationships they have with clients (Independent Sector, 2004; O'Neill, 1992). In both contexts it is the leadership that shapes, either positively or negatively, the ethical climate and behavior of the organization's members (Harrington, 1991; Malloy & Agarwal, 2001; Merrill, 2002; O'Neill,1992). Codes of ethics, while helpful in getting an organization to consider ethics, are not equal to ethical behavior (Independent Sector, 2004; O'Neill, 1992; Wood, 2000).

Arts organizations are often faced with unique ethical situations. These can range from copyright issues to artist contracts. Further discussion of the ethical issues faced by arts organizations occurs in chapter four, the summary of findings from the questionnaire and interviews conducted for the study.

Chapter 4: Summary of Findings from Field Research on Ethical Practice in Nonprofit Arts Organizations

The purpose of the study was to examine the role of ethics and accountability in nonprofit arts organizations and examine the ethical situations faced by arts managers. Therefore, it was necessary to conduct field research and speak directly with arts managers. The questionnaire and interview questions were structured around the conceptual framework for the study. Questions were asked about the cultural policy impacts on ethics and accountability, motivations for ethical conduct in nonprofit organizations, the role of leadership, models for ethical decision making, and ethical business practices.

The study was comprised of three data collection strategies, the literature review, the questionnaire, and interviews. The questionnaire was distributed to approximately 40 nonprofit arts organizations throughout Oregon, with a focus on those in Lane County. Recruitment letters were sent to the organizations through publicly available email addresses. The recruitment letter directed respondents to a web based survey. The total number of respondents was 19, roughly 50%. This response rate is somewhat lower than expected and means that the results are not necessarily indicative of all arts organizations in Oregon. However, the results do allow for examination of the responding organizations.

Questionnaire Results

The first set of questions was intended to gather information about the organizations' process for using and developing codes of ethics. The first question asked if the organization had a code of ethics, which was defined as a written document that guides the organization's decision making process regarding ethical issues. A slight majority, 58%, reported that they did not have a

Does your organization have a code of ethics?

Figure 4.1

code of ethics (see Figure 4.1). Respondents were then asked to choose what issues were covered

in their organization's code (see Figure 4.2). Ten respondents chose to answer the question. 90%

of these respondents report that financial management is the most frequently discussed topic in

codes of ethics. Client relations and employee relations are also frequently discussed, with 50%

of respondents choosing that answer. Two respondents wrote in other issues. One reported that

"Many of these issues are covered in our employee handbook but it is not a separate Code of

What is covered in your organization's code? Check all that apply.

Figure 4.2

In what areas has the code of ethics been useful in decision making?

Legend:
- Other (please specify)
- Conflict resolution
- Budgetary/Financial matters
- Decision making
- Community relations
- Board training
- Staff training
- Staff discipline

0% 10% 20% 30% 40% 50%

Figure 4.3

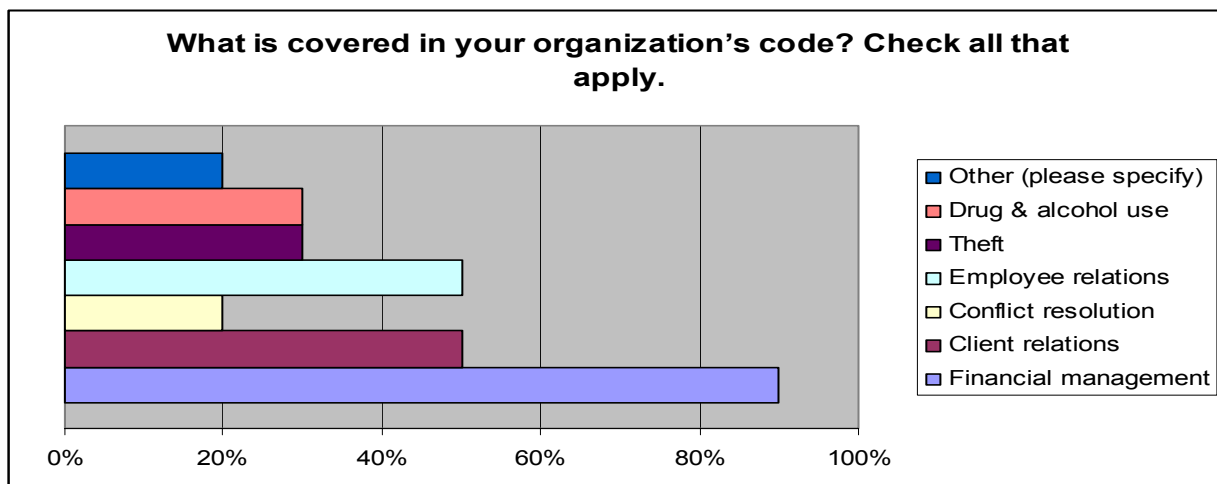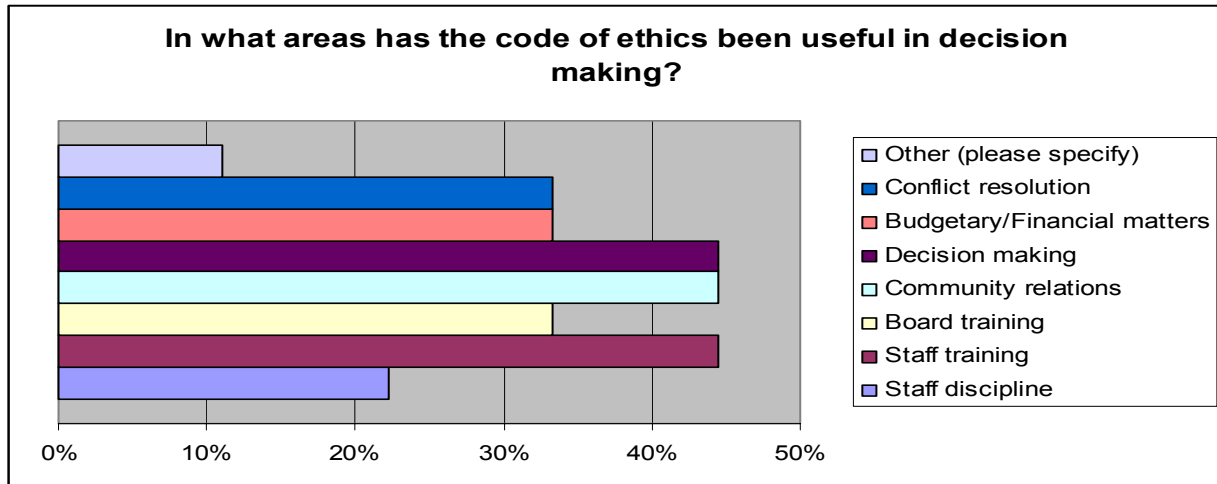Ethics. The handbook deals with conflict resolution, employee relations, theft, drug and alcohol use." The other said that ethics for the board of directors was included in the organization's code of ethics.

The third question asked in what areas has the code of ethics been useful in decision making (see Figure 4.3). Staff training, decision making, and community relations had the highest responses with 44%. The other areas that were reported were conflict resolution, budgetary and financial matters and board training at 33%. The least common response was staff discipline. One respondent reported that "conflict resolution would be the only one that applies.

How was your organization's code of ethics developed?

Legend:
- Other (please specify)
- Developed by staff.
- Developed by the Board of Directors with input from staff.
- Developed by the Board of Directors without input from staff.
- Developed with a consultant.
- Adapted from the Independent Sector.
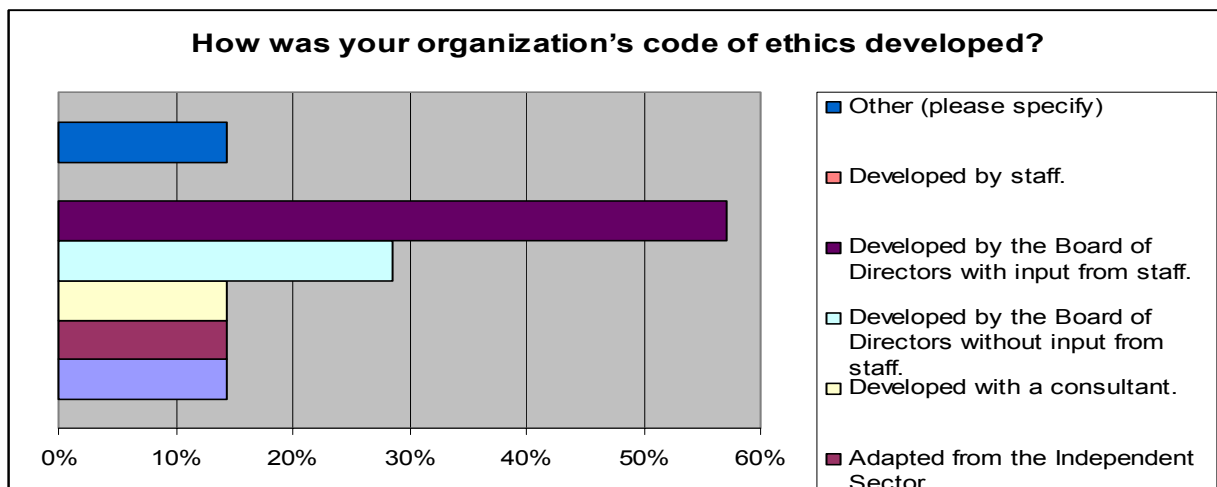
0% 10% 20% 30% 40% 50% 60%

Figure 4.4

The others we deal with as a team on the management level." It might be inferred that matters related to staff discipline are directed by other guidelines.

The fourth question asked how the code of ethics was developed. The most common answer was that it was developed by the board of directors with input from the staff (see Figure 4.4). Fifty-seven percent of respondents chose this answer. Approximately 30% reported that their code of ethics was developed by the board of directors without input from the staff. One respondent was unsure of how the code of ethics was developed.

The final set of questions was intended to gather information about the level of responsiveness to legislation and cultural policy and was borrowed from the Johns Hopkins Listening Post Project (Salamon, 2005). As previously discussed, cultural policy is compilation of disparate laws that require nonprofit arts organizations to be engaged in and aware of multiple policy areas. Therefore questions addressed conflict of interest policies, internal financial controls, the Sarbanes-Oxley Act, and the IRS Form 990. Each of these issues has been discussed in recent policy. The BoardSource's (2003) and the Panel on the Nonprofit Sector (2005) recommends a strong conflict of interest policy and whistle-blower protection in response to the
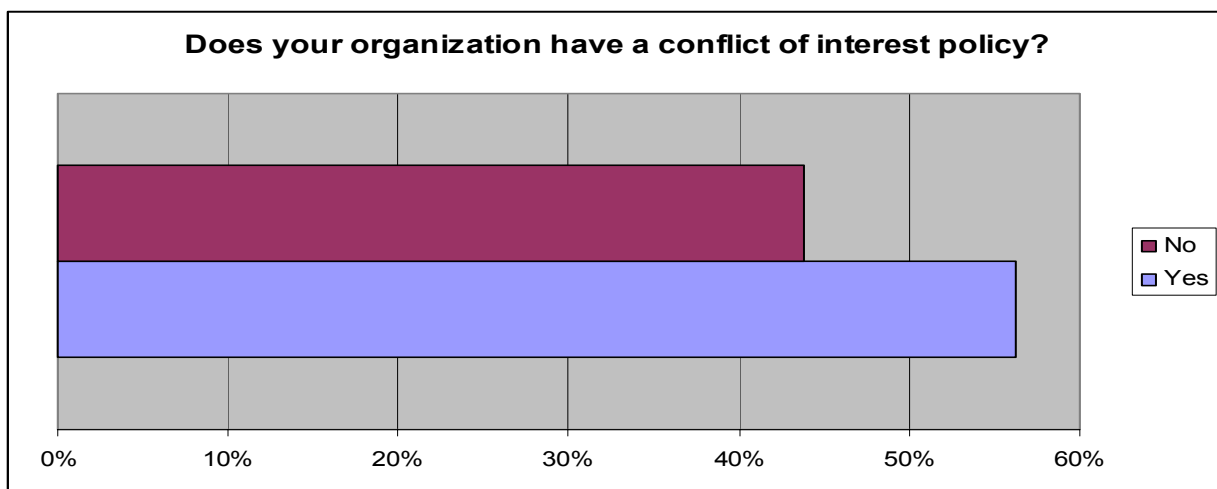

Figure 4.5

Does your organization have a policy in place to protect whistleblowers?

Figure showing a horizontal bar chart. No bar extends to about 93%, Yes bar extends to about 7%. Legend: No, Yes. X-axis from 0% to 100%.

Figure 4.6

Sarbanes-Oxley Act. However, of the participating organizations about half have a conflict of interest policy (see Figure 4.5) and only one organization has a whistleblower policy in place (see Figure 4.6).

In order to gather information about financial accountability, organizations were asked if they had internal financial controls in place. Only two respondents said the organization did not. The majority, 88%, have internal financial controls (see Figure 4.7). Additionally, participants were asked if any changes had been made to their internal financial controls based on the Sarbanes-Oxley Act. It was surprising to discover that 87% had not (see Figure 4.8). This could

Does your organization have internal financial controls?

Figure showing a horizontal bar chart. No bar extends to about 12%, Yes bar extends to about 88%. Legend: No, Yes. X-axis from 0% to 100%.

Figure 4.7

Have changes been made in financial controls because of the Sarbanes-Oxley Act?
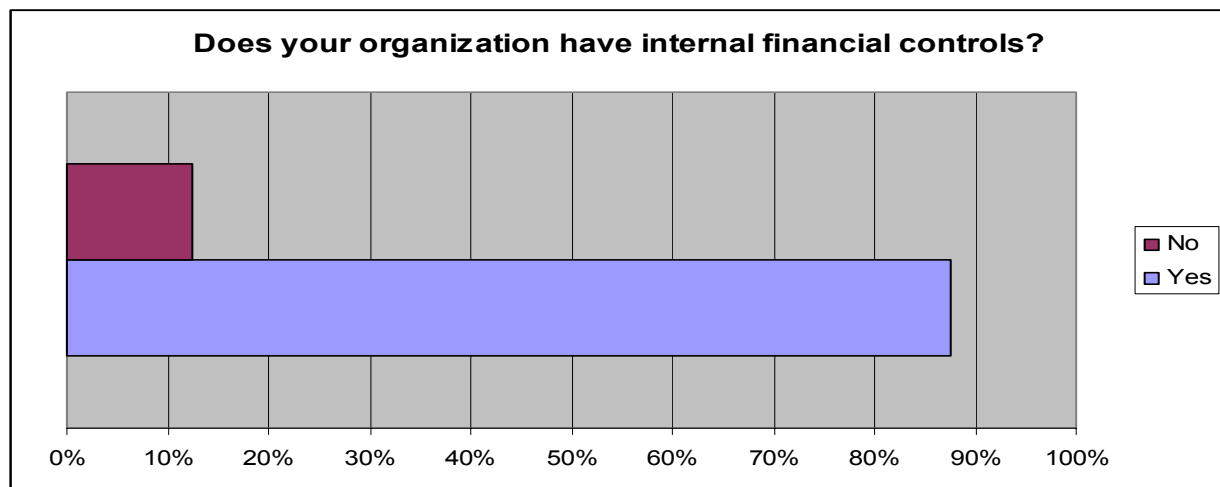
Legend: ■ No ■ Yes

X-axis: 0% 10% 20% 30% 40% 50% 60% 70% 80% 90% 100%

Figure 4.8

mean one of two things, either the organizations were not aware of what implications the act has

for nonprofits, or the internal financial controls that were in place were adequate. Salamon

(2005) found that the two areas where nonprofit organizations were lagging were in having

written policies in place to ensure whistle-blower protection and in having board awareness of

federal and state nonprofit laws. The results of the Ethics in Practice questionnaire point to the

same conclusions.

Organizations were then asked if they filed Form 990 with the IRS. The Form 990 is a

form that discloses to the IRS the financial information of a nonprofit organization, the programs

Does your organization file Form 990 with the IRS?

Legend: ■ No ■ Yes

X-axis: 0% 10% 20% 30% 40% 50% 60% 70% 80% 90%

Figure 4.9

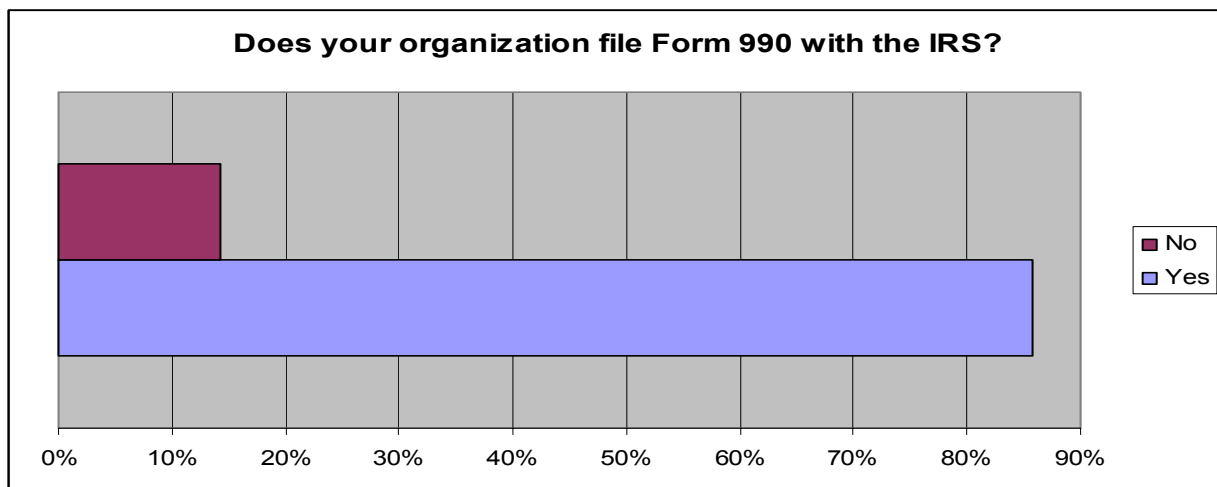it operates and the names of the executives and the board members. All nonprofits are required to submit Form 990 each year with the exception of small charities with receipts under $25,000. Of the organizations responding to the questionnaire 86% do file Form 990 (see Figure 4.9).

Interview Results

The second phase of field research involved interviews with arts leaders in Oregon. The interviews were semi-structured, allowing for flexibility in the interview. Questions prepared for the interviews were based on the conceptual framework for the study. They addressed three main areas. The first is the area of *explicit* and *implicit ethical standards*, such as codes of ethics and human resource management. The second area is *management practice*, where questions were formulated about decision making, leadership and financial management. The third area discussed is the area of *community engagement*, including public trust and the role of ethics in enhancing such engagement.

Interview subjects were recruited through the questionnaire, which asked for participants to include their contact information if they were willing to participate in the interview phase of the study. Three participants in the questionnaire opted to participate in the interview phase. Again, it is not assumed that the three participants provide enough information to make generalizations about the whole of the field in Oregon; however, their contributions and perspectives provide interesting areas for comparison and evaluation.

The first interview participant is Craig Willis, Managing Artistic Director of the Lord Leebrick Theatre Company (LLTC) in Eugene, Oregon. Wills has held this position since July of 2003. Willis previously worked as a director, actor, stage manager, teacher, and company manager for theatre companies, dance companies and colleges in Washington, California and

Ohio, including the Seattle Children's Theatre, California Theatre Center, and Dayton Ballet. Willis received his Ph.D. in Theatre Arts and MFA in Directing from the University of Oregon, where he is also an adjunct instructor. The LLTC's mission is to produce provocative professional quality theatre in an intimate setting and to nourish or cultivate artists and patrons in our community by using their facilities to do so.

The second interview participant is Marta Mellinger, Executive Director of Oregon Children's Theatre Company (OCTC) in Portland, Oregon. Mellinger has also been an organization change consultant and organization-learning designer in the Pacific Northwest, focusing on nonprofit organizations, advocacy, the arts, education, and cultural development. She has consulted both in the for-profit and nonprofit sectors. The OCTC's mission is to advance growth, development, creativity through exceptional theatre experiences for youth.

The third interview participant is Gavin Shettler, Executive Director of the Portland Art Center in Portland, Oregon. Previously, Shettler was founder and Co-Director of The Modern Zoo: Center for the Arts in Portland, Oregon. He is a classically trained vocalist and cellist. He began work in the Portland visual art community with the opening of his first gallery, The Gavin Shettler Gallery, in May of 2000.

Ethical Standards

Common themes emerged from the interviews. These themes mirror Bird and Waters' (as cited in O'Neill, 1992, p. 205) finding that the managers cite honesty in communication and fair treatment as the most common moral standards. Each organization deals with fair treatment of employees and human resources issues, and considers them to be issues of ethics. The Portland Art center is a small organization, with only one paid employee. The LLCT is a slightly larger

organization, with two full-time employees and two-part time employees. However, there are additional artists contracted for each production. The OCTC is mid-sized organization, which has grown from eight to fourteen employees. Mellinger discussed that challenge of being a mid-size organization saying "The way we have operated is a like a collaborative team with clearly defined overlapping areas of responsibilities. Now that we're moving into having supervision structures it's bringing up a lot of issues about how people want to be treated and access to their superiors and what we can ask of nonexempt employees." They are trying to be financially responsible and ethical in their treatment of employees at the same time.

Another issue of fair treatment that Mellinger discussed is the issue of intellectual property rights and artist compensation. "The key thing is that we compensate every artist for every minute of time that they put in. We never ask an artist to do anything for us for free; even the young actors that act in our shows are paid." Additionally, OCTC works very hard to be sure that playwrights are fairly compensated for their work as well. Artist compensation is a central ethical issue for OCTC.

As a smaller organization LLTC has more informal policies for dealing with employee relations than OCTC. Willis stated that the organization had started to review personnel policies when he was hired in 2003, but that that issue had been put aside. The informal operating policy has been to follow the traditional chain of command for theatre productions. Typically actors report either to the stage manager or the director. This often depends on the cause and nature of the conflict and the personal relationship established with either the director or stage manager. Similarly, on the technical side, designers and technicians can go to the technical director or the stage manager for assistance in solving problems.

Willis notes that LLTC has some work to do in solidifying personnel policies. He mentioned that the board of directors has some responsibility to provide feedback on his performance, and up until now, that has been lacking. "I think I recognize it now, as we bring on a second full-time person, and actually all positions regardless of if they're full-time or not, should get that kind of review. It's a matter of making sure you make time and create a structure for it to happen that isn't perceived as intimidating but as constructive." He did recognize that the creation of clear personnel policies are becoming more of a pressing concern as the organization considers expansion.

The issues of fair treatment for the Portland Art Center are focused around two constituents, the volunteers, who provide much of the staffing for the organization, and the artists who show their work in the Center. Shettler strives to "equalize everybody and try and have it so that everybody that is involved in the organization, be it a short time volunteer, a board member, or a volunteer staff person, or even me, that we all have equal ownership of the organization and its programs." Shettler takes this approach as an attempt to prevent the organization from becoming fractured, with people attempting to retain control of a piece of the organization's operations. Shettler cited honesty as a key method for running organization. "I think you create honesty by offering trust first, that if you trust people, and give people room to be creative, then they care about it, then they respect the organization and all of its assets even more." The trust and honesty nurtured in the organization then enhance the reputation in the community. Shettler states that "by having really great interactions with volunteers, when they leave, when their time is done, they also spread the word about the Portland Art Center is and it becomes this kind of culmination."

The Portland Art Center has established a way of working with artists that also encourages trust and honesty. Shettler reports that "Artists understand as the come in that they are forming a partnership with the Portland Art Center. We expect a certain amount of commitment and dedication with their work, but also a certain amount of respect for the space and for the organization." The model that is used seems to be an uncommon one. Shettler says "A lot of times I get a response from artists that they are used to being totally left on their own, or totally left out of the picture, and here they're not left alone and they're in the picture and so they learn a different level of professionalism. And so, I have found that when you have these kinds of levels of professionalism, like you can't have a dangling cord, everything has to be finished, things like this, like having an artist's statement, having a curatorial statement, when you have to drop things off, when postcards have to go out, all of these things, and it's a real commitment. They are making a commitment to produce the best work they can, at whatever cost, and we make a commitment to present their work the best that it can be presented."

While the Portland Art Center does not have a formal code of ethics, ethics are a frequent topic of conversation among the board members. The informal way of dealing with issues of ethics is to discuss each specific issue with the board. Shettler notes "We are pretty short on policy, on actual technical policy, but we're high on communication. At some point all of these things will have to be written down, and policies will be put in place, particularly as we get larger, but we're still pretty small, small and lucky, to be able to not have a lot of the problems that lots of organizations tend to run into." Shettler says that he uses the board as a "checks and balances" when he is faced with a decision that is any way questionable. The board for the Portland Art Center protects the "health of the organization."

Mellinger states that while OCTC does not have a formal code of ethics "We work on hiring people that have strong ethical personal standards." She goes on to say that "In the academic world I would imagine that this is probably something that is of greater significance than out here where the river meets the road. We probably are all just struggling along trusting that one another are good people trying to do the best we can because nobody would work in the nonprofit world that wasn't." This aligns with O'Neill's (1992) assertion that since nonprofits often have strong implicit and explicit codes of ethics, it often does not seem necessary to examine the ethical responsibilities of managers (p. 209). However, he continues to say that "managers commonly experience moral stress precisely because morality is never talked about" (p. 210).

As Salamon (2005) noted, nonprofits fall behind in having conflict of interest policies and whistle blower protection. The Portland Art Center does not have a conflict of interest policy. At LLTC there is a conflict of interest policy related to hiring. Willis said "I actually altered mine when they hired me, because it essentially said that I couldn't do this kind of work for anybody else. I knew coming in that I would want to make myself available for teaching or directing opportunities." The OCTC does not currently have a conflict of interest policy, but the board is considering implementing one soon. None of the organizations participating in the interviews have whistle blower protection policies in place at this time.

Management Practice

Both Mellinger and Willis were asked to discuss the public's trust in their organizations. Two issues emerged from the question. The first was community engagement, which will be discussed in the next section. The second was that management practice, specifically financial

management, was integral to establishing public trust. Willis said that LLTC is likely to enter into a capital campaign in the next six months to three years and part of that has to be building greater trust because the organization will be asking donors for larger sums of money than they have in the past. Willis stated that the public needs to trust that the money will be used for its intended purpose, and that the community needs the facilities that would be built with the money. For OCTC the public can trust that it is well managed and fiscally responsible. This information is particularly important to communicate to funders. Mellinger said "We do annual audits of all our financial records and are scrupulous in maintaining books and providing, in both input in grant proposals to funders as well as final reports that articulate exactly what has been spent and for what and why." OCTC strives for financial transparency everything they do.

When asked about the relationship between management practice and the community relationship with the LLTC Willis reported that he is aware of such a relationship. He has heard anecdotally that "a certain segment of the performing community, and a certain segment of the audience community, although smaller, have paid attention to who was in control, and to what they perceive as the ethical standards of the person in control. That has impacted people's choices of whether to participate, or support or attend the theatre." This confirms O'Neill's (1992) perspective that since "nonprofits as having the direct purpose of promoting values. Managers must therefore consistently uphold the values of the organization."

Community Engagement

All three interview participants reported that a primary ethical issue faced by their organizations is in the area of community engagement. Communication with the public is a major concern for both organizations. Willis said that as an organization that emphasizes

producing provocative work, he makes an effort to be "upfront with the audience about what they are going to see and helping them to build an expectation that isn't misleading." Mellinger reported that OCTC has "worked very hard to be completely accurate with the public and the teachers about what's the nature of the shows, what's the nature of the stories, why are we doing it, why do we think it's important." This is especially true when producing work that addresses issues faced by teens that may be inappropriate for young children. Willis also said that providing an opportunity for a debriefing or feedback session after productions is an important component of producing challenging plays.

Willis said that he hopes that LLTC does "as much as any arts organization in town, in terms of giving back, and nurturing the community, not just in entertainment, but in terms of providing educational opportunities." The recent revival of an education program fulfills, in part, the mission to cultivate and nourish the audience and the artists. "I hope that we'll continue to try and define our education program as being different than what people are offering, in terms of truly trying to offer serious minded educational opportunities for young people." Training for adults is also integral to LLTC's education program. Willis currently draws on community members to fill acting roles and notes that if that practice continues LLTC needs to invest in the educating and training of adult actors.

However, there was some discussion about moving toward a more professional structure. Willis states "I think we have two tracks ahead of us, one which would keep us in the community realm, but at a slightly higher level of operation. The other would probably shift us more heavily into the professional realm, but not totally eliminating the community involvement." When asked how he thought the move towards professionalism would affect the relationship with the community, Willis said his primary concern is not with those that work for the company, but the

audience. A move to more professional actors, directors and designers would necessitate an increase in ticket prices. "That frightens me more in terms of decreasing access to the lower-income segment of the community. I think we have to be a little cautious, as we do increase prices, of making sure we keep means for the economically disadvantaged to participate." Willis notes that there will continue to be volunteer opportunities for community members to earn tickets and that maintaining relationships such as the relationship with US Bank, which underwrites low-income admissions, will assist in this matter.

Similarly, Mellinger said that providing affordable services and arts experiences to low-income community members was a priority. In fact, OCTC is committed to providing free services, including tickets and classes to youth who would not otherwise be able to participate. Mellinger explains "That is a commitment of ethics in how we approach and serve our mission. With that commitment "to make sure that kids from all walks of life have access to arts learning" comes some challenges. Mellinger states "That idea means that we will never not need to raise money from the community to underwrite the services that we provide for free to make sure that all kids have access and that is a conversation with funders that is pretty difficult to have."

For OCTC accessing the target age group requires engaging in partnerships with other organizations. They have a number of partnerships established with other youth organizations. "We have close relationships with literally thousands of schools, teachers, and school districts… We have about 100 teachers who have volunteered to be our teacher liaisons to their school." These relationships with teachers allow for OCTC to receive feedback about their programming and ideas for new programming. Mellinger notes that "The teacher liaison relationship is an example of the way we try to work, which is to have personal, working relationships with as

many adults who are in a situation where they have the capacity to influence the amount of arts involvement of a child or of children."

When asked if he saw a relationship between the values of the organization and community engagement Shettler responded "Absolutely." The Portland Art Center is still a new organization and as such is its still developing its relationship with the community. "It takes a long time, especially in the arts, for people to believe you. I think at this point people are really excited about the Portland Art Center and a lot of the skepticism is really fading away and people are starting to see the reality of it. That it is service oriented and is trying to serve the community." He described how the organization's ethics improve that relationship, "I think that people realize that by following through and being ethical, by working very hard at that, taking responsibility for our actions or our inactions, being honest and straightforward in all of our dealings is incredibly crucial to the way we operate. Over the long period people realize that they can trust and count on the organization. It has a direct effect on the way we operate, which is, we would rather be ethical and forthright and have the Portland Art Center fail than to be unethical and to succeed."

As with many nonprofit arts organizations, strong community relationships are necessary to accomplish the mission. This appears to be the case for LLTC, OCTC, and the Portland Art Center as they relate to their audience members. OCTC conducts program evaluations through surveys and focus group conversations on all of their programs. Mellinger reports that "We are constantly searching for relationships where can get feedback about how kids really are, how family life really is, what's happening in classrooms, how kids are getting their stories, what stories they need to hear, what ethical dilemmas are facing children and parents and families and classrooms that stories on stage can illuminate." That approach enhances the public's trust in the

organization. For Mellinger, it is important that teachers and parents, as well as kids, need to trust that the services OCTC provides align always with the mission.

When asked about public trust Willis recounted a story from when he first joined LLTC. They had received a small grant from the Oregon Community Foundation and when he arrived he found that the money had already been spent, before the project had even begun. "Out of a good faith effort I did the best I could, without the resources, to try and fulfill the obligations of the grant, and then was honest with them and explained, this is what happened, this is what we tried to do to correct course." Willis had no direct response from the Oregon Community Foundation, but a year and a half later they received a much larger grant. Moreover, Willis believes that the success of the individual donations campaign speaks to a strong sense of belief in LLTC. When people donate money to nonprofits, they want to know that their money will be managed and spent appropriately.

Willis said "I think that is something that an organization should ask itself from time to time is not just does the public trust us, but are we providing a service to this community that's needed? Because I think, realistically, there probably comes a time, for some organizations, when the answer might be…we're duplicating services, or we're not unique enough to justify being here as a drain on the philanthropy in this community, and we either need to change or go away. I think that doesn't happen enough, not just in Eugene, but everywhere." When asked if there were areas where LLTC could improve on developing public trust, Willis again emphasized communication with supporters in the community. As LLTC considers the feasibility of a capital campaign it is imperative that they continue to keep people informed about the organization and its programs. Willis also noted that recent success in receiving high

recognition grants, such as one from the National Endowment for the Arts and the Oregon Arts Commission add to the organization's credibility with the public.

For the Portland Art Center, public trust is integral in the operations of the organization. As the director of a newer organization Shettler has noticed that establishing trust takes time, "particularly when you are trustworthy, and you are ethical, people just don't believe it. When you make an agreement you follow through on that agreement, people tend to be very surprised." He related a story that illustrated his attempts at establishing a trustworthy organization. "I had a misunderstanding with a potential donor, where I used him as an example and called him out, and he wasn't prepared for that. That was an unethical thing to do. I should have talked to him beforehand to make sure that it was fine to use his name. He sent me kind of a terse email and I responded immediately and apologized and taking responsibility for it, and letting him know that it was a mistake, and saying that I learned something really huge here. He's not a donor now, but we left the relationship with him really respecting the organization and me, and feeling good about it, when he was feeling not good about it. It's more important to me and the organization for him to have a good feeling about the relationship than to keep the donor."

Recommendations from the Field

The interview participants were asked for their opinion on what tools might help arts managers align their organization practice with their organizational values. Willis thought that it often becomes an issue for the board of directors saying, "There was a lot of emphasis at a conference I attended last year on bringing art in to the board room. Recognizing that a lot of times boards start to believe that they exist to protect donors, or to protect the money, instead of believing that there job is to protect the audience, and/or to serve as the community. They should

be stewards of the community, as opposed to stewards of just the donors." As the artistic director, he sees his role as creating dialogue with the board around that responsibility, asking questions like, "Are the choices we make serving the community in the way that our mission says that we are going to?" Over the course of an organization's history "there are going to be times that you make choices that steer you away and when you recognize that, bring yourself back in line. Or, figure out, is there a good reason why we're altering course here, and do we need to change the mission, or has our constituency changed?"

Shettler mentioned key practices of communication, honesty, and trust. He admits that he tends rely on intuition, which works for him and the organization as it currently operates. "I have found that I am a very bad micro-manager, and I have found that to be a valuable asset, because I am much more interested in the end result and not the details of how it gets done. I am much more interested, and the organization is more interested, in the vision and the bigger picture than necessarily all the little details." He noted that treating people well and establishing trust ensures that they will respect the organization. "So it's important that, as a director, that I practice what I preach, that I operate under the same conditions that everybody else does." The literature reflects his perception that the leadership that shapes, either positively or negatively, the ethical climate and behavior of the organization's members (Harrington, 1991; Malloy & Agarwal, 2001; Merrill, 2002; O'Neill, 1992).

Mellinger brought her experience as an organization change consultant to the question. She recounted her work with PacifiCorp who, at that time was trying to make a cultural change within its employee group of tens of thousands of employees across the Western U.S. The way they had decided to approach this was to adopt company values, which would then be communicated to employees, which would then hopefully influence employees' behavior. "It's

really the same question that you're posing now, which is how do you make sure that your employees behavior aligns with corporate values or company values?"

What Mellinger learned from her work with PacifiCorp was that organizations cannot "enforce corporate values onto employees unless you give the employee the opportunity to examine, in some detail, their own personal values, and then to reflect upon the alignment between each employee's personal values and the company values they are being asked to follow. There has to be a conscious examination, in each person, of where that alignment is and an acceptance and willingness to integrate the company values really at the same place, in their hearts." She also noted that it is a continual process, not just a singular occurrence. There needs to be not only that initial reflection, but organizations have to offer opportunities where groups of employees examine and reflect together on a scenario and ask "What do each of us think, from our interpretation of the corporate values and our own personal values, what do we think the right thing to do in this scenario?" They can then discuss where they align and where they differ "so that everyone understands that this isn't a black and white thing, but the actual act of employing values and ethical decision making is a continuous process."

Chapter 5: Conclusions and Implications

Summary of the Study

The purpose of this study was to examine the role of ethics and accountability in nonprofit arts organizations and examine the ethical situations faced by administrators, managers, and leaders of these organizations. The study sought to understand the role of ethical decision making in nonprofit arts management and its influence on those organizations that emphasize community engagement. Additionally, the study aimed to provide information for arts managers about cultural policy related to ethics and accountability in nonprofit sector.

The study included three methods of inquiry, the literature review provided background information and substantial findings, the questionnaire allowed for a variety of opinions from the Oregon arts community, and interviews provided rich data from experienced arts managers in the field. Additionally, interview participants were asked to provide recommendations for tools that might help align practice with values. The conceptual framework guided the inquiry in the attempt to answer the research questions. By examining the areas charted in the conceptual framework, the study demonstrates the complexity of the issues involved in the attempt.

Main Research Question

The main research question under consideration in the study was:

- Within the context of nonprofit arts organizations, what might be the relationship between ethical standards and management practice that lead to achieving organizational goals and objectives in the area of community engagement?

Each of the interview participants acknowledged a direct relationship between the ethical standards upheld by the organizations and the relationship to the community. In order to achieve

the organizational goals related to community engagement, every organization must build and maintain the public's trust. While the literature review makes formalized ethics policies appear to be necessary, all the interview subjects and most questionnaire participants rely on informal policies. It may be that smaller organizations are able to "get by" with less formality. However, informal policy is inherently flexible, so it can fail to aid arts managers as they face ethical issues.

The main findings of the study are divided into the four areas laid out in the conceptual framework: cultural policy, ethical standards, management practice, and community engagement. The cultural policy findings are primarily related to the disconnect between what policy makers assume is taking place in nonprofit organizations and what is actually taking place. Ethical standards are of great concern to arts managers, whether they have formalized policies or not. Scrutiny and transparency related to financial management is a key tool in upholding the public trust in an organization and in the arts field as a whole. For most arts organizations, community engagement is part of the mission. Therefore, tools for enhancing community engagement are particularly necessary and desired.

Special Implications for Arts Organizations

What is unique about the ethical situations faced by arts organizations? Wyszomirski (2000) identifies a number of public purposes of the arts, which provide areas for evaluation of ethical considerations. The areas identified are security, community, prosperity, cultivating democracy, and the quality and condition of life. One public purpose of the arts that is of particular interest in this study is enhancing the quality and condition of life, which includes enhancing educational achievement and helping to mitigate and prevent social pathologies. If it

is the task of the arts to mitigate social pathologies by, for example, providing art activities for at-risk youth and crime prevention, preventing and treating drug use, and providing creative opportunities for the homeless, the question of training arises. What capacity do arts providers have to deal with such social ills?

The researcher has encountered arts education programs that send artists to interact with those in society who are "underserved" or "at-risk" with little or no training. This is not only a disservice to the communities being served, but is also an unethical practice. How can the public trust an organization that does not ensure that the providers are prepared to take on such challenges? Certainly a nonprofit health care organization would not consider sending a provider into the field without proper training in delivering the service and in dealing with special populations. As the arts are called upon to address the needs of society it is incumbent upon arts managers to ensure that employees are prepared to do so.

This is an issue of ethics, even when the only task is to teach children the arts. The public school system is not providing arts experiences to the extent that it once did. As we continue to replace in-school arts learning with out-of-school arts programs, it becomes necessary to provide adequate training for artists who teach. Just as we would not allow our children to be taught by untrained teachers in school, there ought to be some assurances that out-of-school programs are taught by qualified teaching artists.

This serves as just one example of ethical considerations specific to arts organizations. Most nonprofit arts organizations write some aspect of community engagement into their mission and vision statements and protecting the relationship with the community is integral to achieving their missions. The creation of formal ethics policies, specific to the work done by the arts organization, can assist in building public trust and community engagement.

Lessons Learned

Cultural Policy

The study began by looking at the context of cultural policy in ethics and accountability in nonprofit arts organizations. The challenge of understanding cultural policy is its variety and scope. The arts manager's task is to remain informed. However, in the literature review, questionnaire, and interviews conducted for this study, the participating arts managers are not meeting this challenge. This is illustrated by the lack of action related to the Sarbanes-Oxley Act. If arts organizations fail to formally adopt procedures for dealing with whistle-blowers, then they have failed to be responsive to policy changes that took place in 2002.

Additionally, arts managers have an even heavier burden because much of relevant public policy is not directed at arts organizations, but at the nonprofit sector as a whole. This may mean that the legislation passed may not directly apply to the arts organization's operations; however, it is better to know that the policy does not apply than to not know the policy at all. As nonprofit leaders navigate the complex system that is the United States cultural policy, they must pay special attention to new and proposed legislation that impacts the areas of ethics and accountability. These laws may alter the structure and procedures of boards and managers, and the ways in which they interact with federal agencies and the public.

Scholars have differing opinions on how to best enhance and ensure ethical conduct in nonprofit organizations. Some, such as Schaefer and Zaller (1999), believe that it is an internal issue, to be dealt with by boards and leadership. Some, such as Farkas and Molnar (2005), believe that standards can be set by the sector and professional organizations. While still others, such as Young (2000), argue that it is government's role to ensure proper operations within nonprofits.

Ethical Standards – Formal vs. Informal

In both the questionnaire and the interviews the issue of organizational size arose. One respondent noted that she felt the questionnaire was geared toward larger organizations because smaller organizations do not have policies related to the questions asked. Shettler connected the informal nature of the Portland Art Center's ethical strategy and the lack of written policy to the small size of his organization, and noted that there would be a need for formalization and written policy should the organization expand. This leads to the question of how the size of an organization impacts the perceived need for formal ethics and accountability measures. As stated in the literature review, Menzel (2003) describes informal and formal ethics strategies. First, "formal ethics management strategies involve mandatory employee training, use of ethics as a criterion in the reward structure, and the adoption of organizational rules that promote the ethical climate, such as requiring financial disclosure and approval of outside activities" (p. 20). He goes on to say that "informal ethics management strategies involve reliance on role models and positive reinforcement and are behaviorally based" (p. 20).

Perhaps an organization can do well with informal ethics management strategies, but there may come a time when formalized strategies offer more guidance. It might be argued that smaller organizations function, in large part, because of dedicated volunteers, as in the case of the Portland Art Center. Bensman (1967) writes that "There can be no unethical behavior where there are no ethical standards" (p. 176). This contradicts the opinions of the interview participants for the study. Shettler seemed to equate having only one paid staff as meaning that the organization was small; however he also emphasized the use of a large number of volunteers in the day-to-day operations of the organization. It could be argued that the dependence on volunteers requires formalization of ethics, accountability, and transparency to the same extent

that those things are required in organizations with large numbers of employees, especially if the use of volunteers itself means there is an ethical obligation, as O'Neill (1992) argues. Additionally, Feldheim and Wang (2004) write that service consistency is one of the areas that leads to public trust. It will be challenging to align a cadre of volunteers' ethical choices with the organization's values without some formalized, written description of those values and a process through which the organization can communicate those values to the volunteers.

If small organizations do not perceive the need for formalized ethics and accountability policies, what is the threshold at which the size requires formalization? Certainly, as Willis discussed, the matter does eventually become an area in which the board must take leadership. While this study did not examine board training, it has emerged from the research that for a comprehensive ethics and accountability policy to be enacted it must be developed and supported at all levels of the organization. It is likely that volunteer board members may not take the lead on ethics and accountability procedures if they do not themselves understand the need for such procedures. If the field of nonprofit arts and culture is to make this issue a priority then board training may be a necessary component, as is recommended by the Panel on the Nonprofit Sector (2005).

Additionally, looking at the museum field, there is some evidence to suggest that professional organizations in the arts can set the structure for ethics and accountability practices. The International Council of Museums sets forth guidelines, but includes flexibility for organizations in different countries to adapt their Code of Professional Ethics. Perhaps the various professional associations in the arts and culture sector could replicate the process that the museum field has widely adopted. Each organization does face unique ethical situations; however a professional association can develop a flexible, adaptable code of ethics that would be

the starting point for a more comprehensive ethics and accountability program. The Independent

Sector's (2004) code of ethics is a good starting point for the nonprofit field; however, it is too

broad to function as it should, which is to provide guiding principles upon which management

and staff can base decision making. Because the Independent Sector's (2004) code of ethics does

not specifically address the ethical situations faced by arts organization, it remains only a starting

point.

If professional organizations are to take the lead in developing ethics policies for the arts

field there will likely be a wide array of organizations involved, as the arts sector is itself

fragmented, with no clear national leadership. Perhaps the National Endowment for the Arts or

Americans for the Arts would be able to develop a framework for individual organizations to

adapt. Additionally, genre specific professional service organizations, such as Theatre

Communications Group, could assist in providing ethics education and example procedures that

would directly apply to each sub-sector or genre.

Management Practice

If an organization chooses to formalize its ethics strategies, it is the leadership who will

develop and implement them. In small organizations this might mean a manager or management

team. In larger organizations this task may fall to a human resources manager. However,

managers in the nonprofit sector also have to assist staff and volunteers, including board

members, in aligning their practices with the organization's values. O'Neill (1992) writes that

managers must consistently uphold the values of the organization and Mason (1992) writes that

an organization cannot rise above the ethical level of its manager. Obviously, the ethics of the

manager are important, as she serves as an example and role model for staff, but how does she go about assisting other members of the organization?

According to Malloy and Argawal (2001) "One of the most important challenges for leaders is to identify collective values, and then translate those values into behavior" (p. 2). One of the common themes in the literature is that organizations should base ethical decisions on shared values. This is what Mellinger, of the Oregon Children's Theatre Company stated was the only way to change organizational culture, that in order for staff to adopt the shared values of the organization, they must have the opportunity to examine both their personal values and those of the organization. While leadership sets the tone for ethical behavior, the organization's ethical culture is set only when every member of the organization is operating from shared values.

One significant area for management to set standards for ethics and accountability is in financial management. This includes accounting procedures, but also fundraising practices and the use of donations and grant funds. Most of the questionnaire participants currently have internal financial controls in place. There may be some additional practices, such as those outlined in the Panel on the Nonprofit Sector's (2005) Final Report to Congress that could be added to financial accountability practices, such as committing to accurate financial reporting and transparency. This would mean periodic audits, by independent accountants, and making financial information available to the public. Additionally, the Panel on the Nonprofit Sector (2005) says that education is imperative for nonprofit organizations. Just as arts managers must remain informed about changes in cultural policy, they must also remain informed about financial reporting and board responsibilities. Also, board members are responsible for educating themselves and each other on best practices for operations and changes in responsibilities.

Community Engagement

For arts organizations, there is a special relationship with the community. Often, the services provided to the community are more experiential than tangible. And often, the community must be active participants in the arts experience for the organization to fulfill its mission. All of the interview participants emphasized the necessity of community engagement and public trust. While each of the organizations recognizes the value of creating and maintaining public trust, they do not have formal policies that can demonstrate that commitment to the community. The arts managers that participated in the study primarily demonstrate the ethics of the organization through action, but as they grow it will be more difficult to be sure that all employees are aligned with the values of the organization without some written documentation of what those values are.

Mellinger described what she has found to be the most effective way for managers to create an organizational culture. Once the values of the organization are established employees need to be given the opportunity to evaluate their personal values and how they align with those of the organization. Mellinger emphasizes that the process cannot stop there. Employees must be given the opportunity to address ethical issues as a group, to see where they align with the organizational values and each other, employees must have time as a group to evaluate where they differ with their co-workers and to discuss how to act and react as the organization's leaders would hope. Both Shettler and Willis recognized the explicit relationship between the practices of the organization and the way in which it is regarded by the public. Malloy and Agarwal (2001) support this by saying the "internal cultural and political components are of great importance to the member's perception of ethical climate. (p. 49)

Avenues for Further Research

This study was delimited to arts organizations in Oregon, and was limited in scope to interviewing participants from only three organizations. These realities mean that, while many questions were answered, there is still room for additional research to be done on the topic of ethics and accountability in nonprofit arts organizations. While there are many directions in which one could take, the researcher is interested in the following questions:

- What might be the best ethics strategies for nonprofit arts organizations?

- What resources are available to arts managers for information regarding changes in cultural policy?

- What training might be needed to assist arts managers and board members learn about ethics and accountability?

Since 1992, when O'Neill wrote that there was surprisingly little written about nonprofit ethics, the field has taken up the charge. There is currently a wide range of articles and books available to nonprofit managers. The challenge now is to find out the best ethics and accountability strategies for arts organizations. This study is primarily based on literature that relates to the field of nonprofit management. This is because there is a lack of information about the sub-sector of arts management. Future research focusing on the role of ethics and accountability in nonprofit arts organizations would help to fill this gap. Additionally, a more comprehensive series of interviews would assist in establishing if and how arts managers are keeping informed about cultural policy related to the area of ethics and accountability.

Salamon (2005) discovered that nonprofit arts leaders are meeting expectations of lawmakers in most areas. It may be necessary for training to occur through professional associations and arts management training programs that help leaders to meet expectations in

those few areas where they are falling behind. Research to develop strategies for arts leaders to participate in and be informed about cultural policy would strengthen the sector as a whole.

Final Recommendations

Based on findings from this study recommendations have been developed for nonprofit arts organizations. These recommendations are for the leadership of an organization, which can mean directors, managers, and board members. Each organization has different needs for formalized ethics strategies, therefore the recommendations involve evaluation and training as first steps developing a comprehensive ethics plan.

- Evaluate the need for formal ethics and accountability policies and identify ethical situations specific to the organization.

- Periodically evaluate the organizations compliance with all laws and regulations.

- Develop a comprehensive, ongoing training program regarding ethics and accountability for board and staff.

- If the organization is involved in working with youth or underserved, populations the organization should provide specialized training for staff.

- Provide training regarding cultural policy, including legislation regarding the operation of nonprofit organizations for board and staff.

- Develop a strategy for keeping board and staff informed of changes in cultural policy, specifically policy developments related to nonprofit management.

- Develop a comprehensive ethics plan in consultation with members at all levels of the organization.

Addressing issues of ethics and accountability is a process that involves multiple steps and continual attention. Part of developing formal procedures is the responsibility of the board of directors, part of the responsibility belongs to management, and part belongs to the staff. It may be necessary for arts managers to periodically evaluate if formalized policies regarding ethics and accountability are necessary. Yet, if it is true as Bensman (1967) says, that there can be no violation of ethics without ethical standards, then all organizations would be advised to develop formal ethical standards and procedures to follow if they are violated. A code of ethics may be only one part of a comprehensive ethics program. As in the for-profit sector, with policy comes the need for training at all levels of the organization.

While a small organization may be able to negotiate internal ethical situations with informal strategies, there are larger accountability issues that necessitate formalized policies for organizations of all sizes. Maintaining awareness of changes in cultural policy is key to determining if and organization is compliant. Arts managers would be well advised to develop a strategy for keeping board members and staff informed of changes in policy. Additionally, it might be necessary for arts managers to periodically evaluate the organization's compliance with all laws and regulations.

As recommended by the Panel on the Nonprofit Sector (2005), self-education is necessary for the nonprofit sector. This includes providing training for board members and staff regarding ethics and accountability and cultural policy. Additionally, it may be necessary for arts managers to develop strategies for keeping staff and board members informed of policy changes. Lastly, arts organizations that are dealing with the public purpose of helping to mitigate social ills or working with children should provide training for staff. It is not enough for artists to be

trained in their art form, they should also have training in teaching techniques and working with special needs populations.

The purpose of this study was to understand the ethical implications for administrators, managers, and leaders in nonprofit arts organizations. The primary goal was to understand the role ethical decision making in nonprofit management and its influence on those that use arts as a tool for community engagement. By creating and communicating ethics and accountability policies to constituents organizations can build public trust in the organization and work to enhance community engagement. Additionally, the research has resulted in recommendations and resources for nonprofit arts organizations. By considering and implementing these recommendations organizations can increase their capacity to develop ethics strategies that suit the needs of their ethical situations.

The significance of this investigation to the field is that it fills, in part, the gap in the literature regarding ethics in nonprofit arts organizations. In answering the main research question, the study has reported on the relationship between ethical standards and community engagement. It also provides arts managers with an understanding of ethics and accountability and the cultural policy context that shapes the practice of nonprofit organizations. The field of arts management can use the study as background information should they decide to develop an ethics program.
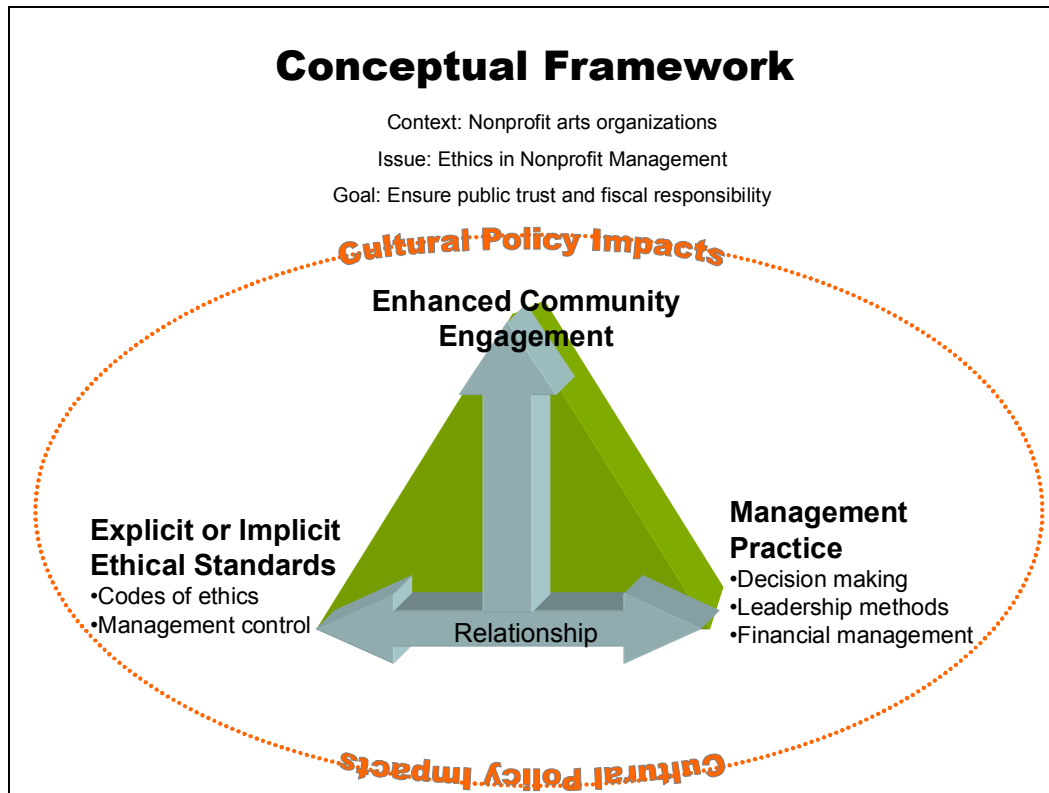
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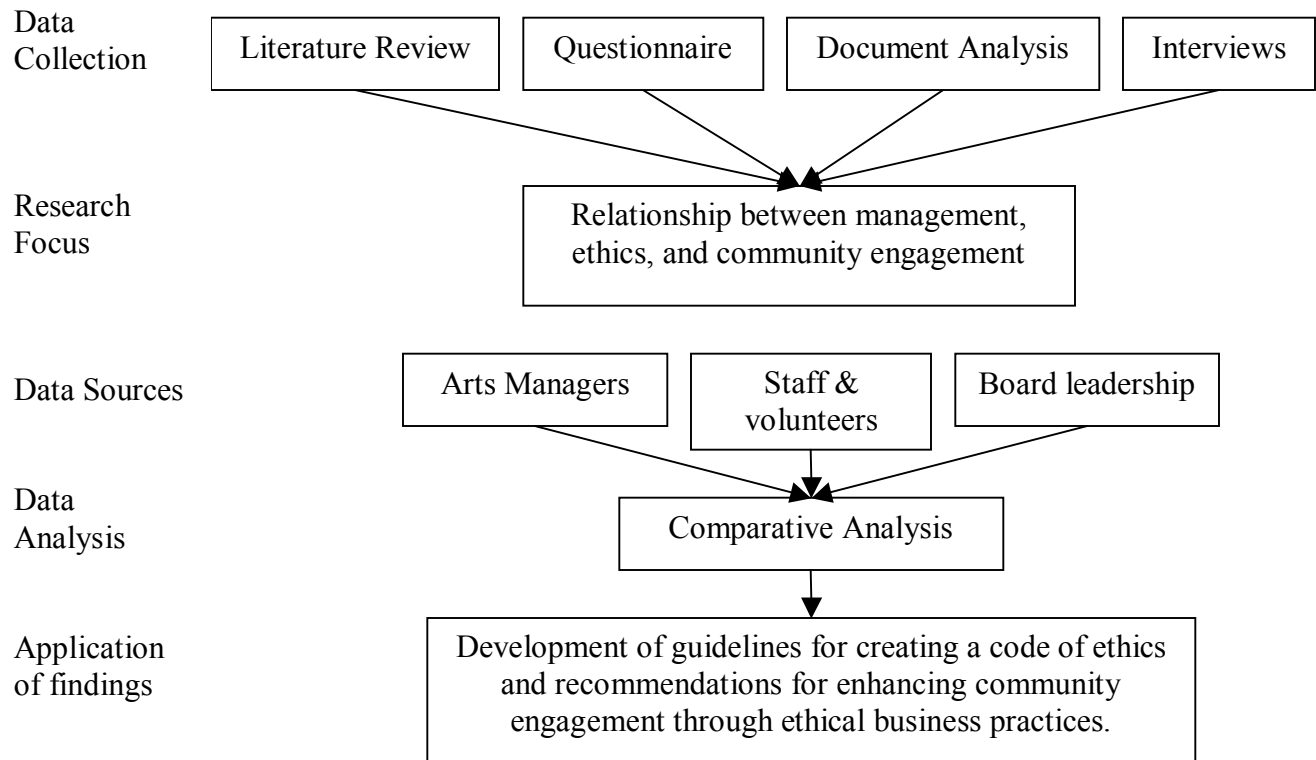
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APPENDIX A
Conceptual Framework

Conceptual Framework

Context: Nonprofit arts organizations

Issue: Ethics in Nonprofit Management

Goal: Ensure public trust and fiscal responsibility

Cultural Policy Impacts

Enhanced Community Engagement

Explicit or Implicit Ethical Standards
•Codes of ethics
•Management control

Relationship

Management Practice
•Decision making
•Leadership methods
•Financial management

Cultural Policy Impacts

APPENDIX B
Data Collection Schematic

Data
Collection

| Literature Review | Questionnaire | Document Analysis | Interviews |

Research
Focus

Relationship between management, ethics, and community engagement

Data Sources

| Arts Managers | Staff & volunteers | Board leadership |

Data
Analysis

Comparative Analysis

Application
of findings

Development of guidelines for creating a code of ethics and recommendations for enhancing community engagement through ethical business practices.

APPENDIX C
Questionnaire

Thank you for agreeing to participate in this study. All responses to the questionnaire will be kept confidential and will be referred to in aggregate in the final report. No individuals or organizations will be identified. However, if you wish to participate further, please include your contact information at the end of the form and the researcher may contact you for a follow-up interview. Completion of the questionnaire indicates consent to participate in the study.

For the purposes of this study a code of ethics is defined as a written document that guides the organization's decision making process regarding ethical issues.

1. Does your organization have a code of ethics?   Yes   No

2. What is covered in your organization's code? *Check all that apply.*

_____Financial management   _____Client relations   _____Conflict resolution

_____Employee relations   _____Theft   _____Drug & alcohol use

_____Other(s):_____

3. How often do you refer to the code of ethics for decision making in the following areas?

	Never	*Monthly*			*Weekly*
Staff discipline	1	2	3	4	5
Staff training	1	2	3	4	5
Board training	1	2	3	4	5
Community relations	1	2	3	4	5
Decision making	1	2	3	4	5
Budgetary/Financial matters	1	2	3	4	5
Conflict resolution	1	2	3	4	5

4. How was your organization's code of ethics developed?
_____Adapted from a similar nonprofit organization.
_____Adapted from the Independent Sector.
_____Developed with a consultant.
_____Developed by the Board of Directors without input from staff.
_____Developed by the Board of Directors with input from staff.
_____Developed by staff.
_____Other. Please describe:
_____

5. Does your organization have a policy in place to protect whistleblowers?   Yes   No

6. Does your organization have a conflict of interest policy?   Yes   No

7. Does your organization have internal financial controls?   Yes   No

8. Have changes been made in financial controls because of the Sarbanes-Oxley Act?   Yes   No

9. Does your organization file Form 990 with the IRS?   Yes   No

10. Does your organization follow best practices established in your field?   Yes   No

APPENDIX D
Interview Sheet

Case Study: *Data ID:*

Key Descriptor:

Date: *Interview Location:*

Interviewee Details:

Consent: ____ Oral   ____ Written (form)   ____ Audio Recording   ____ OK to Quote

Notes on Interview Context:

Key Points:

CODING	INFORMATION	NOTES

Semi-Structured Interview Questions:
Broadly describe the situations faced by your organization that require making ethical decisions.

Broadly describe the organizational values.

What measures are in place in the organization to help employees make choices that align with the organizational values?

Describe the process by which those measures were developed.

What is the relationship between the organization and its community?

In what ways does the organization's values and ethical choices effect the organization's engagement with the community?

APPENDIX E
Interview Recruitment Letter

Date

Name
Address
City/State/Zip

Dear <POTENTIAL INTERVIEWEE>:

You are invited to participate in a research project titled *Ethics in Practice: Nonprofit Management in the Arts* conducted by Angela J. Henderson from the University of Oregon's Arts and Administration Program. The purpose of this study is to better understand the ethical implications for administrators, managers, and leaders in nonprofit arts organizations in this new era of accountability.

Research into the area of nonprofit ethics and accountability will provide much needed guidance to those working in the field. The objective is to provide a framework within which managers and staff can align day-to-day practices with the organizational values. In these times of increased scrutiny and accountability for nonprofit organizations, there is a need and desire for information regarding ethical business practice. The purpose of the research is twofold. The first is to fill, at least in part, the gap in the research regarding ethics in the nonprofit sector. Second, the research will result in some guidelines and recommendations for organizations in the process of developing their own code of ethics.

You were selected to participate in this study because of your leadership position with <NAME OF RELEVANT CASE STUDY ORGANIZATION> and your experiences with and expertise pertinent to arts and nonprofit management in <CASE STUDY CITY>. If you decide to take part in this research project, you will be asked to provide relevant organizational materials and participate in an in-person interview, lasting approximately one hour, during winter 2006. If you wish, interview questions will be provided beforehand for your consideration. Interviews will take place at <NAME OF ORGANIZATION>, or at a more conveniently located site. Interviews will be scheduled at your convenience. In addition to taking handwritten notes, with your permission, I will use an audio tape recorder for transcription and validation purposes. You may also be asked to provide follow-up information through phone calls or email.

If you have any questions, please feel free to contact me at (541) 344-8024 or ahender1@uoregon.edu, or Dr. Patricia Dewey at (541) 346-2050. Any questions regarding your rights as a research participant should be directed to the Office of Human Subjects Compliance, University of Oregon, Eugene, OR 97403, (541) 346-2510.

Thank you in advance for your interest and consideration. I will contact you shortly to speak about your potential involvement in this study.

Sincerely,

Angela J. Henderson
Graduate Student in Arts Management, University of Oregon
1549 Garfield Pl
Eugene, OR 97402
(541) 344-8024
ahender1@uoregon.edu

APPENDIX F
Interview Consent Form

Research Protocol Number: X230-06
Angela J. Henderson, Principal Investigator
University of Oregon Arts and Administration Program

You are invited to participate in a research project titled *Ethics in Practice: Nonprofit Management in the Arts* conducted by Angela J. Henderson from the University of Oregon's Arts and Administration Program. The purpose of this study is to better understand the ethical implications for administrators, managers, and leaders in nonprofit arts organizations in this new era of accountability.

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You were selected to participate in this study because of your leadership position with <NAME OF RELEVANT CASE STUDY ORGANIZATION> and your experiences with and expertise pertinent to nonprofit and arts management in <CASE STUDY CITY>. If you decide to take part in this research project, you will be asked to provide relevant organizational materials and participate in an in-person interview, lasting approximately one hour, during winter 2006. If you wish, interview questions will be provided beforehand for your consideration. Interviews will take place at <NAME OF ORGANIZATION>, or at a more conveniently located site. Interviews will be scheduled at your convenience. In addition to taking handwritten notes, with your permission, I will use an audio tape recorder for transcription and validation purposes. You may also be asked to provide follow-up information through phone calls or email.

Your consent to participate in this interview, as indicated below, demonstrates your willingness to have your name used in any resulting documents and publications and to relinquish confidentiality. It may be advisable to obtain permission from your organization and/or supervisor to participate in this interview to avoid potential social or economic risks related to speaking as a representative of your institution. While the risks associated with participating in this study are minimal, they include the possibility of a participant's comments, as a representative of his or her institution, to displease that individual's colleagues and supervisor(s) and a loss of confidentiality,

Your participation is voluntary. If you decide to participate, you are free to withdraw your consent and discontinue participation at any time without penalty. I anticipate that the results of this research project will be of value to the nonprofit arts sector as a whole. However, I cannot guarantee that you personally will receive any benefits from this research.

If you have any questions, please feel free to contact me at (541) 344-8024 or ahender1@uoregon.edu, or Dr. Patricia Dewey at (541) 346-2050. Any questions regarding your rights as a research participant should be directed to the Office of Human Subjects Compliance, University of Oregon, Eugene, OR 97403, (541) 346-2510.

Please read and initial each of the following statements to indicate your consent:

_____ I consent to the use of audiotapes and note taking during my interview.

_____ I consent to my identification as a participant in this study.

_____ I consent to the potential use of quotations from the interview.

_____ I consent to the use of information I provide regarding the organization with which I am associated.

_____ I wish to have the opportunity to review and possibly revise my comments and the information that I provide prior to these data appearing in the final version of any publications that may result from this study.

Your signature indicates that you have read and understand the information provided above, that you willingly agree to participate, that you may withdraw your consent at any time and discontinue participation without penalty, that you have received a copy of this form, and that you are not waiving any legal claims, rights or remedies. You have been given a copy of this letter to keep.

Print Name: _____

Signature: _____ Date: _____

Thank you for your interest and participation in this study.

Sincerely,

Angela J. Henderson
Graduate Student in Arts Management, University of Oregon
1549 Garfield Pl
Eugene, OR 97402
(541) 344-8024
ahender1@uoregon.edu

APPENDIX G
Questionnaire Recruitment Letter

Date

Name
Address
City/State/Zip

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You were selected to participate in this study because of your leadership position with <NAME OF RELEVANT CASE STUDY ORGANIZATION> and your experiences with and expertise pertinent to arts and nonprofit management in <CASE STUDY CITY>. If you decide to take part in this research project, you will be asked to complete the attached questionnaire, which should take approximately 30 minutes. Participation is voluntary and refusing or discontinuing participation involves no penalty. All responses to the questionnaire will be kept confidential. No organizations or individuals will be identified in the final report. It may be advisable to obtain permission from your organization and/or supervisor to participate in the study. All responses will be reported in the aggregate. Please return questionnaire forms to the address below.

In the second phase of the study, I will be interviewing key leaders of nonprofit arts organizations. If you would like to participate in the second phase of the research please include contact information at the end of the questionnaire form. If you decide to take part in the interview, you will be asked to provide relevant organizational materials and participate in an in-person interview, lasting approximately one hour, during winter 2006. If you wish, interview questions will be provided beforehand for your consideration. Interviews will take place at <NAME OF ORGANIZATION>, or at a more conveniently located site. Interviews will be scheduled at your convenience. In addition to taking handwritten notes, with your permission, I will use an audio tape recorder for transcription and validation purposes. You may also be asked to provide follow-up information through phone calls or email. Only those choosing to participate will be contacted.

If you have any questions, please feel free to contact me at (541) 344-8024 or ahender1@uoregon.edu, or Dr. Patricia Dewey at (541) 346-2050. Any questions regarding your rights as a research participant should be directed to the Office of Human Subjects Compliance, University of Oregon, Eugene, OR 97403, (541) 346-2510.

Thank you in advance for your interest and consideration. I will contact you shortly to speak about your potential involvement in this study. Please keep this letter for your records.

Sincerely,

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