

# INNOVATION IN NON-PROFIT SECTOR IN INDIA: A CONCEPTUAL ANALYSIS

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## ABSTRACT

*Innovation is vital for non-profit organizations to be effective in dealing with the complex and challenging issues in their domains of activity. Research vouches for the positive impact of innovation on performance of organisations in non-profit sector. However, very little is known about the nature and type of innovation in Indian non-profit sector despite the place of prominence the sector holds in the country's socio-economic sphere. This article attempts to analyse innovation in Indian non-profit context against the background of prevalent environmental and organizational settings of Indian non-profit organizations.*

**Keywords:** Non-Profit Organizations, Innovation Non-Profit, Non-Profit Performance.

## INTRODUCTION

Non-profit sector plays a vital role in socio-economic development of countries especially those in the developing world. An effective non-profit sector can contribute immensely to the development goals of developing economies as these countries face severe and complex socio-economic issues which require massive efforts from all three sectors-government, business and non-profit. Studies show that innovation and innovation-related concepts such as capacity to innovate and innovativeness enhance performance of non-profit organizations. Therefore, innovation in non-profit sector merits more research attention especially in developing country context considering the potential contribution enhanced performance of organizations in non-profit sector can make to the progress of developing nations. This paper is a conceptual analysis of the concept of innovation in non-profit organizational settings in India. India, world's second most populous country, is home to more than three million registered non-profit organizations (CSO, 2009). This big and vibrant sector of the national economy has made significant impact on socio-economic spheres touching millions of lives. This paper seeks to analyse the prospects and challenges for innovation and organizational innovativeness in Indian non-profit sector in the light of existing literature on the concept of innovation in non-profit context and the prevalent environmental and organizational settings of Indian non-profit organizations.

## NON-PROFIT SECTOR IN INDIA: GROWING CHALLENGES

Indian non-profit sector has had a long and proud history, having played a pivotal role in the Indian freedom movement and social reform movements in the 19<sup>th</sup> and 20<sup>th</sup> century. The prevailing social, political and cultural settings in the country sets for a continued growth and expansion of the sector. A striking feature of the emergence of the sector in the country is that both market failure and supply-side factors have contributed to the expansion of the sector. Market failure aids the emergence of non-profit organizations when unmet demand for public

goods owing to government/private sector failure, results in non-profit organizations emerging to fill the gap (Salamon et al., 2010). The more diverse the society, the greater the possibility of some section of the society feeling unsatisfied, leading to a large number of non-profit organizations. Thus, the huge size of non-profit sector in India could be attributed partly to market failure. Supply side theories analyse the supply side of the market. Here the supply of entrepreneurial individuals or groups with social commitment ensures the entry of new organizations helping the expansion of both supply and demand. Non-profit arms of the religious groups in India are demonstrative cases in this context. In addition to the above factors, partnership theory can also explain the growth in the size and scope of the sector in India. Partnership theory posits that cooperation occurs when both non-profit organizations and government respond to the same social issues. In India, there exist very strong partnerships in non-profit arena-with both government and corporate sector. The Indian government envisages an active and constructive role for the non-profit sector in the socio-economic development policy of the nation and such resource and policy support from the government also work as catalysts for growth of the sector. Thus, given such favourable conditions in the environment, Indian non-profit sector looks all-set for further expansion in size and scope of its activities.

However, the growing size and scope presents several challenges to the existing organizations which they must meet effectively for growth and even survival. As is the case with organizations elsewhere in the world, Indian non-profit organizations now face challenges which are similar to those faced by business organizations. Competition within the sector is on the rise and this increased competition for donor funds, beneficiaries and volunteers have forced several organizations to look beyond conventional ways of functioning and interacting with its environment. One of the direct results of this trend all over the world is the increased acceptance and practice of business and management philosophies and techniques (Eikenberry and Kluver, 2004). Scholars see these as manifestations that are part of a larger trend of non-profit organizations becoming more like business organizations (Maier et al., 2016).

Among management concepts that are gaining traction in non-profit sector, innovation has special significance because of its assumed ability to drive performance in non-profit domains (Zhang and Cai, 2017). Hurley and Hult (1998), in their empirical study, suggests positive role of innovation in market orientation and organizational performance models. Interestingly, the above article argues that in non-profit settings, given the external control relationship angle, innovation aided by learning and market orientation will benefit organizations more. Choi (2014) confirms the link among market orientation, learning orientation and innovation, where market orientation is an antecedent of innovation. Therefore, literature points to the direction of innovation playing a role as a performance enhancer (Choi, 2014).

Dover and Lawrence (2012) identifies innovation as a “*centrally important issue for the management of non-profit organizations*”. Scholars consider innovation as something inherent to the nature of non-profit organizations because of the challenging operational environment and the changing nature of issues these organizations seek to address (Stevenson et al., 2007). A survey conducted among American non-profit organizations finds that innovation is widespread and non-profit organizations are important sources of innovation ideas in social sector (Salamon, et al., 2010). Literature in Indian context, though limited in scope and volume, also acknowledges innovation by Indian non-profit organizations to effectively address social issues especially in poverty alleviation which are recognized internationally (Srivastava and Tandon, 2005). In Indian non-profit context, empirical support for the efficacy of innovation in driving performance outcome is reported. However, volume of research in the nature and extent of

innovation and related concepts in developing economy contexts including India is relatively thin.

## INNOVATION

Although there is a lack of consistency in the usage of the term innovation and innovativeness in literature despite, the most common element found in the plethora of definitions and conceptualizations is newness or novelty. Most approaches to define innovation identify innovation as something linked to novelty. In an organizational context, innovation can be a new product or service; a new method of operations; or a new way of organizing resources. Innovation has been treated at different levels too-industrial (sectorial) level or unit (organizational) level. One can also see innovation as a concept being treated both as an outcome (Damanpour and Evan, 1984) and as a process (Daft, 1978).

According to the Oslo manual typology, there are process innovation, product innovation, organizational innovation and marketing innovation (OECD). This typology uses the area of occurrence of innovation as the basis to classify innovation. New or significantly modified production or operation method for product/service delivery is process innovation. Product innovation refers to any new product or service offer from a firm. Marketing innovation is any change in product design, packaging or any other marketing tool. Organizational innovation concerns structure, procedure or any other characteristic of the organization. Another typology frequently seen in literature is the classification of innovation into radical and incremental innovations. Radical innovation is something new that incorporates substantially different technology and can fulfil key customer needs way better than existing solutions. Radical innovations are often called Schumpeterian Innovation in line with the 'creative destruction' conceptualized by Schumpeter. Incremental innovations, on the other hand are about minor changes or improvements over the existing (Damanpour and Gopalakrishnan, 2001). Technical innovation is defined as innovation pertaining to production process or technology. So, all innovations related to basic work activities are classified as technical innovations (Damanpour, 1991). Technical innovations result in something new related to the functional activities (to the adopting organization) Administrative innovations involve organizational structure and administrative processes. They are indirectly related to the basic work activities of an organization and are more directly related to its management (Damanpour, 1991). Administrative innovations result in new developments in support functions such as accounting, record keeping, personnel administration etc.

Hurley and Hult (1998) conceive innovation as multi-dimensional involving two elements namely, innovativeness and capacity to innovate. Innovativeness is a closely related term to organizational innovation and is found very often in the discussions on innovation in scholarly literature. It is used to denote the organizational propensity to try new or novel ideas or solutions. Thus, innovation encompasses innovativeness (what drives organizations toward innovation) and capacity to innovate which determines the adoption and practice of innovation. Hurley and Hult (1998), in their model, treats innovativeness (defined as openness to new ideas) as an aspect of organizational culture of the organization. Market orientation and learning orientation are antecedents to this innovative culture of the organization, among other antecedents like participative decision making, power sharing, communication etc. This innovative culture together with some structural and process characteristics of the organization lead to an organizational outcome of capacity to innovate which in turn results in competitive advantage and performance. Thus, in their conceptualization of innovation, innovativeness

dimension is an organizational culture characteristic (where market orientation and learning contribute to the formation of such a cultural bend) and capacity to innovate and the resultant better performance are organizational outcomes. In terms of the phases of innovation (as conceived in Zaltman), innovativeness is related to the initiation phase and capacity to innovate is the adoption phase.

In business sector, innovation has long been projected in scholarly literature as a performance driver for organizations. Innovation is considered a strategic advantage for firms in the market place. Innovation has been shown to be associated with superior performance in varied sectors of the industry and for different organizational contexts. (Han et al., 1998). Innovation has been linked to market orientation and market-based learning by many scholars. Han et al. (1998) was the first attempt to introduce innovation as the “*missing link*” between market orientation and the study showed that market orientation alone cannot be a source of competitive advantage for the firm; innovation facilitated by market orientation brings about positive impact on business performance especially vis-à-vis competition. Baker and Sinkula (2002) demonstrate that a strong market orientation facilitates a balance between incremental and radical innovation. Calantone et al. (2002) reports positive impact of innovation capability on firm’s performance. Menguc and Auh (2006) is another empirical support for the effect of innovation on performance in the business sector.

### **INNOVATION IN NON-PROFIT SECTOR**

Non-profit organizations and sectorial characteristics of non-profit sector are vastly different from for-profit business sector. Applying the structural-operational definition for non-profit organization, an organization is considered a non-profit entity if it satisfies the following five criteria of being: 1) organised; 2) subject to non-distribution constraint; 3) private; 4) self-governing; and 5) non-compulsory or voluntary (Salamon et al., 2010). Therefore, absence of profit concerns and non-distribution constraint placed on organizations make non-profit organizations completely different from business organizations. The nature of market and interaction with other participants in the market are also different giving rise to sectorial differences between commercial and non-profit sectors. The concept of market is more complex in the non-profit context due to various reasons. There exist at least two different markets for non-profit organization, donors and beneficiaries (Shapiro, 1973). However, the nature of exchange is different due to the absence of quid pro quo in exchanges in these markets. The concept of competition is also different from what one sees in business sector. In the non-profit sector there are no competitors; only fraternal organizations (Balabanis et al., 1997). Most researchers use the term peers to denote the collection of other non-profit organizations operating in the same or related areas of activity. Because of these characteristic differences, nature of innovation practices is likely to be different in non-profit context.

For instance, absence of profit objectives has some bearing on motivational factors in non-profit innovations. Non-profit organizations are by nature not guided by profit concerns. Social objectives laid out in the mission are what drive these organizations. More often than not, these objectives are not specific and measurable. Innovation efforts in such a scenario cannot be very well-directed or focused as in the case of business firms. Competitive environment shapes the responses of organizations in commercial settings, where innovation has a known utility as a source of competitive advantage. Highly fierce and turbulent competitive environment are known to foster innovation. Similar boost from competition cannot be ruled out in non-profit sector. There is competition for funds, volunteers, board members, media exposure etc.

Existence of multiple market constituencies: For business firms, sale and expenditure happen in the same market. Emphasis on volunteerism in non-profit context has the potential to foster innovation. Large number of non-profit organizations relies on volunteer efforts for their operations and hence is loosely organized. This, many believe, will weaken bureaucratization and nurture innovation and creativity in the organizations. Resource scarcity: Non-profit organizations work under conditions of resource scarcity. This has prompted many to look for innovative ways of raising funds and improving operational efficiency.

### **INNOVATION IN INDIAN NON-PROFIT SECTOR**

This section of the paper tries to analyse Indian non-profit environment in terms of its conduciveness for innovation and its likely impact on performance. In India, with growth in the number of organizations, competition is an enduring reality. Percolation of non-profit activity into several social sectors is another reason why competition will only increase in the future in this country. As discussed in the previous section, challenging competitive environment fosters an innovative culture in an organization. Competition for funds, volunteers, board members, government grants and even beneficiaries in many cases pressure non-profit organizations to break free from the established ways and look out for innovative services, fund raising programmes, public liaison etc. Socially entrepreneurial non-profit organizations adopt innovation for competitive advantage (Weerawardena and Mort, 2012). These organizations, the authors argue, adopt innovation when they perceive competition in their environments as they deem innovation necessary to meet competition effectively. Thus, competition seems to foster innovation in non-profit sector. Thus, competitive intensity and volatility in environment make good case for innovations in Indian non-profit sector. Innovative solutions to social problems attract donors and beneficiaries alike. For example, an NGO called Parivartan, based in Delhi helps people to get their work done from government departments without paying bribes. Public response to their programme has been tremendous, forcing this organization to expand the scope of their operations further.

Organizational flexibility as opposed to bureaucracy has a positive effect on innovation (Jaskyte, 2011). Thus, organizations which are more flexible are likely to be more innovative. Typically, non-profit organizations world over are small organizations. This is true for India too. A survey result indicates that a whopping majority of non-profit organizations in India (70%) have two or less paid employees (Srivastava and Tandon, 2005). Therefore, organizational flexibility is likely to be high and rigidity in bureaucratic structure less. This flexible nature of organization is likely to enhance organizational innovativeness and encourage employees to seek out novel and innovative ways and solutions.

Donor dependence of any sort, government or private, can have an impact on the autonomy and creativity of non-profit organizations. Many organizations in India however have reportedly used innovative funding models to overcome resource scarcity and the scarcity itself has acted as catalysts for innovation especially in operations emphasizing cost-reduction and frugality (Cnaan and Vinokur, 2014). Effect of governmental funds on organizational innovativeness is an interesting point of discussion in non-profit innovation. In India, government is a major donor for non-profit organizations in social sector. One can see several examples of Government-NPO partnerships both at central and state level. Several government-initiated projects are run by non-profit organizations with financial support from the government. Majority of organizations working in HIV/AIDS prevention and care are run on government grants. Government grants invariably come with number conditions in programme execution and

documentation requirements. This might take away autonomy and organizational flexibility of organizations and lead to bureaucratization. A study in the US finds that non-profit organizations which interact closely with the government find regulations as a major impediment to innovations in the organization (Salamon et al., 2010). On the other hand, one can argue that a dependable flow of funds from the government will permit these organizations to focus on programme effectiveness without having to worry about financial constraints. Indian Government, however, foresees the possibility of creativity and autonomy getting stifled by increased government participation in the sector. National Policy on Voluntary Sector explicitly states, *“The independence of VO (Voluntary Organizations) allows them to explore alternative paradigms of development to challenge social, economic and political forces that may work against public interest and to find new ways to combat poverty, deprivation and other social problems. It is therefore crucial that all laws, policies, rules and regulations relating to VOs categorically safeguard their autonomy, while simultaneously ensuring their accountability”*.

Innovation in non-profit organizations is likely to be evolutionary or incremental rather than radical as in the case of public organizations (Walker, 2007). Innovations in service firms in business sector tend to crowd around technology. Banking is one service sectors which is riding on technology for most of its service and process innovations. In services most innovations tend to be incremental and not radical (Scarborough and Lannon, 1989). Administrative innovations are equally essential to the growth and effective operations of an organization. Non-profit innovation can happen in service development, market development, service delivery and administrative process. Jaskyte (2011) reports that non-profit organizations introduce more technical innovations than administrative innovations. This is natural for non-profit organization as these organizations could leverage more out of technical innovations in terms positive impact on organizational effectiveness. Non-profit organizations respond to challenging environment by novel ways of problem solving. The study also reveals that factors conducive for administrative and technical innovations are different. Structural factors like centralization are more critical for administrative innovations whereas human factors are more important for technical innovations. Transformational leadership has been found to be important for both the types (Jaskyte, 2011).

Organizational size impacts the nature of innovations. Nature of innovation differs among small and big firms (Verhees and Meulenbergh, 2004). Small organizations are more flexible and hence, less bureaucratic. This has a positive effect on innovation. Information systems in small firms are relatively simple. Communication channels are thus less complex and afford faster dissemination, processing and responses. This efficiency in information processing is vital for market innovations. But small size of non-profit organizations limits the scope for administrative innovations and the potential benefits associated with it (Subramaniam and Nilakanta, 1996; Daft, 1978). Therefore, Indian non-profit organizations are likely to focus more on technical innovation which have a direct impact on the mission accomplishment in the market they serve. Limited access to finance sets clear priorities for small firms. Therefore, organizations cannot spend big money for administrative innovations. However, low functional specialization may hamper innovations in small organization.

Garrido and Camarero (2010) reports than product innovations have greater impact on social performance. Administrative/organizational innovations are associated more with economic performance. This finding is on expected lines as innovations in service offer or delivery will have an immediate impact on the social objectives of the organization. Administrative innovations are likely to result in cost and operational efficiency and the results cannot be expected to be direct or immediate. In a non-profit setting, the time lag effect of

administrative innovations is likely to be prolonged and indirect. Thus, non-profit sector in India, which is characterized by resource scarcity, small size of the organization, limited annual operating budget, project-based grants from government and other donors, are likely to focus more on technical innovation rather than administrative innovations.

## CONCLUSION

Innovation as a performance enhancer is key to the efficient functioning of Indian non-profit sector given the complexities of the tasks handled by this sector. The present paper was an attempt to conceptually analyse the concept of innovation in the context of non-profit settings in India. More studies are essential to better understand and empirically establish the nature and type of innovation in the sector. It can be concluded from the conceptual analysis presented in this study that Indian non-profit sector presents a conducive environment for innovations by organizations. Innovative non-profit organizations can significantly contribute to the socio-economic development in the country through innovative solution to the social problems.

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