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ETHICAL CLIMATE AS GOVERNANCE: EVIDENCE FROM ISLAMIC PHILANTHROPY IN INDONESIA

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Abstract

Lack of empirical understanding about the concept of ethical climate in faith-based non-profit organizations constraints the development of a better understanding of the governance system in Islamic philanthropic organizations. To address this issue, the present study aims at examining the ethical climate in Indonesian Zakat Management Organizations (henceforth LAZs) and identifying ways to overcome ethical challenges related to the process of managing zakat and other religious funds in these institutions. In particular, a quantitative survey research method was used where data from 117 respondents employed in administrative positions in national-, provincial-, and regency-level LAZs in Surakarta municipality were collected through a non-probability criterion-based sampling technique. For data collection, the modified Ethical Climate Questionnaire was utilized. In terms of data analysis, the authors employed IBM SPSS Amos software to perform the confirmatory factor analysis. The results of data analysis presented five types of ethical climate, including caring, law and code, rules, instrumental, and independence, that show the coexistence of collective orientation and individual interests among managers of LAZs. Thus, it can be stated that orientations towards both welfare and regulation as well as self-interest coexist within LAZs. The validated model developed by this study serves as a basis for further analyses concerning the effect of ethical climate on managerial decisions and organizational behaviour.

Keywords: Ethical Climate; Islamic Philanthropy; Zakat Management; Nonprofit Organization Governance; Community-Based Zakat Agencies

JEL Classification: L31; Z12; G34

INTRODUCTION

The evolution of the Indonesian zakat management system and Islamic philanthropy can be viewed as an ongoing process of institutional transformation. Prior to independence, the administration of zakat was handled by clerics who collected funds through mosques and Islamic boarding

schools for social services and education (Fauzia, 2017; Salim, 2008). After Indonesia's independence, the zakat management system was still informal and decentralized, but the New Order regime encouraged the institutionalization of the process by establishing zakat institutions backed up by the state (Saidurrahman, 2013). One of the early examples of such institutions included Zakat Management Organization (*Lembaga Amil Zakat - LAZ*). As the country moved to the Reformasi period, the number of Islamic philanthropic organizations increased rapidly amid social activism (Latief, 2014). Later on, scholars referred to this era as the institutionalization and even the revival of zakat, which means its use as a socio-economic tool within the contemporary system (Muhammad, 2024). There have been legal reforms in this area as well; Law No. 38 of 1999 recognizes both state-owned and community-based zakat institutions. Meanwhile, the next Law No. 23 of 2011 introduced the concept of integration into the system through the coordination of BAZNAS. It is important to note that in the context of integration, the community-based LAZ have become increasingly professionalized and active actors in the third sector of the economy that implement social programs and build organizational capabilities. Still, modern evidence reveals that the present system combining centralization of coordination and decentralization of implementation experiences certain problems in terms of standardization and even coordination (Mukhlishin et al., 2024). Against this backdrop, one of the solutions to the identified issue can be regarded as the improvement of institutional and regulatory cooperation.

Operationally, LAZ is uniquely positioned at the juncture between the fulfilment of religious duties and public services provision. Beyond merely charitable actions in its strictest form, LAZ conducts educational, developmental, and humanitarian programs. Zakat institutions' involvement in welfare infrastructures thus becomes more evident (Muhtada, 2014; Saidurrahman, 2013). In recent years, zakat has been increasingly characterized as a religious ritual and a social cushion that helps people adapt to economic insecurities (Muda et al., 2024). On an aggregate level, studies suggest that zakat contributes significantly to poverty alleviation and socio-economic development, making it highly relevant in contemporary socio-economic policies (Riani & Indra, 2026). Since zakat money is derived from the religious and societal obligations of the community members, the credibility of zakat institutions can hardly be based exclusively on performance criteria and compliance with regulations. Additionally, it is essential to recognize that zakat institutions are perceived as morally credible organizations. As a result, their success depends on their ability to maintain high standards of ethical behaviour in addition to their effectiveness in service provision. Formal mechanisms of institutional regulation may prove insufficient for ensuring this

objective. In cases where guidelines do not provide any specific direction, organizational employees have no choice but to depend on their shared understanding about what is considered right or appropriate. This shared understanding is known as an ethical climate, which is a term for collective views regarding norms, policies, and other things that determine individual response to ethical matters (Teresi et al., 2019). According to Victor and Cullen's theoretical framework for an ethical climate, organizations are social settings that contribute to the development of an ethical judgment process (Simha & Cullen, 2011; Victor & Cullen, 1987, 1988). Therefore, an individual's ethical behaviour results from his/her social context.

While numerous studies have analyzed the topic of ethical climate in organizational environments, its relevance to non-profit sectors, especially faith-based organizations, still lags behind. This situation can be explained by the fact that motivational frameworks of such organizations involve different factors and values play a greater role here compared to organizational control systems. Concerning the specific case of zakat organizations, governance-related research demonstrates that such aspects as transparency, accountability, and stakeholder relationships become important for developing public trust and compliance behaviour; thus, ethical issues are inherent in governance practices (Sawmar & Mohammed, 2021). At the same time, the issue of transparency and accountability in zakat remains a problem in the latest research findings, which proves the idea that good governance does not always result in public trust in the absence of ethics (Santoso et al., 2026).

Notwithstanding these advancements, studies conducted on zakat till date have paid little attention to the internal factors, including ethical perception and ethical behaviour. Similarly, in recent literature review studies, it has been observed that researchers in Islamic social finance pay special attention to governance and technological advancement, whereas little is known about the behaviour and ethics aspects within an organization (Nuhic-Meskovic et al., 2026). In particular, in the case of Islamic philanthropic organizations, both religion and organization contribute to the same moral guidance. Also, it has been observed through empirical studies that any weakness in the governance and auditing of sharia may affect ethical credibility, thus making it imperative to study the ethical process itself within the organization (Rini et al., 2021).

Drawing on the research background, the present study aims to find and validate ethical climate dimensions of LAZs in Indonesia and further investigate the effects that these dimensions can have on decision-making and behaviour of managers in faith-based non-profit organizations. By defining ethical climate as an interface between the accountability concept from a

religious perspective (*amanah*) and governance framework, this study offers an innovative approach which goes beyond the traditional governance-oriented and performance-focused perspectives. Unlike earlier studies which mainly focus on such aspects as transparency, accountability, and technical innovations, the current study highlights the internal dynamics that stand behind organizational actions and reputations. In addition, by applying the concept of ethical climate to Islamic philanthropic organizations, this study enriches the literature in terms of expanding the theory with regard to Islamic values as well as organizational processes. In empirical terms, the established measure of ethical climate serves as a solid base for future causality research regarding ethical climate, ethical decision-making, and institutional trust. Finally, the results of the current study can be useful in developing policies, supervisory systems, and standardized processes of ethical governance in the zakat management institutions of Indonesia.

LITERATURE REVIEW

An ethical climate refers to the common beliefs of members of the organization about how ethics are managed within the organization. Ethical climate can be defined as "shared perceptions about what constitutes ethically appropriate behaviour and how to handle ethical issues" (Victor & Cullen, 1987). The notion of an ethical climate implies a collective understanding of proper ethical practices and procedures within the organization. Such perceptions do not refer to the opinions of individual employees but emerge as a result of the collective observation of ethical practices (Victor & Cullen, 1987). An ethical climate is viewed as one of the aspects of organizational culture because it involves common beliefs, values, and practices in terms of ethics, focusing on the moral climate in an organization and its ability to foster professional or self-centred attitudes towards people and business activities (Wittmer & Coursey, 1996). Modern literature still supports such a perspective by defining the concept of an ethical climate as a collective understanding of ethical standards that specify what types of behaviours are appropriate for teams and organizations (Essex et al., 2023).

In similar direction, an ethical climate is defined as a set of broad characterizations influencing decision making and conduct in organizations, and it is usually considered a part of organizational culture (Brower & Shrader, 2000). According to Malloy and Agarwal (2001), an ethical climate can be defined as a psychological construct that develops out of aggregate perceptions of individuals, and it determines whether individuals' behaviour and management of ethics will be ethical or unethical (Malloy & Agarwal, 2001). Additionally, according to Wimbush and Shepard (1994), an ethical climate is a stable and psychologically significant perception of organization's employees

regarding organization's ethical processes and policies. Thus, an ethical climate can be seen as a collective perception of how ethical dilemmas should be dealt with, which, in turn, affects decisions and behaviour of employees in an organization (Malloy & Agarwal, 2001; Wimbush & Shepard, 1994). New empirical studies suggest that the concept of ethical climate gains importance due to its ability to affect many aspects of employees' attitudes and behaviours, such as commitment, job satisfaction, wellbeing, performance, and improper actions (Parboteeah et al., 2024). Ethical climate is especially relevant in non-profit organizations since it helps translate value commitments into decision-making assumptions and behavioural norms that can be understood by all organizational members and evaluated by the organization's stakeholders as an internal governance mechanism rather than simply a cultural one (Agarwal & Malloy, 2001). Ethical climate becomes especially important for non-profits since this sector relies heavily on trust, legitimacy, and accountability, and many of its governance mechanisms are justified by the necessity to maintain certain ethical standards and behaviour (Ortega-Rodríguez et al., 2024).

The dimensions of ethical climate pertain to the common views of an organization's members regarding what constitutes right or wrong actions and the manner in which ethical decisions are reached within a specific context. Victor and Cullen identified five primary dimensions of ethical climate: “caring,” “rules,” “law and code,” “independence,” and “instrumental” (Victor & Cullen, 1988) (see *Table 1)*. These dimensions represent various methods of making ethical decisions shaped by the values and standards present in an organization. The "caring" aspect highlights the collective welfare, where individuals in the organization sincerely consider how their choices affect others both within and beyond the organization. This is frequently linked to a utilitarian perspective that highlights the importance of group welfare (Wimbush & Shepard, 1994). Recent meta-analytic studies validate that, while Victor and Cullen initially suggested nine theoretical types, empirical evidence has consistently favoured five climate types: instrumental, caring, rules, law and code, and independence (Parboteeah et al., 2024).

On the other hand, the “rules” aspect emphasizes compliance with the organization’s policies and procedures, creating an environment where following rules is the basis for making ethical decisions (Victor & Cullen, 1988). Likewise, the “law and code” aspect focuses on adhering to professional and legal norms outside the organization, which involves evaluating codes of ethics and legal requirements while making decisions. The “independence” aspect stresses individuals’ ability to make ethical decisions based on their moral values rather than organizational norms or pressures (Wimbush & Shepard, 1994). Finally, the “instrumental” aspect is characterized by egocentric ethical climates where individuals focus on their own benefits rather than possible

repercussions on others (Victor & Cullen, 1988). From the Islamic philanthropic organizations, including zakat institutions, these aspects can be considered organizational "moral logics" guiding the implementation of the concept of *amanah*. Caring relates to communal well-being (*maslahah*), while rules and laws relate to institutionalization of compliance. Independence represents personal morality among amil, while the instrumental aspect represents conflicts between self-interest and ethics. The understanding is consistent with literature showing that caring climates have positive impacts compared to instrumental climates with less desirable results (Parboteeah et al., 2024).

The classification of ethical climate dimensions is grounded in the framework developed by Victor and Cullen, who conceptualized ethical climate across three levels, individual, local, and cosmopolitan, and three criteria: egoism, utilitarianism, and deontology (Victor & Cullen, 1987) . This classification yields nine types of ethical climate, demonstrating how organizations foster ethical reasoning under different circumstances. A local climate underpinned by egoism is concerned with organizational values and immediate objectives, while a cosmopolitan climate rooted in deontology focuses on ethical principles and professional conduct. Empirical research reveals variations in ethical climates among organizations, occupations, and industries, suggesting that ethics management must adapt to contextual factors (Wittmer & Coursey, 1996). New cross-national findings have also highlighted that the effects of ethical climate are contingent, emphasizing the role of institutions and culture (Parboteeah et al., 2024). Theoratically, ethical climate is one component of an organization's ethical "structure," which serves as common reference points for moral reasoning and actions (Fritzsche, 2000; Simha & Cullen, 2011). In non-profit organizations, unethical behavior has been increasingly attributed to governance frameworks rather than personal misconduct (Gillespie et al., 2024).

Table 1. Theoretical and Empirical Dimensions of Ethical Climate

Theoretical Dimensions	Empirical Dimensions
Cosmopolitan/Deontological Cosmopolitan/Utilitarian	Law and Code
Individual/Utilitarian Local/Utilitarian	Caring
Local/Deontological	Rules
Individual/Deontological	Independence
Individual/Egoism Local/Egoism	Instrumental

Source: Victor and Cullen (1988); Wimbush and Shepard (1994)

In order to emphasize the Islamic distinctiveness of the proposed model, the ethical climate itself is viewed as an empirical-organizational construct, whereas Islamic ethics, specifically *maqasid al-shariah*, would represent a normative perspective from which the evaluation of dominant ethical logics based on whether these are conducive to doing good and averting harms is made. The term *maqasid al-shariah* stands for the objectives of the Islamic law focused on safeguarding fundamental human and social interests, thus providing guidelines for decision-making by public organizations, such as in the case of zakat (Auda, 2008). From this point of view, a caring climate denotes an organizational commitment to the *maslahah* of *mustahiq* and other stakeholders, rules and laws climates act as measures protecting the integrity of collection, allocation, and reporting; while independence represents the strengthening of the moral responsibility of amil (Sawmar & Mohammed, 2021). An instrumental climate indicates the weakness of the governance system as self-interest interferes with the balance and justice (Al-Aidaros et al., 2013; Ghafran & Yasmin, 2020).

The ethical climate in non-profit organizations (NPOs) stands out among the various types of organizational settings due to the importance of the components of benevolence and social responsibility. Empirical research indicates the predominance of values associated with promoting the interests of society in the ethical culture in non-profits and making decisions based on such principles. For instance, Agarwal and Malloy (1999) distinguish several important aspects of non-profit ethical climate, which include "individual caring," "machiavellianism," "independence," "social caring," and "law and code," the latter being most prevalent. The prevalence of social care among other characteristics highlights a high level of orientation towards the common good, which distinguishes NPOs from other organizations that have an egoist approach to their activities, as well as making decisions based on efficiency (Brower & Shrader, 2000). Notably, non-profit actors pay relatively little attention to the interests of individuals. New research on governance emphasizes the necessity of maintaining ethical integrity as any scandal in an organization negatively affects all others (Ortega-Rodríguez et al., 2024).

However, compared to the business sector, the ethical environment in the government sector is rather cosmopolitan. According to Rasmussen et al. (2003), members of the public sector tend to use external references, like the law and other regulations, when judging ethically. This contrasts sharply with the behaviour of non-profit managers who tend to focus more on their own personal virtues. The former thus concentrates on the abstraction of obligation towards citizens, while the latter focuses more on the welfare of specific communities. Both have some dimensions in common, like “individual caring” and “autonomy”. Nonetheless, they still have some stark differences. One of the

most important distinctions between the two is that the non-profit sector puts more attention on “social caring”. It is mainly because the organizations in this sector operate with clear missions (Rasmussen et al., 2003).

Differences may arise with regard to the manner in which ethical preferences are applied. The governmental domain places a focus on “law and code” as the main criteria for making ethical choices, indicating a firm belief in and emphasis on legality and procedural accountability (Malloy & Agarwal, 2010). On the other hand, in non-profit entities, stakeholder benefits and social impact receive attention, along with more leeway in terms of implementation procedures. According to Laratta (2008, 2011), efficiency is another criterion with different approaches adopted by these domains, namely regulatory compliance for governments and social consequences for non-profits. This comparison becomes especially pertinent when applied to LAZ organizations, which function as mission-focused non-profits in the face of growing legal regulations. Given these conditions, climates of caring and compliance may be observed together. Instrumental considerations may point to conflicts related to resource shortages and performance-related pressure, which have been recently shown to affect ethical vulnerability among non-profit organizations (Gillespie et al., 2024).

The differences above demonstrate the necessity of an understanding of ethical climate when it comes to cooperation between non-profits and government organizations. Non-profit organizations are intrinsically social-oriented organizations but have to fit into external regulations imposed on them. According to Laratta (2010), cooperation between non-profits and governments necessitates the balance between internal and external ethical norms, which inevitably results in conflict. It is therefore vital that there should be mutual awareness regarding ethical principles in the process of working together. Ethical dimensions, including "social caring" and "law and code," form the basis for achieving compatibility; however, variations in priorities will continue to exist, and further discussions are needed (Laratta, 2010; Malloy & Agarwal, 2010). There are similarities, yet differences in sectors remain despite all efforts, which makes it necessary to develop approaches to sectoral governance taking into consideration contextual factors.

Empirical research has provided increasing support for the notion that ethical climate impacts organizational performance and behaviour through processes rooted in identity and norms. The ethical climate can impact an individual’s sense of organization and thereby their behavioural patterns, such as compliance and job performance (Pagliaro et al., 2018; Teresi et al., 2019). Empirical research in more recent years has expanded the scope of evidence on this topic by providing evidence regarding the relationships between ethical climate and well-being, meaningful work, service delivery, and

performance outcomes (Pandey et al., 2024; Zhang et al., 2021). Moreover, empirical evidence from the Southeast Asian region has shown that ethical climate plays a role in decision-making among professionals whose decisions rely heavily on trustworthiness, such as audit staff whose decisions depend largely on "law and code" (Apriliani et al., 2014).

Further research in the Malaysian government sector has also established that the link between ethical climate and ethical decision making of employees exists in such governance-related contexts (Abdullah et al., 2014). In respect to LAZs, this finding holds particular importance due to the centrality of trustworthiness, legitimacy, and accountability in maintaining organizational viability. As an important antecedent in governance, ethical climate is expected to play a key role in how employees approach their responsibilities and priorities. As such, it plays a key role in shaping the effectiveness of governance mechanisms.

From this understanding, the current research considers ethical climate as a multi-dimensional latent variable that includes the caring, rule, law and code, independence, and instrumental dimensions (Victor & Cullen, 1988). These dimensions reflect the prevailing environment of ethical decision-making within zakat management organizations and serve as common yardsticks for deciding on proper actions (Victor & Cullen, 1987). From a normative perspective, *maqasid al-shariah* provides a values-oriented framework to evaluate the impact of these dimensions on achieving *maslahah* and safeguarding core interests in zakat management. In this sense, this framework lends credence to exploring the effects of ethical climate dimensions on behaviour.

METHOD

The study adopted a quantitative cross-sectional survey design that utilized primary data sourced from employees working in LAZ in Surakarta, Central Java, Indonesia. The unit of analysis for this study was an individual employee, given that the ethical climate is perceived collectively by employees based on their interpretation of organizational procedures (Malloy & Agarwal, 2001; Victor & Cullen, 1987, 1988). This conforms to current research recommendations calling for researchers to link the level of analysis with measurement when evaluating organizational phenomena based on individual perceptions (Lambert & Newman, 2023). Administrative staff engaged in governance activities, such as fund raising, financial management, and program implementation, were sampled, considering their direct interaction with organizational procedures. The data were gathered from 117 respondents within national, provincial, and regency-based LAZ organizations. Surakarta was chosen because of the rapid development of the philanthropic

environment in which many LAZ organizations coexist under the same legal and socio-cultural frameworks.

Sampling strategy adopted a non-probability purposive sampling design based on institutional access. Survey participants included those working in LAZ institutions accessible for conducting surveys. Selection criteria entailed meeting the following three requirements: (1) being officially part of any LAZ institution in Surakarta, (2) having an administrative or operational position, and (3) having enough exposure to organizational operations to analyze ethics. Participants with minimal exposure or incomplete answers were excluded from the study. This type of sampling is widely employed in organization-based research in case of lacking sampling frame and especially in non-profit organizations. Sample size (n = 117) was deemed sufficient for conducting confirmatory factor analysis to examine latent variables, not population parameters. Nevertheless, according to methodological literature, sufficiency cannot rely exclusively on sample sizes, which depend on model complexity, estimation procedures, and parameters precision (Schmitt, 2011). Moreover, single samples may be insufficient for generalization purposes, and cross-validation should be performed wherever possible (Badenes-Ribera et al., 2020).

The ethical climate was assessed using the Ethical Climate Questionnaire (ECQ) created by Victor and Cullen (Victor & Cullen, 1987, 1988). The questionnaire includes five dimensions of ethical climates: caring, law and code, rules, instrumental, and independence (see Table 2). To suit the organizational culture of LAZ, which is a non-profit organization, the original wording of "company" used in the ECQ was changed to "organization." This adaptation is consistent with guidelines that modifications to item referents should be justified when using existing scales (Lambert & Newman, 2023). Respondents answered the self-report questionnaire, assessing the ethical environment in their respective organizations. Contextual modifications were made without altering the underlying concept. The responses were quantified on a five-point Likert scale ranging from 1 ("strongly disagree") to 5 ("strongly agree").

The adaptation process emphasized contextual alignment rather than full instrument redevelopment. Item meanings were preserved as closely as possible to the original ECQ to maintain construct equivalence and comparability with prior studies. References to stakeholders were retained, reflecting the interaction of LAZ organizations with donors, beneficiaries, and the broader community. Due to resource constraints, the study did not include expert panel validation or back-translation procedures. Consequently, the adaptation represents minimal contextual modification rather than full revalidation, which constitutes an important methodological limitation. This

limitation is significant because contemporary scale development literature emphasizes that rigorous validation requires systematic content review and pretesting (Badenes-Ribera et al., 2020). Acknowledging this boundary helps ensure appropriate interpretation of the findings. The final instrument retains the five core dimensions of ethical climate, and their corresponding items are presented in the subsequent table for transparency and analytical clarity.

In this study, confirmatory factor analysis (CFA) was carried out through IBM SPSS Amos 26 software to test for the underlying factor structure within the observed data (Eaton & Willoughby, 2018). Confirmatory factor analysis was theory driven in that it tested whether the proposed measurement model fit the data through the relationship between the latent constructs and their corresponding observed variables. As indicated by Brown (2015), the main purpose of carrying out CFA was to explain the variance and covariance in measured variables through the underlying factors. In the SEM framework, confirmatory factor analysis formed the measurement part, whereby one was interested in testing the extent to which observed variables represent the latent constructs (Byrne, 2016). As recent researches have indicated, confirmatory factor analysis is the best choice when it comes to validating constructs because it tests the extent to which the hypothetical models relate to the structure of the data (Goretzko et al., 2024; Tavakol & Wetzel, 2020).

Several crucial factors in determining the measurement model adequacy were used in the CFA approach. The factor loadings have been estimated in order to reveal the level of relationships between observed and latent variables, with the acceptable minimum value of ≥ 0.50 (Hair et al., 2010). Nonetheless, some researchers recently found that factor loading between 0.40-0.50 may also be acceptable under the condition of proper theoretical interpretation (Howard et al., 2025). Model fit has been calculated with the use of a set of goodness-of-fit measures to make sure that there is consistency between theoretical model and observed data. The goodness-of-fit index (GFI) can be considered as an absolute fit measure, with acceptable cut-off point of ≥ 0.90 (Barrett, 2007; Brown, 2015). Also, root mean square error of approximation (RMSEA) measures the amount of approximation error, which has cut-off value of 0.06 or less (Brown, 2015). Moreover, incremental fit measures such as comparative fit index (CFI) and Tucker-Lewis index (TLI) have also been taken into consideration, with acceptable values above 0.95 (Brown, 2015).

Table 2. Ethical Climate Dimensions and Corresponding Items in the ECQ Adapted for LAZs' Administrative Settings

Dimension	Item	Code
Caring	What the best for everyone in the organization is the major consideration here.	C-1
	The most important concern is the good of all the people in the organization as a whole.	C-2
	Our major concern is always what is best for the other person.	C-3
	In this organization, people look out for each other's good.	C-4
	In this organization, it is expected that you will always do what is right for the customers and public.	C-5
	The most efficient way is always the right way in this organization.	C-6
	In this organization, each person is expected above all to work efficiently.	C-7
Law and Code	People are expected to comply with the law and professional standards over and above other considerations.	LAC-8
	In this organization, the law or ethical code of their profession is the major consideration.	LAC-9
	In this organization, people are expected to strictly follow legal or professional standards.	LAC-10
	In this organization, the first consideration is whether a decision violates any law.	LAC-11
Rules	It is very important to follow the organization's rules and procedures here.	R-12
	Everyone is expected to stick by organization rules and procedures.	R-13
	Successful people in this organization go by the book.	R-14
	People in this organization strictly obey the organization policies.	R-15
Instrumental	In this organization, people protect their own interests above all else.	I-16
	In this organization, people are mostly out for themselves.	I-17
	There is no room for one's own personal morals or ethics in this organization.	I-18
	People are expected to do anything to further the organization's interests, regardless of the consequences.	I-19
	People here are concerned with the organization's interests to the exclusion of all else.	I-20
	Work is considered substandard only when it hurts the organization's interests.	I-21
	The major responsibility of people in this organization is to control costs.	I-22
Independence	In this organization, people are expected to follow their own personal and moral beliefs.	IN-23
	Each person in this organization decides for themselves what is right and wrong.	IN-24
	The most important concern in this organization is each person's own sense of right and wrong.	IN-25
	In this organization, people are guided by their own personal ethics.	IN-26

Source: Authors' Adaptation from Victor and Cullen (1987, 1988)

In order to assess the absolute model fit, the chi-square test of goodness-of-fit measure was employed to compare the observed covariance matrix with the model-implied one. Despite its wide application, chi-square was prone to sample size effect and hardly ever revealed perfect model fit in empirical studies. Thus, smaller chi-square values together with larger probability values indicated superior model fit, and the acceptable level of significance was usually regarded as ≥ 0.05 (Barrett, 2007). Moreover, modern methodological considerations also noted that chi-square had to be interpreted not in isolation but along with approximate fit indices to achieve greater robustness of conclusions drawn (Goretzko et al., 2024). Apart from model fit assessment, construct reliability and validity were measured via composite reliability (CR) and average variance extracted (AVE), respectively. Acceptable CR and AVE values were 0.60 and 0.50, correspondingly (Fornell & Larcker, 1981).

In theory, the CFA approach is considered the measurement part of SEM that could further investigate any structural relations among constructs. Nonetheless, this current research was more interested in confirming the dimensionality of ethical climate in LAZ organizations. As a consequence, the focus of analysis was to confirm the validity and reliability of the measurement model rather than the causality among variables. Although the possibility of conducting further research using SEM to examine structural models was considered from a theoretical perspective, this could not be done owing to the nature and structure of the available data.

RESULTS

Table 3 shows the CFA estimates of the five factors: "caring," "law and code," "rules," "instrumental," and "independence." According to the table with the standardized regression weights, all factor loadings were above the 0.50 cut-off criterion suggested by (Hair et al., 2010). Hence, each observed variable reflected its respective latent construct appropriately, confirming the convergent validity of the proposed instrument. In summary, the findings clearly indicated that the five-factor structure of the ethical climate construct was supported empirically.

The fit of the CFA model to the data is presented in Table 4 and Figure 1, where several goodness-of-fit statistics have been computed. In particular, the goodness-of-fit index (GFI) was found to be 0.901, being greater than the threshold of 0.90 that indicates acceptable model fit (Barrett, 2007; Brown, 2015). At the same time, the root mean square error of approximation (RMSEA) was estimated at 0.038 and thus is less than the threshold level of 0.06, indicating close fit between the model and the data (Brown, 2015). Moreover, the comparative fit index (CFI) obtained was 0.985 and exceeded the threshold level of 0.95, indicating good fit between the model and the data

(Byrne, 2016). Similar conclusions could be drawn based on the TLI (0.980 > 0.95) (Brown, 2015). Finally, the probability value was equal to 0.146 (> 0.05).

Table 3. Standardized Loading Factor

Code	Standardized Loading Factor (Criteria: ≥ 0.5)	Description
C-1	0.599	Accepted
C-2	0.738	Ideal
C-3	0.649	Accepted
C-4	0.618	Accepted
C-5	0.625	Accepted
C-6	0.771	Ideal
C-7	0.687	Accepted
LAC-11	0.730	Ideal
LAC-10	0.855	Ideal
LAC-9	0.839	Ideal
LAC-8	0.707	Ideal
R-15	0.549	Accepted
R-14	0.278	Rejected
R-13	0.915	Ideal
R-12	0.926	Ideal
I-22	0.510	Accepted
I-21	0.505	Accepted
I-20	0.482	Rejected
I-19	0.544	Accepted
I-18	0.640	Accepted
I-17	0.703	Ideal
I-16	0.710	Ideal
IN-26	0.856	Ideal
IN-25	0.816	Ideal
IN-24	0.819	Ideal
IN-23	0.621	Accepted

Source: Data Processed by the Authors (2025)

Table 4. Model Fit

Model Fit Index	Criteria	Results	Description
GFI	≥ 0.90	0.901	Good fit
CFI	≥ 0.95	0.985	Good fit
RMSEA	≤ 0.06	0.038	Close fit
Probability	≥ 0.05	0.146	Good fit
TLI	≥ 0.95	0.980	Good fit

Source: Data Processed by the Authors (2025)

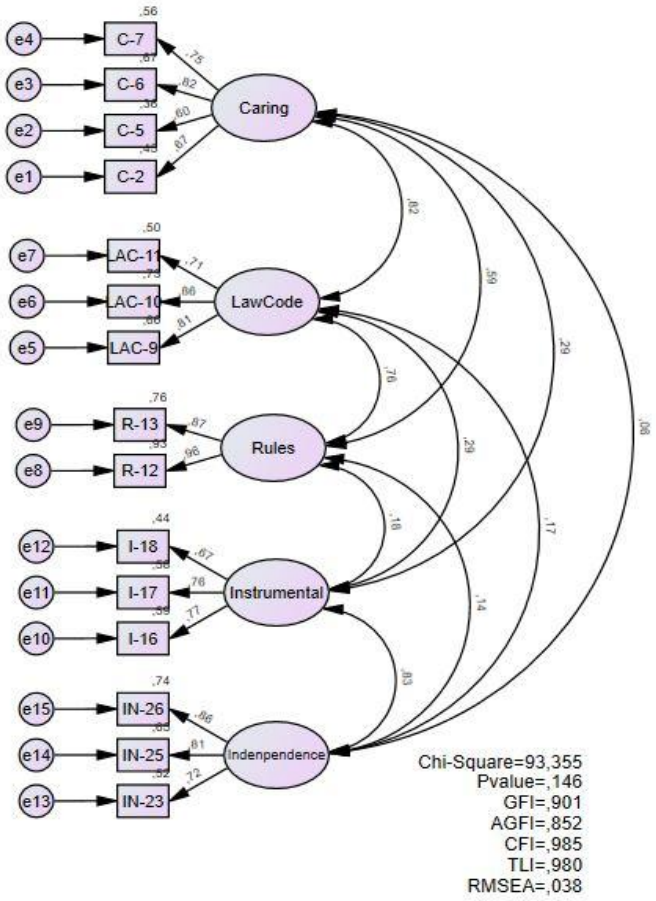


Figure 1. Confirmatory Factor Analysis Model Results
Source: Data Processed by the Authors (2025)

According to the results of CFA undertaken on the computer software IBM SPSS Amos 26, the dimensions passed the test of reliability in terms of construct validity. Composite Reliability (CR) tests were carried out using the threshold value of 0.70, though any figure above 0.60 was considered acceptable (Fornell & Larcker, 1981). Concerning the "caring" dimension, the CR value was found to be 0.81001. Likewise, with regard to "law and code," the figure of CR was found to be 0.831968, while for the "rules" dimension, the CR figure was found to be 0.943906. All these figures surpassed the threshold figure of 0.70. However, for the "instrumental" dimension, the figure of CR was 0.68613.

Validity test through discriminant validity was conducted by determining the Average Variance Extracted (AVE), where values greater than 0.50 were considered valid. From the results obtained, all variables fulfilled the condition. The Average Variance Extracted for “caring” is 0.823247, and for “law and code,” the value is 0.830766. The “rules” variable had a very high AVE value of 0.940028, implying excellent convergent validity. For “instrumental,” the

Average Variance Extracted is 0.67532, and for "independence," the value is 0.771136.

Overall, the CFA findings provided strong measurement-level evidence supporting the applicability of the five-dimensional ethical climate structure within LAZ administrative settings. The results suggested that ethical climate was best conceptualized as a configuration of multiple coexisting moral logics, including welfare orientation (caring), internal procedural adherence (rules), external compliance and legitimacy (law and code), personal moral agency (independence), and self-interest orientation (instrumental). The validated structure offered a robust empirical foundation for subsequent analyses linking ethical climate to governance-related outcomes. Although the present study focused on construct validation, the findings established a critical basis for future modelling efforts, in which these dimensions could be examined as predictors of decision-making patterns and organizational behaviours relevant to accountability and ethical governance in Islamic philanthropic institutions.

DISCUSSION

The findings revealed by CFA were critical for understanding the nature of the ethical climate prevailing at LAZ organizations, showing how five dimensions, "caring," "law and code," "rules," "instrumental," and "independence", influenced the formation of organizational ethicality and decision-making processes. Based on the theoretical framework proposed by Victor and Cullen (1987), the discussed dimensions refer to different, albeit interrelated, forms of ethicality in organizational settings. Thus, in addition to validating the measure, CFA helped reveal how ethicality in terms of the five dimensions is employed in practice in LAZ administration. Such an approach corresponded to the current trends in research which focused on the use of ethical climate as a construct capable of predicting employees' perceptions and behaviours in relation to the expectations posed upon them (Parboteeah et al., 2024).

Caring was found to be a prevalent theme, as employees showed significant consideration for the interests of the community and all relevant stakeholders. The high values obtained on questions like C-2 and C-6 revealed that people valued the societal and communal benefits of the organization in their decision-making process. This is supported by Victor and Cullen's (1988) belief that the organization could focus its efforts on the common good as an ethical principle. In the case of LAZ, the focus on the common good was linked to the religious and charitable mission of zakat, in which decisions were made with the intention of bringing social benefit to the *mustahiqs*. Therefore, employees working with donors and recipients had an impact-based approach

when making decisions. This finding is consistent with the results obtained in non-profits, where mission-based organizations are more likely to integrate value commitments into their daily activities (Agarwal & Malloy, 2001). From the perspective of Islamic ethics, this would be considered *maslahah* reasoning, with organizational actions seen as moral stewardship (Auda, 2008). Moreover, research showed that caring cultures could result in better well-being and performance (Parboteeah et al., 2024; Pandey et al., 2024).

Additionally, the "law and code" dimension showed strong support, meaning that the application of professional and legal standards significantly contributed to the formation of ethics in LAZ institutions. Items like LAC-9 and LAC-10 showed that decision-makers consistently referred to law and ethical codes when conducting their activities. Such results could be explained by the general pattern common for non-profit organizations, according to which ethical norms are regulated by institutionalized laws (Victor & Cullen, 1988). Specifically, concerning the context of LAZs, the mentioned aspect was associated with national zakat governance models in which reporting and control processes determined how employees saw their responsibility regarding ethics. As for the Islamic concept of governance, compliance could be considered the implementation of *amanah* because accountability to the regulatory system meant accountability to society and, therefore, to God (Ghafran & Yasmin, 2020). It should also be noted that prior studies have shown that, in governance-oriented organizations, ethics is influenced by professional and legal standards (Zhang et al., 2021). Moreover, the significance of law and procedure was highlighted by other researchers who emphasized transparency and procedural justice as determinants of zakat institutions' trustworthiness (Sawmar & Mohammed, 2021).

The "rules" dimension once again reaffirmed the critical role of internal procedures and organizational policy in terms of fostering ethical decision-making in LAZ entities. The high loading of items like R-12 and R-13 showed that the commitment to organizational procedure and policy were considered key components of any ethical decision. These findings corroborated previous literature indicating that non-profit organizations use procedural mechanisms to keep their practices consistent from an ethical perspective (Brower & Shrader, 2000). Specifically from an Islamic point of view, procedural adherence serves as a guarantee of justice, which means that the resources assigned to the organization by donors should be used responsibly (Al-Aidaros et al., 2013). At the same time, the existence of the caring and rules dimensions demonstrated that employees considered both process- and outcome-oriented criteria when evaluating decisions. Therefore, ethical legitimacy in terms of zakat administration depended on both the achievement of positive social consequences and compliance with internal procedures. This assumption was

further supported by meta-analytic research indicating that rule climates were positively related to organizational outcomes but usually less pronounced in comparison to caring climates (Parboteeah et al., 2024).

The "instrumental" dimension revealed the presence of self-interest considerations within LAZ ethical decision-making, highlighting potential tensions in the ethical climate. Items such as I-16 and I-17 suggested that individuals sometimes prioritized personal or organizational interests, raising concerns about ethical vulnerability. Although the rejection of I-20 indicated that organizational interests were not universally dominant, other items (e.g., I-18 and I-19) suggested that ethical compromises might occur under certain conditions. This finding pointed to a critical tension between mission-driven values and practical organizational pressures. From an Islamic ethical perspective, such tensions represented potential risks to *amanah*, as self-interest could undermine trust and accountability (Ghafran & Yasmin, 2020). Importantly, the presence of instrumental reasoning did not necessarily imply unethical behaviour but served as a diagnostic indicator of areas requiring stronger governance safeguards. Recent non-profit governance research supported this view, emphasizing that organizations dependent on public trust face significant legitimacy risks when accountability mechanisms fail (Ortega-Rodríguez et al., 2024).

The "independence" dimension emphasized the significance of personal moral autonomy in the formation of ethical decisions in LAZ organizations. Questions like IN-25 and IN-26 revealed that the respondents appreciated the importance of personal judgment and ethical values in the assessment of decisions. It implies that LAZ organizations understand the significance of moral autonomy together with legal and collective standards. Nevertheless, the findings show that there is a possible clash between personal ethics and organizational interests. According to Victor and Cullen (1987), an ethical climate is a set of shared views that might affect an individual's autonomy. Therefore, in the case of LAZ organizations, organizational goals, stakeholders' expectations, and other organizational aspects might affect decision-making at an individual level.

In summary, the five factors comprised a holistic ethical framework instead of separate concepts. Purpose orientation was defined by caring, legitimacy was determined by laws and codes, stability was assured by rules, moral autonomy was achieved through independence, and instrumental was derived from the situation. The framework suggested that ethical judgment at LAZ is a complex process integrating religious principles, institutional requirements, and organizational reality. At this level, ethical climate serves not only as an intra-organizational culture but also as a control mechanism affecting accountability and decision-making processes. The conclusion is

consistent with contemporary research indicating that ethical climate is one component of the organizational institutional structure ensuring transparency and accountability (Pandey et al., 2024; Sawmar & Mohammed, 2021).

Furthermore, these results contributed to the understanding of modern philanthropic governance. LAZ organizations had to respond to growing pressures towards openness, accountability, and professionalization while preserving their religious legitimacy. The existence of caring and compliance climates together indicated that employees did not see these requirements as contradictory. Ethical legitimacy occurred when the goals of social benefits, procedures, and individual accountability were combined. Nevertheless, the prevalence of instrumental reasoning demonstrated the necessity for effective governance systems to protect the integrity of ethics under organizational pressure. It supported the concept of ethical climate as a structure that influenced how employees interpreted their responsibilities and implemented policies. These results were especially valuable in non-profit organizations where a failure to be accountable in one organization could affect the entire sector (Ortega-Rodríguez et al., 2024).

To sum up, the ethical climate in LAZ organizations appeared to be a consensus-based equilibrium between religion, institution, and practice. From the dimensions of the validated scale, it could be inferred that the accountability of Islamic charities was not achieved through supervision alone but rather through the moral knowledge embodied in the functioning of these organizations. There were many indications pointing out that the proper governance of faith-based organizations needed a certain alignment between their ethical principles and practices. In this regard, the ethical climate needs to be seen as an indispensable means of governance for Islamic philanthropic institutions.

CONCLUSION

This study examined the ethical climate of LAZ as a form of nonprofit organization and found that all five dimensions, caring, law and code, rules, instrumental, and independence, were empirically present in organizational practice. These dimensions collectively shaped how ethical decisions were interpreted and enacted in daily governance processes. The findings indicated that caring and compliance-oriented dimensions (law and code and rules) were strongly embedded, reflecting the dual emphasis on social welfare and procedural accountability in zakat management. At the same time, the independence dimension highlighted the role of individual moral agency in guiding decisions. However, the results also revealed persistent tensions, particularly within the instrumental dimension, where personal or organizational interests occasionally competed with broader ethical

principles. This suggests that, despite a strong normative commitment to social good and moral responsibility, LAZ organizations still face challenges in maintaining consistency between ethical ideals and operational realities, potentially affecting integrity, transparency, and public trust.

This study contributes to the literature by extending ethical climate theory into a faith-based nonprofit context, demonstrating how shared ethical perceptions translate Islamic values into organizational practice. It highlights that ethical climate functions not merely as a cultural attribute but as a governance mechanism that operationalizes moral commitments in everyday activities. From a policy perspective, the findings emphasize that strengthening zakat governance requires more than regulatory compliance; it also depends on cultivating shared ethical understanding among organizational members. This can be achieved through training, internal dialogue, and supervisory systems that reinforce both stakeholder welfare and procedural integrity. Furthermore, the study underscores the importance of strengthening collaboration between LAZ and BAZNAS following the implementation of Law No. 23 of 2011, as coordinated governance can enhance accountability, transparency, and effectiveness in zakat distribution. At the organizational level, ethical climate can serve as a diagnostic tool to anticipate ethical risks and maintain alignment between mission, efficiency, and sustainability.

There are several limitations that must be considered. Firstly, the cross-sectional study approach only provided information at one particular point in time, and therefore no causal conclusions can be drawn from this data. Secondly, the sample was selected using purposive sampling methods, thus limiting its applicability to other contexts outside of the investigated LAZ case. Thirdly, the research focused mainly on the verification of the measurement model, without looking at how the observed constructs impact employee behavior. In the future, scholars need to overcome these limitations by conducting longitudinal studies and adding additional behavioral indicators to evaluate the effects of ethical climate in an organization. Comparative studies will add to the generalizability of the research findings, and further research can look into the interaction between religious motivation and organizational governance structures in fostering ethical behavior in faith-based philanthropic institutions.

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