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Other Leadership Perspectives Upper Echelon and Leadership of Nonprofits

After studying this chapter, you will be able to: Differentiate between micro and upper- echelon leadership. Describe the domain and roles of strategic leaders in the management of an organization. Identify the external and internal factors that impact strategic leaders’ discretion.

List the individual characteristics of strategic leaders and their impact on leadership style.

Contrast the four strategic leadership types and discuss the role of culture and gender in strategic leadership.

We have many daily conversations about leaders. Our press is full of examples of good and bad leaders from all sectors. We read about business leaders, city mayors and managers, hospital ad-ministrators, politicians, and leaders in the nonprofit sector. Many publications and professional associations present yearly awards for the best leaders in their industry. The health- care industry awards a “ best health care administrator award”; best and worst city mayors are ranked regularly, as are best and worst business leaders. Based on the amount of attention given to top executives, one can deduce that we clearly believe the top leader of an organization is important. However, the academic research about top leaders’ impact on organizational elements such as performance, cul-ture, strategy, and structure is relatively new. With the exception of some of the leadership models discussed in Chapter 6, none of the leadership theories presented so far directly addresses the role and impact of upper- echelon leaders; most apply to supervisors, team leaders, and midlevel man-agers. This chapter will clarify the differences between mid- level ( micro) and upper- echelon ( macro) strategic leadership and consider individual characteristics of strategic leaders and the processes through which they affect their organization. We will also address the special character-istics and some of the challenges leaders of nonprofit organizations face.

DIFFERENCES BETWEEN MICRO AND UPPER- ECHELON STRATEGIC LEADERSHIP

The reviews of the role of upper- echelon leadership in organizations suggest that efforts at under-standing executives are justified ( see Finkelstein and Hambrick, 1996; Hambrick, 2007; Hambrick and Mason, 1984; Nahavandi and Malekzadeh, 1993a). Although somewhat frag-mented, the research results show that the CEO has impact on the direction an organization takes, on its strategy, and on its performance; CEOs and other top leaders matter ( Holcomb, Homes, and Connelly, 2009; Mackey, 2008; Marcel, 2009). Many of the leadership concepts and processes pre-sented in previous chapters operate regardless of the level of the leader. For example, the basic def-inition of leadership and leadership effectiveness can be transferred from small groups to upper echelons with only minor adjustments. Upper- echelon leaders are still the people who guide others in goal achievement, and their effectiveness depends on maintaining internal health and external adaptability. Therefore, the major differences between micro and macro leadership are not in the nature of the process, but rather in the level and scope of leadership. We call upper- echelon leaders “ strategic leaders” because they shape the whole organization. Strategic leadership is a leader’s ability to anticipate events and maintain flexibility and a long- term perspective in order to guide the organization. Table 7- 1 summarizes the differences between micro and strategic leadership.

One of the first differences between micro and strategic leadership involves identifying who the leader is. In the case of micro leadership, the person leading the group, team, or department is clearly the leader. In the case of strategic leadership, the issue is often not that simple ( O’Reilly et al., 2010). The leader of a business organization might be the president, CEO, or chief operating of-ficer ( COO), or it could be a top management team ( TMT) made up of division heads and vice pres-idents. In some cases, such as nonprofits, the relevant strategic leadership may be a governance body such as the board of directors, board of regents, or supervisors. Any of these individuals or groups might be the senior executives who make strategic choices for the organization. Research indicates that the makeup and characteristics of the TMT relate to factors such as degree of global-ization ( e. g., Levy, 2005; Nadkarni and Perez, 2007), the success of turnaround strategies in organ-izations that face performance challenges ( e. g., Lohrke, Bedeian, and Palmer, 2004), corporate social responsibility ( Simerly, 2003), and other financial performance measures ( Marcel, 2009). A second difference in leadership at the two levels is the scope of the leader’s impact. Whereas most micro leaders are concerned with small groups, departments, or teams, upper- echelon leaders have jurisdiction over entire organizations that include many smaller groups and departments. Because of this broader scope, upper- echelon leaders have discretion and power over many deci-sions. Alan Mulally, president and CEO of Ford Motor, describing how job as a top- level leader dif-fers from others, states, “ I realized very early that what I was really being asked to do was to help connect a set of talented people to a bigger goal, a bigger program and help them move forward to even bigger contributions ( Bryant, 2009i). James E. Rogers, CEO of Duke Energy, says, “ I think it’s important, if you are going to lead an organization, to have some sense of what everyone does every day. If gives you an empathy that really helps you in terms of telling a story about the company and leading them in terms of where you’re trying to go” ( Bryant, 2009k).

A third difference between the two groups is their focus. The micro leaders’ focus is typi-cally internal to the organization and includes factors that affect their teams or departments. Part of their job may involve dealing with external constituents, as may be the case with a customer representative or a sales manager, or they might be under pressure to take on a more strategic view, even in their small department. They, however, generally do not need an external view to perform their job. In comparison, the job of the upper- echelon leader requires almost equal attention to in-ternal and external factors. Dealing with outside constituents, whether they are stockholders, gov-ernmental agencies and officials, or customers and clients, is central to the function of executives. Alan Mulally of Ford says, “ The more senior your management position is, the more important it is to connect the organization or the project to the outside world” ( Bryant, 2009i). The effectiveness criteria are also different for the two groups. Although, in a general sense, they are both effective when they achieve their goals, micro leaders focus on department productivity, quality of products and services, and employee morale. Effectiveness for the upper-echelon leader is measured by overall organizational performance, stock prices, and satisfaction of outside constituents. The hospital administrator has to integrate internal productivity issues with overall performance. The CEO of a major corporation does not focus on turnover of em-ployees as a measure of effectiveness. Instead, the criteria are likely to be return on investment and the corporation’s growth.

THE DOMAIN AND IMPACT OF STRATEGIC LEADERSHIP

What is the role of senior executives? Do they simply provide direction, or do they stay in-volved in the day- to- day operations of their organization? The answer depends in part on the leader’s style and personality. The six strategic forces depicted in Figure 7- 1 are the primary domain of strategic leadership ( Malekzadeh, 1995). Culture is defined as a common set of be-liefs and assumptions shared by members of an organization ( Schein, 2004). Structure is com-prised of the basic design dimensions ( centralization, formalization, integration, and span of control) that organize the human resources of an organization ( Pugh et al., 1968). Strategy ad-dresses how the organization will get where it wants to go— how it will achieve its goals. The environment includes all the outside forces that may potentially shape the organization. Technology is the process by which inputs are transformed into outputs, and leadership in-cludes managers and supervisors at all levels.

Any strategic effort requires a balance and fit among the strategic forces. When the fit is good, the organization possesses a greater potential to be effective ( Nahavandi and Malekzadeh, 1999). Consider the example of Jagged Edge Mountain Gear ( JEMG), a Colorado- based company that specialized in fashionable mountaineering clothing. Twin sis-ters Margaret and Paula Quenemoen founded the company in 1993 based on the Asian philos-ophy that focused on the journey and process ( Nahavandi and Malekzadeh, 1999: 108– 109). JEMG’s goal was to become a nationally recognized competitor in their industry. As the Quenemoens state, however, “ We are our own competition. We do what we think is right” ( Nahavandi and Malekzadeh, 1999: 108). To achieve their goal, the sisters attracted a group of passionate mountain enthusiasts who perform the many business functions while remain-ing dedicated to cold- weather, extreme sports. The JEMG owners, managers, and employees worked together and played together. The culture of the organization was informal and ex-uded the members’ passion for their sports. The structure, although formally stated, remained informal, with a heavy reliance on participation and empowerment. In addition, because of the company’s relative isolation in Telluride, everybody depended on information technology to stay in touch with the marketing division located in Salt Lake City and their suppliers in Massachusetts, Tennessee, and China. The Quenemoens ran JEMG successfully The simultaneous management of the six forces is the essence of strategic management ( Malekzadeh, 1995). The upper- echelon leader’s role is to balance these various factors and set the direction for the organization. Once a direction is selected, internal forces ( e. g., cul-ture, structure, and leadership) come into play once more to move the organization toward its selected path.

Role of Strategic Leaders

Strategic leaders ( CEO or the TMT) are the ones in charge of setting and changing the environ-ment, culture, strategy, structure, leadership, and technology of an organization and motivating employees to implement the decisions. Their role is to devise or formulate the vision and strategy for their organization and to implement those strategies; they play the dual role of strategy for-mulator and implementer ( Nahavandi and Malekzadeh, 1993a). If an organization has not drafted a strategy or is looking for major changes and strategic redirection, the leaders have a vital role in formulating the direction of the organization based on their reading of the environ-ment. If, on the other hand, the organization has a well- established, successful strategy already in place, the leaders become a key factor in implementing that strategy. The dual role of strategic leaders is depicted in Figure 7- 2. Although they play a central role in creating and maintaining major organizational ele-ments, the top managers’ influence often is moderated by a number of organizational and environmental factors. Therefore, although leaders are highly influential in many aspects of organizational decision making, many circumstances and variables limit a leader’s discretion. The next section considers these factors.

Executive Discretion: Factors That Moderate the Power of Leaders

Upper- echelon leaders do not have unlimited power to impact their organization. The research about the limits of their power comes under the label of managerial or executive discretion ( Finkelstein and Hambrick, 1996; Hambrick and Finkelstein, 1987) and is the subject of consid-erable research in strategic management for its impact on firm performance in a variety of areas ( e. g., Aragon- Correa, Matias- Reche, Senise- Barrio, 2004; Bates, 2005) and CEO compensation ( e. g., Cho and Shen, 2007). Table 7- 2 presents the factors that moderate a leader’s discretion. They are divided into external environmental and internal organizational factors. Both sets oper-ate to limit the direct or indirect impact of senior executives on their organization.

EXTERNAL ENVIRONMENTAL FACTORS

Several researchers suggest that the leader’s role becomes more prominent when organizations face an uncertain environment ( Gupta, 1988; Hall, 1977; Hambrick and Finkelstein, 1987). For example, in highly dynamic industries such as high technology, computers, or airlines, top managers must scan and interpret their environ-ment actively and make strategic decisions based on their interpretations. Such activities pro-vide many opportunities for a leader to shape the organization. Bill George, former CEO of Medtronics and professor of management at Harvard, addressed the key role of leaders in the 2008– 2010 economic crisis, “ The root cause is failed leadership. New laws, regulations, and economic bailouts won’t heal wounds created by leadership failures. They can only be solved by new leaders with the wisdom and skill to put their organizations on the right long- term course” ( George, 2009a). External forces include market growth and legal constraints. In fast-growing markets, strategic leaders have considerable discretion to set and change the course of their organization ( Haleblian and Finkelstein, 1993). Legal constraints, such as environmental laws, health and safety regulations, and international trade barriers, however, limit the discre-tion of leaders. In such environments, many of their decisions already are made for them, leav-ing less room for action. Consider the case of utility companies that, up until some years ago, faced a stable and calm environment. As competition increases and governments deregulate the industry, leaders of these utility companies are becoming more prominent. Similarly, the leaders of the computer in-dustry, such as Steve Jobs ( Apple), Bill Gates ( Microsoft), and Michael Dell ( Dell Computers), have become household names, as have current and former leaders in many of the Internet com-panies, such as eBay’s Margaret Whitman and Amazon’s Jeff Bezos.

INTERNAL ORGANIZATIONAL FACTORS

When organizations face internal uncertainty, or-ganizational members question existing practices and decisions and rely more heavily on the leader to provide direction and guidance. In routine situations, organizational rules and regu-lations and a well- established culture in effect become substitutes for leadership ( Kerr and Jermier, 1978). One example of a situation in which leaders are heavily relied on would be during a threatened or actual merger. The employees are likely to seek direction from their CEO, whose every word and action will be interpreted as a signal and whose attitude toward the merger will be a role model for the employees. Professor Mike Useem, director of the Center for Leadership and Change at the University of Pennsylvania’s Wharton School of Business, suggests that a leader’s calm and confidence is a key factor in managing during times of crisis ( Maruca, 2001). The sense of crisis provides the stage for leaders to increase their impact or to demonstrate charismatic leadership behaviors ( see Chapter 6), which influ-ence followers to a high degree. Size and structure are the second set of internal moderators of discretion. The larger an or-ganization is, the more likely it is that decision making is decentralized. As an organization grows, the impact of the top managers on day- to- day operations declines. In small organizations, the desires of a top manager for a certain type of culture and strategy are likely to be reflected in the actual operations of an organization. In large organizations, however, the distance between the leader and other organizational levels and departments leads to a decline in the immediate ef-fect of the leaders. For example, the U. S. Postal Service is one of the largest employers in the United States, with more than 650,000 employees. The postmaster’s influence is diffused through numerous layers of bureaucracy and probably is not felt by local post office employees. This filtering also could be one reason it is difficult to change large organizations. Even the most charismatic, visionary leader might have trouble reaching all employees to establish a personal bond and energize them to seek and accept change.

One of the causes of internal and external uncertainty is the organization’s life cycle or stage of development ( Miller, 1987; Nahavandi and Malekzadeh, 1993a). When an organization is young and in its early stages of development, the impact of a leader’s personality and decisions is pervasive. The personality and style of the leader/ entrepreneur are reflected in all aspects of the organization. The younger an organization is, the more likely it is that its culture, strategies, and structure are a reflection of its leader’s preferences. As the organization matures and grows, the leader’s influence decreases and is replaced by the presence of a strong culture and a variety of well- established, successful routines. It is often at this stage that the founders of an organiza-tion leave and move on to new ventures. The leader’s influence, however, becomes strong once again when the organization faces decline. The lack of success and the perceived need to revitalize the organization increase the reliance on the top managers. They once again have the opportunity to shape the organization. The case of A. G. Lafley, former CEO at P& G, illustrates this point. When Lafley become CEO in 2000, P& G faced a crisis in performance and employee morale. Lafley was the center of attention inside and outside the company as he slowly changed the cul-ture and led the company to profitability. Lafley saw himself as a change agent who focused on the longer- term good of the company ( Jones, 2007). Mickey Drexler, current CEO at J. Crew and former chief executive of Gap, Inc., was cred-ited with Gap’s success in the late 1990s. Some even claim that he invented casual chic by pro-viding fashionable clothes at a reasonable cost ( Gordon, 2004). He is also known for having con-siderable power. One former Gap employee states, “ Mickey is omnipotent. There is nobody who is his equal. There is nobody who is near his equal” ( Munk, 1998). Both at Gap and J. Crew, Drexler exercises considerable control over his organization; he is known as a micro manager ( Rose, 2008). He makes decisions regarding even minute details of the products and likes to communicate instantly using the public- address system ( Kiviat, 2007). Because the Gap was rel-atively new at the time and was experiencing a revival, Drexler’s influence was pervasive.

Another example of the leader’s impact in the early stages of an organization’s life is Oprah Winfrey— the first African American and the third woman to own a television and film produc-tion studio with more than $ 300 million in annual revenue, she runs an organization that reflects her high- energy, supportive style. She states: “ It’s all about attracting good people. I’ve always tried to surround myself not only with people who are smart but with people who are smarter in ways I am not” ( Howard, 2006).

The last moderator of power and influence of top managers of an organization is the presence, power, and homogeneity of a TMT ( Hambrick, 1987). As noted at the beginning of the chapter, upper- echelon leadership often involves working within a team; the presence of the team and how it interacts with the CEO has a strong impact on an organization. If an or-ganization does not have a TMT or if it is weak, the impact of its CEO is likely to be more di-rect. If, on the other hand, the organization is managed by a powerful TMT, such a team will moderate the power and discretion of the individual leader. For example, in 2005, Carl Vogel, the CEO of Charter Communication, a cable company, quit his job partly over frustration over the lack of support from several of the company board members ( Grant, 2005). Douglas Pertz was ousted by the company’s board only four months after becoming CEO because the company’s shares plummeted as soon as he took over ( Dash, 2007). On the other hand, an ex-ample of a functioning partnership that increases a leader’s power is the case of Oracle. Part of the success of the company is due to a strong relationship and match between its CEO, Larry Ellison, and president, Safra Catz. He is an extraverted, easily distracted, media celebrity; she is a quiet and highly focused manager ( Lashinsky, 2009). One company execu-tive describes their relationship, “ Safra allows Larry to work 30 hours a week but have the ef-fectiveness of a CEO who works 100 hours a week. Ninety- eight percent of the time she’ll just do things and inform him after the fact. Two percent of the time she’ll ask him what he wants” ( Lashinsky, 2009).

An interesting twist on the role and power of the TMT is the degree to which the mem-bers are similar to the leader and the diversity of the board. Much research indicates that lead-ers often pick board of director members and other top advisors who are similar to them-selves ( McCool, 2008). The more similar the TMT is to the leader, the greater the power of the leader ( Miller, 1987). Diversity in the board can have both good and bad consequences and has an impact on how the company makes decisions ( e. g., Jansen and Kristof- Brown, 2006). Many organizations take into account the importance of heterogeneity in the makeup of the TMT or board of directors. When Mercedes, the German automobile manufacturer, built a plant in Vance, Alabama, the heart of the Deep South, the executive leaders deliber-ately pieced together a diverse team of executives. It included managers with Detroit automo-bile experience, several who had worked for Japanese plants in North America, and four Germans ( Martin, 1997). The team was designed to provide the best possible mix of experi-ence for running a successful foreign automaker in the United States. Because of the impor-tance and potential power of the TMT, it has been the subject of considerable research in the past few years ( for a review, see Carpenter, Geletkanycz, and Sanders, 2004). In addition, many shareholders and stakeholders are increasingly calling for more powerful and involved board members who can closely oversee the actions of the CEO, making board memberships both riskier and more time consuming ( Raghavan, 2005). These external and internal moderating factors limit the power and discretion of strategic leaders and can prevent the leader from making a direct impact on the organiza-tion. The next section considers the key relevant, individual characteristics of upper- echelon leaders.

CHARACTERISTICS OF UPPER- ECHELON LEADERS

What impact do executives’ personality and other individual characteristics have on their style and the way they run the organization? Are some characteristics or combinations of characteris-tics more relevant for upper- echelon leadership? Information about upper- echelon leadership characteristics is somewhat disjointed. Research about micro leadership presented throughout this book identified several important dimensions in predicting and understanding small- group leadership; the task and relationship dimensions, in particular, have dominated much of leader-ship theory for the past 40 to 50 years. Despite the success of those dimensions, however, they do not necessarily provide predictive value when dealing with upper- echelon leadership ( Day and Lord, 1988). A number of different studies identify the individual characteristics of upper- echelon leaders ( e. g., Simsek, Heavy, and Veiga, 2010).

Demographic and Personality Traits Older CEOs are generally more risk averse ( Alluto and Hrebeniak, 1975), and insider CEOs ( as opposed to those who are brought in from outside) attempt to maintain the status quo and are, therefore, less likely to change the organization ( Kotin and Sharaf, 1976; Pfeffer, 1983). Researchers also considered the impact of an upper manager’s functional background on an organization’s strategic choices ( Song, 1982), and a body of research explored the various per-sonality characteristics with a recent focus on the impact of charismatic and transformational Leadership ( e. g., Ling et al., 2008), emotions ( e. g., Kisfalvi and Pitcher, 2003), and emotional intelligence ( e. g., Scott- Ladd and Chan, 2004). The concept of locus of control ( see Chapter 3) is one variable that has shown links to upper- echelon decision making. Managers with internal locus of control emphasize research and development ( R& D) and frequent product changes. They also tend to be more innovative than those with an external locus of control ( Anderson, Hellriegel, and Slocum, 1977).

Most of the leader’s personal characteristics studied have some impact on organizational decision making, although the effect is not always strong. Two common themes run through the research about individual characteristics of strategic leaders. They are the degree to which they seek challenge and their need for control ( Nahavandi and Malekzadeh, 1993a).

CHALLENGE SEEKING A number of researchers considered the upper- echelon leader’s open-ness to change to be an important factor of strategic leadership. Upper- echelon management’s entrepreneurship ( Simsek, Heavy, and Veiga, 2010), openness to change and innovation, futuric-ity ( Miller and Freisen, 1982), risk taking ( Khandwalla, 1976), and transformational and charis-matic leadership ( Ling et al., 2008) are all part of this theme. The common thread among these constructs is the degree to which leaders seek challenge. How much is the leader willing to take risks? How much will the leader be willing to swim in uncharted waters? How much does the leader lean toward tried- and- true strategies and procedures? A more challenge- seeking person is likely to engage in risky strategies and undertake new and original endeavors ( Nahavandi and Malekzadeh, 1993a). A leader who does not seek challenges will be risk averse and stick with well- established and previously proven methods. The challenge- seeking dimension is most rele-vant in the way a mostrele-vantinthewaya leader formulates strategy. For example, one leader might pursue a highly risky product and a design strategy that will help produce and market such a product by accepting a high level of failure risk.

Challenge- seeking executives are celebrated in the current climate of crisis in many insti-tutions. Richard Branson’s willingness to take risks ( see Leading Change in Chapter 6) has been key to his success and his fame. David Rockwell, the visionary behind many of New York’s trendiest restaurants, is in high demand because of his creativity and his ability to harness the en-ergy of 90 designers who work for him ( Breen, 2002). Monica Luechtefeld, who has worked at Office Depot since the late 1990s and became the e- commerce vice president in 2009, is one of the “ fearless mavericks” of e- commerce ( Tischler, 2002: 124). She attributes her willingness to take on tasks that others shun to her parents’ constant messages of “ You can do anything” and “ Figure it out,” an approach she passed on to her son, who was raised hearing “ Why not?” from her ( Tischler, 2002).

NEED FOR CONTROL The second theme in research about CEO characteristics is the leader’s need for control, which refers to how willing the leader is to give up control. The degree of need for control is reflected in the extent of delegation and follower participation in decision making and implementation of strategy. Other indicators are the degree of centralization and formaliza-tion or encouragement and the degree of tolerance for diversity of opinion and procedures. Issues such as the degree of focus on process and interpersonal orientation ( Gupta, 1984), toler-ance for and encouragement of participation and openness, and what one researcher has called “ organicity,” which generally refers to openness and flexibility ( Khandwalla, 1976), are all part of this theme.

The leader with a high need for control is likely to create an organization that is central-ized, with low delegation and low focus on process ( Nahavandi and Malekzadeh, 1993a, b). The culture will be tight, and focus will be on uniformity and conformity. The leader with a low need for control decentralizes the organization and delegates decision- making responsibilities. Such a leader encourages an open and adaptable culture, with a focus on the integration of diverse ideas rather than conformity to a common idea. The culture will encourage employee involvement and tolerance for diversity of thought and styles ( Nahavandi and Malekzadeh, 1993a). No apparent pattern emerges regarding how controlling the upper echelons of successful organizations are, despite the empowerment trends. In some cases, such as the CEO and TMT of Johnson & Johnson, decentralization and autonomy of various units are built into the credo of the organization and are central to the success of the company ( Barrett, 2003). In other cases, such as Mickey Drexler, the CEO controls most of the decisions ( Rose, 2008).

Strategic Leadership Types The two themes of challenge seeking and need for control affect lead-ers’ decision making and managerial styles and the way they manage the various strategic forces ( Nahavandi and Malekzadeh, 1993a, b). First, the upper- echelon leader must understand and interpret the envi-ronment of the organization. Second, as the primary decision maker, the leader selects the strategy for the organization. Third, the leader plays a crucial role in the implementation of the chosen strategy through the creation and encouragement of a certain culture and structure and the selection of leaders and managers throughout the organization. Challenge seeking and need for control combine to yield four strategic leadership types ( Figure 7- 3). Each type represents an extreme case of strategic management style, and each handles the strategic forces in a manner consistent with his or her basic tendencies and preferences. Given the pressure toward empowerment, employee participation, and the per-ceived need by many to be unconventional and innovative in all aspects of an organization, it might appear that some types of leaders are more desirable than others. The participative innovator ( PI), in particular, could be perceived as ideal. Such an assumption, however, is inaccurate; different leadership styles fit different organizations based on their long- term strategic needs.

STRATEGIC LEADERSHIP TYPES AND THEIR IMPACT ON ORGANIZATIONS The first strate-gic type is the high- control innovator ( HCI). The HCI leader is a challenge seeker who likes to maintain tight control over organizational functioning. This type of leader sees opportunities in the environment and is willing to use technological advancements to achieve goals. HCIs look for risky and innovative strategies at the corporate and business levels that involve navi-gating uncharted territories and entering new markets or new industries. ( See Table 7- 3 for a summary of leaders’ impact on an organization and how they perceive and manage the six strategic forces.)

As opposed to the need for innovation when concerned with external factors, HCIs tend to be conservative in the management of their organization. The HCI leader has a high need for control that leads to the creation of a highly controlled culture in which adherence to common goals and procedures is encouraged and rewarded. Decision making is likely to be centralized, with the leader delegating few if any of the major decisions. The ideal organization for an HCI leader is one that is innovative and focused. The employees share a strong common bond and believe in “ their way” of managing. Mickey Drexler, discussed previously, provides an exam-ple of an HCI. He has been described as a “ visionary and a control freak” ( Gordon, 2004). Although innovative and a risk taker in his strategies and marketing, he keeps a tight control over his organization. Drexler is described as a relentless “ store walker,” who picks on every detail ( Kiviat, 2007). He is also known for his creativity and his ability to pick successful new trends. He states, “ I like to race, run and compete. . . . I’d rather make quick mistakes than have long slow successes” ( Dicocco, 2006). His COO at the Gap described him this way: “ Mickey’s always looking for a way to improve. He is always on the road, always talking to people in stores” ( Munk, 1998: 82). Another Gap manager noted, “ Nothing gets by Mickey. His attention to detail is extraordinary. He looks at threads, buttons, everything. He’s difficult and very demanding. He can attack” ( 71). Both at the Gap and in his new leadership role at J. Crew, Drexler is known for his knowledge and control of every detail. He admits, “ I spot de-tails quickly” ( Gordon, 2004). Another example of a HCI is Jeffrey Katzenberg, CEO of DreamWorks Animation SKG, discussed in Chapter 4. Unlike the HCI, the status quo guardian ( SQG) does not seek challenge; however, like the HCI, SQGs want to maintain control ( see Figure 7- 3). This type of leader needs control over the internal functioning of the organization and is risk averse. SQGs perceive their environment as threatening and tend to want to protect their organization from its impact. They do not seek new and innovative strategies, but rather stick to tried and well- tested strategies ( Nahavandi and Malekzadeh, 1993b). The organization run by an SQG leader is not likely to be an industry leader in new- product development and innovation. It, however, might be known for efficiency and low cost.

The ideal organization for an SQG leader is highly focused and conservative with a tight, well- defined culture that expects employees and managers to conform to existing practices and procedures. Decision making is highly centralized, with the SQG leader keeping informed and involved in the majority of decisions. Janie and Victor Tsao, Inc., magazine’s 2004 entrepreneurs of the year, built their $ 500- million, 300- person company, Linksys, on frugality, hard work, and tight control of every operation and decision ( Mount, 2004). Although they develop networking products and allow employees to run their own projects, the husband- and- wife team believes that their product is neither spectacular nor involves any particular genius— just a good business plan and tight execution. One of their employees described their style: “ Victor and Janie really like to see people execute” ( Mount, 2004: 68). Tootsie Roll Industries, Inc., is another company run by SQG leaders: Ellen Gordon, president, and her husband Melvin, chair of the board, along with four other executives, fully control all operations. Tootsie Roll is named repeatedly as one of the best- run small companies in the United States. Much of the credit for its success goes to the Gordons for their single- minded focus on their business and their benevolent, authority- oriented styles. Ellen states, “ We encourage a lot of new ideas, we create teams and we invite challenges, but we always have to make sure we stay on our overall goals” ( Murrill, 2007). The company has managed to focus on the candy- making business for 100 years and through a number of defensive moves, warded off acquisition attempts. With a narrow strategy and tight controls, the Gordons encourage openness and feedback from employees and continue to build a strong, con-servative culture.

The participative innovator is diametrically opposed to the SQG. Whereas the SQG values control and low- risk strategies, the PI seeks challenge and innovation on the outside and creates a loose, open, and participative culture and structure inside the organization. PIs view the envi-ronment as offering many opportunities and are open to outside influences that could bring change in all areas, including technology. Similar to the HCI, the PI is a challenge seeker and is likely to select strategies that are high risk. An organization run by a PI is often known for being at the cutting edge of technology, management innovation, and creativity. The ideal organization for a PI leader is open and decentralized, with many of the decisions made at the lowest possible level, because the leader’s low need for control allows for delegation of many of the decisions. The culture is loose, with much tolerance for diversity of thought and practice. The only common defining element might be tolerance of diversity— a “ vive la differ-ence” mentality. Employees are encouraged to create their own procedures and are given much autonomy to implement their decisions. The key to PI leadership is allowing employees and managers to develop their own structure and come up with ideas that lead to innovative products, services, and processes.

Ricardo Semler ( see Leading Change in Chapter 5) is celebrated for his willingness to give up control and empower his employees while implementing innovative management strategies. Not only is Roy Wetterstrom, an entrepreneur who created several businesses, a high risk taker, but he also believes that “ to make a big strategic shift, you’ll need to take a breather from day- to- day stuff” ( Hofman, 2000: 58) and push responsibility down the chain of command. John Chambers, CEO of Cisco Systems since 1995, often introduces himself as the “ corporate overhead,” serves ice cream to his employees, is open to ideas, is willing to adapt, and relies heavily on others to make decisions ( Kupfer, 1998). One Cisco employee described the culture: “ John has instilled a culture in which it’s not a sign of weakness but a sign of strength to say, ‘ I can’t do everything myself’” ( 86). The last type of strategic leader, the process manager ( PM), has the internal elements of PI leadership and the external elements of SQG leadership. The PM leader prefers conservative strategies that stick to the tried and tested. PMs are likely to shy away from risky innovation. The PM’s low need for control, however, is likely to engender diversity and openness within the or-ganization. Employees are not required to adhere to common goals and culture. As such, they have autonomy, and day- to- day operations are not highly standardized; the basic condition for decision making is not to create undue risk for the organization.

Jon Brock, who was the CEO of the world’s No. 1 beer maker until 2005, is a process man-ager. His company, InBev, is part Brazilian and part Belgian with headquarters in Louvain, Belgium. It produces the famous Belgian beer Stella Artois and the Brazilian beers Skol and Brahma. Brock is informal, easygoing, and relaxed and makes it clear that he does not want to be the world’s biggest brewer, just the best. His strategy focuses on efficiency and increasing prof-its by cutting costs. He wants to avoid hornets: “ We’re not going head- to- head with Budweiser, Miller, and Coors. That would be suicidal” ( Tomlinson, 2004: 240). As the former president of American Express and RJR Nabisco and CEO of IBM from 1993 to 2002, Lou Gerstner has a well- established and enviable track record as a strategic leader. He joined IBM at a time when the company was facing one of the most serious crises of its his-tory. Gerstner is a cautious leader. While at RJR Nabisco, he opened the way for reconsideration of many internal processes. He is intelligent and has exceptional analytical skills, but he is care-ful about change. He strongly believes that change cannot happen unless it is balanced with sta-bilization ( Rogers, 1994), and he is particularly skilled at letting his expectations be known. His approach is to improve existing processes slowly. He changed some elements of IBM and is proud of the company’s slow and steady progress. Some call him an incrementalist rather than a revolutionary who avoids big mistakes but is moving too slowly. All types of successful and effective leaders can be found in organizations. The need to re-vitalize our organizations is likely to be the reason we are celebrating innovators. The health- care industry’s award to best administrators regularly goes to innovators. The most- admired business executives are those who push their businesses through change. Many uncelebrated SQG and PM leaders, however, are managing highly effective and efficient organizations. For example, the leaders of the much- publicized Lincoln Electric Company are consistently SQGs or PMs. Their organization is a model for using financial incentives in successfully managing performance. Our current tendency to appreciate only change could make us overlook some highly effective managers and leaders.

Strategic Leadership: Culture and Gender

Given the cross- cultural differences in micro- leadership style and the importance and impact of culture on leadership behaviors, one would expect that strategic leadership also differs across cultures to some extent. Cultural values, in particular, can be expected to influence a top man-ager’s decisions and style ( Finkelstein and Hambrick, 1996).

EFFECT OF CULTURE With little empirical research conducted about the direct effect of culture on executive style, considerable anecdotal evidence suggests similarities and differences across cultures. As organizations become more global, their strategic leaders are also increasingly global, a factor that can attenuate cross- cultural differences. Consider that Lindsay Owen- Jones, who is Welsh, is the current chairman of the French cosmetics company L’Oreal. Nissan, which is owned by French car maker Renault, is run by Carlos Ghosn, who was born in Brazil from Lebanese parents and was educated in France. Swiss Nestlé is headed by Austrian Peter Brabeck- Lethmathe. Other companies actively seek to build diverse and multicultural TMTs. For example, half of the senior managers at Citibank and P& G are not from the United States. Models of cultures, such as those proposed by the GLOBE research ( House et al., 2004) and Trompenaars ( 1994), suggest that patterns of leadership differ from one country or region to another. Particularly, the GLOBE research identified cultural clusters within the countries they researched, each with different implicit leadership theories or CLTs ( culturally endorsed leadership theories; Dorfman, Hanges, and Brodbeck, 2004). For ex-ample, although most cultures value leaders who have a vision and are inspirational, Anglos, Latin Americans, Southern Asians, and Germanic and Nordic Europeans do so to a greater extent than Middle Easterners. Similarly, participation is seen as part of leader-ship by Anglos and Nordic Europeans, but not as much by Eastern Europeans, Southern Asians, and Middle Easterners. Columbians want leaders who are proactive and recognize accomplishment without being too proactive in terms of change ( Matviuk, 2007). Middle Easterners, more than other cultural clusters, con-sider self- protection ( including self- centeredness, status consciousness, and face- saving) to be part of leadership ( Dorfman et al., 2004). Based on cross- cultural research and case stud-ies, it is reasonable to suggest that upper- echelon leaders from different cultures will demon-strate different styles and approaches.

For example, being part of the “ cadre” ( French word for management) in France means hav-ing fairly distinct characteristics ( Barsoux and Lawrence, 1991). In the United States, upper- echelon managers are from different social classes with many different skills and backgrounds, but the French upper- echelon leaders are much more homogeneous. In a high- power- distance culture, in which leaders are ascribed much authority and many powers, the cadre comes almost exclusively from the upper social classes. Nearly all have graduated from a few top technical universities ( Grandes Écoles), where entry depends as much on social standing as it does on intellectual su-periority. These schools have a strong military influence and continue to be male dominated. Their goal is to train highly intellectual, highly disciplined students who develop close ties and support with one antoher well beyond their years in school. The French cadre is, therefore, char-acterized by intellectual brilliance, ability to analyze and synthesize problems, and excellent communication skills. Contrary to U. S. leaders, the cadre’s focus is not on practical issues or the development of interpersonal skills. Cultures with high power distance show little need to con-vince subordinates of the leadership’s ideas ( Laurent, 1983). The cadre is expected to be highly intelligent, and its decisions are not questioned.

Many of the members of French upper management have considerable experience in pub-lic and governmental sectors. This experience allows them to forge government– business rela-tionships that do not exist in countries such as the United States. Interestingly, graduates of the Grandes Écoles would not consider working for those who received regular university education. This factor perpetuates the homogeneity of the cadre, which in turn creates a group of like-minded executives who agree on many industrial and political issues. By the same token, this like- mindedness can lead to lack of innovation and the focus on intellect at the expense of action can cause poor implementation.

EFFECT OF GENDER Another area of interest is potential gender differences. Unfortunately, re-search is lacking on the topic of gender differences in strategic leadership. It is evident that many of the top- level female executives in traditional organizations succeed because their style mirrors that of their male counterparts. As Linda Hoffman, a managing partner at PriceWaterhouseCoopers LLP, states, “ Many of the things you must do to succeed are more comfortable for men than women” ( Himelstein and Forest, 1997: 68). Eileen Collins, commander of the space shuttle Discovery, believes that women often try to do too much and that men are more willing to delegate ( Juarez, Childress, and Hoffman, 2005), a sentiment echoed by Judith Rodin, former president of the University of Pennsylvania and president of the Rockefeller Foundation. She states, “ Women moving up in their careers often feel they have to be more aggressive, be more like men. They ought to find their own voice” ( Juarez, Childress, and Hoffman, 2005). Nonetheless, the more re-cent accounts of female executives and business owners and their focus on openness, participation, and interactive leadership provide some basis to make deductions about gender differences. It ap-pears that the feminine style of leadership is generally low control. Meg Whitman, former CEO of eBay, who was consistently ranked among the most powerful women in business and is running for governor of California in 2010, states, “ I don’t actually think of myself as powerful”; instead she relies on relationship building, developing expertise and credibility, and enabling— one of her fa-vorite words— her employees ( Sellers, 2004: 161). Similarly, Parmount’s Sherry Lansing, co-founder of Stand Up to Cancer foundation, is famous for her nurturing style, charm, and ability to show empathy ( Sellers, 1998). Gail McGovern, former president of Fidelity Investments and pres-ident and CEO of the Red Cross since 2008, observes that “ real power is influence. My observation is that women tend to be better in positions where they can be influential” ( Sellers, 2000a: 148).

Many female leaders, however, play down the gender differences. Judith Shapiro, former president of Barnard College, suggests, “ You need to be supportive of your people because lead-ing is about serving. That’s not a girly thing; it’s what I believe a strong leader does” ( Juarez et al., 2005). She attributes any gender differences to women’s social experiences. Chairman of the advertising company Ogilvy & Mather since 1997, Shelly Lazarus asserts, “ I don’t really believe that men and women manage differently. There are as many different styles and approaches among women as there are among men” ( Juarez, Childress, and Hoffman, 2005). Whether they are challenge seekers or risk averse, many upper- echelon women leaders, such as those described in the research by Sally Helgesen ( 1995), encourage diversity of thought and employee empow-erment. Their open and supportive style allows employees to contribute to decision making. In addition, the web structure that some women leaders are reputed to use is flat, with well- informed leaders at the center and without centralized decision making. As is the case with micro leadership, the type of strategic leadership that is needed depends on the type of environment the organization faces, the industry to which it belongs, and the inter-nal culture and structure that it currently has. Therefore, leaders define and influence strategic forces, and their style also needs to match existing ones. If an organization is in a highly stable industry with few competitors, the need for innovation and openness might not be as great. The appropriate focus in such circumstances would be on efficiency. For such an organization, a highly participative and innovative strategic leadership style might not be appropriate.

HOW DO EXECUTIVES AFFECT THEIR ORGANIZATION? Regardless of the type of leadership at the top of an organization, the processes through which strategic leaders affect and influence the organization are similar. As the chief decision makers and the people in charge of providing general guidelines for implementation of the strategies, top executives influence their organizations in a variety of ways ( Figure 7- 4).

Direct Decisions Leaders’ decisions regarding various aspects of the organization shape the course of their organ-ization. The choices regarding the vision and mission for an organization influence all aspects of an organization’s functioning. The vision and mission influence the culture of an organization by determining the basic assumptions, what is important, what needs to be attended to first, and what is considered less valuable. Similarly, the choice of strategy is considered to be the almost-exclusive domain of top management.

In addition to the vision, mission, culture, and strategy, the decisions to adopt a new structure, adjust an existing one, or make any changes in the formal interrelationship among employees of an organization rest primarily with top management ( Miller and Droge, 1986; Nahavandi, 1993; Yasai- Ardekani, 1986, 1989). The leader can determine the structure of the organization through direct decisions on the type of structure or indirectly through the way employees share and use information. Mickey Drexler of the Gap and J. Crew does not e- mail and does not write memos. He likes to use a public- address system to communicate with peo-ple in the office and leave voice messages and communicate face- to- face. His employees have learned to check their voice mail on a regular basis and be ready for his questions at any time ( Munk, 1998). A leader who consistently communicates only through formal reporting channels sets up a different structure than one who crosses hierarchical lines and encourages others to do so, as well.

Allocation of Resources and Control over the Reward System In addition to direct decisions, one of the most powerful effects of top managers on their organi-zation is through the allocation of resources and the control they have over the reward system ( Kerr and Slocum, 1987; Schein, 2004). A top executive is the final decision maker on allocation of resources to departments or individuals. If leaders want to encourage continued innovation and creativity, they might decide that the R& D and training departments of the organization will get the lion’s share of the resources. Such allocations reinforce certain goals and actions, support a particular organizational culture and strategy, and create structures that facilitate desired out-comes and discourage undesirable ones ( Kets de Vries and Miller, 1986; Miller, 1987). Consider that Jeff Bezos, CEO of Amazon. com, believes in spending resources on things that matter, which include simple and functional offices rather than luxurious furniture, creating small cre-ative teams, and borrowing competitors’ successful ideas ( Deutschman, 2004).

The formal and informal reward systems also can have a powerful impact on the culture of an organization and on the behavior of its members ( Schein, 2004). For example, top man-agers can shape the culture of their organization by rewarding conformity to unique norms and standards of behavior at the expense of diversity of behaviors and opinions ( Nahavandi and Malekzadeh, 1988). This process could take place not only through encouragement of certain behaviors but also through the selection of other top managers and the promotion of those who adhere to the leader’s culture. Such a process is likely to take place regardless of the leader’s style of strategic leadership. For instance, an HCI will be most comfortable with other HCIs, whereas a PI will prefer other managers with a similar style in key positions. A comparable process is likely to take place on an individual employee level. Employees whose actions fit the vision, mission, and culture of the organization are more likely to be rewarded. These processes create domino effects that further lead an organization to reflect the style and prefer-ences of its leader.

Setting the Norms and Modeling Rewarding certain types of behaviors and decisions is an overt action on the part of the leader; modeling behaviors and setting certain decision standards and norms, however, provide more in-direct ways of affecting organizations. Alan Mulally of Ford Motor says, “ I really focus on the values and standards of the organization. What are expected behaviors? How do we want to treat each other?” ( Bryant, 2009j). In addition to making decisions, the top managers can set the pa-rameters by which others make decisions. CEOs might tell their vice presidents that they will go along with their choice of a new product while also providing them with clear guidelines on which types of products are appropriate and which types of markets the organization should enter. By setting such standards, even without making a direct decision, the CEO still can be as-sured that the vice presidents will make the right decision. Another subtle way in which leaders shape their organization is by the types of behav-ior they model ( Nahavandi and Malekzadeh, 1993a; Schein, 2004). A top manager who believes that physical fitness is important might engage in vigorous exercise and invite mem-bers of the TMT to join in. Irishman Feargal Quinn, founder and president of Superquinn, a chain of supermarkets, gained a reputation as the “ pope of customer service.” He focuses obsessively on making sure his customers come back— an obsession that he transfers to his employees ( Customer service, 2007). James E. Rogers of Duke Energy, who was recently ap-pointed to be on the presidential panel on energy policy, emphasizes walking the talk, “. . . as I’ve been CEO for over 20 years, it’s really important to be on the front lines and to remem-ber kind of the sound of the bullets whizzing by, to be on the ground” ( Bryant, 2009k). Another area in which role modeling can have a powerful impact is in ethics. A. G. Lafley, former CEO of P& G considers self- sacrifice and integrity to be essential traits of leadership ( Jones, 2007). Similarly Gordon Bethune of Continental Airlines emphasizes the importance of integrity ( Bryant, 2010a). Bob Moffat, IBM’s senior vice president for Integrated Operations, demonstrates the need for hard work by spending 15 to 16 hours a day at the of-fice ( Fishman, 2001). Direct decisions, allocation of resources and rewards, setting of decision norms, and mod-eling are some of the ways through which a leader affects the organization. Through these vari-ous processes, leaders can make an organization the reflection of their style and preferences. They also provide strategic leaders with considerable power and influence. Such power requires some accountability, which is considered in the next section.

STRATEGIC LEADERS’ ACCOUNTABILITY Chief executive officers and TMTs around the world have considerable power and influence over people’s lives. Their actions affect the economic health of countries and citizens. For this burden, CEOs are well rewarded financially and achieve considerable status. The topic of exec-utive compensation, another governance mechanism, attracts considerable attention and criti-cism ( e. g., Pfeffer, 2010). The average salary of CEOs in Standard and Poor’s top 500 compa-nies in 2008 was $ 10.9 million, with perks averaging $ 364,04, which is nearly 10 times the median salary of a full- time worker ( Executive pay watch, 2009). According to the Economic Policy Institute, in 1978 CEOs were paid an average of 78 times as much as the minimum wage earner; in 2005, that difference increased to 821 times, leading the average CEO to earn more before lunchtime on the very first day of work than a minimum wage worker earns all year ( Mischel, 2006).

Even ousted CEOs fare well. By some estimate, the cost of various severance packages in 2006 for CEOs was over $ 1 billion in the United States ( Dash, 2007). The list includes fired AOL CEO Randy Falco, who will be payed $ 1 million in salary and $ 7.5 million in bonuses through 2010 ( Carlson, 2009). Seagate Technology is paying its fired Chief Executive $ 2.5 million and continuing to employ him as a $ 500- an- hour consultant while also covering the close to $ 30,000 cost of his health insurance ( Davis, 2009). Others include David Edmonston, who resigned from Radio Shack in 2006 after admitting lying on his resume ($ 1 million severance pay); Home Depot’s Robert Nardelli, who is reputed to have refused to have his pay tied to the company per-formance and received an exit package of more than $ 200 million in 2007, despite poor stock performance and considerable controversy and criticism ( Grow, 2007); Jay Sidhum, who re-signed from Sovereign Bancorp amid cricitism ($ 73.56 million that includes cash and stock op-tions, 5- year free health care, and consulting contract); and Douglas Pertz, who resigned from Harman International Industries after the stocks dropped during his 4- month tenure and still earned $ 3.8 million in severance pay ( Dash, 2007). Those who have kept their job continue to re-ceive highly generous compensation packages. United States executives have some of the high-est compensation packages in the world, although political pressure seems to have had an effect and caused a slight drop in average salaries in 2008 and 2009 ( MSNBC- Executive Pay, 2010). Japanese and European executives earn between one- half to one- tenth of comparable U. S. CEOs. These differences could have been explained by a higher performance of U. S. executives prior to 2008; however, the pay is generally not closely tied to company performance ( Pfeffer, 2010; The Pay at the Top, 2010). The issue of executive compensation is highly complex. Theoretically, boards of directors determine CEO compensation relative to company performance; the better the financial perform-ance of the company, the higher the CEO’s compensation. Therefore, CEO’s compensation can be an effective tool for motivating and controlling managers. In many cases, company leaders get fair compensation packages and perform well. The instances of lack of performance and high compensation, however, are hard to ignore. Many executives get pay raises that are considerably higher than their company’s performance. For example, in 2008, profit at Archer Daniels Midland fell by 17 percent; CEO Patricia Woertz’ salary was increased by close to 400 percent ( The pay at the top, 2010). Similarly, while Boeing’s profit dropped by 35 percent in 2008, CEO James McNemey got a 14 percent increase in his compensation ( The pay at the top, 2010). After pulling Vioxx off the market, shares of Merck slumped 30 percent, but the company board gave the CEO, Ray Gilmartin, a $ 1.4- million bonus and stock options valued at $ 19.2 million ( Strauss and Hansen, 2005).

Based on these examples and the extensive research about CEO compensation ( for a recent example, see O’Reilley and Main, 2007), company performance is not the only determinant of CEO compensation. So what determines an executive’s worth? Table 7- 4 gives a summary of factors that determine executive compensation. One factor that seems to explain the size of exec-utive pay in the United States is the size of the organization ( for a recent study, see Geiger and Cashen, 2007): the larger the organization, the larger the CEO’s compensation package, regard-less of performance. Another factor seems to be the competition for hiring CEOs; as organiza-tions outbid one another, salaries continue to increase. Organizations in which top managers have more discretion also tend to have higher pay ( Cho and Shen, 2007). In addition, research shows that top management pay and company per-formance are more aligned when the company’s board of directors is dominated by members from outside the organization ( Conyon and Peck, 1998). Other research that considers the impact of internationalization found that increased internationalization is related to higher CEO pay ( Sanders and Carpenter, 1998). The thought is that the high demands put on CEOs and the insta-bility of their positions must be balanced with high salaries. These high salaries, now standard in U. S. industry, show no end in their upward trend, even during a time of economic crisis. The re-sult is the creation of a new, powerful U. S. managerial class and a widening of the gap between high and low levels of organizations.

The highly paid top executives have become popular heroes whose names are part of our everyday life. Based on economic and organizational theory, environmental forces will push a nonperforming leader to be replaced. Ideally, elected federal, state, and city officials who do not perform are not reelected. Similarly, the board of directors replaces a CEO who does not manage well. The principal of a school with poor student academic performance and a high dropout rate would be fired by the school board. These ideal situations do not seem to be common, however. Many powerful leaders are not being held accountable for their actions. They continue to hold positions of power and influence regardless of their organization’s poor performance, ethical abuses, and social irresponsibility. It is not common in the United States for a company CEO or public officials to resign when they fail to live up to the promises they made. When their organi-zations cause major disasters or commit illegal acts, the CEOs escape unscathed. The CEO of Exxon accepted none of the responsibility for the Valdez fiasco. After the Bhopal disaster, with several thousand dead and hundreds of thousands injured, the CEO of Union Carbide was not re-placed. The public firing of the CEO of General Motors by the U. S. government in 2009 and the replacement of BP’s CEO Tony Hayward in 2010 are the exception rather than the rule. For the benefit of organizational and social functioning and well- being, it is essential that the tremendous power, influence, and status of CEOs be accompanied by accountability and responsibility to their various constituents. Such accountability exists on paper but is hardly ever executed. The power and impact of upper- echelon leaders are undeniable. Their credibility and ability to further affect their organizations, however, can increase only with more accountability.

UNIQUE CHALLENGES OF NONPROFIT ORGANIZATIONS Nonprofit organizations are private organizations that cannot make a profit for its owners or members but can charge fees for services or membership. Other terms used to describe such agencies that are private, nonprofit, and with a public purpose include voluntary, not- for- profit, philanthropic, and nongovernmental organizations ( NGOs; Weiss and Gantt, 2004). Although many of the leadership and organizational principles that apply to business and other organiza-tions are also relevant in nonprofit organizations, some of their distinguishing characteristics present them with unique leadership challenges. The case of Kavita Ramdas in Leading Change in this chapter provides an example of a leader of a nonprofit organization. The primary purpose of her organization is public good, and its source of funding is donations through grants, founda-tions, and individuals.

Characteristics of Nonprofit Organizations Many of the characteristics that identify nonprofit organizations are related to tax status. Other characteristics include • Operate without profit. Although nonprofit organizations charge for services or member-ship and many generate and use considerable sums of money, all the funds are reinvested to support the operations of the organization. Many nonprofits are highly “ profitable”; however, all excess funds are reinvested to achieve their mission. • Public service mission. The primary mission of a nonprofit organization is to serve the public good, whether it is health care ( hospitals), education ( schools and universities), churches, community improvement, or foundations with a broad purpose. • Governed by voluntary board of directors. As opposed to business organizations that have paid board of directors, the governing boards of nonprofits are staffed by volunteers with a stake or interest in the mission of the organization. • Funded through contributions. Whereas charging fees is a source of revenue for many nonprofit organizations, their primary sources of funding are contributions, grants, and do-nations from individuals, government agencies, and other foundations.

There are many organizations around the world that fit into the nonprofit category. Examples in the United States include the American Cancer Society, National Geographic Society, the Metropolitan Museum of Art, Stanford University, Planned Parenthood, the Ford and Rockefeller Foundations, the National Association for the Advancement of Colored People ( NAACP), and the YMCA and YWCA. Around the world, NGOs make considerable contribu-tions to improving social, human, political, economic, and ecological conditions. Organizations such as Doctors without Border ( Médecins sans Frontrières); OXFAM, an inter-national relief agency; the International Red Cross; and the World Wildlife Fund are just a few that encourage development and support communities in crisis around the world. These organ-izations survive and achieve their goals by using funds they obtain through various means. For example, physicians volunteer their time through Doctors without Borders and provide health care in remote areas of the world; OXFAM provides funds and resources to combat global poverty and social injustice.

Leadership Challenges The leadership of nonprofit organizations involves the same principles as other organizations. Their leaders must help individuals and groups set goals and guide them in the achievement of those goals. The public- good mission of nonprofits, along with the vol-untary participation of many of their employees, contributors, and other stakeholders, creates a particular burden on leaders of such organiza-tions to lead through a collaborative and trust- based style. In most cases, individual donors, except for tax benefits when applicable, do not get tangible benefits from their donation, and the resources they con-tribute do not always stay in their community. The nonprofit is based to a great extent on the principles of altruism and selfless contribution. As much as integrity, trustworthiness, and self- sacrifice are ele-ments for all leadership situations, they are even more so in the nonprofit organizations. Without the profit motive, which legitimately guides business organizations and the rewarding of its leaders ( e. g., top leaders being compensated with company shares), nonprofit organiza-tions are likely to attract leaders with a stronger focus on civic contribution. The role of leaders in nonprofit organizations is that of an intermediary ( Butler and Wilson, 1990). The leader guides the organization to allocate the resources, such as donations or grants, to various re-ceivers turning the resources that are trusted to the organization into social good ( Figure 7- 5). Kavita Ramdas and her Global Fund for Women distribute the resources they gather throughout the world to improve women’s lives. In his commencement address at the University of Maryland, Brian Gallagher— president and CEO of the United Way, the $ 5- billion umbrella or-ganization for large number of charities— emphasized the importance of service to the community and stated that his organization “ improves lives by mobilizing the caring power of communities” ( Gallagher, 2006: 6). Luis A Ubiñas, president of the Ford Foundation— a resource for innovative people and institutions worldwide, leads an organization that has as its mission to strengthen democratic values, reduce poverty, promote international cooperation, and advance human achievement ( Ford Foundation Mission, 2007). The organization aims to achieve these goals by providing grants to qualified groups and organizations. One of the major challenges that leaders of nonprofit organizations face is how to recruit, retain, and motivate employees, many of whom are volunteers, without having access to substantial monetary rewards. Even in the case of paid employees, salaries are often lower than compara-ble positions in business organizations. The leaders of nonprofits, therefore, require considerable skills in motivating and inspiring their followers. In many cases, followers have joined the organ-ization because they are passionate about its mission; however, passion alone does not always lead to effectiveness. An additional factor is that the structure of many nonprofits is relatively flat, with few employees and few layers of management. Effective leadership requires empower-ment; use of all available resources, often by harnessing the power of teams; and participation to creatively solve problems without many resources. According to recent studies, nonprofit organizations are facing a leadership crisis because of a significant shortfall of qualified leaders ( Tierney, 2006). As more nonprofit organizations are created and step in to address growing social challenges not addressed by government or busi-ness organizations, the need for effective leadership increases. According to the Bridgespan Group’s 2006 study, the total number of nonprofit organization has tripled over the past 20 years, but because of demographic shifts, retirement, and lack of active recruitment and development, the supply of potential leaders has not kept up ( Tierney, 2006). One of the challenges leaders of nonprofits, therefore, face is the recruitment, retention, and development of future leaders. Such a task is much simpler in a business organization, where considerable resources are dedicated to recruitment and development and access to a pool of leaders from competitors is much greater. Although many of the processes involved in leading nonprofit organizations are similar to those used in a business organization, leaders of nonprofits need a particular emphasis on build-ing relationships and trust and on the development of future leaders .

Summary and Conclusions

Upper- echelon or strategic leadership has many commonalities with leadership at lower levels of organizations. Upper- echelon leadership, how-ever, adds a new level of complexity to the process by focusing the leader on a whole organ-ization rather than a small group or department and by giving the leader discretion with far-reaching influence over decisions. In addition, upper- echelon leaders focus on external con-stituencies as well as the internal environment and in so doing are required to lead with a team of other executives. An integrated approach to upper- echelon leadership considers the leader to be a formu-lator and implementer of strategy. Therefore, in addition to considering the need to match the leader to existing strategy and other organi-zational elements, the integrated approach also considers the role of the leader’s individual characteristics and style in the selection of various organizational elements and the imple-mentation of decisions. The matching concept, which views the CEO primarily as an imple-menter of existing strategy, is also useful when selecting a leader to implement a newly charted course. Two major themes run through the diverse research about top management characteristics. The first theme is the leader’s degree of chal-lenge seeking and preference for risk and innova-tion. The second is the leader’s need for control over the organization. The combination of these two themes yields four types of strategic leaders: HCI, SQG, PI, and PM. These four types each exhibit different preferences for the direction and management of their organization. They exert their influence through direct decisions, alloca-tion of resources and rewards, and the setting of norms and the modeling of desired behaviors. Through these processes, strategic leaders gain considerable power and influence. Such power is accompanied by generous compensation pack-ages. Accountability for the actions of top execu-tives, however, is still limited. Although many of the processes involved in leading nonprofit organizations are similar to those used in business organization, leaders of nonprofits need a particular emphasis on building relation-ships and trust and on the development of future leaders. Overall, the area of strategic leadership, whether in business or nonprofit organizations, provides a different and important perspective to the study of leadership. Strategic leaders face many challenges that micro leaders do not. The study of strategic leaders is also a fertile area for integrative research linking micro and macro factors. Page 237

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