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Managed Morality: The Rise of Professional Codes of Conduct in the U.S. Nonprofit Sector

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Abstract

Calls for accountability in the nonprofit sector have never been stronger, and the rise of various forms of self-regulation represents a profound shift for nonprofits. Existing studies tend to focus on effective design and implementation of accountability policies, with an eye toward improving nonprofit efficiency and reducing instances of misconduct. Against this backdrop, we draw on sociological institutionalism to theorize an alternative view of one form of self-regulation, formal codes of conduct or ethical codes. In this view, formal policies, such as codes, are assumed to be adopted as a response to pressures in an organization's institutional environment, beyond their purported instrumental value. Using a quantitative analysis of code adoption by 24 of 45 state nonprofit associations over the period 1994 to 2011, we provide evidence that codes arise due to general environmental conditions, particularly related to the influences of neoliberalism and professionalization, net of the functional demands of any particular context.

Keywords

ethical codes, codes of conduct, fraud, institutionalism, neoliberalism, professionalization, self-regulation, accountability

Increased demands for accountability and the emergence of a new "accountability environment" are among the most critical issues facing the nonprofit sector today (Salamon, 2012, p. 32). Existing literature mainly focuses on the question of effective

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design and implementation of accountability practices to improve nonprofit efficiency and reduce misconduct (Bryson, Crosby, & Stone, 2006; Herzlinger, 1996; Kearns, 2012; Light, 2000; Ostrower & Stone, 2006; Smith, 2012; Stone & Ostrower, 2007). Studies have also examined the creation and enforcement of various forms of self-regulation (Bies, 2010; Ebrahim, 2003a, 2003b, 2005; Edwards & Hulme, 1996; Naidoo, 2004). In contrast to this instrumental view of codes as tools for preventing fraud and waste, our study draws on sociological institutionalism to theorize an alternative view of one form of self-regulation, formal codes of conduct or ethical codes (hereafter referred to as "codes"). Institutional scholars stress the role of culture in shaping organizational structures (DiMaggio & Powell, 1983; Meyer & Rowan, 1977). In this view, formal policies, such as codes, are assumed to be adopted as a response to pressures in an organization's institutional environment, beyond any direct operational needs. This article contributes to discussions of self-regulation through a quantitative analysis of the factors associated with the code adoption by 24 of 45 state nonprofit associations over the period 1994 to 2011.

Adoption of codes and other governance standards by nonprofits has been increasing over the past several decades (Bies, 2010; Gugerty & Prakash, 2010; Obrecht, 2012; Sidel, 2010). We study the significance of institutional factors, especially professionalization of the nonprofit sector and the spread of neoliberal ideas, on the timing of code adoption by state associations of nonprofits. We also take into account the instrumental contributors, including the size and wealth of a state's nonprofit sector and a measure of misconduct by nonprofits nationally. At times, developing codes may be linked to higher standards of ethical behavior, but they may also serve as a legitimizing symbol in a cultural context of professionalization and neoliberalism.

Background: Nonprofit Codes of Conduct

Codes of conduct are, of course, not new. In an exhaustive search, ethics scholar Michael Davis (2003) concluded that the American Medical Association established the first code of professional ethics in 1912. Similar codes are increasingly being adopted across the government, for-profit, and nonprofit sectors (Baccaro & Mele, 2011). Ethical codes in the nonprofit sector lay out an ideal vision of what nonprofits are intending to achieve and the principles governing how they will meet these purposes (Bies, 2010; Salamon, 2012; Stone & Ostrower, 2007). At the field level, they are an indication of efforts to create common evaluative and normative standards for professionals working in the nonprofit sector (Garcia-Sanchez, Rodriguez-Dominguez, & Gallego-Alvarez, 2011). In this way, workplace morality across a highly disparate set of organizations is transformed into a shared concern of nonprofit managers, rather than falling under the purview of government authority or developing idiosyncratically according to each organization's unique context (Kinchin, 2007; Smith, 2012). With this view of codes as a source of fieldwide standards in mind, we focus our study on the emergence of codes in statewide associations of nonprofits rather than in individual organizations. In total, 45 state nonprofit associations were founded by mid-2012, with the first appearing in New York in 1927. By the end of 2011, 24 of these adopted a code, with the first appearing in 1994.

The first and most widely publicized code was adopted by the Minnesota Council of Nonprofits (MCN) in 1994. The Council began work on their *Principles and Practices for Nonprofit Excellence* in 1993, and according to a news report about the project, "The idea is to help nonprofits recover public confidence that has been damaged by national charity scandals, adverse media coverage, periodic calls in the Legislature for an end to nonprofits' tax-exempt status, and lawsuits by disgruntled former employees" (Franklin, 1994). The code was finalized in 1994 and approved by the Council's board in 1998; it was revised in 2004 and approved by the board in 2005. As indicated by Brody (2006), the code is thorough. There are 10 "accountability principles" and 133 "management practices" that are "based on the fundamental values of quality, responsibility and accountability" (MCN, 2010, p. 2) and detailed in a 20-page document. By adopting the code, organizations agree that their boards, staff, and contractors should mirror the diversity in their community, that they be advocates for their clients, and that they should reevaluate their missions on a periodic basis to see whether they continue to be needed or whether their programs should be changed. Furthermore, they should compensate their employees with a livable wage; be publicly accountable and transparent in their actions, decision-making processes, and accomplishments; use ethical fundraising practices; and have conflict of interest policies in place for board members and staff.

Another early adopter, Massachusetts, also established a code in 1994. Unlike Minnesota's detailed approach, the Massachusetts Council has a one-page document (see Appendix A) that codifies the six core values: "Accountability, Cultural Competence, Dignity, Equity, Integrity, and Social Justice." The code is described as being "a framework for ethical conduct and sound governance practices." Member organizations agree to follow policies that respect basic human rights, be accountable to the people served, adhere to nondiscrimination policies, develop an "adequately compensated, well-trained and committed workforce," maintain a safe environment, and be fiscally responsible and accountable to the agency's board, funders, and the public. Codes vary in detail and length, but our concern here is with the increase in the adoption of codes, rather than their content.

Codes as a Governance Mechanism

Codes are routinely depicted as a way to improve transparency and accountability, thereby preventing future misconduct. Arkansas' Diamond Standards™ makes this claim explicitly, stating, "Highly publicized abuses have led to legislative reforms and stricter scrutiny by regulators at both state and federal levels" (Arkansas Coalition for Excellence [ACE], 2008, p. 3). Similarly, researchers on ethics in the business sector point to scandals such as Enron as triggering the push for corporate codes of conduct (e.g., Lückerath-Rovers & De Bos, 2011; Zattoni & Cuomo, 2008). Indeed, the government enshrined codes as a response to corporate misconduct through the passage of Sarbanes-Oxley in 2002, which requires U.S. public firms to have codes of conduct in place. Increasingly, corporations around the world are adopting codes (KPMG, 2008), prompting scholars to call for more research to fill the gap in knowledge about how codes work (Helin & Sandström, 2007; Skubik & Stening, 2009).

In practice, however, the use of ethical codes as a means of controlling behavior is problematic (Baccaro & Mele, 2011; Garcia-Sanchez et al., 2011; Irvin, 2005; Rodriguez-Dominguez, Gallego-Alvarez, & Garcia-Sanchez, 2009; van Blijswijk, van Breukelen, Franklin, Raadschelders, & Slump, 2004). Most obviously, codes are voluntary and unenforceable. This point has been clear since early discussions of the development of ethical codes of conduct in public administration (Monypenny, 1953). As extreme examples, it is telling that both Enron and WorldCom had codes of conduct in place at the time of their scandals. These limits are recognized by some state associations. For instance, the Arkansas association's codes straightforwardly acknowledge that the effect of such practices are unknown: "While it may be impossible to prove that best practices are a direct cause of improved performance, emulating the behavior of the most successful organizations increases the probability of producing good results" (ACE, 2008, p. 5).

An additional challenge for statewide associations is that codes are intended to apply to professionals in an astounding array of organizations (see O'Neill, 2002; Salamon, 2012, for overviews of the sector), making standardized recommendations for behavior a challenge, to say the least. Charitable organizations exist in fields ranging from paranormal activity to medicine, from divinity to gay rights, from homelessness to business associations. Ideologically, they run the gamut from far left to far right. Operationally, they range from tiny, informal associations to enormous, complex bureaucracies. How can a single overarching state-level code cover the ethical issues of all these types of organizations? Brody sees this tension in critiques of the Maryland nonprofit association's code as being "too prescriptive" (2006, p. 257). Nonetheless, as in the examples above, codes are often depicted as a tool of self-regulation that can ward off abuse. The extreme difficulty of definitively establishing effectiveness in the case of codes intended to cover an array of organizations makes state associations a particularly interesting setting for our research. The generality of state codes (a necessary feature to be applicable to a wide range of nonprofits) makes it exceptionally challenging to prove functional benefits (e.g., at preventing fraud), suggesting that perhaps other factors (e.g., institutional pressures) may be at play.

Codes as a Response to the Institutional Environment

In contrast to an instrumental view of codes as a means to shape behavior, an institutional perspective emphasizes the changing external environment in which organizations operate, using linkages to the environment and macro-diffusion processes to explain the features of organizations (DiMaggio & Powell, 1983; Meyer & Rowan, 1977). From this lens, the crucial engines driving the emergence of formal organizational structures are the cultural environment and linkages to dominant discourses. Organizations adopt formal practices such as codes to maintain legitimacy. A comprehensive study of how and why statewide associations decide to adopt codes has yet to be conducted, but these institutional dynamics are evident in parallel settings. For example, in their international study of good governance code adoption, Aguilera and Cuervo-Cazurro (2004) found that professional associations and the desire to appear more legitimate to external audiences promoted code diffusion. Long and Driscol (2008) similarly found that codes of ethics are used by organizations to signal their legitimacy.

Using an institutional framework, two related cultural trends in the cultural environment are likely to promote the spread of nonprofit codes of conduct—neoliberalism and professionalization. The mechanisms through which these broad cultural influences are transmitted into local settings are classically described as coercive (i.e., reliance on stakeholders for resources as well as conforming to dominant cultural expectations), mimetic (i.e., copying peers), and normative (i.e., shaped by professional standards, trainings, conferences; DiMaggio & Powell, 1983). These three paths are understood to be analytic categories that may not be empirically distinct; a single carrier of institutional cultural material (e.g., foundations or other state associations) can be a source of coercion, normative pressures, and/or mimesis. Given the dearth of research in this area, our main focus is on the basic question of *why* codes spread (i.e., do the institutional influences of neoliberalism and professionalization promote code adoption?) rather than focusing on subsequent steps, which would be to detail *how* codes spread (i.e., what are the mechanisms through which institutional influences spread codes?), examine factors that shape differences in code scope and scale (e.g., state political influences or CEO characteristics may shape whether a code is strict or vague), and analyze the effects of codes (i.e., treat them as an independent variable rather than a dependent variable, as we do in this study).

The worldwide diffusion of neoliberal ideals weakens the role of the state in service provision, increases the authority of nonstate stakeholders, and fosters market-like behaviors in nonprofits (Eikenberry & Kluver, 2004; Hwang & Powell, 2009; Kettl, 1997). Drawing on Campbell and Pedersen (2001), we conceptualize neoliberalism as norms centrally emphasizing a

> minimalist welfare-state, taxation, and business-regulation programs; flexible labor markets and decentralized capital-labor relations unencumbered by strong unions and collective bargaining; and the absence of barriers to international capital mobility. It includes institutionalized normative principles favoring free-market solutions to economic problems, rather than bargaining or indicative planning. (p. 5)

As we discuss in the next section, for the period of our study, 1994 to 2011, we were able to obtain yearly data for state public expenditures on social services and state-level data on density of collective bargaining agreements to use in our analysis.

Under neoliberalism, the burden of accountability shifts from the government onto organizations. Self-regulation becomes the order of the day, and voluntary codes of conduct and standards of all sorts and in all sectors increase dramatically (Bartley, 2007; Bies, 2010; Florini, 2003). Kernaghan (2000) linked the issue of New Public Management reforms and ethical codes directly, writing, “[A] statement of key values (often described as a code of conduct), both for the public service as a whole and for individual public organizations, facilitates an assessment of the value consequences of [New Public Management] reforms” (p. 91). Thus, in this new “shared-power” world, one task of good leaders is to promote norms such as those established in codes of ethics (Bryson & Crosby, 2005, p. 148).

Second, the nonprofit sector is professionalizing along many dimensions: Organizations routinely employ full-time staff, sometimes numbering in the thousands; there has been an explosion of nonprofit training programs and managerial education (Hwang & Powell, 2009; Mirabella, 2007; Stone, Hager, & Griffin, 2001; Suárez, 2010), and there are now dozens of professional associations and attendant trade publications. A growing number of researchers have noted the increased professionalization of the sector (e.g., Hwang & Powell, 2009; Mirabella, 2007; Stone et al., 2001; Suárez, 2010). For example, Mirabella and Wish (2001) and Mirabella (2007) documented the expansion of higher education into the area of professional nonprofit management, showing a steady increase in the number of graduate degrees being conferred. National higher education accrediting bodies, such as the Network of Schools of Public Policy, Affairs, and Administration (NASPAA), work to ensure a certain standard in education and training of public and nonprofit administrators. To determine whether a standard has been achieved, measures are agreed on, established, and operationalized. This process codifies practices, which are then diffused through the management training programs, becoming norms. The continued increase in the number of nonprofit management graduate programs is a proxy, then, for the increased professionalization of the sector. Higher education programs and professional associations promote their research and ideas in journals and trade publications. The increase in the numbers of these publications and articles also indicates a rise in professionalization. For our analysis, we obtained data for the number of graduate-level degree programs in nonprofit management and the number of nonprofit publications.

Codes are central to the creation of a professional field (Wilensky, 1964), providing the basis for conceptions of accountability both to other members of the profession and to other stakeholders (Davies, 2008). To wit, national professional associations commonly call for the development of codes (see, for example, the Independent Sector, 2015). Professional influences such as these are typically labeled *normative* sources of isomorphism in institutional research; in this setting, professional channels beget greater professionalization by promoting the adoption of codes.

Professionalization of the nonprofit sector can also spread through mimetic and coercive paths. There is a proliferation of formal ethical codes in state associations, which can trigger social learning and emulation among peers that have not yet adopted codes, a pattern often interpreted as mimetic isomorphism.[1] Anecdotally, it seems such a process may be at work. To illustrate, after Maryland's code was developed and promoted, the association's executive director stated, "We're fairly confident that this will provide a valuable service to the donor community in helping them to identify well-run non-profit organizations" (Greene, 1998). Since then, a number of associations, such as Colorado, Delaware, Ohio, Oklahoma, and Pennsylvania, have earned the "Seal of Excellence," signaling their agreement to adhere to the Maryland Associations' standard. Finally, foundations are well-recognized advocates of professionalization in the nonprofit sector (Barr, Connolly, Linnell, Masaoka, & Ryan, 2012; Connolly & York, 2003; Millesen, Carman, & Bies, 2010); thus, it seems plausible that they would directly promote (or be perceived to look favorably on) codes of conduct as well. Given foundations' role as a key source of revenue, they could either directly coerce code development among grantees or more indirectly amplify code development by championing it as a legitimate practice.

Overall, this institutional perspective leads to two core predictions of when state associations are expected to adopt codes, over and above the size of the state nonprofit sector or other functional rationales, such as a response to scandals. Beyond instrumental drivers, codes should be more prevalent when neoliberalism is more dominant and when there is greater professionalization of the nonprofit sector. Foundations are likely to be important actors in transmitting these cultural influences, further promoting the spread of codes. Importantly, instrumental and institutional explanations are not mutually exclusive. Our goal is to demonstrate that codes spread beyond functional or instrumental explanations, without denying that these can also be important drivers.

Data and Method

We analyzed the adoption of codes of conduct in state nonprofit associations, starting in 1994 and ending in 2011. We collected data at yearly intervals for 45 state associations during this period. By the end of our study, 24 associations had adopted a code. (See Appendix B for a list of state associations in the analysis.) We relied on several well-established resources to identify state associations, their founding dates, and when/whether they have a code. The National Council of Nonprofit Associations (NCNA) is the umbrella organization for state and local associations of nonprofits, and most state associations are members. We generated our first list using data from the NCNA. We cross-referenced data from NCNA with online searches of each state, data from the individual association websites, GuideStar, Lexis-Nexus, and ProQuest news databases, and through email and phone communication with associations.

To consider variables associated with the likelihood of adopting a code in a given year, we used discrete-time models for the analysis of event histories, with a complementary log-log link function, as the probability of our event occurring is rare (Allison, 1984). Our panel data are structured as annual observations within each state association. At each point in time, the dependent variable is either 0 (if the association does not have a code) or 1 (if they adopted a code during that year). Associations are considered to be at risk of adopting a code following the creation of the first policy in 1994 (by Minnesota), or the year a state association is founded (if it is after 1994). Discrete-time event history is the appropriate estimation technique because we do not know the exact timing of adoption within each annual spell and because we have some years (particularly 2002) in which multiple associations adopt events (Allison, 1984; Kalbfleisch & Prentice, 1980). The final analyses include 41 associations with 22 codes for an N of 404 association years. Two associations (West Virginia and Wyoming) do not enter the analyses because they were founded after 2011, and two more (Massachusetts and Minnesota) do not enter because they created codes in 1994, and thus are not at risk of adopting their first one in subsequent years.

Control Variables

State nonprofit sector characteristics. To capture functional explanations of the rise of codes, we include key characteristics of state nonprofit sectors in the analyses. The first is an indicator of size of the nonprofit sector in a state each year, measured as the number of nonprofits per 10,000 people. The second is a measure of wealth of the nonprofit sector in a state, as indicated by total nonprofit assets per capita each year (logged). It may be that associations in states with a smaller or more impoverished nonprofit sector see more of a need to signal legitimacy. Conversely, it is also plausible that the larger the scope and scale of nonprofit activities in a state, the greater the need for self-regulation. Both these measures come from the Business Master Files provided by the National Center for Charitable Statistics (NCCS; 2012), which is the nationally recognized clearinghouse for data on the nonprofit sector in the United States.

Third, also using NCCS data, we examined the types of nonprofit associations prevalent in each state using the National Taxonomy of Exempt Entities (NTEE).[2] Specifically, we calculate the percentage of nonprofits in a state each year that belong to a certain NTEE type (e.g., hospital, higher education). Hwang and Powell (2009) posited that some services categories may be different from other sectors due to greater rationalization and heterogeneity, and indeed find health organizations are significantly more formalized (e.g., use quantitative evaluations, conduct formal audits, conduct strategic planning). A great deal of recent research demonstrates similar trends in the higher education field (e.g., Krueken & Maier, 2006; Sauder & Espeland, 2009). Following this research, we include controls for the percentage of nonprofits in a state that are health organizations and the percentage that are higher education organizations.

Association age. As a standard control in organizational research, we include the year the nonprofit association was founded, which we obtained directly from the associations.[3] Stinchcombe (1965) proposed that organizations are imprinted with the social characteristics of their founding era, suggesting newer nonprofits might be more likely to have codes. One extremely old outlier, New York (1927), was recoded to the next oldest founding date (1974). We check our results if New York is excluded and they are fundamentally unchanged.

Fraud. Scholars have noted the difficulty of measuring fraud in the nonprofit sector due to underreporting and the paucity of publicly available data (Fremont-Smith, 2008; Fremont-Smith & Kosaras, 2003; Greenlee, Fischer, Gordon, & Keating, 2007; Holtfreter, 2008). Following the premier research in this area (Greenlee et al., 2007), we draw on a measure of the median dollar loss for nonprofits reported by the Association of Certified Fraud Examiners (ACFE; 2002, 2004, 2006, 2008, 2010, 2012). The ACFE is the world's largest anti-fraud organization and leading provider of anti-fraud training and education. In 1996, the ACFE began conducting a survey of its members (certified fraud examiners) to assess the extent of occupational fraud; data on the nonprofit sector are available every second year since 2002. The measure of median dollar loss represents the median amount misappropriated from nonprofits in instances of reported fraud in a year. We use an average between reports and carry values back prior to 2002 (i.e., 1994-2001 are assigned the same value as 2002).[4]

Time indicators. We include indicators for 2002 and 2003 to 2011, meaning we allow the baseline hazard to vary over these periods. As noted earlier, robustness checks indicated that a piecewise model constructed in this way fits better than a model where the hazard of adopting a code is constant over time.

Institutional Variables

Neoliberalism. Two related indicators that give a broad portrait of neoliberalism were available at the state-year level over the period of our study. Because reducing public expenditures on social services to limit the size and impact of government has been a major tenet of neoliberalism (Connell, Fawcett, & Meagher, 2009; Crouch, 1997; Friedman, 1962; Harvey, 2005; Hayek, 1944), we collected government welfare expenditures from the US Census Bureau (2013) and calculated it as a percentage of a state's total expenditures. In addition, the ability of workers to form unions is viewed by neoliberals as encumbering labor relations, as a form of price fixing, and as being anti-entrepreneurial (Crouch, 1997; Friedman, 1962; Harvey, 2005; Hayek, 1960); therefore, we include the density of workers covered by collective bargaining agreements in the states (Hirsch, Macpherson, & Vroman, 2001). We took the z scores of each measure and sum them to form a neoliberalism index, reverse coded so a higher score indicates greater neoliberalism (see a parallel index creation in Koo & Ramirez, 2009).

Foundations. As an indicator of the possibility that foundations directly or indirectly promote formalization, we include a measure of the number of foundations per 10,000 persons in each state each year using data from the Business Master File NCCS (2012a). Alongside this measure, we control for the number of foundations with assets totaling more than US$25 million in each state each year using data from the NCCS Business Master File. This control is important to ensure that our results are not being driven by the presence of just a few very large and influential foundations in a state.

Professionalization. We draw on three items measuring professionalization of the nonprofit sector, combined to create a single index.[5] We conceptualize these items as indicators of the general level of professionalization in the nonprofit sector, not necessarily as independent influences directly shaping the adoption of codes unto themselves. It would be useful to separate the indicators to examine specific diffusion mechanisms; however, the variables are highly correlated, all at over 0.93, and generate substantial collinearity issues in our models (reinforcing the assumption underlying our index that these reflect a single latent concept). We sum the z scores of the items to create the professionalization index.[6] The items are

Table 1. Descriptive Statistics (N = 404 State-Association Years).

Variable	*M*	*SD*	Minimum	Maximum
1. Number of nonprofits in state (per 10,000 persons)	59.07	42.21	26.13	282.59
2. Nonprofit assets in state (per capita)[a]	13,187.01	17,074.70	2,277.186	114,780.90
3. Year association was founded	1990.42	9.43	1974	2010
4. Number of health nonprofits (% of state sector)	2.65	0.49	1.87	4.30
5. Number of higher education nonprofits (% of state sector)	0.34	0.15	0.15	1.14
6. Year[b]				
a. Time indicator for 1994 to 2001	0.41	0.49	0.00	1.00
b. Time indicator for 2002	0.06	0.25	0.00	1.00
c. Time indicator for 2003 to 2011	0.53	0.50	0.00	1.00
7. Fraud losses (median, in US$1,000s)	69.78	29.08	40.00	109.00
8. Number of large foundations in state (assets >25 million)[a]	38.58	64.65	0	358
9. Number of foundations in state (per 10,000 persons)	2.45	1.84	0.80	11.19
10. Neoliberalism index[c]	0.92	1.06	−2.71	3.61
a. Union membership density in state	12.08	5.68	2.30	27.90
b. Proportion of state expenditure on welfare in state	0.20	0.05	0.08	0.39
11. Professionalization index[d]	6.45	3.20	0.96	11.04
a. State associations with codes (proportion)	0.22	0.15	0.06	0.47
b. Number of nonprofit degree programs	130.50	27.60	80.00	166.00
c. Number of nonprofit publications	93.38	10.53	74.00	113.00

[a]We present raw data for ease of interpretation, the item is logged in regression analyses.
[b]In regression models, the omitted category for Time Indicator is 1994 to 2001.
[c]10a and 10b are the items used in the neoliberalism index. We present the raw data here for ease of interpretation, but these items are reverse coded, standardized, and summed to create the index, so a higher index score means more aligned with neoliberal principles.
[d]11a to 11c are the items used in the professionalization index. We present raw data here for ease of interpretation, but in regression models, these are standardized and then summed to create the index, so a higher index score means more professionalized.

a. a measure of code density calculated as the percentage of associations with a code in a given year,
b. the total number of universities that offer at least one graduate program in nonprofit management,[7] and
c. the number of publications devoted to the sector, using data from Proquest.

Table 1 presents the descriptive statistics for the variables.

Findings and Discussion

Descriptively, we see that codes do not emerge until the 1990s when the rise of neoliberalism and the sector's professionalization were well underway. As shown in Figure 1, the first code emerged in 1994, and the number has been increasing steadily ever since. The percentage of associations with codes increased from 16.6% in 2000 to 55.8% in 2011.

Reflecting on philanthropy in the 20th century, Billitteri (2000) noted that

> the non-profit world has stumbled at times. In the late 1980s and early 1990s, several scandals rocked the televangelism world. And in 1995, former United Way of America president William Aramony was convicted of defrauding the non-profit federation. Also in 1995, the Foundation for New Era Philanthropy, which solicited investments largely from Christian institutions, folded after taking in about $ 350-million in what had amounted to a Ponzi scheme.

The timing of the first association code, in 1994, overlaps with publicity surrounding a number of high-profile cases of misconduct. It is noteworthy, however, that there have been many instances of abuse in the nonprofit sector throughout its history. As early as the 1950s, professionals in the field were writing articles expressing concern over charitable fraud (McMillen, 1955). Given the existence of scandals long before the creation of the first code, it seems unlikely that fraud directly leads to the creation of codes; we would have seen them emerge far earlier. Instead, they emerge in a particular institutional context that promotes self-regulation as a form of governance and where the nonprofit sector is developing into a professional field.

Throughout the 1990s, and for most years in our sample, we see just one or two associations per year establishing codes. An exception is in 2002 when there are six adoptions, making up one quarter of the total number of associations with codes. This measure consists of a time point rather than an event, so that any events occurring during or before 2002 may be responsible for the effects observed. We propose two possible explanations. First, in 2002, Congress enacted the Sarbanes-Oxley Act in response to accounting scandals like Enron and Tyco. Section 406 of the Act specifically requires a code of ethics for senior financial officers. These rules apply only to publicly traded corporations, but nonprofits are voluntarily complying (Nezhina & Brudney, 2012; Ostrower & Bobowick, 2006). This voluntary compliance may drive some of the adoptions in 2002. Second, it is possible that weaknesses discovered in the Red Cross and other charities following the attacks of September 11, 2001, generated increased emphases on regulation. Scandals, or the perception of fraud in the nonprofit sector, certainly may lead to establishing codes in an effort to shore up public trust; it is noteworthy that Americans' confidence in charities hit bottom in 2003 (Light, 2008). But we expect features of the institutional environment (i.e., neoliberalism, professionalism and their carriers) to accelerate code adoption beyond any direct relationship between fraud (or perceptions of it) and codes.

Moving to multivariate analyses, we test how both controls (features of the nonprofit sector, time trends, and a measure of the prevalence of fraud) and indicators of

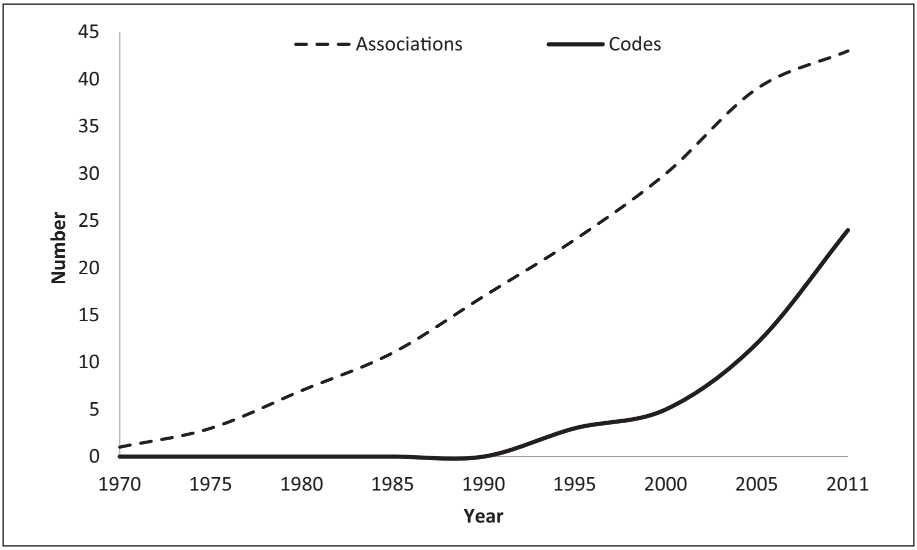

Figure 1. Cumulative number of state nonprofit associations and codes of conduct, 1970 to 2011.
Note. Figure does not show founding of first association in 1927 (New York). Number of associations = 45; number of codes of conduct = 24.

the institutional environment are associated with the likelihood of an association adopting a code. Table 2 presents our results.

In Model 1, we introduce a set of control variables and retain these across the rest of the models. Associations in states with more nonprofits per capita are no more likely to adopt codes than associations in less densely organized states. However, associations in states where the nonprofit sector has fewer assets per capita are marginally less likely to adopt codes in some models; perhaps those in states with fewer assets are in more need of the legitimacy afforded by codes. Consistent with the idea of imprinting (Stinchcombe, 1965), older associations are slightly less likely to adopt codes, and we find weak sectoral effects. In line with an instrumental argument, associations are more likely to adopt codes when reported fraud losses are higher. We tested numerous other state-level characteristics, but found no consistent significant relationships.[8]

In Model 1, we also include indicators for historical time. Descriptively, there is reason to believe the baseline hazard will vary over time (with a particular increase in 2002), and because this period is of theoretical interest, we construct a piecewise model omitting all years prior to 2002 and including dichotomous indicators marking time intervals for 2002 and 2003 to 2011.[9] The hazard of adopting a code in 2002 is significantly higher than in the 1994 to 2001 period throughout our models. The positive and significant association between the year 2002 and the likelihood of adopting a code may be indicative of nonprofit sensitivity to ethical standards legitimized by the

Table 2. Complementary Log-Log Models Predicting Adoption of Code of Conduct.

	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Nonprofits (per 10,000 persons)	0.976	0.964	0.957	0.962	0.957	0.959	0.961
	(0.024)	(0.029)	(0.035)	(0.035)	(0.037)	(0.036)	(0.036)
Nonprofit assets per capita (log)	0.595	0.728	0.428	0.245†	0.273†	0.263†	0.236†
	(0.319)	(0.370)	(0.401)	(0.236)	(0.259)	(0.240)	(0.226)
Year association founded	0.969†	0.942*	0.945*	0.934*	0.934*	0.934*	0.932*
	(0.023)	(0.025)	(0.029)	(0.030)	(0.030)	(0.030)	(0.030)
Health (% of state sector)	2.050†	3.076*	3.298*	3.009*	3.384*	3.206*	3.082*
	(0.974)	(2.051)	(1.972)	(1.963)	(2.154)	(2.086)	(2.031)
Higher education (% state sector)	0.042*	0.038*	0.029*	0.039*	0.033*	0.037*	0.038*
	(0.072)	(0.066)	(0.054)	(0.070)	(0.059)	(0.066)	(0.069)
Fraud losses (in US$1,000)	1.065†	1.078*	1.082*	1.084*	1.079†	1.116*	1.088*
	(0.043)	(0.048)	(0.051)	(0.045)	(0.052)	(0.060)	(0.047)
Time Indicator for 2002	19.976***	25.483***	26.790***	9.781**	7.634*	13.518***	8.274**
	(15.016)	(19.836)	(19.917)	(8.634)	(7.034)	(10.803)	(7.432)
Time Indicator for 2003 to 2011	0.196	0.113	0.114	0.020†	0.011†	0.002†	0.009†
	(0.469)	(0.309)	(0.320)	(0.052)	(0.035)	(0.010)	(0.027)
Neoliberalism index		1.675**	1.757***	1.475*	1.609*	1.547*	1.482*
		(0.321)	(0.313)	(0.335)	(0.347)	(0.368)	(0.344)
Number of large foundations (Assets >25 million, log)			0.824	0.749	0.753	0.754	0.742
			(0.223)	(0.225)	(0.236)	(0.236)	(0.230)
Number of foundations (per 10,000 persons, log)			3.871*	4.524*	4.838*	4.664*	4.704*
			(3.131)	(3.864)	(4.199)	(3.999)	(4.066)
Proportion of Associations with codes (standardized)				2.477*			
				(1.022)			
Number of degree programs (standardized)					16.493†		
					(31.719)		
Number of nonprofit publications (standardized)						91.517†	
						(283.177)	
Professionalization index							1.948*
							(0.596)
N	404	404	404	404	404	404	404
AIC	162.23	160.20	161.82	160.27	161.19	161.26	160.21

Note. Standard errors in parentheses, clustered by state. Reporting exponentiated coefficients so a coefficient greater than 1 indicates an increase in the likelihood of adopting a code, and a coefficient less than 1 indicates a decrease. AIC = Akaike information criterion.
†$p < .10$. *$p < .05$. **$p < .01$. ***$p < .001$. (one-tailed tests).

government via Sarbanes-Oxley. We interpret this coefficient with caution, however, as it may also include influences from any events that occurred during or prior to 2002, such as the September 11, 2001, attacks. Beyond these controls, Model 2 shows that greater neoliberalism of the general cultural context, measured by an index of decreased welfare spending and reduced union membership, increases the likelihood of adopting a code.

In Models 3 through 7, we explore the association between indicators of professionalization and the likelihood of code adoption, codes being central to the creation of a profession (Wilensky, 1964). As expected, all are positively and significantly associated with an increase in the likelihood of adopting a code net of other factors. Model 3 shows that an increase in the number of foundations, well-known supporters of professionalization, in a state is associated with increased odds of adopting a code of conduct. The positive association between the number of foundations in a state and the adoption of a code is net of the number of large foundations in a state. Overall, foundations may coercively pressure nonprofits to adopt codes, perhaps directly through the funding application process, or diffusely by contributing to a general standard of legitimation, as many foundations have codes themselves.[10] In Models 4 to 6 we show, as predicted, that three highly correlated indicators of professionalization have a positive and significant association with the hazard of code adoption. Most notably, Model 4 shows that social influence processes among peer associations are another likely mechanism of diffusion; as more of an association's peers develop codes, it becomes more likely to do so as well. Given the uncertainty that surrounds how to improve ethical behavior, mimesis may occur as associations look to each other as a form of social proof regarding the most appropriate course of action. Increased professionalization of the sector (i.e., normative influences) through increasing numbers of nonprofit degree programs (Model 5) and nonprofit publications (Model 6) also increases the likelihood an association will adopt a code of conduct. For comparison and index creation, these items are standardized so that a one unit change equals one standard deviation. The items cannot be entered in the same model due to collinearity; part of our rationale for the creation of an index. In Model 7, we show that an index of professionalization combining these three indicators also amplifies code adoption.

Conclusion

Overall these findings support arguments that influences from the institutional environment, specifically from neoliberalism and professionalization of the sector, increase the chances an association will adopt a code, net of instrumental concerns. These institutional influences are likely transmitted, at least in part, through coercive, normative, and mimetic mechanisms carried by key stakeholders, including foundations and peer associations.

Understanding that codes of conduct are a reflection of broader cultural influences sheds light on why they might emerge beyond their ability to improve ethical conduct. In the current "accountability environment," codes symbolize an organization's commitment to accountability and self-regulation, thus signaling their legitimacy. At the same time, it should not be assumed that the symbolism of codes means they cannot come to shape daily practices over time. Recent research argues that the oft-observed decoupling between formal policies and daily practices may be a relatively temporary phenomenon (Bromley & Powell, 2012). In support of this view, a recent study of corporate responsibility standards identified "the discursive antecedents of coupling processes in organizations" (Haack, Schoeneborn, & Wickert, 2012, p. 815).

Firms may superficially adopt a policy initially, but the authors found frequent gradual collective acceptance and integration of the policy into daily operations.

The adoption of codes, however, is a recent development and another indication of the development of the nonprofit sector into a professional field. At the organization level, such professionalization may provide nonprofits with tools and practices that help them create public value more effectively. But in our context of statewide associations, codes that are intended to cover a diverse range of organizations ignore the diversity in the sector and may also dampen the voluntaristic impulse and plurality across nonprofits. Uniform standards of conduct, therefore, have significant implications for the sector's historical identity as an arena for charity, voluntarism, and expression in a diverse and pluralistic world (Frumkin, 2002; Putnam, 1993; Skocpol, 2003).

The accountability environment has grown alongside the era of nonprofits needing to do more with less. Codes developed from the ground up by individual organizations may better reflect local values and concerns than standards promoted by umbrella organizations, but they are also costly in terms of time and human resources. In addition, adopting a code can result in overconfidence in its ability to reduce misconduct and fraud. If actual practices fail to prevent misconduct, the legitimacy conferred by code adoption is undermined, reducing trust in the sector (see Power, 1999, for a parallel argument about the inability of financial audits to prevent fraud).

Like any study, ours has weaknesses and the findings should be considered carefully. We use the best indicators available, but better measurement, especially of fraud and the characteristics of state associations, would be extremely valuable. Moreover, our approach gives an overview of statistical associations, but we neither directly observe the process of how professionalization and neoliberalism spread codes, nor seek to explain variation in the content of codes or their implementation. In-depth qualitative field studies and interpretive discourse analysis are needed to understand the mechanisms through which this phenomenon spreads more fully, and to consider the extent to which organizational and environmental factors might be linked to differences between codes and different effects of codes (e.g., leadership characteristics and broader political forces can plausibly have an impact on the content and nature of codes, such as whether they are more or less precise). Finally, we limit the scope of our arguments to state associations, but it would be useful to compare these results with other types of organizations (e.g., individual nonprofits, regional or national nonprofit associations, for-profit and nonprofit support organizations).

Despite these limitations, our approach has value in affording insight into why there is an increase in the adoption of codes by nonprofits, enabling us to examine temporal dynamics and tease out the net indicators of instrumental and institutional factors. We provide robust evidence that codes are a response to the institutional environment, over and above instrumental uses.

Appendix A

Providers' Council (Massachusetts) Code of Ethics and Principles for Sound Governance.

Code of Ethics and Principles for Sound Governance

for members of the

PROVIDERS' COUNCIL
for caring communities

The mission of the Providers' Council (Massachusetts Council of Human Service Providers, Inc.) is to promote a healthy, productive and diverse human services industry. To this end, the codification of Providers' Council's values establishes the operational parameters for community-based health, education and human service providers, while encouraging its members to observe the highest standards of ethical conduct and business practices.

The Providers' Council and its members have acknowledged six core values: Accountability, Cultural Competence, Dignity, Equity, Integrity and Social Justice. Other core values focus on the needs of people served, as well as the cultural and linguistic differences among clients and employees. In addition to being held accountable by federal and state laws and regulations, the Providers' Council promotes these ethical practices with confidence that they represent widely-accepted moral standards that are, where applicable, consistent with the thrust and spirit of the The Panel on the Nonprofit Sector's *Principles for Good Governance and Ethical Practice* of 2007 and the Sarbanes-Oxley Act of 2002.

Providers' Council members agree to accept this Code of Ethics as a framework for ethical conduct and sound governance practices. Providers' Council members are encouraged to adopt a code of ethics and voluntarily adhere to other standards, such as those set by accrediting organizations.

✶ Principles for Ethical Conduct

Member Agencies strive to:

- Implement policies and procedures to preserve the basic human rights, dignity and confidentiality of those served while providing necessary and effective care;
- Remain accountable to the people served;
- Make all services accessible to its defined service population without discrimination on the basis of gender, sexual orientation, national origin, race, religion, age, political affiliation or disability, in accordance with all applicable legal and regulatory requirements;
- Promote the development of an adequately compensated, well-trained and committed workforce;
- Ensure the health and safety of people we serve, our personnel and visitors by providing a safe, well-maintained physical environment;
- Remain accountable to the agency's board, funding sources, government bodies and the public to insure integrity in fiscal management, and;
- Assist other Providers' Council members to uphold the highest standards of care.

✶ Principles for Sound Governance

Member Agencies strive to:

- Encourage governance by an engaged board of directors who are reflective of the community served and committed to the agency's mission to provide the necessary oversight and guidance in major policy and governance issues;
- Sustain and advance the integrity, honor and prestige of the human services profession by avoiding circumstances where professional conduct or perceived conflicts-of- interest of directors, management or paid consultants may result in improper personal gain;
- Develop and operate an annual budget that reflects and anticipates the agency's needs and resources for realizing its goals;
- Comply with all applicable laws and regulations and offer a level of transparency for public inquiry around finances and operations;
- Maintain adequate levels of working capital and a positive fund balance to ensure operational stability;
- Conduct all fundraising ethically and in a fiscally-responsible manner;
- Operate programs and provide services within the boundaries of their institutional expertise to ensure individuals receive services that are effective and provide optimal benefits;
- Provide policies and procedures for human resource management that are respectful of gender, sexual orientation, national origin, race, religion, age, political affiliation or disability in all aspects of recruitment, hiring, training, supervision, career development and evaluation;
- Establish sound policies and procedures that ensure a diverse governing body, on-going training and education, proper disclosures of any and all potential conflicts of interests and the faithful discharge of fiduciary responsibilities; and,
- Provide sound policies and procedures for selecting, evaluating and setting the compensation of the chief executive officer.

Accordingly, we hereby attest to honor this code and to continually uphold these practices and related principles of sound governance on behalf of our organization.

CEO/Date

Organization

CEO/Date

PROVIDERS' COUNCIL
for caring communities

This *Code of Ethics and Principles for Sound Governance* for the Providers' Council may be modified to reflect the changing needs of our environment. ©Copyright 2005, 2008 Massachusetts Council of Human Service Providers, Inc.

Appendix B

Founding Date of Nonprofit Associations and Codes of Conduct by State.

State	Name of association	Year founded	Has code	Year code adopted
Alabama	Alabama Association of Nonprofits	1996	Yes	2010
Arizona	Alliance of Arizona Nonprofits	2005	No	
Arkansas	Arkansas Coalition for Excellence	2003	Yes	2008
California	California Association of Nonprofits	1984	No	
Colorado	Colorado Nonprofit Association	1986	Yes	2008
Connecticut	Connecticut Association of Nonprofits	1977	Yes	2007
Delaware	Delaware Association of Non-Profit Agencies	1987	Yes	2009
District of Columbia	Center for Nonprofit Advancement	1979	No	
Florida	Florida Association of Nonprofit Organizations Inc.	1992	Yes	1995
Georgia	Georgia Center for Nonprofits	1980	Yes	2002
Hawaii	Hawaii Alliance of Nonprofit Organizations	2006	No	
Idaho	Idaho Nonprofit Center	2001	Yes	2005
Illinois	Donors Forum	1974	Yes	2002
Indiana	Indiana Nonprofit Resource Network	1994	No	
Iowa	Iowa Nonprofit Resource Network	2002	No	
Kentucky	Kentucky Nonprofit Network	2004	Yes	2011
Louisiana	Louisiana Association of Nonprofit Organizations Inc.	1999	Yes	2002
Maine	Maine Association of Nonprofits	1996	Yes	2006
Maryland	Maryland Association of Non-Profit Organizations Inc.	1992	Yes	1998
Massachusetts	Providers' Council for Caring Communities	1975	Yes	1994
Michigan	Michigan Nonprofit Association	1990	Yes	2009
Minnesota	Minnesota Council of Nonprofits	1987	Yes	1994
Mississippi	Mississippi Center for Nonprofits Inc.	1992	Yes	2007
Missouri	Nonprofit Missouri	2010	No	
Montana	Montana Nonprofit Association, Inc.	2003	Yes	2007
Nebraska	Nonprofit Association of the Midlands	2002	No	
Nevada	Nevada Association of Nonprofit Organizations	2007	No	
New Hampshire	New Hampshire Center for Nonprofits	2003	No	
New Jersey	Center for Non-Profits	1982	No	
New York	New York Council of Nonprofits	1927	No	
N. Carolina	North Carolina Center for Nonprofits	1990	Yes	2002

(continued)

Appendix B (continued)

State	Name of association	Year founded	Has code	Year code adopted
North Dakota	North Dakota Association of Nonprofit Organizations, Inc.	1997	No	
Ohio	Ohio Association of Nonprofit Organizations	1992	Yes	2002
Oklahoma	Oklahoma Center for Nonprofits	1981	Yes	2006
Oregon	The Nonprofit Association of Oregon	1977	No	
Pennsylvania	Pennsylvania Association of Non-Profit Organizations	1984	Yes	2002
S. Carolina	South Carolina Association of Nonprofit Organizations	1997	Yes	2007
South Dakota	South Dakota Nonprofit Association	1999	No	
Texas	Texas Association of Nonprofit Organizations	1997	No	
Utah	Utah Nonprofits Association	1990	Yes	2000
Virginia	Virginia Network of Nonprofit Organizations	2004	No	
Washington	Northwest Nonprofit Resources	1993	No	
West Virginia	West Virginia Nonprofit Association	2012		
Wisconsin	Wisconsin Nonprofits Association	2008	No	
Wyoming	Wyoming Nonprofit Network	2012		

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Notes

1. See, however, Strang and Soule (1998) and Mizruchi and Fein (1999) for reservations about interpreting the practices of peers as mimesis.
2. The specific National Taxonomy of Exempt Entities (NTEE) group we used was MAJGRPB, which includes 12 categories: Arts, Culture, and Humanities; Education; Environment and Animals; Health; Higher Education; Hospitals; Human Services; International, Foreign Affairs; Public, Societal Benefit; Religion Related; Mutual/Membership Benefit; and, Unknown, Unclassified. More information about the categories is available from National Center for Charitable Statistics (NCCS) at http://nccs.urban.org/classification/index.cfm
3. A weakness of the organizational side of our research is that it was not possible to obtain comprehensive longitudinal data on other characteristics of the state associations, such as assets, number of members, or programmatic features.
4. Given the extrapolation involved, we check our results excluding all cases before 2002 and find our professionalization and fraud effects are substantially stronger, while neoliberalism remains positive but insignificant. We interpret this as suggestive evidence that our neoliberal effects are time dependent, occurring mainly in the 1990s and then lessening.
5. Our goal, typical of research using indices, was to find a parsimonious set of items that represent our general concept (of professionalization) rather than to construct a comprehensive list of all possible measures of professionalization. Other related items we tried, such as the percentage of dissertations that discuss nonprofits, the circulation of some nonprofit journals, and the number of individual members in professional associations, had similar effects. Details available upon request.
6. Supporting the decision to create an index of these items, Cronbach's alpha is .82 and a factor analysis shows one latent dimension with an Eigenvalue greater than 1.0. Results available upon request.
7. We are grateful to Roseanne Mirabella for sharing her data with us. Additional information about nonprofit programs can be found on her website (http://academic.shu.edu/npo/), as well as in Mirabella and Wish (2001) and Mirabella (2007). We limit the data to one program per school and use the earliest program date. We filled in missing data using additional program data compiled by David Suárez, and through communication with university program directors.
8. We collected and tested state-level expenditure data on social welfare, higher education, elementary and secondary education, health, hospitals, housing, libraries, parks and recreation, plus the number of residents in poverty, with high school diplomas, and with bachelor's degrees (U.S. Census Bureau, 2013). We examined personal income and gross domestic product data (U.S. Bureau of Economic Analysis, 2012).
9. A robustness check of the Akaike information criterion statistic also indicated the piecewise model is a better fit than the model with linear time.
10. As an illustration, a small foundation recently announced a board resolution to require codes for some grants, announcing a "resolution passed by the board serves as the Foundation's requirement that all Python conferences and related events create and apply a Code of Conduct. Without a code in place, the Foundation will not fund the event" (Python Software Foundation Website, 2013).

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