

Invited Essay

Is Nonprofit Leadership Different from Business or Government Leadership?

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In my view, the answer to the question regarding nonprofits and for-profits is no! There should be little or no difference in the style of leadership required for a nonprofit organization versus the style of leadership required for a for-profit organization. Having said that, I will argue that while there may be some differences in nonprofit and for-profit organizations, the similarities are too numerous to ignore—and the style of leadership required is one of them. On the other hand, the nature of government may mean that only one style of leadership is appropriate—a managerial leadership style. I will describe four leadership styles and apply these to the three types of organizations mentioned above.

With “tongue in cheek,” I have suggested in other venues that the only difference between nonprofits and for-profits is that the latter pays taxes while the former does not. Of course, there are other differences. First, for-profits are owned by shareholders and they are the residual claimants if and when a for-profit shuts down. If a nonprofit shuts down, the normal procedure is to distribute the net assets to other nonprofits. Second, much of the human talent working at a nonprofit are volunteers versus at a for-profit where the vast majority of the human talent is paid employees.

To me, the similarities are much more striking. First, nonprofits, for-profits, and governments need to operate with a mission over margin philosophy. Of course, as I have heard Shaun Elliott, CEO of the YMCA of Western Ontario, say many times, without a margin there is no mission. CEOs of nonprofits and for-profits and heads of government who forget this are mortgaging the future to pay for the present—never a good idea. The State Fair of Virginia went into Chapter 11 on March 5, 2012 and converted to Chapter 7 on March 7, 2012 (Schnarr & Rowe, 2012) because they forgot that without a margin there is no mission. On the other hand, General Motors got into trouble in the 1980s because they put margin ahead of mission. They have struggled since to recover. They did go into Chapter 11 in 2009 and according to Louis Woodhill (2012) they almost went into bankruptcy again in 2012.

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Second, nonprofits and for-profits need to use basic accounting principles. For example, when I voluntarily took on the treasurer's responsibilities for a small nonprofit, I was surprised to find that depreciation was not an item on the income/revenue statement. The reason I was given was that nonprofits did not pay taxes so accounting for depreciation of our fixed assets and equipment was not necessary. I pointed out that buildings deteriorated over time, and that without accounting for this on our financial statements, we might be blindsided in 15 to 20 years when repairs that we had not prepared for needed to be done. Accounting for depreciation kept the deterioration of our building in our thoughts and, in my view, better prepared us for the eventuality of having to pay for major upkeep at some future date.

Third, nonprofits and for-profits need to assess their human talent—be it volunteer or paid employees—on a regular basis. The thought that it is harder to fire volunteers than it is to fire paid employees is a falsity that allows less than competent leaders in nonprofits to keep incompetent human talent in their organization. This is because nonprofit leaders forget that volunteers do get paid to volunteer—the pay is psychic income—and taking it away is more devastating than taking away a paycheck from paid employees in either nonprofits or for-profits.

So, with this background and brief review of some differences and similarities between nonprofits and for-profit organizations, what leadership styles would be suited to either a nonprofit or a for-profit organization?

Leaders of both types of organizations need to understand the paradox of the short-term and the long-term. It is relatively easy to look good as a leader in the short-term—cut R&D expenditures, cut marketing (especially advertising) expenditures, cut expenditures for human resources development and training, and cut capital expenditures. With even the same revenue stream, the surplus/net income will look very good for nonprofits and for-profits, respectively. But these are the building blocks—the foundation if you will—for the future/long-term success of any organization. So to build for the long-term, leaders need to invest in R&D, marketing, HRM training and development, and capital expenditures. Of course, this will not look good for them in the short-term, as it negatively impacts the surplus/net income. This is particularly troublesome if the leader's compensation is tied to some form of ratio such as surplus/net income over revenues. Of course, this does lead to a difference between nonprofits and for-profits. For-profits may be able to use some form of stock market performance measure—but only if they are publicly traded. Which leadership style best understands this paradox and how to navigate through it?

In my research, I explicitly describe three styles of leadership that I believe are appropriate for nonprofits and for-profits (Rowe, 2001). This research implies a fourth leadership style, which I will briefly describe.

The most prevalent leadership style is **managerial leadership**. Managerial leadership comes from a deterministic philosophy. This philosophy is best exemplified as follows: the decisions I made were a result of what was happening in my organization and what was happening in my organization was a result of what was happening in the environment. These leaders are risk-averse and exhibit a least-cost behavior approach. They emphasize the short term because they need to have stability and order. Managerial leaders need to control the finer details of work they are supervising to the point of almost being over controlling or micromanaging. Generally, they have

little or no empathy when dealing with employees. They control through punishment, a system of rewards, and other forms of coercion. These leader/managers focus on the cost-benefit analysis of day-to-day actions and concentrate mostly on the short-term financial health of the organization. As noted earlier, short-term gains that result from a least-cost approach will generally not be good for long-term viability. Nonprofits and for-profits do need managerial leadership but my concern is that too many organizations are led by managerial leaders.

A second leadership style is **visionary leadership**. This style is much less prevalent and may be more dangerous than managerial leadership. While managerial leaders are focused on the past and present, visionary leaders are much more future oriented. They achieve organizational goals through their ability to influence followers—influence that is used to create an understanding of what is to be achieved through a shared vision. Philosophically, visionary leaders believe in free will (strategic choice) and that the decisions they make will impact their organizations and through their organizations impact the environments in which they operate. There is no doubt that Howard Schultz' belief in gourmet, premium coffee led to Starbucks creating the gourmet, premium coffee industry we see in over 65 countries today.

Visionary leaders:

rely heavily on their own values, and they invest in people and their network of relationships in order to ensure the viability of the organization. They articulate a compelling vision, and then empower and energize followers to move towards it. The formal structures of the organization will create few constraints for these leaders, as they make decisions and shape their vision based on their values, beliefs, and sense of identity (Rowe & Hossein Nejad, 2009).

Visionary leaders are dangerous because of their willingness to “bet the farm.” The better visionary leaders are willing to work with managerial leaders to ensure that both long-term and short-term perspectives are taken into account. As illustrated in Figure 1, visionary leadership without managerial leadership leads to worsening performance in the short term, whereas managerial leadership will lead to worsening performance, but it may take several years. One other caveat, when visionary leaders and managerial leaders work together, the organization is better led if the visionary is in charge and supported by the managerial leader.

A third style of leadership is strategic leadership. I define strategic leadership as:

the ability to influence others to voluntarily make day-to-day decisions that enhance the long-term viability of the organization, while maintaining its short-term financial stability (Rowe, 2001).

This perspective presumes that strategic leadership is a synergistic combination of visionary and managerial leadership. It combines the best features of both these two styles. Strategic leaders think linearly and nonlinearly. They understand that most people they lead will be managerial in nature and deterministic in their beliefs about leadership—simultaneously, they will themselves believe in strategic choice (free will). Steven Ross suggested that strategic leaders are dreamers who do something about their dreams whereas visionary leaders are dreamers only and managerial leaders never stop to dream. This is encapsulated in the following quote (Loeb, 1993):

There are three categories of people—the person who goes into the office, puts his feet up on his desk, and dreams for 12 hours; the person who arrives at 5 a.m. and works for 16 hours, never once stopping to dream; and the person who puts his feet up, dreams for one hour, then does something about those dreams. (p. 4)

—Steven J. Ross, former chairman and co-CEO of Time Warner

Strategic leaders will generally create more value for nonprofits and for-profits than visionary leaders, managerial leaders, or a combination of a visionary leader and a managerial leader. This is illustrated in Figure 1.

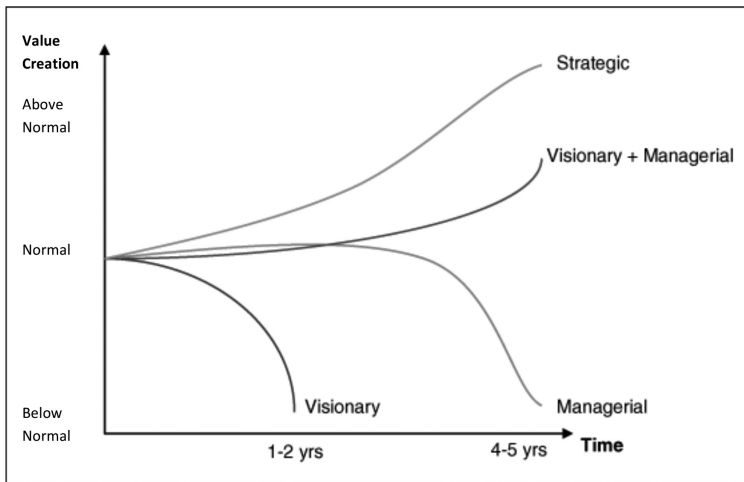


Figure 1. The Impact of Different Leadership Styles on Organizational Value Creation
Adapted from Rowe and Hossein Nejad (2009)

Strategic leaders emphasize and accept nothing less than ethical behavior. They supervise day-to-day operations and long-term strategic responsibilities. Strategic leaders develop and execute strategies for immediate impact and the preservation of long-term goals that heighten the probability of organizational survival, growth, and long-term viability. Strategic leaders have strong, positive expectations with respect to the performance expected from themselves, their subordinates, their peers, and their superiors. They interchange and use explicit and tacit knowledge on both the individual and organizational levels.

A fourth leadership style is when a leader neither exhibits managerial, visionary, or strategic leadership. Fortunately, in my experience, these non-leaders are few and far between at the top of organizations. It is possible that they will be somewhat more prevalent in nonprofits than in for-profits as boards of directors of nonprofits may be more willing to “put up with” mediocre leadership than boards of for-profits especially if the leader of the nonprofit is an unpaid volunteer.

I have described the managerial, visionary, and strategic leadership styles to suggest that whether the organization is a nonprofit or a for-profit makes little difference as

to which leadership style is needed to lead for best performance—it is strategic leadership. Strategic leaders best understand the differential impact of corporate strategy and divisional strategy. They are able to give divisional unit CEOs the freedom and protection from corporate financial controls that inhibit divisional unit CEOs in pursuit of best performance for their division. Shaun Elliott at the YMCA of Western Ontario is an example of giving his three divisional unit leaders (Camping and Community Services; Childcare; and, Health, Fitness and Recreation) this autonomy (Rowe & MacDonald, 2006).

A for-profit example is Howard Schultz. I use him to illustrate the development of a visionary leader into a strategic leader at a for-profit. Orin Smith was the chief operating officer at Starbucks from 1994 to 2000. In my view, he was the managerial counterpart to Howard Schultz' visionary style when Schultz served as CEO up to 2000. Schultz developed into a strategic leader as he learned to add the managerial to his visionary with Smith as his managerial teacher.

Watching the leadership changes at Starbucks (Schultz & Gordon, 2011) suggests that a managerial leader will lead an organization to worsening performance. From 2000 to 2008, Starbucks was led by two successive managerial leaders, and in 2008 Schultz made the unprecedented decision to return as CEO. He considered that Starbucks had lost its way and needed to be returned to financial health and, more importantly, needed to return to its values and to recover its soul—he considered that Starbucks needed to emphasize mission over margin (Schultz & Gordon, 2011).

So far, I have only mentioned governments in a peripheral manner. The very nature of governments requires that senior leaders exercise managerial leadership only. Whether they are only capable of exercising managerial leadership or are capable of exercising visionary or strategic leadership, they will be able to exercise only managerial leadership. Why?

Governments are large, unrelatedly diversified organizations. This very high level of diversification, the accountability for every penny a government spends, the political context of an election at most every four or so years, and the massive debt of many national, provincial, state, and municipal governments leads to governments being able to use only financial controls and to curtail the use of strategic controls. This emphasis on financial control leads to the exercise of managerial leadership only at the senior levels of government leadership (Rowe, 2001).

Returning to nonprofits and for-profits, I believe the question should not be: Is nonprofit leadership different from business leadership? It should be: What leadership style is appropriate for nonprofits and for-profits? My goal is to get boards of nonprofits and for-profits to consider that those with strategic leadership should be the first choice as the executive director or CEO, respectively. If a strategic leader is not available, then the organization needs a visionary leader supported by a managerial leader. If this combination is not available, then a short-term appointment of a managerial leader is appropriate while continuing to search for a strategic or a visionary leader. These leaders need to understand that mission is more important than margin but that without margin there will be no mission. Strategic leaders and visionary leaders supported by managerial leaders will get this mission plus margin idea better than managerial leaders.

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