



Romantic Idealism: Transitioning from For-Profit to Non-Profit Leadership

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Where do non-profit boards recruit from when they inevitably need to replace key leadership positions? One source of recruitment may be from the for-profit executive ranks. Ironically, many non-profits are uninterested in recruiting from the ranks of older, retiring professionals,¹ even though these experienced professionals form a major pool to recruit from. The transition is not without hurdles, and this article focuses on some of the differences and similarities amongst leadership positions in the business and non-profit world and the issues and strategies involved in the transition to non-profit leadership. Organization, leadership and followership are all needed in any organization, but the differences may diminish the romantic idealism that some executives may have on working in a non-profit organization. Darren is a fictitious character, but his struggles and experiences are synonymous with the struggles that many leaders may face in a transition from the for-profit to the non-profit world of organizations.

The 21st century will be the century of the social sector organization...The leadership, competence and management of the social sector organization will largely determine the values, the vision, the cohesion and the performance of the 21st century society.

Peter Drucker

The impact of non-profit organizations on our world cannot be understated. These organizations can be as small as a local soccer association or as large as a multinational humanitarian organization. They can include churches, social service organizations, art showcases, humanitarian agencies, or any organization that legally exists for a cause, not to distribute profit to owners or shareholders in the form of dividends.² In Peter Drucker's words, "the non-profit organization exists to bring about a change in individuals and in society."³ The non-profit sector contributes 7.2% to the United States GDP, with an average of 5% contribution to national GDP

worldwide.⁴ These non-profit organizations account for 66.2% of the value added in the social services field and 52.9% of the value added in sports and recreation activities.⁵ In 2004, the total wages paid out by United States non-profit organizations reached \$321.6 Billion (compared to \$276 Billion in the construction industry).⁶ Non-profit organizations' impact and necessity in our society is important, and how they are structured and led impacts all of society, not just the individual organization.

In recent years, corporate scandals have led an intriguing turn towards non-profit organizations for examples of exemplary leadership.⁷ The romanticism of sacrificing to work for a cause may also open up doors for non-profits recruiting some idealistic managers from for-profit organizations.⁸ Many corporate executives may sacrifice large salaries to find meaningful work in a non-profit organization. Within the next five years, 75% of non-profit executives plan to leave their current position.⁹ This creates a conundrum for non-profit boards as they will need to replace these leaders with competent and experienced leaders. One estimate found that the non-profit sector will need 80,000 new leaders in 2016, just to replace the number of executives retiring or transitioning out of leadership.¹⁰ Many organizations have not considered this fact, as only 29% of non-profit organizations have even discussed a succession plan.¹¹

The need for effective non-profit leadership will also continue to increase through the economic turmoil our world is facing. Non-profits tend to have "counter-cyclical" employment demands through economic recessions where their employment and societal impact actually increases.¹² As people experience hardship, the need for non-profit organizations increase, and their impact cycles upwards. As people experience growth and "good times", the need for non-profit organizations actually decreases. Unfortunately, as the world looks at a potential recession, one growing employment market could be non-profit organizations.

Worlds Apart

Both the businessman and the civil servant underestimate the difficulty of managing nonprofit organizations. Both are wrong, nonprofit organizations are more complex than business or government. - Peter Drucker

Darren sat back and stared at his computer screen. What a day. It was 8:00 p.m. and he was still at the office. He picked up the phone to ask a question he knew would make the day of the recipient.

"Can we go for coffee? I need some advice," Darren asked.

"My big brother needs my advice? Wow. I am marking this day down in my Blackberry right now...Are you okay?" Karen gloated.

“Very funny. Yah, I just uhhh, need to talk a bit,” Darren reluctantly replied.

“Sure. How ‘bout 9:00 at that cool little shop on 5th Street?”

“Sounds good. I’m buying though. I really need help.” Darren set down the phone and let out a sigh. Three weeks as the Executive Director at Island Community Association (ICA) and he was worn out. He had a successful career as a corporate executive and recently sold his company. The allure of working for a non-profit organization attracted him to the non-profit world and here he was. Now his mind was spinning with acronyms, financial statements, behaviour plans, and psychological terms he had never heard before. In the past three hours alone, he approved hiring two new employees, met with a salesperson trying to sell upgraded client tracking software, attempted to catch up on his emails, was debriefed on an employee who injured her back, and talked to the board chairman regarding the upcoming board meeting. And people say they are busy in the corporate world, he muttered under his breath as he quickly typed up a few more emails.

“So what’s on your mind? Are you ready to pack it in already?” Karen chuckled as her latte was brought to her table.

“No. I’ve never quit anything in my life. But well, the job wasn’t supposed to be this tough,” Darren exclaimed.

“Well what did you think I did all day?” Karen laughed. “We are real organizations with structures, systems, leadership and everything else the business world has.” Karen was the Executive Director of a humanitarian organization that provided food and medical relief in war-stricken countries.

“I know that. I guess I never thought running a non-profit organization would be this tough. It was supposed to be an easy retirement job for me.”

“Welcome to my world. I don’t think you ever really believed how much work I do,” Karen laughed. “So what’s on your mind?”

“Well, I have to be a leader in finance, human resources, strategic planning, board governance...which I knew I would need to be...but I also need to meet with psychologists, psychiatrists, therapists, counselors, accountants, lawyers...”

“And your point?” Karen interrupted.

“I guess I had this romantic view of a non-profit job, and that came crashing to earth these past few weeks. It’s not a whole lot different than what I used to do except...”

Karen smiled, "Except?"

Darren sat back, "Except I feel my job means something. It's amazing to think that I sacrifice to work where I want to work. All we do is help our community."

"So what's the problem?"

"I guess I just hope I can get everything done. I used to just hire people to do everything I didn't want to do. I had a huge staff at my disposal that helped me grow my company. Now, I don't know if I have the money to hire anyone. Our government funding in this volatile economy could be cut, and we're worried about whether people will continue to donate money to keep us going."¹³

"The economy is probably not going to get better. Ironically, it might actually increase donations. It's always hard to tell. As you grow, you will always be worried about whether the money will be there. The worries come with the territory."

"Growth. I can't even fathom that right now. I am just trying to stay afloat. In business, I was always looking for new markets, or ways to better infiltrate markets. Now, I'm not even sure if I should worry about expanding. If we do, we may stretch the quality of service substantially. For the first time in my career, I think the right solution to growth may be to stay the size we are at for now. I hate the status quo, but that may be the right option for once."

"I can imagine. At my organization, we haven't grown financially the past few years, but I don't feel like a failure by any means. More revenue and employees does not mean we are achieving our mission better. But I've seen so many amazing changed lives in the people we work with that I get excited when I go to work. I could sit here and tell stories for hours, like when we helped this family in Burkina Faso who lost their home in a bombing and..."

"I know. I know," Darren interrupted, "you tell those stories every time we get together. If you get started, we'll be here all night. How do you not want to grow?"

"I do want to grow, but only if it helps us to better achieve our mission. I go for quality, not quantity. I also aim for 100% involvement by the people in our organization. Board members. Volunteers. Staff. Everyone. Did you know that only 46% of charities have 100% of their board members support the organization financially?"¹⁴

"Really?"

“Yes. And the number one factor related to giving seems to be the ‘percent of participation’ metric regarding membership. If 100% of the people involved give money to the organization, then that giving, even if it is only a small amount, will increase their overall commitment.”¹⁵

“Interesting. We do have a few board members with sporadic attendance rates. I will check tonight and see what our giving rates are too. That may really help. Don’t think I am being too negative here, I think ICA is an amazing organization, and they...I guess it’s “we” now, do such amazing work with our clients. I ran into a client last week, and she was in tears thanking me for helping her son gain the confidence he needed to find a job. I have no idea how we found him a job, or even what his problems are, but apparently we did. I’ve never had a customer in all my life express such gratitude like she did.”

“You’re going to start telling stories like I do now aren’t you?”

“Probably. I always did talk more than you. But my question is where do I lead this organization now?”

Diverse, Eclectic and Romantic Leadership

Darren’s situation is not unique. The majority of for-profit executives state that their ideal next jobs are in the non-profit sector,¹⁶ while 62% of for-profit employees would seriously consider a career in a non-profit.¹⁷ Whether these executives do transition careers or not is another question, but there is definitely a romantic allure to working for a non-profit cause. If these executives do switch, they may face similar struggles to what Darren describes. Non-profit leadership requires a diverse blend of skills and a missional attitude towards “the cause,” whatever that cause might be. The biggest adjustment for executives transitioning to the non-profit world may be adapting to the reasons people work there. Money is not the primary motivating factor. People work because of the mission and the cause, not just a paycheck. Employees, if they previously worked in the for-profit world, may have taken significant pay cuts to work at a job that helps a cause they believe in. Few non-profits, if any, are able to recruit based on monetary incentives.

A board governs non-profit organizations, like many of their for-profit counterparts. These board members are volunteers, and are not compensated for their time. This lack of monetary payment creates difficulties in recruiting board members, and most non-profit executives express extreme frustration with their boards.¹⁸ Board members may be inexperienced, or have competing agendas. The board itself has working authority over the Executive Director, and board members may be involved in the day-to-day operations of the organization. On a positive note, most non-profits have a board of dedicated people to the cause of the organization.¹⁹ These board members support the mission and have an interest in the organization’s work.²⁰

All organizations need to move forward, but non-profits move forward in different ways than for-profit businesses. Performance is still measured, although the terms might be different. Instead of sales growth, a non-profit, depending on the purposes, may measure performance by measuring an increase in donations, attendance or funding. The complicating factor for transitioning executives is not that some performance is impossible to legitimately measure, nor is there agreement on how to measure non-profit performance.²¹ Even promotions are tough to predict or plan for in non-profits because leadership development programs may not be feasible within the finite budget.²²

If an economic recession hits, and an organization's donations suffer, how does one separate the organization's performance from mitigating factors, and how does this reflect on the executives in charge? How do funders or donors evaluate the effectiveness and return on investment of their donation? These questions are tough, and illustrate the added responsibilities an Executive Director may have in leading a non-profit organization. James Gustafson, in his analysis of the leadership styles of non-profit executives, describes two aspects of socially responsible leadership: value shifting and core changing.²³ Analyzing these two concepts gives us insight into the differences between for-profit and non-profit organizations.

Non-profit organizations exist partly to shift the values of the world around them. They literally want to change the world, one person at a time. They exist to help people, but also exist to potentially work themselves out of a job. Darren's organization fulfills a need. If that need was no longer a need, ICA would no longer need to exist. Ironically, the extreme definition of success for a non-profit would be for the organization to no longer be needed. Our world is imperfect, and the thought of a world without the need for non-profits may be just an imaginative utopia. Regardless, it is still the goal.

Non-profits also exist to change the core of the society around them. Non-profit organizations want to create a dependency on their product. The ultimate business success is creating such a need for a product or service that the world could not imagine life without it. Imagine a world without Microsoft Office? Or Blackberries? Or Q-Tips? Are these products really necessary to our day-to-day lives? No. But could you imagine life without them? Probably not. A business succeeds by changing the world to create or increase an insatiable need for the product or service it sells. A non-profit organization succeeds by changing the world so that the world no longer needs its services. Once the core changes favorably, the non-profit withdraws; while the for-profit organization aggressively moves forward to increase sales and/or market share.

An Organization is an Organization is an Organization

“You know, I love the fact that we help people and that our work means something. I’ve given money to many organizations before and now I make about 1% in salary of what I made last year...and I don’t care.²⁴ It seems like my life has purpose now. No one remembers something they bought 10 years ago. But they will always remember someone who helped change their life,” Darren stated.

“I knew you’d love it. But don’t ever forget that ICA is an organization too. In some ways, it operates exactly like a for-profit business too,” Karen replied.

“How so?”

“Well first off, you have 100 plus employees who depend on you for a paycheque. They probably love what they do, but they still need to pay bills. You are still their employer. You have to figure out a way to fairly compensate them for their job duties. You have to make sure they get a paycheque each month. You might have to worry about benefits, maternity and paternity leaves, sick leaves and everything else involved in coordinating an organization. In this way non-profits are identical to for-profit organizations.”

“I’ve figured that out already. I honestly can’t believe that people are willing to work for sometimes less than half of what they could make in the for-profit world. I’ve made a lot of money in my life, so my salary doesn’t bother me too much. But my frontline staff are just amazing. Agreed though, the coordination of the employees in this sense is much the same.”

“Second, with that many employees, you need to organize them somehow. The principles of organizational behaviour apply to groups of people. You need leaders to lead people and policies to govern. Third, you will need to lead the organization and develop leaders within it. Leadership is important in all types of organizations. You need to find talent, recruit that talent, and keep that talent, all while developing the future leaders. You are getting kind of old. You should start thinking of succession planning too in case you die of old age.”

“Very funny.”

“Fourth, you need to develop effective followers within the organization too. Your people need to lead, but they also need to follow. They need to be courageous and advocate for people in need. Sometimes though, they need to follow and excel at whatever their job is.”

“Sounds pretty similar to what I did with my manufacturing company. Find the right people. Find the right place for those people. Give them the resources and support they need, and get the heck out of their way.”

“Not bad. You read that in a book somewhere? Karen asked.

“Yep. You should try reading a book for once. They are great,” Darren laughed.

“Very funny.”

“Go back to your first point. I know I am an employer, but what does that mean in this job?” Darren asked.

Some Things Remain the Same

An employer is any person or any organization that provides a paycheck to a person. In this sense, a non-profit and for-profit organization are very similar. A difference though, is that non-profits spend an average of 66% of their expenditures on employee compensation, while for-profit organizations spend an average of 27% on employee compensation.²⁵ Non-profits truly are “people” organizations. All employees need a paycheck of some kind in order to live. Whether the employee makes \$20,000 per year or \$200,000 per year, that paycheck becomes a motivating factor to showing up at work. Many non-profits do utilize volunteers, but those volunteers are inevitably coordinated by a paid staff member. Few non-profits can exist without some paid employees. To lead those employees and volunteers, organization, socially responsible leadership and followership are all needed

Organization

Organization is a necessary aspect of coordinating any amount of people. Darren’s organization has 120 employees in it, and he will need policies and procedures to govern their work. He will need someone to coordinate accounting, human resources, payroll and all other duties that organizations have. He will need to determine which jobs utilize volunteers and why other jobs involve paid staff. Organization is needed because organizational anarchy will crash the organization (or inevitably subject it to lawsuits).

The structure of non-profits, like for-profits, will vary, but needs to include three key components:

- Designation of formal reporting relationships
- Identification of grouping together of people into teams or departments
- Creation of systems that make the organization work²⁶

These systems are no different than any other organization. Some non-profits are hierarchal in nature. Others are organic. The structure could be structured by function, division, or geography, or could be structured in a matrix.²⁷ Victor Sohmen describes one model as being structured based on projects.²⁸ While this model will not fit all non-profits, it is consistent with the missional approach of many non-profits. Regardless of the model chosen, the leaders need to strategically implement an effective organizational structure to ensure the mission is fulfilled.

Socially Responsible Leadership

Leadership is required in all types of organizations. What this leadership looks like in action will vary depending on the situation and the personalities of the leaders. A situational view of leadership would allow for the adaptation of leadership styles depending on each situation. Non-profits require this adaptation, but are no different than a for-profit in this area. In non-profits, like in for-profits, there is a direct correlation between the effectiveness of the leadership and the effectiveness and stability of the whole organization.²⁹

Ken Blanchard and Phil Hodges emphasize that leaders must differentiate between success and effectiveness. Success can involve only short-term gains, while effectiveness accomplishes results, as well as long-range growth and development.³⁰ Non-profit leaders may never see the true results of their labors in their lifetimes. Their legacy may be long-lasting changes in society, not just appreciated stock prices. James Gustafson's analysis of non-profit leaders illustrates how extraordinary many leaders of non-profits really are. Many have made extreme sacrifices in their lives to build an idea of hope into an organization that carries through with that idea.³¹ Gustafson defined socially responsible leadership using a lighthouse metaphor where these leaders "give the gift of hope by lifting other along their own life journeys."³²

Non-profit organizations that recruit for-profit leaders need to ensure that the potential leader has the core beliefs needed to lead a non-profit. Eleanor Josaitis, co-founder of the non-profit organization Focus:Hope, describes the essence of socially responsible leadership in this way:

If I want people to pick up the paper as they're walking down the street, I damn well better bend down and pick up the papers when I'm walking down the street. If I expect these people to be ambassadors, I better be an ambassador. If I want to talk about integration, if I want to talk about breaking down barriers, I better live it.³³

Regardless of the talents of a potential executive, the executive needs to believe in, and *live* the mission of the organization. The foundation of an effective non-profit leader is living that mission throughout his or her life, and leading out of that mission.

Followership

Followership is also required in all types of organizations. Leadership is necessary, but every leader inevitably follows too. Their skills at following become as important as their skills at leading. The “romance” of leading a non-profit organization can attract a potential leader, but in reality, the day-to-day actions of the leader will be closely tied to external factors that may be beyond the leader’s control.³⁴ The leader will inevitably follow and lead simultaneously, and the asymmetrical power relations between the leaders and followers will coincide with the existing culture and organizational hierarchies.³⁵ Darren is already feeling this struggle as he tries to stay afloat with the workload, while leading the organization and leading (or perhaps following) the staff around him. This juggling act is an everyday occurrence amongst non-profit leaders.

In terms of developing followership, for-profit and non-profit organizations are identical. Courageous followership involves the courage to serve, take responsibility, challenge, participate in transformation and take moral action.³⁶ Non-profits require all employees to participate and follow each other to maintain fulfill their mission. Robert Kelley advocates that exemplary followers need to weave a web of relationships around them.³⁷ This “web” can help fulfill the mission. Regardless of individual preferences, all organizations require employees who are able to follow and lead. Effective followership will balance with leadership around the mission of the organization.

Conclusion

The non-profit world has many attributes that may attract unusual talent. The skills a corporate executive may learn in his or her career may directly transfer to the non-profit executive suite. There are some differences, and there will inevitably be bumps in the road along the transition path, but the opportunity to recruit this talent is there. Non-profits may not offer a lucrative salary, but they are “propelled along by some otherworldly energy source,”³⁸ as Anne Loecher wrote describing her own transition from the corporate to the non-profit world. Loecher humorously writes that,

At one point I envisioned a new reality TV show, “Extreme Nonprofit,” in which beleaguered visionaries competed to see who could do the most with the least. “Can I have the pen?” “Are you remembering to recycle the Post-its?” They are working in an

office with its own weather system due to broken furnaces in a subzero climate and lack of air-conditioners on sub-Saharan days.³⁹

Not all non-profits are as extreme as Loecher writes about, but the allure and adventure of working for an organization may draw people away from their jets and mahogany desks to the romanticism and adventure of the nonprofit world. The transition is tough, but the long-term job satisfaction may be worth it. Just as importantly, the non-profit world may need these transitioning executives to help lead their organizations if they are to survive.

Endnotes

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