

1

Innovation in Nonprofit Organizations: A Selective Review and Introduction

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Innovation in the private and public sectors has been the subject of a great deal of study because it is generally acknowledged to be central to economic growth and effective governance. However, while innovation in the nonprofit sector has received less attention, there is reason to think that it may be just as important. Nonprofit organizations, which include community agencies, charities, colleges and nonprofit hospitals, constitute a major part of our economy and help to maintain a vibrant society. As Berger and Neuhaus (1977) argue in their classic monograph, nonprofit associations mediate individuals and “mega-organizations,” government bureaucracies and large corporations. They empower us all, especially the poor and disenfranchised. Despite their importance, nonprofit organizations are perpetually near crisis. They must stretch thin resources to grapple with some of the most difficult problems imaginable, and they are often most needed when the resources of society are at an ebb. Through innovation nonprofit organizations find ways to use scarce resources more wisely, capture new resources, and enhance the quality of their services. Effective innovation is one key to the nonprofit sector’s ability to improve our quality of life and the health of the polity.

There is another reason that innovation in nonprofit organizations is important. If innovation is left to the profit-making sector, new ideas that have commercial value will be favored. In the public sector those innovations valued by the bureaucracy and by vested interests are most likely to emerge. If innovation occurred only in these two sectors, many important and useful ideas would never see the light of day. In the nonprofit sector innovation is more likely to be motivated by altruism and a concern with the good of the community served. Innovation in nonprofit organizations offers an opportunity for ideas to emerge that serve the good of humanity, not just profit or political interests.

This introduction will discuss factors that contribute to innovation in organizations, with particular attention to nonprofit organizations. It begins

with a selective summary of findings of organizational innovation research. Since most studies of organizational innovation have focused on profit and public sector organizations, it is important to consider the extent to which previous research applies to nonprofits. We outline several differences between nonprofit, private, and public sector organizations that might affect the applicability of findings from general research on innovation, and draw out specific findings on innovation in nonprofits. Finally, we briefly discuss the contribution of this volume to our understanding of innovation in nonprofit organizations.

Organizational Innovation: General Findings

Several broad reviews of organizational innovation research have appeared over the past several years. They suggest several areas of general agreement on factors that affect innovation.

There is general consensus on several characteristics of organizations that stimulate innovation. *Organic organizational structures* have been shown to promote innovation in a broad range of studies that include organizations from all three sectors (Hage, 1999; Kanter, 1983; Rogers, 1995). Organic structures, first defined by Burns and Stalker (1961), have relatively flat hierarchies, decentralized control and authority, participative leadership, extensive lateral communication, empowerment of employees, and use of teams to coordinate work and other functions. These structures are thought to promote innovation in part because they are relatively flexible and easy to change. They also encourage employee involvement, open communication, and team processes that mobilize employee skills and knowledge, enable effective problem solving, and gain employee “buy-in” which eases implementation of changes (Kanter, 1983).

A second factor in innovation is the *complexity of the division of labor*, a function of the number of different occupational types, roles, and units in the organization, the degree of specialization of knowledge or skills required by its work, and the complexity of organizational work processes. Hage (1999) elaborates several reasons that the complexity of division of labor promotes innovation: In complex organizations, people and units are required to adapt to each other and to changes in the environment to a greater extent than in more homogenous organizations. This facilitates innovation, which becomes part of a constant process of adjustment and change. Diversity and high levels of education and training in complex organizations also mean that more ideas are floating around and that the organization is monitoring its environment along multiple dimensions. These, in turn, foster an awareness of the need for

change and more effective and rapid problem solving. Complexity also facilitates organizational learning, which is thought to increase innovation.

A *climate for risk-taking and innovation* is a third factor in innovation. Studies have consistently shown that organizations in which there was general support for change and for taking prudent risks had higher levels of innovation than those in which there were lower levels of support. The attitudes of management, especially top management, toward change and risk taking are an important influence on the organization's climate.

Organic structures create the ability to change, complexity provides the ideas and concepts for change, and a climate that favors risk-taking provides the motivation for change. The three complementary features interact to facilitate innovation, and organizations that do not enjoy them have a more difficult time initiating and bringing about change.

The lion's share of research has focused on structures or properties of organizations that relate to innovation. However, innovation is a process, and it is important to consider how innovation might be managed over time. The process of innovation itself has increasingly been the subject of research, and some generalizations can be advanced on this topic as well. Rogers (1995) summarized evidence concerning the phases of the innovation process and concluded that they could be roughly divided into two major phases, *initiation* and *implementation*, each with its own substages. The first part of the initiation phase is *agenda-setting*, during which one or more individuals identify a problem and try to bring it to the attention of the organization. Agenda setting is continuously underway in organizations and often depends on the discovery of performance gaps, discrepancies between an organization's expectations and its actual performance. Agenda setting can also occur due to opportunistic surveillance of the organization's environment. The second part of the initiation phase is *matching*, when a problem on the organization's agenda is matched with one or more innovations that may address it. Matching often involves redefining or adjusting the problem definition to fit the innovation. It is often also a politicized process, as members of the organization stake their careers or power on bringing their favored actions about by advocating them as innovations that will solve key organizational problems.

The implementation phase consists of three parts. In the *redefining/restructuring* stage the organization adapts the innovation to its own particular problems and context. This may involve tailoring or reinventing the innovation, but it may also involve transformation of the organization to align it with the innovation (Leonard-Barton, 1988). During the redefining/restructuring stage, an innovation champion, "a charismatic

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