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Innovation is just as important to not-for-profit organizations as it is in the corporate world but gets less attention!

Overview

Most people would agree that innovation is a term less used in talking about management of non-profits than is its use in the corporate world. So, does innovation have any relevance to the non-profit sector? Is innovation different when there is no profit motive, no shareholders per se (stake holders for sure but seldom with investment dollars on the line)?

This special report is based on two main sources of information.

- Respondents from the not-for-profit sector who have registered their views by registering for the on-line survey available at http://www.corporateinnovationonline.com.
- Personal experience; having worked on not-for-profit (NFP) issues as a Board member and consultant to several organizations; children's homes, theatre companies, opera groups, and community associations.

The on-line survey was developed for use by the private sector and did not, at the time, have not-for-profit organizations in mind, thus some of the questions – referred to as Factors in the survey - do not apply. On the other hand, many of the Factors do apply and it is these Factors which are the focus of this special report.

The data base has enough responses to provide some conclusions and ideas for consideration by Board members and senior management of NFPs.

Of greatest concern to respondents

Respondents are most concerned about the absence of the following best practices when it comes to innovation[1]. Of major concern.

- F#2: whether or not senior management and the Board explicitly call for innovation
- F#4: degree to which planning emphasizes rationing resources rather than identifying opportunities
- F#6: emphasis on management of people and their interactions

Summary

Innovation per se is not a feature of many NFPs but, according to respondents to our on-line survey, more attention should be encouraged.

At least some of the management practices of the private sector should be adopted by NFPs.

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[1] The relative importance of Factors is derived from noting the weighting attached to each Factor and the difference between the respondent's "Ideal' and their 'Reality'
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- F#7: use of career ladders and recognition of innovators
- F#19: availability of resources for new projects

Respondents are most concerned with the fact that their management (Board and senior management) do not explicitly call for innovation per se (Factor #2). The author cannot recall any reference to, or emphasis on, innovation as a topic at Board meetings. Priorities were elsewhere; fund-raising, staff issues, special event ideas, fiscal issues, all of which are important. Compared to the 'corporate' interest in innovation there was simply no such emphasis within NFPs.

Boards of Directors of NFPs typically exhibit a very conservative, restrained approach to planning and focus on cost reduction and the minimization of risks although it is often the full-time manager or CEO who will bring forward projects which can be risky. Risk assumption is, by contrast, a common characteristic of highly-innovative companies.

Almost all successful private corporations are clear in their desire to be, or not to be, innovative. Statements from the C.E.O. and sometimes the Board make explicit the need to innovate to stay ahead of the competition or, as some choose, to be followers. The issue, most importantly, is addressed. For non-profit organizations, the need to innovate is not clear nor often expressed.

On the list of greatest concerns to respondents is the issue of whether management, when planning, places more emphasis on cost reduction or on identifying opportunities (Factor #4). More emphasis is apparently placed on cost reduction; a rather negative approach to planning. In the same vein is the view that there are simply insufficient resources available to undertake new projects (Factor #19). Special rewards, especially monetary, for innovators, Factor #7, are typically not used in NFPs whereas, in the corporate world, rewards are a primary means of recognizing of outstanding performance. Highly-innovative companies have also found success in making use of non-monetary rewards in addition to monetary rewards.

F#14: the availability of reward mechanisms for innovation needs to be noted in connection with results from Factor #7, above. This appears to be an area of some concern for non-profit organizations since NFPs have traditionally not provided specific incentives for innovation, perhaps due primarily to a concern over the attitude of funding sources. More investigation of this Factor, and a better understanding of reward mechanisms for not-for-profit organizations, could be useful to those in the not-for-profit sector.

Fund raising has been the number one priority in NFPs and seeking opportunities was, at best, a secondary goal. Not-for-profit organizations, unless they are extremely well endowed, and most are not, rarely have unfettered access to funds. There are however lots of ideas on how to improve fund raising by holding outreach programs, and optimizing resources but the starting point is to create a climate within the NFP which inspires innovation in the first place.

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Of least concern to respondents

The balance of the Factors seems of little concern to respondents but the question must be raised; are some of these Factors as important to the NFP sector as they are in the corporate domain? Should NFPs consider placing more emphasis on some of the management characteristics which are found in highly-innovative companies?

Those Factors of little apparent concern for respondents are as follows.

- F#1; short-term or long term profits
- F#3: tolerance of mavericks
- F#9: tolerance for risk in the planning process
- F#12: input from a broad cross section of the organization
- F#13: formality of the decision process
- F#17: managements expectation regarding loyalty versus personal development
- F#20: staff versus line involvement in the decision process
- F#23: R&D budget levels versus the competition

Several of these Factors, which while minimized by respondents, may well have merit for greater application within NFPs.

Tolerance for mavericks (Factor #3); while a common characteristic in highly-innovative companies barely gets identified as a major issue in the results from the on-line survey. Mavericks are not employed by NFPs, and certainly there is not a deliberate practice of hiring people with the idea of shaking up the organization structure and its processes. Stability is more often the goal.

The formality of the decision process (Factor #13); seems of little concern but this may well be related to the size of NFPs taking part in the on-line survey. Most NFPs are quite small and communications in small organizations tends to be informal anyway given their size and the close physical proximity of co-workers.

Similarly, the call for input into decision-making from a broad cross section of an organization (Factor #12), and the issue of staff versus line input on decision-making (Factor #20), while relevant to larger organizations, would not typically be as large a concern in smaller organizations. Larger organizations may well provide different results.

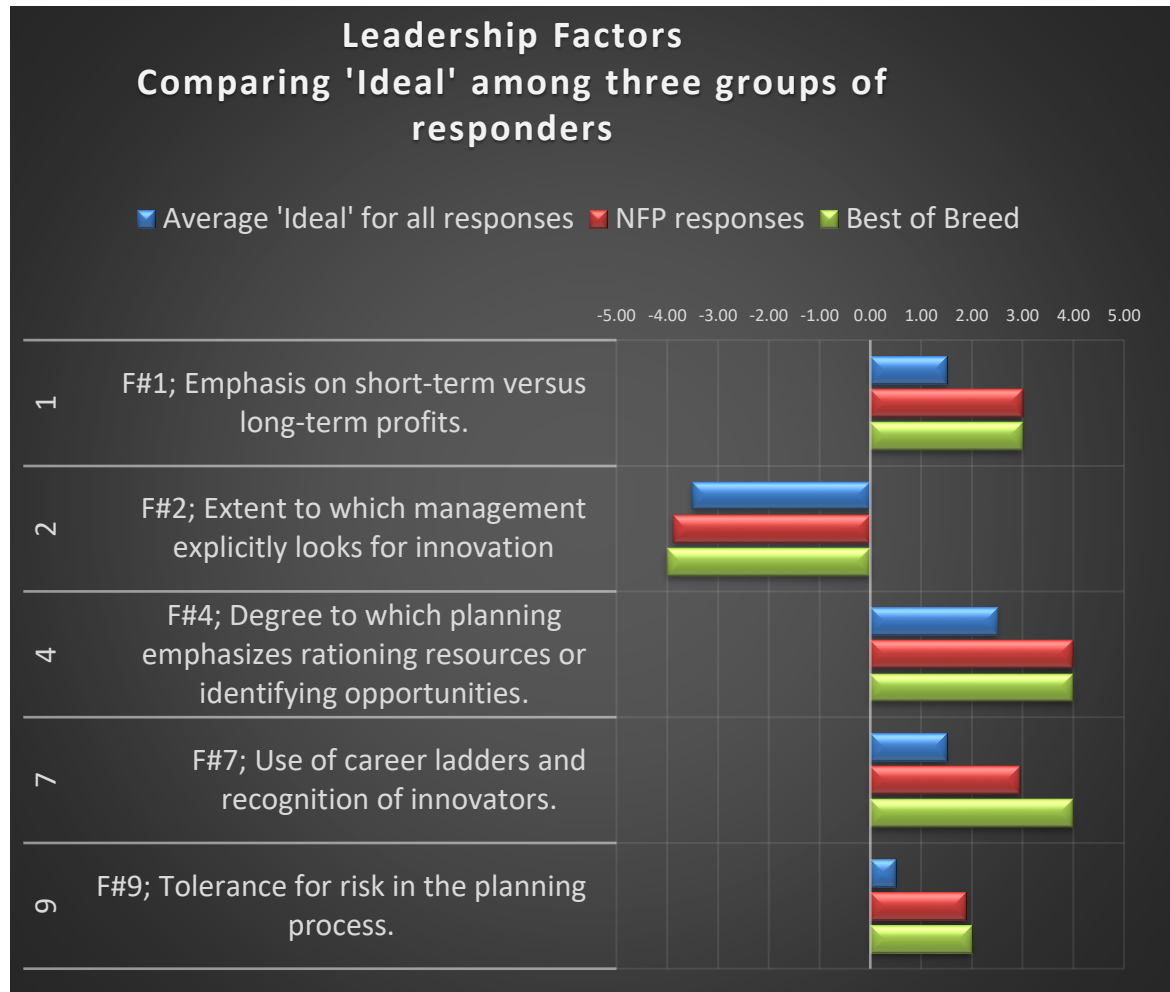The matter of R&D budgets, Factor #23, is not applicable to most NFP organizations.

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Leadership Factors

Further insight into the practices at NFPs can be gained by focusing on those Factors which come primarily under the heading of 'leadership'. There are five Factors comprising leadership.

The chart compares results from NFP registrants with the average of all respondents to the on-line survey and, as well, to a benchmark derived from researching highly-innovative companies; the Best of Breed.

For most of the Factors, there is a close alignment between the NFP 'Ideals' and those for the Best of Breed. Overall responses fall somewhat lower in their 'Ideal' expectations. The similarity of 'Ideals' is clear.

Note that three of these Factors; #2, #4, and #7 was highlighted earlier as of greatest concern to respondents. In the case of all Factors the Best of Breed comes out on the top as one might expect.

Registrants also provide their opinion on their own 'Reality' and the difference between 'Ideal' and 'Reality' is measure of their level of dissatisfaction or satisfaction regarding the Factor. The level of dissatisfaction is highest for the following six Factors.

- Extent to which management explicitly looks for innovation
- Use of career ladders and recognition of innovators
- Tolerance for variance from the corporate norm
- Availability of reward mechanisms for innovation
- Availability of resources (budget, time, etc.) for new ventures

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- Extent to which management has an innovative tradition

Judged by these comments one could conclude that the innovation mechanisms employed by the private sector highly-innovative companies are not replicated in NFPs. One could also conclude that innovation per se is not a priority for at least those NFPs responding to the on-line survey. Perhaps the subject of innovation matters more to the tier below senior management than upper levels of management.

Respondents from NFPs also provided their views on two other major topics related to innovation management.

- Organization and management of day-to-day affairs
- Idea generation and realization

This additional insight is available by dropping White & Partners a line at; pcwhite@corporateinnovationonline.com and referring to the full report on NFPs.

What should NFPs to do to encourage innovation?

The first conclusion is that innovation is needed in NFPs, just as it is in the corporate sector, albeit there are different circumstances but many of the management practices are equally applicable to both sectors.

The focus of this report is not on ideas for improving fund raising or addressing key operational issues as it is focusing on those policies and management practices which create an environment for facilitating and encouraging ideas and therefore innovation. There are many approaches to generating innovative ideas [2] but this paper has to do with setting the right climate for ideas to surface and be implemented.

The first conclusion is that the Board and senior management need to embrace and explicitly ask for innovation. The call is exceedingly important as it sets the tone for almost all innovation; private or public sector. Innovation is unlikely to happen unless there is support at the very top of the organization; the Board and the Executive Director/CEO.

Secondly, and based on our respondent's opinions regarding what should be their 'Ideal[3]' situation, management should also consider taking the following initiatives.

- Providing rewards and incentives for innovators; non-monetary as well as monetary although the latter is not a well-rooted practice for NFP organizations. Non-monetary rewards, as evidenced with 3M's practices, work very well.

- Attracting mavericks to the organization on a full time or part time basis or encouraging contact with mavericks to stimulate the organization and broaden the search for ideas. This could be through hiring

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[2] Innovation in practice – reference Mapping the Innovation Gap; a systematic approach to winnowing away at ideas. http://www.innovationinpractice.com/innovation_in_practice/2009/01/mapping-the-innovation-gap.html

[3] 'Ideal' refers to the nomenclature in the on-line survey which asks respondents to rate what they view as the most idyllic situation. Respondents are also asked to rate their 'Reality' in contrast to their 'Ideal' Building, sustaining and articulating innovation management best practices

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or by using external consultants with the appropriate credentials. The gesture of listening to mavericks is in itself an act which could encourage innovation.

- Making something of a fuss about innovation so that all employees and stakeholders are aware of the need and desire for the organization to be innovative. Often the thought of belonging to an 'innovative' organization can be a motivator for staff and ultimately assists in the attraction of good people.

- Planning, including strategic as well as budgetary planning, should be switched from a focus on cuts and cost reduction to a balanced approach which includes identifying opportunities for achieving strategic and operational goals. Often this is just a case of shifting the emphasis.

By adopting the above noted ideas, the innovative capacity of the organization could be significantly improved. The starting point, noted here for emphasis, is the necessity of having leadership provided by the Board and senior management. Nothing happens without this leadership!

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Appendix A

Comparison of the 'Ideal' from NFP respondents with the average of all respondents.
Twenty-Five Factors

Comparison of NFP 'Ideal' with 'the average for all respondents

#	Factor
1	Emphasis on short-term versus long-term profits.
2	Extent to which management explicitly looks for innovation
3	Tolerance of mavericks.
4	Degree to which planning emphasizes rationing resources or…
5	Tolerance for failure.
6	Emphasis on management of people and their interactions.
7	Use of career ladders and recogniation of innovators.
8	Tolerance of variance from the corporate norm.
9	Tolerance for risk in the planning process.
10	Degree of formal communication in the organization.
11	Use of independent work groups.
12	Degree to which management decisions are made with input from…
13	Formality of decison process.
14	Availability of reward mechanisms for innovation.
15	Planning orientation versus action orientation.
16	Attitudes towards merger, acquistions, joint ventures, divestiture.
17	Management's expectations regarding loylalty to the company versus…
18	Decentralization versus centralized hierarchy.
19	Availability of resources (budget, time, etc.,) for new ventures.
20	Staff verus line involvement in the decision process
21	Ability to retain innovators.
22	Extent to which management has an innovative tradition.
23	R&D budget levels versus the competition.
24	Perception of innovation as increasing or decreasing.
25	Degree to which employee organizations encourage innovation.

■ Not for profit organizations　　■ 'Ideal' average for all respondents

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