Is Nonprofit Organizational Success Related to A Charismatic CEO? An Exploration of the Relationship between Organizational Performance and the Perception of the CEO

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Abstract
Executives of non profits rely on the support of volunteers and funders. Having the ability to influence these types of stakeholders can be key to the organization’s success. Many nonprofits are at risk for having to operate under significant budgetary constraints. This has become even more evident as states have reduced financial support for nonprofits in the wake of the Great Recession. The purpose of this paper is to help understand the relationship between organizational performance and the perception of CEO charisma.

Introduction
Leadership literature suggests that there is a positive relationship between leaders and their effects on organizational outcomes (Agle, Nagarajan, Sonnefeld & Srinivasan, 2006; Bass, 1985; Conger & Kanungo, 1998; Fiol, Harris, & House, 1999; Kaiser, Hogan, & Craig, 2008; McCann, Langford, & Rawlings, 2006). Although the leadership literature is immense, there is debate about whether leaders influence the performance of their organizations. Numerous studies suggest that the Chief Executive Officer (CEO) plays a critical role in determining the success of an organization and that this leadership is crucial to organizational success (Finklestein & Boyd, 1998; Hogan & Kaiser, 2005). Agle and colleagues’ (2006) extensive literature review of leadership theory further supports this position.

In contrast, some researchers argue that the leader’s influence has far less of an impact compared to historical, organizational, and environmental forces and that organizational performance is an emerging phenomenon involving the interaction among variables in a system open to outside influences (Lieberson & O’Connor, 1972; Marion & Uhl-Bien, 2001). However, not all researchers view leadership in a positive light. Some suggest it is overvalued and that people tend to over attribute success or failure to a leader without considering the external factors that may contribute to the outcome (Awamleh & Gardner, 1999). Daft, Sormunen, and Parks (1988) performed an empirical study to examine the role of company performance based on environmental scanning. The findings imply that chief executives in higher performing companies scan more broadly and more frequently than those executives in lower performing companies, supporting earlier work that identifies that the environment affects the organizational structure more than any other factor. In addition to the skepticism about the relationship between leaders and organizational outcomes, researchers recognize that there is a dark side of leadership, as in charismatic leadership, that can result in devastating outcomes for followers and organizations (Hogan & Kaiser, 2005; House, Spangler & Woycke, 1991). Conger and Kanungo (1998) state that charismatic leaders can be prone to extreme narcissism, lose touch with reality, and be detrimental to the organization.

The leadership literature often examines the relationship between leaders and the success of for-profit companies (Agle et al., 2006; Fanelli & Misangyi, 2006). However, others are beginning to study nonprofit organizational performance; more specifically, relationships between leadership styles, leadership behaviors, and organizational performance in nonprofits (Chung & Lo, 2007; Ritchie & Kolodinsky, 2006; Schmid, 2006). However, research specific to developmental disability organizations and CEO effectiveness is lacking. Fanelli and Misangyi (2006) identify that the majority of research about leadership and organizational effectiveness focuses on the internal factors of an organization.
In addition to the internal factors that are crucial to the organization’s success, most studies are remiss in recognizing that the company executive also represents the organization to outside stakeholders. In the case of nonprofit companies, there exists a diverse group of internal and external stakeholders, including clients, government, individual supporters, board of directors and foundations. Nonprofit organizations that serve persons with developmental disabilities rely heavily on government funding and fundraising efforts of both individuals and foundations. It is unlikely that these types of providers could succeed without the support of these external stakeholders.

Leadership theory, charismatic leaders, the relationship between leaders and organizational success and the differences between for-profit and nonprofit companies are important topics to be explored in order to better understand their role in nonprofit organizational outcomes. Hull and Lio (2006) identify nonprofit organizations as having challenges that are unique. These challenges include extensive social responsibility and complicated restrictions on financial and strategic actions. Nonprofits also employ both volunteers and paid employees, which require different type of management. Managing and leading volunteers, most of whom are dedicated, energetic, and well-connected individuals, requires immense CEO talent, skill, and a certain measure of humility (Potter et al., 2010). Chung and Lo (2007) emphasize that effective Human Resource Management in nonprofits is essential for company success (2007). Schmid (2006) states, “if organizations fail to channel efforts toward raising the funds they need for their activities or fail to change hostile environments into supportive environments, they are likely to face crises that will undermine their stability”. The purpose of this study is to explore the relationship between charismatic leadership and nonprofit organizational success. More specifically, this study investigates the relationship between charismatic leadership and: a) dollars raised and b) voluntary turnover of employees in developmental disability organizations.

**Literature Review**

**Leadership Theory**

Leadership is defined as an influence relationship among leaders and followers. It has been a topic of discussion for centuries and has resulted in the formation of evolving theories of leadership (Daft, 2005). Characteristics of leaders and their relationship to organizational performance such as personality, intelligence and intuitive decision style have all been studied by scholars (Hogan & Holland, 2003; Judge, Bono, Ilies, & Gerhardt, 2002; Judge, Colbert, & Ilies, 2004; Ritchie, Kolodinsky & Eastwood, 2007). Many leadership theories focus on traits and behaviors of leaders who become effective in positively influencing their followers (Conger & Kanungo, 1998; Daft, 2005; Hogan & Kaiser, 2005). Over time, researchers continued to examine this approach and many concluded that the possession of universal traits is a weak link to effective leadership (Conger & Kanungo, 1998). In some cases, the simplistic approach of universal traits has been abandoned and has since evolved into the study of multiple of variables that are believed to be associated with effective leadership. In the 1970s, these approaches transitioned from traits to linking leadership patterns with different types of organizational and personal situations through the introduction of contingency theory, path-goal theory of leadership effectiveness and eventually, to cognitive resource theory (Schmid, 2006). Finally, a notion emerged that perhaps the leadership process could best be viewed as a situational approach emphasizing contextual factors. This includes gender (Crothers e. al. 2010)

As leadership theory advanced beyond the 1970s, new theories stemmed from existing ones. For example, charismatic leadership derives from the path-goal theory of leadership effectiveness. The path-goal theory of leadership proposes that the degree of inherent structure in a task moderates the relationship between the attitudes and behavior of subordinate staff and perceived leader behavior. Conger and Kanungo (1998) suggest that leadership is “a set of role behaviors by individuals in the context of the group or organization to which they belong”. McCann and colleagues (2006) propose that leaders transform the self-interests of followers, such as needs, preferences and values, into team interests. This, in turn, increases the follower’s commitment to the organization. Similarly, Fiol and colleagues (1999) state that charismatic leaders are able to influence followers to become committed to their mission and perform above expectations. These particular findings suggest that this type of leader has a positive influence on their organization (Fiol et al., 1999).

Personality research uses Goldberg’s five factor model of personality when exploring relationships between personality traits and leadership (Hogan & Holland, 2003; Judge et al., 2002). In this model, neuroticism and agreeableness are expected to be negatively related to leadership effectiveness, extraversion is positively related to leader emergence and open and conscientious individuals are more likely to be effective leaders.
The construct of intelligence is also studied as it relates to effective leadership. Lord, Foti, and DeVader (1984) found that intelligence, out of 58 other characteristics, is the only critical attribute necessary for all leaders to possess. Conversely, Judge, Colbert, and Ilies (2004) discovered that the overall relationship of intelligence to leadership is neither strong nor trivial.

The study of chief executives’ intuitive decision style supports earlier research that identifies leaders’ abilities to influence change in their organizations. Ritchie, Kolodinsky, and Eastwood (2007) studied executive intuition and found a significant association with three of their six financial performance outcomes. However, these researchers could not explain why this relationship exists. Various elements of emerging 21st century approaches to leadership include the complexity theory of leadership, visionary leadership, authentic leadership, heroic leadership, and spirituality in leadership, all of which can be seen as serving as corollaries to charismatic and/or charismatic/transformational leadership.

**Charismatic Leadership**

Despite the conflicting views of scholars, there continues to be research that demonstrates positive relationships among leaders and organizational outcomes. There remains a need to continue to explore this relationship and what makes these leaders effective. Is it charisma? Charisma is difficult to define. Research on charismatic leadership can be traced to the seminal work of German sociologist, Max Weber, in the 1940’s. Weber maintained that societies could be identified in terms of one of three types of authority systems: traditional, legal-rational, and charismatic. In his writing, he particularly emphasized charismatic authority. To Weber, this exemplified authority based on one’s force of personality (Gibson, 1998). It promulgated the notion that the leader’s influence is based on followers’ perceptions that the leader possesses certain innate qualities. According to Weber, charismatic authority was based on “devotion to the specific and exceptional sanctity, heroism or exemplary character of an individual” (Gibson, 1998). He believed that charismatic leaders are “endowed with supernatural, superhuman, or at least exceptional powers and qualities not accessible to the ordinary person” (Steyrer, 1998). His writings accentuated the origin of the Greek word charisma and its meaning of divinely inspired gift. A host of others followed Weber in the study of charismatic leadership.

Klein and House (1995) called charisma, “a fire that ignites follower’s energy, commitment, and performance”. Because of the emotional impact that charismatic leaders have on their followers, they inspire people to do more than they typically would do. Daft (2005) suggests that “if charisma is used ethically and wisely, it can lift the entire organization’s level of performance”. Bass and Avolio (1990) identify charisma as a key quality of a leader, as measured by the Multifactor Leadership Questionnaire (MLQ). This questionnaire is frequently used in empirical studies of CEO charismatic leadership and organizational performance (Waldman, Javidan, & Varella, 2004; Waldman, Ramirez, House, & Puranam, 2001). Awamleh and Gardner’s research (1999) explores the relationship between perceptions of leader charisma and organizational performance. The results of this study suggest that leaders of more successful organizations are more charismatic and effective than those of less-effective organizations. Agle, Nagarajan, Sonnefeld and Srinivasan (2006) further refine the MLQ to identify five major factors of charisma that includes questions about dynamic leadership, exemplary leadership, personal leadership, leader expectations, and leader risk.

Similarly, Conger and Kanungo’s scale of charismatic leadership (1998) focuses on strategic vision and articulation, sensitivity to the environment, sensitivity to member needs, personal risk and unconventional behavior. This charismatic leadership scale stems from their model of charismatic leadership which is based on three distinct leadership process stages (Conger, Kanungo, Menon, & Mathur, 1997). These stages include environmental assessment, direction formulation and communication, and membership alignment and implementation. In summary, charismatic leadership is a leadership influence based on the charismatic personality of a leader. Although other characteristics such as self-confidence, honesty, integrity and drive are found to be essential for leaders to possess, charismatic leadership remains a researchable phenomenon and is the focus of this study (Daft, 2005).

**Organizational Performance**

Several studies have researched leadership and its effect on organizational performance in for profit companies (Agle et al., 2006; Awamleh & Gardner, 1999; Burke & Brinkerhoff, 1981; Fanelli & Misangye, 2006; Fiol et al., 1999; Hogan & Holland, 2003; Hogan & Kaiser, 2005; House et al., 1991; Judge et al., 2002; McCann et al., 2006; Lipinski & Crothers, 2013).
Hagan and Kaiser (2005) suggest a leader’s personality “influences the dynamics and culture of the top management team and the characteristics of the top management team influence the performance of the organization”. To further support this, research by Barrick, Day, Lord and Alexander (1991) identifies that high performing executives are known to provide $25 million more in value to an organization than average performing executives. While the research of Agle and colleagues (2006) does not find solid evidence that charisma makes CEOs more effective, it does suggest that CEOs perceived to be charismatic tend to be judged as more effective.

In the measurement of nonprofit organizational success, Baruch and Ramalho (2006) suggest that there is no reason to believe that differences between for-profit and NPOs are so broad that organizational performance and effectiveness must be as considered as fundamentally different constructs. These scholars further state that profitability, as well as employee satisfaction, might be considered a central factor for long-term sustainability in NPO healthcare. Herman and Renz (1998) use financial management, fundraising, program delivery, volunteers, and human resource management to measure nonprofit organizational success. Herman and Heimovics (2005) suggest that effective leaders recognize that people are an organization’s most valuable resource. These researchers also imply that effective CEOs need to focus on external relations and empower employees through delegation of responsibilities to provide opportunity for personal growth and ultimate self satisfaction. If the CEO utilizes open communication, teambuilding, and collaboration strategies, employees are more likely to remain satisfied and stay with the company. Identity plays a crucial role in this success (Lipinski et. al, 2011)

**Importance of this topic**

Successful nonprofit leaders need to maintain members’ devotion to the organization (Chung & Lo, 2007). Executives of non-profit organizations rely on the support of volunteers and funders. Having the ability to influence these types of stakeholders can be of pivotal importance to the success of an organization.

Harris, Mainelli and O’Callaghan (2002) suggest that nonprofit organizations tend to have high aspirations, but relatively scarce resources. For example, Developmental disability organizations certainly meet this criterion. In both Pennsylvania and Florida, developmental disability organizations rely on state and federal dollars for support and must meet stringent regulatory requirements to access these funds. As in past years, both of these states have experienced budget reductions that affect their program dollars, yet are required to meet all unfunded mandates. This even held true during the Great Recession. During the financial downturn, Pennsylvania’s FY 2008-2009 budget required the Office of Developmental Programs to reduce its budget by $11.5 million, while Florida’s budget for developmental disability provider rates was reduced by $43.5 million (Florida Association of Rehabilitation Facilities, 2008; Pennsylvania Association of Resources, 2008). These types of budget reductions exacerbate the existing financial challenges of nonprofits.

Because of the unique challenges that can affect a nonprofit’s ability to advance its mission, philanthropy and volunteerism can play a significant role in the nonprofit sector’s success. Philanthropy is defined as goodwill, or humanitarianism, and is often expressed in donations of property, money, or volunteer time (Klein, 2007). The intergenerational transfer of wealth between the Depression-era generation and the postwar baby boomers is expected to benefit the nonprofit sector over the next several years and become an important factor for non-profit organization success (Salamon, 2002). Numerous studies support that individual giving exceeds foundation and corporate giving in the United States. Klein (2007) suggests that “a broad base of individual donors provides the only reliable source of funding for a nonprofit year in and year out, and the growth of individual donations to an organization is critical to its growth and self-sufficiency”.

With this information at hand, a CEO’s effectiveness in capturing this source of income becomes extremely important. Similarly, Fanelli and Misangyi (2006) believe linking the CEO’s charisma to outside stakeholders is necessary for organizational effectiveness. Often, incentives provide the motivation to the members of an organization to perform. In a nonprofit, members are typically motivated by the societal change they create and are less motivated by money (Grobman, 2007). Many nonprofits employ volunteers and their paid employees work at a lower level of pay compared to their counterparts in a for-profit company.

Hull and Lio (2006) discuss the role of risk taking. “An organization’s risk taking is based on how much failure it can tolerate”. Typically, the failure on the part of a nonprofit to fulfill its mission can jeopardize future funding. The heavy reliance on the support of grants and donations makes risk-taking less tolerable for nonprofits.
Because of the restrictions on strategic and financial actions, market limitations, and limited access to capital, philanthropic and volunteer efforts become an important source of income to the nonprofit sector that should not be ignored. Despite arguments that suggest there are few differences between for-profit and nonprofit organizations, nonprofits face different challenges. Nonprofit organizations do not supply goods or services generating revenue that is market driven, nor can they distribute surplus revenues as profits to their owner or stakeholders.

For-profit organizations have a considerable amount of freedom to decide which markets in which they choose to operate that is not dependent on any part of the organization’s mission. In contrast, a nonprofit’s freedom is limited, as their market is typically an intrinsic part of their mission. Operating beyond the mission typically violates a nonprofit organization’s responsibilities to its charter, supporters, employees, volunteers and legal entities.

In order to be successful, nonprofits need to borrow concepts from the business sector when those concepts are relevant, but maintain an understanding of their mission in order to stay on course (Kearns, 2000; Walsh & Lipinski, 2008). Because of these differences and the need to balance the financial and social responsibilities, effective nonprofit leadership is essential.

The relationship between leadership and organizational success in for-profit companies is evident; however, there is a lack of literature exploring this relationship in nonprofit organizations (Ritchie, Kolodinsky & Eastwood, 2007).

**Conclusion**

Crawford (2010) notes that successful non-profit organizations need to create leaders equipped to handle numerous current and emerging challenges. She discusses the need for nonprofits to adhere to a manager-leader model for future success. Specifically, the model delineates the following must-have attributes:

**Competencies**
- Strategic thinker
- Relationship builder
- Collaborative decision-maker
- Entrepreneurial achiever
- Effective communicator
- Change leader
- Inspiring motivator

**Personality Traits**
- High integrity
- Adaptable/Agile
- Perseverant/Patient
- Interpersonal sensitivity
- Passionate about the mission

**Knowledge/Expertise**
- Financial acumen
- Deep sector-specific knowledge
- Understanding and valuing diversity.

Perhaps, Sagawa and Jospin (2009) best describe those must-have attributes with the following note: “In short, success demands high levels of social capital-relationships with people who will make introductions, recommend the organization for funding, build partnerships, advocate for the cause, tell others about the organization’s work, recruit staff and clients, and act in dozens of other ways to support the organization. Instead of focusing on major donors or influential policymakers, organizations that hope to increase their influence and impact need to focus on building relationships at all levels. In short, social capital is the key to unlocking all other essential forms of capital that nonprofits need-including financial, human, and political capital”.

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In today’s world of financial uncertainty, it is imperative that nonprofit companies seek hire leaders that possess the ability to inspire and motivate people, and who can effectively communicate the vision and mission in order to create an atmosphere of change that is appreciably better than what now exists. A focus of future research should be on empirical studies to examine the positive relationship between charismatic leadership and dollars raised and an inverse relationship between charismatic leadership and voluntary employee turnover.

References


