ABSTRACT. Utilizing Rest’s moral development and Victor and Cullen’s ethical climate surveys, we examine differences in moral reasoning and ethical climate between board members in the for-profit and not-for-profit sectors. Six for-profit corporations and seven not-for-profit corporations, all with base operations in a major midwestern state, participated in the study. We find that profit and not-for-profit boards may not differ in moral reasoning, but do exhibit different types of ethical climates. We also find that for-profit board members may utilize higher stages of reasoning a greater percentage of the time than not-for-profit directors. In contrast, the ethical climates of the two types of organizations are significantly different. For-profit companies had climates higher in egoism than did not-for-profit companies. In addition, not-for-profit firms reflected higher benevolence factors than for-profit firms. Not-for-profit organizations also had somewhat higher, but not significantly different, mean scores on the principle factor compared to the for-profit organizations.

This paper will focus on moral reasoning in the boardroom. In particular, in this study we will attempt to determine whether the moral reasoning of boards of directors differs between not-for-profit, voluntary boards and paid directorships in the for-profit sector. Research in the field of business ethics has been done primarily in the accounting and marketing fields, but exceptionally little in the area of management and governance. We seek to empirically explore whether there is a difference in the way board members reason when sitting on for-profit versus not-for-profit boards, and how the culture of the organization interacts with the level of moral reasoning.

Although research is lacking in this field of study, it is generally felt that directors of not-for-profit, charitable boards generally behave “more ethically” than corporate for-profit board members (e.g., Machan and Uyl, 1987; Wang and Coffey, 1992). The rationale for this impression involves several factors. Not-for-profit directors volunteer their time to sit on the board of their choice. Because there is no financial remuneration, the motivation for their service may be somewhat more generous and selfless in nature. They must choose to serve on a board of directors because of wanting to give back to the community or wanting to use their skills and talents to serve in an organization that has helped them or someone they love, or to receive some other esoteric reward for their time. In addition, the mission of the not-for-profit organization is often one of service to a community or a specific clientele. Without a money-making motive, acting in the best interests of all “stakeholders” can be more easily defended and is expected. Finally, because not-for-profits generally raise
their operating funds (at least in part) from charitable donations and community fund-raisers, there may be a heightened sense of accountability to the community and the clients to act honestly and in their best interest.

Boards of directors serve the critical roles of providing control, service, and strategy for the organization (Zahra and Pearce, 1989). There are several theoretical perspectives used to describe the mechanisms and rationale by which directors meet these roles. In their review of these perspectives, Zahra and Pearce (1989) describe the resource dependency perspective as most appropriate for understanding not-for-profit boards. As such, directors are chosen as boundary spanners between the organization and critical community resources such as funders (Shrader, Hoffman and Stearns, 1991). The composition of the board and characteristics of directors are especially critical for the not-for-profit organization. Agency theory is the perspective that has been applied most often to for-profit boards. In this perspective, directors’ primary role is to align the interests of management with those of shareholders. They serve a critical oversight function to protect shareholders from the potential of self-serving management. These different foci – boundary spanning versus oversight – differentiate not-for-profit boards from for-profit boards.

In the for-profit domain, theories of organization control are used to explain who has responsibility for the moral implications of business decisions (Monks and Minow, 1989). Agency theory takes the perspective that the principals of the organization are the shareholders and managers, and directors are agents who represent the best interests of the shareholders (Monks and Minow, 1989; Dobson, 1991; Klein, 1991).

This theory suggests that for-profit organizations have opposing demands from differing stakeholders such as making the greatest profits in the best interests of shareholders, being a “good community citizen” in localities where the company is represented, being a generous caretaker of employees, and producing and delivering the highest quality product for the customer. These demands are often in conflict with each other and can be used to justify actions that some may criticize as immoral or unethical (Nesteruk and Risser, 1993; Dobson, 1991; Klein, 1991). For example, in an attempt to maximize shareholder interests and profits, a firm may downsize – laying off employees or closing operations in a community. The public outcry often is that the firm is being irresponsible although share price and earnings may rapidly increase as a result. Their responsibility to shareholders is served at the expense of other organizational stakeholders (usually shareholders).

Thus, the fundament of agency theory is that authority is delegated to directors and managers by stakeholders to act on their behalf. Stewardship theory, on the other hand, assumes that directors are motivated to act in the best interests of their constituents (Davis, Schoorman and Donaldson, 1997). Given a choice between self-interest and the collective interests of the organization, a steward will not relinquish the goals of the organization. The focus in explaining organizational behavior in stewardship theory is on intrinsic motivation, while agency theory clearly emphasizes extrinsic rewards. With this distinction between agency and stewardship theories, it seems plausible that different types of moral reasoning would characterize board members in different governance settings. The agency cost environment of the for-profit sector should logically lead to predominantly extrinsically motivated reasoning and behaviors.

The fact that significant financial compensation is involved in serving on a for-profit board also complicates the incentive for a director to make the most “selfless” or ethical decision. For example, if a CEO hand picks a director and pays her well, a certain loyalty is developed for the director to simply ratify decisions recommended by the CEO. The magnitude of CEO compensation has received vast criticism in the literature and some question the ethics of compensating a CEO so well and in forms which are not associated with performance (Westpal and Zajac, 1995; Beatty and Zajac, 1994; Faulk, 1991; Geneen, 1984; Bavaria 1991). In addition, information about operations at a for-profit company is usually held more closely and is, therefore, not as readily open to the public for scrutiny or approval. As a result of these arguments, we
expect that ethical reasoning of directors on not-for-profit boards differs from that of those on for-profit boards.

This paper will address four general research questions: 1) do directors of for-profit and not-for-profit organizations differ in their level of moral reasoning? 2) more specifically, do directors of not-for-profit organizations make more principled decisions affecting their organizations than directors of for-profit organizations make regarding their companies? 3) do ethical climates differ between for-profit and not-for-profit boards? and 4) is the perceived ethical climate of an organization related to the level of moral reasoning of the board of directors?

Conceptual development

Part of the problem in this field of study is that the construct of moral reasoning has not been defined in a broadly accepted way. For purposes of this paper, we will use Rest’s definition, “a particular type of social value, that having to do with how humans cooperate and coordinate their activities in the service of furthering human welfare, and how they adjudicate conflicts among individual interests (Rest, 1979, p. 3).”

Although empirical research in the area of moral reasoning in business is limited and, at the corporate governance level, it is virtually non-existent, a great deal of research has been conducted about moral reasoning in other fields (e.g. Snodgrass and Behling, 1996; Elm and Nichols, 1993; Ponemon, 1992; Trevino, 1986, 1992; Weber, 1990, Sridlar and Camburn, 1990). This study utilizes Rest’s model of moral reasoning, which is an extension of Kohlberg’s model (Elm and Weber, 1994).

Kohlberg model

The most widely accepted theory of moral reasoning is Lawrence Kohlberg’s model of Cognitive Moral Development (CMD) (Victor and Cullen, 1988). Kohlberg’s model assumes that individual moral judgments are founded upon a person’s perspective of how social cooperation should be organized (Kohlberg et al., 1983). The model proposes three levels of morality each subdivided for a total of six stages of moral reasoning. This theory is based on “justice” as the foundation of morality. The stages are: 1) punishment and obedience where an action is only defined as immoral if one is caught and punished, 2) individual instrumental purpose and exchange where an individual is only interested in the personal consequences of their behavior, 3) mutual interpersonal expectations, relationships and conformity where an individual is interested in the greater good to other people especially as it affects oneself, 4) social system and conscience maintenance where one judges actions by the results of the greatest good for the greatest number of people, 5) prior rights, social contract or utility where laws and standards are upheld when in the best interest of society, and 6) universal ethical principles where one realizes that for society to function well, there must be a set of standards followed by all (Fraedrich and Ferrell, 1991). An individual progresses developmentally from one stage to another (Elm and Weber, 1994).

Rest model

James R. Rest is a student of the Kohlberg theory and expands it to include other aspects of moral behavior. There are four components to his model: 1) interpreting the situation (determining who – including self – would be affected by alternative actions and how each would perceive the affect on their social welfare), 2) choosing the “morally right” course of action from among alternatives, 3) prioritizing moral values over other personal values, and 4) following through on the chosen moral act regardless of obstacles. These four components are not sequential, but are interconnected (Rest, 1979; Thoma et al., 1991). Failure to act morally is the result of a breakdown somewhere in the four-step process.

Because Kohlberg’s standard issue scoring system involves lengthy interviews conducted by well-trained personnel, researchers have developed alternative assessment tools for measuring
moral reasoning levels. The most popular is the Defining Issues Test (DIT). The DIT is the most widely used tool because it is composed of multiple choice questions that individuals can complete in 30–45 minutes. The test does not draw conclusions about what specific Kohlberg stage a subject falls into, but uses a “p” score that places the subject’s moral reasoning along a continuum. Thus, the p score is a continuous variable rather than categorical and full parametric analysis is feasible (Elm and Weber, 1994).

Kohlberg-based descriptions of moral judgment are solely “component two.” The Defining Issues Test (DIT) measures only this component and is limited to justice-based decisions; however, individuals may use other reasoning besides justice to derive appropriate actions such as social norms or religious prescription (Thoma et al., 1991). Rest and Thoma (1985b) have derived a method of determining if an individual prioritizes justice-based reasoning in moral decision making on the DIT called the “utilizer dimension” (U score). Subjects who score low on the utilizer dimension arrive at “component two” action choices by using a different process than the moral judgment processes assessed by the DIT, i.e. justice. The utilizer variable is thus a moderator of measures of justice-based moral judgments and actions. By using the score of the utilizer dimension with the DIT, the predictive ability of behavior from moral judgment has doubled.

The DIT combined with the utilizer variable yields consistent results that correlate strongly with the Kohlberg theory. Rest feels, however, that stage-typing subjects’ responses seems to be less consistent and conclusive. The continuous “p” score, rather, gradually gathered from several responses is a better measure (Rest, 1976). The “p” score is interpreted as the percentage of time that the subject uses stage five and six reasoning to make their decisions. Hence, a “p” score of 40 would indicate that a subject uses higher level reasoning approximately forty percent of the time in reaching conclusions about moral dilemmas. Nevertheless, the DIT only measures for “component two” of Rest’s moral reasoning model. A subject must first be able to recognize that a situation involves an ethical dilemma, and finally be able to carry out the moral decision one reaches.

Both Kohlberg’s and Rest’s theories base moral reasoning on justice. Kohlberg’s view of morality focuses on universal rights and duties. It restricts morality to its central minimal core (Kohlberg et al., 1983). Moral reasoning is only part of moral behavior (Elm and Weber). Rest, on the other hand has a soft view of justice as it relates to a community of others (Elm and Weber, 1994).

Ethical climate

Victor and Cullen define ethical work climate as “the prevailing perceptions of typical organizational practices and procedures that have ethical content (Victor and Cullen, 1988, p. 101).” Climate is the set of general characteristics of the organization which affects broad ranging decisions sometimes referred to as organizational culture. Victor and Cullen argue that the literature on moral development recognizes that individual characteristics alone are insufficient to explain or predict moral behavior. The study uses a two-dimensional typology of ethical climates. The first dimension correlates with Kohlberg’s theory and Rest’s work on moral reasoning while projecting the characteristics to organizational decision-making. These criterion range from egoism to benevolence to principle. The second dimension represents the locus of analysis used to lodge ethical criterion into an individual, local (meaning company, division or workgroup) or cosmopolitan range of consideration (Victor and Cullen, 1988). The authors also quote Kohlberg as asserting that individuals can exist in groups whose systems, or ethical climate, if you will, differ from their own level of moral development.

This theory subdivides the possibilities of organizational climate into nine potential types (see Table I). In a culture where egoism is the dominant climate, the loci of analysis identify the specific “self” used to determine actions, i.e. individual would indicate protection of personal gains and losses, local would refer to the organization’s self interests and cosmopolitan would be defined as taking consideration of the system’s
or economy's interests. In the context of benevolence as the primary criterion in use, individual would define the “others” as any other people with or without membership in the organization. Likewise, the local frame of reference would define “others” as the organizational membership of the team. Within benevolence, then, a cosmopolitan frame of reference would take into consideration those other constituencies outside of the organization.

Finally, within the principled range of criterion for decision making, the loci of analysis would indicate the source of the principles in use. Therefore, an individual frame of reference would suggest that principles are self-chosen, the local referent would suggest the organization dictates the principles and the cosmopolitan focus would utilize principles derived from extra-organizational sources.

Propositions – moral reasoning

Elm and Nichols (1993) found that older managers and those with longer tenure used lower level reasoning to resolve management dilemmas (measured by the DIT). Similarly, Ponemon found that accountants who stay in their profession maintain lower levels of ethical reasoning than recent college graduates (Ponemon, 1992). Managers are found to exhibit higher levels of moral reasoning in hypothetical than in real life situations (Trevino, 1992, 1990; Trevino, 1986). There is also some evidence suggesting that both corporate values and structural position have a greater influence than personal values or gender on corporate decisions with ethical implications (Maclagan, 1996; Wimalasiri et al., 1996; Sridlar and Camburn, 1993; Derry, 1989; Cullen, Victor and Stephens, 1988; Jackall, 1988). Research indicates that educational level and age are the two most important factors in influencing DIT p scores (Wimalasiri et al., 1996; Rest, 1994).

Although individuals who serve on for-profit and not-for-profit organizations generally are in the same age bracket and have similar educational levels, the motives and expectations for serving on a not-for-profit board are different from those of serving on a for-profit board. As discussed earlier, a director for a not-for-profit organization is seeking some type of esoteric reward and is often committed to making decisions in the best interests of the clients being served by the organization. Directors serve as boundary spanners linking the organization with necessary resources (Shrader et al., 1991). Therefore, not-for-profit directors often are not charged with the role of oversight as in a for-profit organization which has directors chosen to protect the shareholders' interests (Zahra and Pearce, 1989).

In recent years scandals about unethical conduct and misuse of funds in large not-for-profits such as the United Way and the NAACP have been headline news. These activities make headline news because of the breach of public trust. Communities hold charities to a higher code of conduct. The same activities would be less shocking in the for-profit sector because the public generally expects less ethical behavior in the corporate sector (Rest and Narvaez, 1994).

Another factor influencing this prediction is
the fact that not-for-profits are closer and often more accountable to their constituents which may influence the ethical appearance of decisions made by these boards (Metzger and Dalton, 1996; Phelan, 1993; Pfeffer and Salancik, 1978). Hospital boards, for example, are comprised of mostly independent directors who, rather than being appointed by the CEO, are recruited by the board itself, and are serving at the bequest of constituent groups (Ewell, 1996). Additionally, because not-for-profit board members are volunteers rather than paid professionals, there is a reduced incentive for them to seek personal gain as a result of their decisions. Although not-for-profit organizations will report that members often serve on their boards for selfish reasons—business contacts, resume building or visibility—the actual decisions made would generally not contribute to a director’s personal wealth or fame.

For-profit directors, on the other hand, often stand to benefit or suffer personal consequences for decisions made in the boardroom. For example, their job may be at stake as a result of poor performance or they may receive a significant financial reward in return for their participation or for good performance. In the United States, the laws governing for-profit organizations are also different than those for not-for-profits. Hence, a director of a for-profit corporation assumes personal liability for the implications of her decisions (Zahra and Pearce, 1989; Phelan, 1993). For this reason, our proposition reflects the possibility that decisions are made from a more self-interested perspective in this environment.

While age, education, tenure, context, and organizational position clearly influence moral reasoning, especially as measured by the DIT, there may be other factors to consider. For example, the DIT may be slightly biased toward a liberal political ideology (Sweeney and Fisher, 1997). Sweeney and Fisher discovered a need to control for ideology in a study examining accounting students responding to the DIT. They claim their results indicate that lower level responses on the DIT simply reflect a conservative accounting mentality. Given this possibility, one might expect for-profit directors to exhibit lower level responses than not-for-profit directors on moral development tests. Therefore, we propose the following:

**Proposition 1**: Directors of for-profit and not-for-profit corporations differ in their level of moral reasoning.

**Proposition 1a**: Directors of not-for-profit corporations make “more moral” versus self-interested decisions affecting their organization than do directors of for-profit organizations.

**Propositions – ethical climate**

It is expected that not-for-profit directors will perceive their ethical climates differently and perhaps more favorably than for-profit directors. Previous research suggests that for-profit and not-for-profit managers may differ in their assessment of ethical climates (Wittmer and Coursey, 1995). And recent research indicates that climate should be assessed based on the appropriate organizational level and on the type of research question asked (Wimbush et al., 1997). Organizations do not have a singular climate type, but do tend to operate in one climate style (Victor and Cullen, 1988). Therefore, we expect board members to be able to identify the primary types of ethical climate that are in operation in their organizations.

We would expect the charitable nature and service mission of the not-for-profit to instigate a different cultural climate than what is expected in the for-profit organization. We expect board members to perceive these differences as well, and it is also our contention that the climate of the boards will be related to moral reasoning. Both Jackall (1988) and Metzger and Dalton (1996) affirm that a climate of egoism and self-interest dominates over loyalty in most firms. Also, Metzger and Dalton note that corporate directors espouse goals which tend toward narrowness and stability over time. Accordingly, Despande (1996) found not-for-profit managers did not describe their cultures in terms of self-interest or efficiency. Higher levels of moral reasoning are based on adopting a strong diverse cultural ethic, and therefore, should be related
to the ethical climate and values of the board (Cullen et al., 1988; Elm and Nichols, 1993).

Elm and Nichols (1993) examined the perceived ethical climate along with managers' decisions for a sample of 243 managers from four manufacturing firms. Their results indicated that perceived ethical climate was not related to a manager's moral reasoning. However, recent work by Wyld and Jones (1997) suggests that ethical work climate plays a significant role not only in the moral reasoning process but in the entire organizational decision process as well.

Proposition 2: For-profit and not-for-profit boards differ in their perceptions of ethical climates.

Proposition 2a: Cultural climate affects moral reasoning differently in for-profit and not-for-profit boards.

Design of study

The nature of this study prescribed it to be limited in scope due to several factors. First of all, the information sought and gathered broke new ground in research. There were no previously developed databases or pools of information upon which to draw. Secondly, businesses are very suspect of the idea of an individual scrutinizing their boardroom decisions in general, and of measuring their moral reasoning in particular; therefore, it was felt that a sense of trust needed to be developed in order to accomplish this data collection effort with boards of directors. Because of their aversion to this type of task, it was decided that a local network of businesses that had an established level of trust with the University would be more willing to participate. Finally, board members are extremely busy people and it was felt that the response rate from an anonymous survey sent through the mail would be extremely low. Consequently, a small convenience sample offered the greatest utility in exploring the propositions because it provided the most potential for returns.

Sample

Six for-profit corporations and seven not-for-profit corporations, all with base operations in the midwestern United States were willing to participate in the study. Some of these corporations were part of national companies, but all had local boards of directors which carried the responsibility for making strategic and managerial decisions about the operations of the company. The basis of selection was primarily location, diversity in type of operations, and some connection to the University or to one of the researchers who could make a personal contact with the CEO of the organization. It was felt that a personal contact would enhance the level of trust and the degree of success in locating participating boards. The companies represented financial institutions, contractors, retail operations, communications businesses, charities, manufacturers, health care providers and service providers. Table II provides information about the companies.

It was much more difficult to find participants from the for-profit sector. The Executive directors and board Presidents of the not-for-profit organizations were very interested in the study and readily agreed to have their boards participate. Without exception, every not-for-profit organization approached agreed to take part in the study. On the other hand, for-profit CEO's were much more skeptical. Some refused to participate in the study; although they enjoyed conversing about ethical dilemmas and sharing stories of issues their boards had considered. They cited reasons such as “our board feels that this is too sensitive of a subject”, “we don’t have the time to take on one more survey” or “we never allow anyone to see our board membership lists.” Even when procedures to assure confidentiality were delineated, many companies declined to participate, with apologies. Certainly, for-profit boards are more private about their operations and more skeptical about how information may be used. In some ways the for-profit sector directors may feel that they stand to lose more from potentially bad exposure than the not-for-profit sector does. It was not felt that unwilling companies had anything in particular to hide, but
the degree of risk was heightened for these CEOs and their board Presidents. This phenomenon confirmed the assumption that participation from for-profit boards from an anonymous contact by mail or by phone would have been difficult to attain, and thus affirmed the smaller convenience sample. Further details related to the procedures for the collection of data are given in Appendix 2.

Instruments for data collection

The first two propositions will be measured through the use of the Defining Issues Test and the Moral Response Survey. The expectation is that members of not-for-profit boards will have higher “p” scores than their counterparts on for-profit boards and that the two additional scenarios that pertain to the world in which they operate will verify that higher levels of reasoning are used in making decisions about not-for-profit organizations than about issues facing a for-profit corporation.

The DIT, a tool for measuring moral reasoning, is not a simple multiple choice test which asks the desired line of action in response to a moral dilemma. It is concerned with the subject’s reasons behind their choice. Subjects are asked to read stories or dilemmas which are approximately a paragraph in length, and evaluate items that raise important considerations for deciding on a course of action (Rest, 1994). Consequently, questions examining a subject’s analysis of the issues embedded in stories or case dilemmas are used to extract principles used in making moral choices. A subject’s “p” score is derived from responses to these dilemmas. In a review of several studies that utilized the DIT, Davison and Robbins (1978) found that the test-retest reliabilities for the “p” and “d” scores were in the high 0.70s or 0.80s and that Cronbach’s Alpha index of internal consistency is generally in the high 0.70s (Elm and Weber, 1994; Rest, 1987). In addition, DIT results have been tested longitudinally with reliable results. Validation of the DIT was also tested with convergent-divergent correlations and the findings affirmed that DIT results correlate with other measures of moral reasoning and vary from other measures of cognition and intelligence which are not distinctly connected to moral reasoning. Thus, the discriminate validity of the DIT is also significantly supported by studies (Elm and Weber, 1994).

The DIT allows for the flexibility of using a total of six stories for the fullest reliability in the measure of moral reasoning or decreasing the number of stories to as few as three. Naturally,

<table>
<thead>
<tr>
<th>Company</th>
<th>Size (annual budget)</th>
<th>No. board members</th>
<th>No. of employees</th>
<th>Insider:Outsider</th>
<th>Women:Men</th>
</tr>
</thead>
<tbody>
<tr>
<td>For-profit 1</td>
<td>&gt; $10 million</td>
<td>8</td>
<td>60</td>
<td>1:7</td>
<td>1:7</td>
</tr>
<tr>
<td>For-profit 2</td>
<td>&gt; $10 million</td>
<td>5</td>
<td>75</td>
<td>5:0</td>
<td>0:5</td>
</tr>
<tr>
<td>For-profit 3</td>
<td>&gt; $10 million</td>
<td>7</td>
<td>320</td>
<td>2:5</td>
<td>1:6</td>
</tr>
<tr>
<td>For-profit 4</td>
<td>$0.5–3 million</td>
<td>4</td>
<td>150–190</td>
<td>4:0</td>
<td>0:4</td>
</tr>
<tr>
<td>For-profit 5</td>
<td>&gt; $10 million</td>
<td>8</td>
<td>7500</td>
<td>4:4</td>
<td>0:8</td>
</tr>
<tr>
<td>For-profit 6</td>
<td>&gt; $10 million</td>
<td>6</td>
<td>165</td>
<td>1:5</td>
<td>0:6</td>
</tr>
<tr>
<td>Not-for-profit 1</td>
<td>$3–10 million</td>
<td>9</td>
<td>30</td>
<td>0:9</td>
<td>2:7</td>
</tr>
<tr>
<td>Not-for-profit 2</td>
<td>&lt; $5 million</td>
<td>32</td>
<td>4</td>
<td>0:32</td>
<td>15:17</td>
</tr>
<tr>
<td>Not-for-profit 3</td>
<td>$0.5–3 million</td>
<td>18</td>
<td>80–100</td>
<td>0:18</td>
<td>4:14</td>
</tr>
<tr>
<td>Not-for-profit 4</td>
<td>&lt; $0.5 million</td>
<td>33</td>
<td>2</td>
<td>0:33</td>
<td>27:6</td>
</tr>
<tr>
<td>Not-for-profit 5</td>
<td>$0.5–3 million</td>
<td>24</td>
<td>17</td>
<td>0:24</td>
<td>18:6</td>
</tr>
<tr>
<td>Not-for-profit 6</td>
<td>$3–10 million</td>
<td>15</td>
<td>320</td>
<td>0:15</td>
<td>5:10</td>
</tr>
<tr>
<td>Not-for-profit 7</td>
<td>&gt; $10 million</td>
<td>5</td>
<td>1200</td>
<td>0:5</td>
<td>3:2</td>
</tr>
</tbody>
</table>
as the number of stories are decreased, the
measure loses some of its reliability (Rest, 1987).
In order to assure subjects that they could
complete the entire packet in less than one hour,
the DIT form was shortened to five stories.
Reliability from the full six-story form to the
shortest three-story form relates to approximately
a 5 to 10 point decrease in reliability – the short
form correlates to the long form at about 0.9.
Consequently, the decrease in reliability by
reducing the number of stories from six to five
was not felt to be significant. It was felt that
reducing the amount of time a subject had to
spend on the instrument was critical to the
success of this research.

The DIT answer sheet allows for the addition
of two scenarios which can also be scored at the
testing center at the University of Minnesota.
Because of the concerns raised in the literature
that subjects’ scores on the hypothetical stories
presented in the DIT do not always correlate
with the responses subjects give to “real life”
scenarios (Wimalasiri et al., 1996), two additional
scenarios were developed that model actual
situations that could confront the board of an
organization (see Appendix). These scenarios
were situation specific in that a set was developed
to administer to the not-for-profit boards and a
different set was developed for the for-profit
board. The idea was taken from a study by James
Weber (1990) and the format for each case was
modeled after the scenarios in the DIT. In this
same vein, Weber (1996) notes in a later paper
that the DIT is best used when matched with
specific contexts and with specific research
objectives. Elm and Nichols (1993) measured the
perceived ethical climate of the firms by the
“Ethical Climate Questionnaire” and the extent
to which a person focused on a situation in
deciding how to behave by the “Self-monitoring
Scale” along with the DIT. Their recommenda-
tion was to develop an independent utilization
measure to use in tandem with the DIT, and that
a tool should be used to determine if a subject
recognizes morality as a question in a situation.
Precedent for using context specific scenarios to
facilitate the measurement of moral reasoning is
also found in recent studies by DeConinck and
Lewis (1997) and Green and Weber (1997). Our
scenarios were intended to capture the specific
context of boards. This instrument was called the
“Moral Response Survey.”

In order to test for the ethical climate of each
organization, a survey was adapted which had
been developed by Cullen et al. (1993). The
Ethical Climate Survey was essentially used in
its original form with the elimination of only one
question which did not pertain to the issue at
hand and by changing the word “business” to
“organization” for a more appropriate presenta-
tion. This survey contained twenty-five short
statements to which the subjects responded on a
scale from “completely false” to “completely
true” about how accurately it described the
environment of the organization for which they
served on the board. This is the first time that
the Ethical Climate Questionnaire is used in con-
junction with the DIT for a sample of board
members.

Survey response rate

The participating companies were intentionally
chosen to be diverse, representing a range of
industries including financial institutions, service
delivery, retail, manufacturing, research, and
charitable organizations. As seen from the
summary in Table II, the size and composition
of the companies also varied widely. The size of
all of the for-profit firms was large (annual budget
exceeding ten million dollars) except for one
medium sized company with an annual budget
in the range of $500,000 to $3,000,000.
Likewise, the smallest firm employed sixty indi-
viduals and the largest one 7500 with a median
of 150 employees. On the other hand, the not-
for-profit organizations varied in budget size
throughout the range with two of them falling
below the $500,000 range, two carrying an
annual budget between $500,000 and $3 million,
two falling between $3 million and $10 million
and one having a budget in excess of $10 million.

Of even greater interest is the difference in size
of the boards from for-profit to not-for-profit
organizations. The for-profit boards were con-
siderably smaller ranging from four to eight
members with a mean of 6.33. The not-for-
profit organizations ranged from four to thirty-three members with a mean of 19.43. A larger size enables not-for-profit boards to represent more sectors of the community and to have constituent reflection within the board membership (Pfeffer and Salancik, 1978). All of the board members in the for-profit sector were paid for their service either as part of their salary or as an additional stipend. Contrarily, all of the not-for-profit board members served voluntarily.

In addition to the size of the boards, the two sectors varied in the composition of the boards. In the not-for-profit sector, all board members were outsiders. While the executive directors sat as advisors to the board and implemented the policies and decisions of the boards, they had no voting privileges. In contrast, two of the six for-profit boards were made up entirely of insiders with only half of the boards having a majority of outside directors. None of these companies excluded their chief executive officer from voting rights on the board of directors. In addition, of the 38 board members representing the for-profit sector, only two were female. One CEO shared that they were in the process of searching for an appropriate woman to sit on their board which currently consists of eight men. In the not-for-profit sector, the ratio was 74 women and 62 men comprising the total board membership. Again, this difference may be explained by the resource dependence perspective and the necessity of charitable boards to be more accountable to their constituents and more representative of the communities in which they operate (Zahra and Pearce, 1989).

The response rates for the organizations are summarized in Table III. The one company that received the survey through the mail with a cover letter from the president of the company had one of the lowest response rates with only 43 percent returning their surveys. In addition, the one company where the company president made the presentation to his board in lieu of the researchers themselves had a response rate of only 33 percent. The final sample included 83 board members, 23 from for-profit organizations and 60 from not-for-profits. It was easier to get not-for-profit organizations to agree initially to participate in the study but in the end their response rate was lower. This phenomenon confirms the argument that large boards have members who are less involved in the activities of the board (Monks and Minow, 1989).

### Table III: Summary of response rates

<table>
<thead>
<tr>
<th>Company</th>
<th>Response rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>For-profit 1</td>
<td>88%</td>
</tr>
<tr>
<td>For-profit 2</td>
<td>60%</td>
</tr>
<tr>
<td>For-profit 3</td>
<td>43%</td>
</tr>
<tr>
<td>For-profit 4</td>
<td>33%</td>
</tr>
<tr>
<td>For-profit 5</td>
<td>67%</td>
</tr>
<tr>
<td>For-profit 6</td>
<td>83%</td>
</tr>
<tr>
<td><strong>Rate</strong></td>
<td><strong>62%</strong></td>
</tr>
<tr>
<td>Not-for-profit 1</td>
<td>89%</td>
</tr>
<tr>
<td>Not-for-profit 2</td>
<td>34%</td>
</tr>
<tr>
<td>Not-for-profit 3</td>
<td>56%</td>
</tr>
<tr>
<td>Not-for-profit 4</td>
<td>33%</td>
</tr>
<tr>
<td>Not-for-profit 5</td>
<td>38%</td>
</tr>
<tr>
<td>Not-for-profit 6</td>
<td>53%</td>
</tr>
<tr>
<td>Not-for-profit 7</td>
<td>60%</td>
</tr>
<tr>
<td><strong>Rate</strong></td>
<td><strong>52%</strong></td>
</tr>
</tbody>
</table>

**Analysis procedures**

All of the Defining Issues Tests as well as the Moral Response Surveys were scored by computer at the Center for the Study of Ethical Development at the University of Minnesota. The results were used to calculate individual “p” scores, “d” scores, and “U” scores in addition to individual stage scores. The “p” score is a continuous measure ranging from 0 to 95 reflecting the respondent’s ranking of items. It is the most commonly used index from the DIT (Sweeney and Fisher, 1997) and is the focus of our analysis. An individual’s “p” score reveals the percentage of time that subject utilized higher reasoning stages to reach a conclusion about the DIT dilemmas. Consequently, the results from the Moral Response Survey (dilemmas seven and eight) were used to compute individual “p” scores for these two dilemmas. These two dilemmas required subjects to respond to “real
Moral Reasoning and Ethical Climate

These mean scores were then tested for correlation against mean DIT “p” scores for the organization’s directors as well as mean combined “p” scores for each organization. Composite factor scores were also computed using the mean response on questions labeled by the factor which they measured. The factor means for each company were then used to test for correlation with “p” scores as well as other factors included in the analysis such as board size, number of women directors, and number of insiders on the board.

Analysis and results

To test proposition one, the DIT responses of the two sectors were compared using t-tests. The t-tests demonstrated that the same results would have been possible under random sampling indicating no significant difference between the two groups (see Table IV). This finding signifies that the members of the two types of boards did not vary significantly in these small samples in their level of individual moral reasoning as measured by the Defining Issues Test.

Reliabilities for the Moral Response Survey were calculated. The scenarios written for the for-profit directors had a Cronbach’s Alpha of 0.73, while the not-for-profit scenarios exhibited an alpha of only 0.13. When “p” scores were calculated for the Moral Response Survey which utilized more realistic case studies reflecting situations a director might encounter in regular operations of their organization, results changed from what was found in the DIT scores. There was a significant difference in the scores on these two dilemmas. The p scores were significantly higher for the Moral Response Survey than for the DIT. This finding corroborates earlier research about “story pull” (Elm and Weber, 1994) which says that individuals use higher levels of reasoning when the scenario is recognizable. One of the weaknesses of the DIT is that it has not been adapted for business use (Elm and Weber, 1994). The scenarios deal with a fictional character Heinz and his decision to steal a drug to save his wife’s life, or with a scenario about a school newspaper. The scenarios in our survey,
however, were designed to be practical and represent real life situations for the respondents. The significant difference, then, is a confirmation of earlier studies.

A finding that was not expected was that for-profit directors demonstrated higher moral reasoning levels than not-for-profit directors. Our results indicated that for-profit directors utilized higher stages of reasoning a greater percentage of the time than not-for-profit directors in “real life” situations. Because the researchers offered two different dilemmas to the for-profit directors than the two offered to the not-for-profit directors, comparing specific dilemmas was not justified. The combined “p” score, however, is a significant indicator that something is happening differently in the two groups.

Proposition 1a was not supported. The results of dilemmas seven and eight which comprise the Moral Response Survey indicate a difference in the opposite direction from what the proposition asserted. The for-profit board members utilized higher stages of reasoning a greater percentage of the time than not-for-profit directors. The for-profit board members may be oriented toward cost-benefit analysis, training or moral reasoning or perhaps, the “story pull” for them was stronger. Nevertheless, reasoning is clearly different between the two groups, the decisions being made at the for-profit level are different than those being made at the not-for-profit level.

The correlation between “p” scores from the DIT and combined “p” scores from the Moral Response Survey indicates that the two values were not significantly related to each other. The correlations are summarized in Table V. Consequently, the way a subject scored on a measure of independent moral reasoning capacity

### TABLE IV
Summaries of t-tests

<table>
<thead>
<tr>
<th>Variable</th>
<th>Mean</th>
<th>Standard dev.</th>
<th>t-value</th>
<th>Prob.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Not-for-profit DIT p score</td>
<td>38.20</td>
<td>14.10</td>
<td>-0.91</td>
<td>0.36</td>
</tr>
<tr>
<td>For-profit DIT p score</td>
<td>33.10</td>
<td>12.10</td>
<td>0.80</td>
<td>0.43</td>
</tr>
<tr>
<td>Not-for-profit DIT d score</td>
<td>25.84</td>
<td>6.12</td>
<td></td>
<td></td>
</tr>
<tr>
<td>For-profit DIT d score</td>
<td>27.02</td>
<td>5.63</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Not-for-profit DIT u score</td>
<td>0.93</td>
<td>2.54</td>
<td></td>
<td></td>
</tr>
<tr>
<td>For-profit DIT u score</td>
<td>0.26</td>
<td>0.14</td>
<td>0.09</td>
<td>0.36</td>
</tr>
<tr>
<td>Not-for-profit Dilemma 7 “p”</td>
<td>44.3</td>
<td>0.17</td>
<td></td>
<td></td>
</tr>
<tr>
<td>For-profit Dilemma 7 “p”</td>
<td>68.2</td>
<td>0.16</td>
<td>0.56</td>
<td>0.56</td>
</tr>
<tr>
<td>Not-for-profit Dilemma 8 “p”</td>
<td>67.4</td>
<td>0.20</td>
<td></td>
<td></td>
</tr>
<tr>
<td>For-profit Dilemma 8 “p”</td>
<td>63.7</td>
<td>0.26</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Not-for-profit Combined 7 &amp; 8</td>
<td>56.10</td>
<td>13.70</td>
<td></td>
<td></td>
</tr>
<tr>
<td>For-profit Combined 7 &amp; 8</td>
<td>65.90</td>
<td>18.70</td>
<td>2.56</td>
<td>0.022</td>
</tr>
</tbody>
</table>

### TABLE V
Correlation matrix

<table>
<thead>
<tr>
<th></th>
<th>Combined “p”</th>
<th>“d” score</th>
<th>“p” score</th>
</tr>
</thead>
<tbody>
<tr>
<td>Combined “p” score</td>
<td>1.00</td>
<td>0.127</td>
<td>0.093</td>
</tr>
<tr>
<td>“d” score</td>
<td>0.127</td>
<td>1.000</td>
<td>0.495</td>
</tr>
<tr>
<td>“p” score</td>
<td>0.093</td>
<td>0.495</td>
<td>1.000</td>
</tr>
</tbody>
</table>
had little significant relation to how they reasoned in an actual situation. The “d” score was somewhat more related although not to a degree of significance.

The range of DIT p-scores falls from a high of 54 to a low of 10 in the for-profit sector and from a high of 56 to a low of 8.1 in the not-for-profit sector. Similarly, the range of scores for a combined “p” in the for-profit sector spans from a high of 95 to a low of 25. In the not-for-profit subjects, scores ranged from 85 to 20. The samples were similar in the range of scores on both combined “p” and DIT “p” scales. In summary, the results of this study did not confirm proposition 1a, and found that what differences did exist tended to find for-profit boards using higher stages of reasoning more often.

**Ethical climate**

The ethical climates of the two types of organizations are significantly different. When mean scores for organizations’ directors’ responses on the ethical climate instrument were used (as suggested by Victor and Cullen, 1988), for-profit companies had climates higher in egoism than not-for-profit companies did with means of 2.053 and 1.858, respectively (probability = 0.0014). In addition, not-for-profit firms reflected higher benevolence factors than for-profit firms with means at 3.752 and 3.495, respectively (probability < 0.0001). Not-for-profit organizations also had somewhat higher mean scores on the principle factor (mean = 3.550) compared to the for-profit organizations (mean = 3.477), but not significantly different (probability = 0.2628). Therefore, climates considering benevolence are at greater work in the not-for-profit sector than in the for-profit sectors examined in this study and egocentric considerations were in greater operation in the for-profit sector. This indicates support for proposition 2.

In analyzing proposition 2a, a factor analysis of the 25 items on the survey indicated that the questions loaded fairly consistently into three factors corresponding with Victor and Cullen’s (1988) assignment of each item as measuring principle, benevolence or egoism. Factor one most clearly measured principle, factor two benevolence and factor three egoism. Factor one was related \( r = 0.240 \) to the combined “p” score from the Moral Response Survey which was predicted indicating that the climate of an organization is related to an individual board member’s personal theoretical moral reasoning (Table VI). Neither factor two (benevolence) nor factor three (egoism) were significantly correlated to combined “p” score.

When the sample was divided into for-profit and not-for-profit groups, the for-profit sector showed no significant correlation between any of the factors and the combined “p” score (see Table VI). In contrast, the not-for-profit sector showed a highly significant correlation (probability = 0.0025) between factor one (principle) and combined “p” score at 0.460. Again, no correlation was found between factors and DIT “p” score. This finding indicates that the ethical climate of an organization is significantly related

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**TABLE VI**

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
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</thead>
<tbody>
<tr>
<td>Factor 1</td>
<td>0.240</td>
<td>0.460</td>
<td>0.048</td>
<td>-0.183</td>
<td>-0.108</td>
<td>-0.314</td>
</tr>
<tr>
<td>(Prob.)</td>
<td>(0.0603)</td>
<td>(0.0025)</td>
<td>(0.8356)</td>
<td>(0.1442)</td>
<td>(0.4989)</td>
<td>(0.1462)</td>
</tr>
<tr>
<td>Factor 2</td>
<td>-0.050</td>
<td>0.098</td>
<td>7.204E-4</td>
<td>6.826E-3</td>
<td>-0.105</td>
<td>0.132</td>
</tr>
<tr>
<td>(Prob.)</td>
<td>(0.6990)</td>
<td>(0.5480)</td>
<td>(0.9975)</td>
<td>(0.9571)</td>
<td>(0.5107)</td>
<td>(0.5537)</td>
</tr>
<tr>
<td>Factor 3</td>
<td>-0.039</td>
<td>-0.173</td>
<td>0.118</td>
<td>0.104</td>
<td>0.062</td>
<td>0.252</td>
</tr>
<tr>
<td>(Prob.)</td>
<td>(0.7660)</td>
<td>(0.2879)</td>
<td>(0.6044)</td>
<td>(0.4117)</td>
<td>(0.6984)</td>
<td>(0.2499)</td>
</tr>
</tbody>
</table>
to applied ethical decision making, but not to theoretical moral reasoning. Thus, the level of principle perceived in the climate of an organization and the level of principled reasoning are correlated, especially in a not-for-profit organization. These findings indicate some support for proposition 2a.

Discussion and conclusion

Because this research is exploratory, it raises more questions than it answers. However, this research does reveal some significant findings that merit further investigation. We found that hypothetical individual levels of moral reasoning as measured by the DIT do not differ as one sits on a different type of board. Moral reasoning seems to be consistent regardless of membership on various boards of directors. There may be several reasons for this. One is that sector differences simply might not exist. For example, Jeffrey and Weatherholt (1996) found no differences in moral reasoning between accountants in private industry and public service. Another reason may be that board members do not perceive their governance role as anything more than symbolic (Bowie and Freeman, 1992). Perhaps then both not-for-profit and profit boards are perceiving the same symbolic experience. On the other hand, directors do differ in their level of applied moral reasoning. When the questions address real possibilities faced by decision makers, for-profit directors utilized higher levels of moral reasoning to make the judgments. Although these findings are suspect because of low alpha values on the newly developed scenarios, especially for the not-for-profit sector, other research verifies this finding. Individual scores on hypothetical ethical dilemmas have not correlated with “real life” scenarios (Wilmalasiri et al., 1996).

Previous research using the Defining Issues Test indicates that moral reasoning develops as an individual ages and that as adults, most people reason at a relatively similar Kohlbergian stage. Educational level has much stronger predictive ability of an individual’s level of moral reasoning than any other variable except age (Rest, 1994). In keeping with this conclusion, this study verifies that adults do not seem to vary on their DIT score based on how they spend their time. All of the board members, regardless of sector, reasoned at a relatively similar level. The subjects in this study were similar in age and educational level.

In our study, there is some indication that the applied ethical reasoning is higher in the for-profit sector than what is found in the not-for-profit sector. A 1994 Gallup Poll found that Americans found government to be the only institution less trustworthy than corporations (Boroughs, 1995), yet the same U.S. News and World Report article found that corporations and their leaders are making unprecedented efforts to adhere to rules and community expectations. This affirms a recent argument by Quinn and Jones (1995) which suggests that for-profit managers (and perhaps board members) adopt an “instrumental ethics” view of the firm. This instrumental view combines both what is good for business with what is good for others. And perhaps for-profit managers simply act on this instrumental view while not-for-profit managers do not. A simple indication of this is that even though fewer for-profit boards agreed to the initial study, their response rate was better. In other words, the for-profit boards had better follow through on what they say they will do. Additionally, for-profit directors may be better trained in how to make decisions, create a paper trail, and justify actions in order to limit the ramifications on their company and themselves. Due to their voluntary role, not-for-profit directors may not have as great a personal stake in nor the knowledge of how their decisions impact the organization from a liability perspective. These directors also have greater legal protection from personal liability through Good Samaritan laws. Future research should investigate if, in fact, corporations are suffering from an unjustified image when, in fact, they are moving closer to principled decisions than traditionally trusted not-for-profit organizations.

Another explanation for the applied moral reasoning finding could stem from what Graham (1995) calls the “constructive participation” being on the board provides. The applied scenarios were constructed to capture the
service-oriented and change-oriented leadership functions fulfilled by board members as they participate in organizational governance. These governance functions correspond nicely with higher levels of moral reasoning according to Graham. Therefore, by virtue of participating in governance activities, board members are naturally involved in higher levels of moral development.

Still another possible explanation for the for-profit directors’ higher applied moral reasoning scores is the significant risk faced by these directors for malfeasance. The desire of for-profit directors to afford themselves the protection of “due diligence” procedures due to relatively recent U.S. Sentencing Guidelines may provide a sound reason for their apparent use of higher levels of principled reasoning.1

In any case, our applied reasoning findings compliment quite nicely the fundamental notion of stewardship theory – that when it comes right down to relevant choices, directors will act in the interest of others. In other words, our findings are that directors will exhibit higher levels of reasoning in instances that impinge more directly on their managerial tasks. This finding fits the tenets of stewardship theory.

The climates of the two sectors of organizations are different with not-for-profits tending towards benevolence and for-profits operating with significantly higher egoism than not-for-profits. The climate of an organization does not seem to affect personal, individual moral reasoning. Also, some factors of organizational climate appear to be linked such as principle and egoism so that as one moves so does the other. This linkage is curious and merits further review.

Limitations of the study

This study utilized a small, regional convenience sample to investigate questions in ethical moral reasoning of boards of directors comparing the for-profit sector to the not-for-profit sector. Because a convenience sample was utilized, the possibility of self-selection bias is present. Therefore, the results should be interpreted with the awareness that those companies which agreed to participate may not have climates nor individual directors that are representative of the population of for-profit and not-for-profit boards. As discussed earlier, a small convenience sample was justified because of the nature of this research; nevertheless, results must be evaluated carefully. It is not possible to make sweeping generalizations about the results and to classify all for-profit and not-for-profit boards on the basis of this one study. This study is intended as an inquiry to inspire further research of its kind. It is anticipated that further attention will verify these results and generalizations and implications will follow.

Due to the fact that it was difficult to secure commitment from for-profit corporations, there is a distinct danger that the companies that chose to participate differ from the norm and agreed to participate because they were proud of their above average ethical climate. The danger here is that results do not reflect a random sample, but one in which a bias toward higher moral reasoning may be evident.

The Moral Response Survey was developed as a check-point to assess the concerns expressed in other research. The results of it should be carefully evaluated because it has not stood the test for internal validity or correlation to the DIT. It is simply a subjective assessment used as a check to see if there is a difference in the way people make decisions about hypothetical settings versus potentially actual situations. Its results should be treated accordingly. Further work is needed to develop an effective measure of applied moral reasoning.

Finally, all of the participating companies are located in and virtually all of the participating subjects live and work in the midwestern United States. Being part of the midwest may, in itself, yield a certain bias to the results causing them not to be representative of the United States as a whole. Again, the sample is not a random one and broad generalizations should not be derived from this data. The study should be seen as exploratory and further research is necessary to verify results that can yield broader applications.
Implications for future research

The sample utilized in this study was widely diverse in its composition representing many industries. A similar study focused on a single industry would be a valuable extension of this research. For instance, the boards of several hospitals could be chosen to compare findings within the industry or other industries such as banking, accounting, retail establishments or charitable organizations could be investigated to learn how boards within an industry compare to each other and what other factors of board composition might affect moral reasoning ability.

This study demonstrated a significant difference in the way board members make decisions about actual situations which face an organization. Work should be done to develop a reliable instrument to measure the phenomenon of applied versus theoretical ethics. Because the for-profit boards in this study evaluated different scenarios than the not-for-profit boards in the Moral Response Survey, consideration should be given to developing an instrument that would be applicable to both groups so that further comparisons could be made. It would have been interesting to see how each type of director responded to those scenarios addressed by the other type.

In addition, since many business people sit on both for-profit and not-for-profit boards, it would be interesting to determine whether their decision-making style changes with the setting. Do individuals use different levels of reasoning when sitting on different boards? If so, are these differences influenced by the voluntary nature of their seat on the not-for-profit board, the ethical climate of the organizations, training, exposure or some other factors?

There is some evidence from this study that boards may influence and be influenced by the climate of an organization. This topic should be pursued further with larger, randomized samples to see if these results would be duplicated. Effects of ethical climate, board structure, and board size on moral reasoning should be examined in future studies. The ramifications are important for companies in all industries.

Our findings, that moral reasoning is reflective of organizational level and of specific organizational contexts, are consistent with those of Maclagan (1996) and Weber (1990). Many other variables affect moral reasoning, however. For example, Sweeney and Fisher (1997), contend that political ideology affects moral reasoning as measured by the DIT. Future studies examining various ideologies within specific organizational levels would, therefore, be valuable.

Future research should also more closely examine the structural differences between not-for-profit and for-profit boards. In particular, two important structural variables to consider are board size and board decision-making authority. Size may be a factor in determining a board member’s sense of individual responsibility. Because not-for-profit boards tend to be relatively large, as is the case in our study, these board members may be less involved in the organization. Moreover, in some not-for-profit boards there is a subset or executive group that acts as the steering committee or decision-making body for the whole; while other members fill more symbolic leadership roles. The findings of our study hint that the reduced responsibility and decision-making effects of board structure may possibly be taking place.

Finally, this study has broader implications for research in business ethics. If an individual’s level of moral reasoning has no relation to one’s decision-making ability, training in decision-making becomes more important. Whether or not individual ethics can be taught is not as critical as training directors to make ethical decisions. Dukerich et al. (1988) found that groups had higher moral reasoning scores when those individuals who had higher levels of moral reasoning emerged as group leaders. In addition, when groups framed questions as what “should” we do instead of what “would” we do, their answers tended to utilize higher levels of reasoning. Finally, they found that the extent of free and open discussion was positively related to moral reasoning levels. The results of our study relative to the Moral Response Survey imply that “applied” measures may be more useful to study moral reasoning in business contexts. And that these applied measures can help us better understand how individuals...
actively influence the moral decisions made at the board level.

Acknowledgements

An earlier version of this article was presented at the 1996 Academy of Management annual meetings, Social Issues in Management Division. This research was supported in part by the Murray G. Bacon Center for Ethics in Business, Iowa State University. The authors thank the anonymous JBE reviewers for their constructive comments on a previous draft of this article.

Note

We thank the anonymous reviewer for bringing this possible explanation to our attention.

Appendix 1: Moral response survey

In this survey, there are two short scenarios followed by several short questions. Answer the questions as if you were sitting on the Board of the organization in question. The same directions pertain as to the DIT you just completed. Please read each scenario and then answer each question marking your answer on the same answer sheet as the DIT. When you have completed all of the questions, please return the survey to the testing center in the envelope provided. Thank you.

For-profit boards:

Dilemma #7

The Board of Directors of a regional corporation is very proud of the fact that 6% of their net profit is donated back to charities in the communities where its branches are located. They use that statistic as a marketing tool to create goodwill. In addition, regulatory bodies require them to donate at least 3% of net profits in order to keep their charter. Dewitt is a new accountant for the organization and he questions the way charitable giving has been historically recorded.

For instance, recently the company sponsored a team to help with a local paint-a-thon at a low-income housing project. The company donated t-shirts, caps and brushes, but also claimed credit for employee volunteer hours on Saturdays and other unpaid dates as part of their donation. Dewitt noticed many examples of similar instances where donation amounts appeared to be inflated.

He proposed a new policy which would clarify donation recording. The Vice President of Finance analyzed that under the proposed policy, the previous year’s donations would have amounted to 3.2% rather than the 6% currently published. He informed Dewitt that his new policy would have a serious impact on public relations or company expenses or both. Should Dewitt leave the donation reporting alone and continue to report company charitable giving as higher than he believed to be factual?

1. What if several accountants before Dewitt have approved of the current system?
2. What if Dewitt feels that the current system is dishonest?
3. If Dewitt is made aware that his job and future career will be in jeopardy if he creates a problem or insists on changing the policy, should this influence his decision?
4. What if the President of the company is threatened by Dewitt’s proposed policy change and perceives him as a potential troublemaker?
5. If Dewitt’s colleagues feel that the current system is dishonest and encourage Dewitt to make a change, should he support his peers in their beliefs?
6. What if leaving the reporting alone would be in conflict with Dewitt’s personal values?
7. Whether or not Dewitt’s proposed policy is in keeping with the CPA code of ethics?
8. Would changing the policy cause more charitable donations to be made in the communities represented?
9. Would the company be perceived as more honest by correcting this policy which would lead to higher customer loyalty and profits?
10. What if everyone involved agrees that the current policy is dishonest?
11. Whether Dewitt believes that lying is wrong.
12. Shouldn’t businesses operate honestly regardless of the consequences?

Dilemma #8

After 10 years of loyal service to a medium-sized manufacturing company, June has been promoted to
executive secretary to the Executive Vice President. In her six months in this new position, she has been asked to type school papers for her boss’s teenage children, mail personal letters and arrange an anniversary party at her boss’s home in addition to her vast company responsibilities. Often she is required to work overtime to complete all of her work.

Recently, at a company staff meeting, the Vice President of human resources announced that the Board of Directors had put a freeze on all overtime. Their position is that the company will continue to dominate its market by operating leaner and more efficiently. He asked for commitment on everyone’s part to pull together to get all the necessary work done during regular work hours.

When June was asked today to complete some personal errands for her boss, she asked him about the new policy and said that she was afraid she could not complete those errands and her regular work responsibilities, but he assured her that he would see that she received pay for her extra hours, but she should not report them on her time sheet. Should June complete the personal tasks for her boss?

01. What if she trusts her boss and is confident that she will get paid even without reporting the overtime on her time sheet?
02. June’s career is in jeopardy if she does not cooperate with her boss.
03. What if June knows that she could jeopardize the Vice President’s job if she reports her overtime or goes to the personnel office to ask for advice?
04. What if an individual Board member has informed June that the Board is watching management closely.
05. Is June’s loyalty to her boss more important than her sense of personal dishonesty?
06. What if June’s peers notice what she is doing and threaten to blow the whistle?
07. What if June feels a sense of loyalty to her peers who can no longer get paid for overtime?
08. What if June knows that lying on her time sheet is against the law and punishable in state court?
09. June knows that the Vice President is a single parent and he needs her help and loyalty to be successful in all of his roles.
10. What if being dishonest about her time sheet is in opposition to June’s personal moral beliefs?
11. Is honesty always the best policy?
12. What if June believes God calls her to be honest in all of her dealings and relationships?

Not-for-profit boards:

Dilemma #7

The Board of Directors of a large, national not-for-profit charity is very proud of the fact that only 6% of revenues are used for fundraising expenses. They use that statistic as a measure of the value of each dollar donated to their cause. All funds are used for either public education, research, service provision or fundraising. As a way of accounting, all expenses for salaries, supplies, rents and other expenses are prorated and allocated to one of these areas based upon use.

Sharon is a management staff person who has received excellent reviews of her work for 3 years. Recently, the regional supervisor returned Sharon’s quarterly time sheet and told her that it was unacceptable. “Too much of your time was allocated to fundraising” was the explanation, and she was told to update it and return it immediately. Sharon called and said that the time sheet was an accurate reflection of how her time was typically spent. Should Sharon alter her time sheet?

01. If Sharon’s colleagues doing the same job have acceptable time sheets.
02. If the local newspaper is waiting to publish the latest statistics and fundraising would definitely decline if Sharon doesn’t change her statistics.
03. Sharon’s career is in jeopardy if she does not alter her time sheet.
04. Whether the law prohibits Sharon from altering her time sheet.
05. Whether Sharon feels it would serve more people and the public good to alter her time sheet.
06. Whether other people expect Sharon to alter her time sheet.
07. Whether honesty is of higher value than fundraising for a good cause.
08. Is a little dishonesty what leads to greater corruption and distrust?
09. If the organization is really doing an excellent service to society.
10. Whether God forbids lying.
Allen is the executive director of a youth agency with a large service area. The organization has been touted for the excellent service provided and the long-term benefits that young people have received. The organization has a 12-year-old 15 passenger van that is often unusable because it is in need of repair. Consequently, participants must be charged for van rental or programs are canceled due to a lack of transportation. Recently, a Board member who owns an automobile dealership donated a 1-year-old van to the organization. The staff were elated with the quality of the van and their ability to now provide quality, dependable programming without charging for the additional cost of renting a van.

The generous board member called Allen to say that his accountant simply required a letter from the organization stating that the van had been received and including the market value of the van in order for him to receive a tax write-off. The board member asked Allen to state that the van was worth $20,000 although both he and Allen knew that the real market value was only $12,000. Should Allen write the requested letter?

1. Suppose the Board member would take the van back if the letter is not written.
2. If other Board members are aware of the discrepancy and have no concern.
3. Whether Allen’s accountant advises him to value the van at only $12,000.
4. Whether the law specifically prohibits over valuing donated property.
5. Does the organization’s ability to do more public good with the van outweigh a small statement of dishonesty?
6. If other people would find out and consider Allen and the organization to be dishonest.
7. Whether or not Allen believes it is morally wrong to be deceitful.
8. What has greater value to society as a whole – honesty or helping to transport underprivileged young people to worthwhile services?
9. If the Board would pursue disciplinary action for Allen’s lack of cooperation.
10. What if the Board member also donates other money to the organization and would hurt fundraising efforts if he is dissatisfied with Allen?
11. If several young people and their parents have been requesting Allen to do what he could to get a van.
12. Whether honesty and full disclosure should be held up as values important to society as a whole.

Appendix 2: Procedures for data collection

After compiling a list of potential participants, contacts were made with the chief executive or a board member of each organization. Strict procedures to protect individual and corporate confidentiality were developed. A formal agreement was signed by all participating boards which also gathered data such as size of company, board size, composition of board in reference to number of women and number of insiders and outsiders, method of compensation and frequency of board meetings. After acquiring agreement from executives, a date was established when researchers could attend a board meeting. At that meeting, the purpose of the study was addressed, any questions were answered, and packets containing the three surveys were distributed.

One or two weeks following the board presentation, follow-up phone calls were made to each board member to remind them that their response was needed if they had not already completed and returned their surveys. The goal of the phone calls was to increase the response rate. When it was determined that all responses had been received, the DIT and Moral Response answer sheets were sent to the University of Minnesota for scoring. The Ethical Climate Questionnaire was analyzed locally according to the method developed by Cullen et al. (1993).

References


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