

Where Innovation Does a World of Good: Entrepreneurial Orientation and Innovative Outcomes in Nonprofit Organizations

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Nonprofit organizations face uncertain economic times, yet societal demands on them continue to grow. Innovation has been identified as an important capability for long-term success. However, nonprofit innovation has not been widely studied. To better understand how nonprofit organizations can become more innovative, this article integrates theories from the fields of entrepreneurship, nonprofit management, and strategic management. We apply a well-established construct, entrepreneurial orientation, and explore the entrepreneurial alignment among three critical actors -- the executive director, board of directors, and key staff members -- to develop a model and propositions. Future research directions and implications for practitioners are discussed.

INTRODUCTION

Charles Handy (2001) said, “Creativity is born of chaos, even if it is somewhat difficult to glimpse the possibilities in the midst of the confusion” (2001, p. 106). Currently, nonprofit organizations are facing a chaotic context. In the United States, the need for community services provided by agencies other than governments has grown significantly, as both federal and state public sector budgets have been reduced (Johnson, Oliff, & Williams, 2011). Concurrently, private sources of funding have also declined (Barton & Hall, 2011; Hall, 2011). Despite decreased funding, demand for social services is dramatically increasing. In 2010, the number of people in the United States living below the official poverty line increased to the highest number since 1952, when the U.S. Census Bureau started tracking this statistic (Tavernise, 2011).

Given the retrenchment of corporate giving and reductions in government funding for social, community health, educational, and other types of services, it is critically important that nonprofit organizations develop new ways to deliver services to their constituents. In order to provide more services with fewer resources, nonprofits have been called on to increase innovation to deliver services more efficiently and more effectively (Jaskyte, 2011; Lieu, 2010; Neff & Moss, 2011). For example, innovations such as online giving are becoming increasingly important for nonprofits (Plank, 2011).

Unfortunately, research suggests that nonprofits tend to become more restrictive in their actions at times when creativity and flexibility are most needed (Gill, 1995).

Although several recent studies (Jaskyte, Byerly, Adams & Koksarova, 2010; Jaskyte 2011; Jaskyte & Dressler, 2005; Jaskyte & Lee, 2006; Kong, 2010; McDonald, 2007) have addressed innovation in nonprofits, only a few studies provide direct guidance on how nonprofits can better innovate (e.g., Jaskyte et al., 2010). This article integrates existing research from the nonprofit management, entrepreneurship, and strategic management literatures to develop a theoretical model and propositions to help explain and predict how the entrepreneurial orientation (EO) of key actors in nonprofit organizations can improve innovation.

EO reflects the extent to which an organization can be described as entrepreneurial versus conservative (Morris, Webb, & Franklin, 2011). In a meta-analysis of EO and business performance, Rauch, Wiklund, Lumpkin and Frese defined EO as “the entrepreneurial strategy-making processes that key decision makers use to enact their firms’ organizational purpose, sustain its vision, and create competitive advantage(s)” (2009: 763). Three dimensions of EO have been identified: innovativeness, risk taking and proactiveness (Becherer & Maurer, 1997; Covin & Slevin, 1989; Lee, Lee, & Pennings, 2001; Miller, 1983; Thourmrungraje, 2010). Morris et al. (2011) contend that these three EO dimensions pertain to nonprofits because nonprofits need to engage in entrepreneurial behavior to sustain operations when traditional funding sources are no longer reliable. Meyskens, Robb-Post, Stamp, Carsrud, & Reynolds (2010) noted that, while performance outcomes or value creation measures are different for social versus commercial enterprises, operational processes and behaviors as well as resource flows are similar.

This article develops the application of the EO concept to nonprofits by looking at the relationship between innovative outcomes (which is an important measure of performance and long-term viability) and EO. Our model suggests that nonprofits will be more effective at innovation when the senior management, board of directors, and key staff members share an aligned EO. Thus, our article makes three significant contributions to the research literature.

First, while EO is a firm level construct that is often measured by determining the attitudes of top managers, we propose that the EO in a nonprofit is comprised of multiple perspectives, all of which are essential to innovation. As Hatten (1982) pointed out, managerial responsibilities in the nonprofit are shared between senior management, board members, and professional staff. When differences arise in the priorities and preferences towards innovation, these differences may derail innovation. Consequently, to evaluate the relationship between EO and the implementation of innovative products or services, the EO of an organization must reflect the proactiveness, risk taking and innovativeness of senior management and the board; and key staff members must value the three elements of EO for innovation to be accepted and implemented. Even though these connections may exist in the for-profit sector, we propose that this alignment is especially important in nonprofits, given the importance of nonprofit boards in raising funds and raising public awareness (Miller-Millesen, 2003) and the need for nonprofit agency directors to often serve multiple roles within their organizations (Lee & Kelley, 2008). We predict that greater EO alignment will improve innovative outcomes in nonprofit organizations. Thus, the expansion of the EO concept to include multiple stakeholders is the first important contribution of this article.

A second contribution of this article is its exploration of the conditions under which different types of innovation occur. We posit that not only does the degree to which the EO of senior management, the board and key staff members are consistent impact the intensity of innovative activity that takes place, but also the level of EO for each of the three stakeholders groups affects the type of innovation that is undertaken. Innovations range from incremental improvements in the service delivery process to large-scale initiatives to add new services or products. Typically, key staff members are responsible for the implementation of incremental innovations, whereas the board plays a key role in the adoption of large-scale innovations that result in major shifts in the types of products or services offered. Thus, the EO of the board may be primarily related to the successful implementation of product or service innovations, while the EO of key staff may affect both process and product/service innovation.

The third contribution of the article is an enhanced understanding of the innovation process in nonprofits. Nonprofits face demands from funding agencies and other stakeholders to improve efficiency and effectiveness by improving managerial practices (Chetkovic & Frumkin, 2003). Particularly in light of current funding patterns, innovation is a key to survival. Nevertheless, as previously discussed, this is an under-researched topic in the nonprofit literature (Jaskyte et al., 2010). Our article helps shed light on an important corner of the nonprofit research literature: the link between top managers, boards, key staff members, and innovation.

In the next section, we review the research literature on innovation, entrepreneurial orientation, and three key actors identified in the nonprofit management literature: top management, the board of directors, and key staff members. Proposition development follows the literature review section.

LITERATURE REVIEW

Innovation

What is innovation? Innovation implies new knowledge and new knowledge combinations that are specific to a particular context (Eisenhardt & Martin, 2000). In the nonprofit sector, innovation may help an organization better serve its constituents (McDonald & Srinivasan, 2004). The nature of innovation is complex. Based on a meta-analysis of sixty definitions from seven business-related fields, Baregheh, Rowley and Sambrook proposed that innovation is a “multi-stage process whereby organizations transform ideas into new/improved products, service or processes, in order to advance, compete and differentiate themselves successfully” (2009: 1334).

The pressure or drive to innovate is derived from many sources. Most organizations are externally driven by factors such as increased competition, resource scarcity, or deregulation. In the nonprofit domain, many have assumed that the ‘industries’ in which organizations ‘compete’ are considered either non-existent due to the nonprofit nature of the entities involved or fairly stable (Salamon & Anheier, 1992). While stability may have existed at one point in time for nonprofits, this is no longer an accurate assumption. The needs of their clients are increasing at the same time that there is greater competition for scarce resources. The nonprofit sector has experienced a sea of change in terms of demands from the government and funders to become more efficient and more entrepreneurial and innovative at the same time (Pearce, Fritz, & Davis, 2010). Hence, nonprofits must learn to navigate changing boundaries in order to survive. Innovation is an important component of adaptation. Moreover, the attributes of an innovation are critical because they have different determinants and impacts (Damanpour, Walker & Avellaneda, 2009; Jaskyte & Kisieliene, 2006).

One of the most enduring and widely studied typologies, which is rooted in the seminal works of Joseph Schumpeter (1942), is the distinction between product innovation and process innovation (Kazanjian & Drazin 1986; Kotabe & Murray, 1990; Utterback & Abernathy 1975; Zmud 1984). Product innovations are developed to meet the needs of external users (Barras, 1986). Process innovations, in contrast, focus on internal needs for efficiency and effectiveness in the production and delivery of goods and services to customers (Abernathy & Utterback, 1978).

Research on organizational innovation typically has not distinguished between product innovations by manufacturers and retailers and service innovations by service providers (Damanpour et al., 2009; Miles, 2001; Sirilli & Evangelista, 1998). The rationale behind the similar treatment of product and service innovations by academic researchers is that both types of innovations are externally focused and that they are introduced to differentiate the organization from its competitors (Abernathy & Utterback, 1978; Damanpour & Gopalakrishnan, 2001). In addition, like product innovations, the catalyst for service innovations can either be external user demands for new services or senior management’s intended goals to create either new markets for existing services or new services for current and potential clients (Damanpour et al., 2009).

The perceived similarity between product and service innovation is also evident in the often-cited classification of service innovations in nonprofits proposed by Osborne (1998). Osborne’s typology of service innovations parallels Ansoff’s (1957) product/market matrix. Osborne (1998) proposed four types

of service offerings based on the newness of the services themselves and the newness of the client to the organization. “Incremental development” (similar to market penetration) involves providing the same services to an existing client base, but incrementally improving them. “Expansionary innovation” (similar to market development) involves providing existing services to a new client base. “Evolutionary innovation” (similar to product development) involves providing new services to an existing client base. “Total innovation” (similar to diversification) involves providing new services to a new client base.

The second type of innovation, process innovation, also has several categories. A recognized, albeit less researched, typology distinguishes between technical and administrative innovations (Damanpour et al., 2009). Technical process innovations are directed towards the organization’s core operating systems and procedures, which directly affect the nature of the services being rendered to clients (Abernathy & Utterback, 1978; Damanpour & Gopalakrishnan, 2001; Meeus & Edquist, 2006). Examples of this kind of process innovation are increased operational efficiency, lower production costs, and quicker delivery times. Administrative process innovations entail changes in management support functions (Daft, 1978; Damanpour & Evan, 1984; Light, 1998). These innovations include changes in the organizational structure, leadership practices, reward systems, and administrative systems.

We assert that nonprofits engage in a full range of innovation activities, an assumption that, while not clearly tested in the research literature, is borne out in the popular media. For example, Fan of the Feather created a transitional home geared toward female homeless veterans because this fast-growing group of veterans has minimal dedicated resources. This San Marcos, California organization created and integrated new configurations of resources addressing post-traumatic stress disorder, military sexual trauma, and substance abuse not typically seen in the traditional homeless population (Mecija, 2012). This is an example of “total innovation” using the Osborne (1998) typology – a set of new services for a primarily new market.

In an example of process innovation, the Fremont Clinic in Minnesota brings sexually transmitted disease (STD) education to isolated and distressed communities using partnerships with local businesses, such as barber shops, within these communities rather than simply delivering the education in existing clinics and hospital settings (Bankston, 2012). The Clinic provides the same product (STD education), but it uses a different and new process (partnerships with local businesses) to reach new clients. Using the typology identified by Damanpour et al. (2009), this example has aspects of both technical and administrative process innovation. The new service created increased operational efficiency, lower production costs, and quicker delivery times and required changes in organizational structure and administrative systems.

Entrepreneurial Orientation (EO) and Innovation in the Nonprofit Sector

If innovation is the key to sustainability for nonprofits, then the adoption of an entrepreneurial orientation (EO) may be beneficial. An important aspect of entrepreneurship is the development and/or adoption of new products or processes. EO refers to the strategy-making policies and practices that provide organizations with a basis for entrepreneurial decisions and actions (Lumpkin & Dess, 1996; Wiklund & Shepherd, 2003). EO has been widely researched and therefore is reasonably well developed conceptually. Much of the research adopts Miller’s (1983) definition, which identified innovativeness, risk taking and proactiveness as the three key dimensions of EO. Innovativeness is the willingness to experiment with new ideas and processes that may result in the introduction of new products and services (Lumpkin & Dess, 1996). Risk taking refers to acting in ways that are perceived as bold even in the face of uncertainty, such as a willingness to commit resources where the outcomes are unknown and the probability of failure is high (Wiklund & Shepherd, 2005). Being proactive is defined as the confidence to seek new opportunities, anticipate future demand, and introduce products and services ahead of the competition (Venkatraman, 1989).

Numerous studies have demonstrated a significant positive relationship in for-profit organizations between all three dimensions and firm performance (Keh, Nguyen & Ng, 2007; Rauch, et al., 2009). Su, Xie and Li (2011) found that the EO-performance linkage in new organizations is an inverse U-shaped, whereas the relationship between EO and performance is positive for established firms. How does this

relationship between EO and performance apply to the nonprofit sector where performance is not always assessed solely in financial terms? Morris et al. (2011) maintained that the three dimensions of EO apply to nonprofits with a little modification regarding the nature of organizational performance. They suggest that “nonprofit EO considers not only the development of new products and services but also means through which the organization can pursue social mission-related and commercial opportunities” (2011: 966). Hence, we expect EO to be positively related to innovative behavior and organizational performance in nonprofits.

Typically, EO is viewed as an organizational-level construct, but it is measured by looking at the innovativeness, risk taking and proactiveness of the top managers (Covin & Slevin, 1989). While this may be a realistic reflection of the organizational-level EO in a for-profit firm, Salamon & Anheier (1992) pointed out that a key distinguishing feature of a nonprofit is the governance structure. In nonprofits, managerial decisions and responsibilities are shared between senior management, board members, and professional staff (Hatten, 1982). Morris et al. (2011) suggested that because of the critical role of the board in decision-making, the measurement of EO in nonprofits should not be restricted to top managers. Nonprofits have multiple stakeholders that play key roles in embracing, developing and implementing innovation.

It is reasonable to assume that the degree to which the development and implementation of innovation is successful depends on the support and actions of multiple stakeholders within the organization, and we assume that there will be variance in the EO among the three groups in terms of both degree and valence. This variance will be impacted by the relative power of each group and that the interplay of the degree and valence of EO among these groups will be an important driver of organizational innovation. Although the top manager is still a key actor in the innovation process, the measure of EO in nonprofits should include top management EO along with the other two actors central in the nonprofit context: board members and the professional staff.

The Role of Top Management

While many nonprofit studies have focused on the relationship between structural factors, such as organizational size and structure, researchers are increasingly recognizing that human factors, including leadership, culture, and experiences, are also influential on the development and implementation of innovation (Jaskyte, 2011). The executive director is an essential human factor that drives variance in organizational innovation, and one way to understand differences among executive directors is the construct of entrepreneurial orientation (EO). Entrepreneurial orientation includes domain knowledge, a high tolerance for risk and ambiguity, and the ability to sell ideas. According to Covin and Slevin (1989) and Miller (1983), top managers must emphasize all three dimensions to be considered entrepreneurial. A recent meta-analysis of EO by Rauch, et al. (2009) confirmed that the EO of top managers is significantly positively related to both financial and nonfinancial measures of performance.

The components of entrepreneurial orientation include intrinsic factors such as domain knowledge, personality, leadership capabilities, and a wide range of individual differences and human capital variables relevant to innovation. There are also important experiential differences, including formal education, managerial experience, and start-up experience. These experiential differences combine with the innate cognitive and personality factors mentioned above to create individual capabilities for innovation, including critical opportunity recognition and creative problem solving.

Both human capital theory and entrepreneurship research establish that knowledge provides individuals with increased cognitive ability and greater productivity (Becker, 1964). Human capital has been identified as a factor positively related to both nascent entrepreneurship (Davidsson & Honig, 2003) and successive entrepreneurial activities (Davidsson & Wiklund, 2001). While most of the previous research has looked at novice founders and founders who subsequently start other new businesses (Bates, 1995; Wiklund & Shepard, 2008), senior executives who have been successful in identifying and implementing innovation in the past will have a higher probability of innovating successfully again within the same organization.

The entrepreneurship and innovation literature also supports the assertion that the in-depth expertise,

judgment, and ability of individuals play a key role in the innovation process (Dougherty & Hardy, 1996; Leifer, McDermott, O'Connor, Peters, Rice, & Veryzer, 2000; Tushman & Nadler, 1986). Senior executives can draw on their knowledge and experience to facilitate their own productivity as well as provide guidance and advice to other organizational members (Garud & Van de Ven, 1992). Lee and Kelley (2008) considered the knowledge of the individual entrepreneur as a requisite resource for successful innovation. Thus, the senior executive's entrepreneurial orientation is a key requirement for innovation, and this orientation is related to personality and can also develop through formal education and prior experience.

The Role of the Board of Directors

In order to lead effectively, the executive director must have the support of key stakeholders. One of the most important stakeholders in the nonprofit organization is the board of directors. The board plays a unique role in nonprofit organizations. Like all boards, nonprofit boards are supposed to approve the major strategic initiatives. In addition, nonprofit boards typically are more involved in managerial responsibilities and operations than their for-profit counterparts (Hatten, 1982; O'Reagan & Oster, 2005). A lack of board support for a specific strategy or conflicting strategic priorities can create tensions (Ridder & McCandless, 2010). Tensions, in turn, can affect strategic direction and, therefore, the development or implementation of innovative products or services.

Even though boards of directors play a critical role in the governance of nonprofit organizations, there is limited empirical research on boards' influence on the successful creation and implementation of innovative processes, services and programs (Coombes, Morris, Allen & Webb, 2011; Jaskyte, 2009). There is recognition that the board impacts organizational performance and influences organizational members (Herman & Renz, 2004). Boards are seen as playing a role externally by communicating the organization's message to attract resources (Klausner & Small, 2005) and by providing oversight of the strategic plan and monitoring the executive team and organizational outcomes (Abzug & Galaskiewicz, 2001). Nonetheless, most of these discussions have been prescriptive; a handful have been theoretical (Miller-Millesen, 2003) and even fewer have been empirical/evidence-based (Brown & Guo, 2010; Brudney & Murray, 1998).

A recent study of 417 nonprofit organizations examined the role of boards of directors in fostering or stopping innovation (Salamon, Geller & Mengel, 2010). While the most significant, steady sources of innovative ideas were from staff members and peer organizations, the study found that 62% of nonprofit organizations relied on board members to learn about innovation at some point in time. Of those surveyed, 20% relied on board members often, and 38% relied on them occasionally. Even though there was no dominant source of pressure to innovate, board members were viewed as a significant source of pressure by 22% of those surveyed. Board members typically were not viewed as a hindrance to innovation. When organizations wanted to adopt innovative programs and services, board resistance and/or disinterest was cited as important or very important by only 7% of those surveyed. On the other hand, for nonprofit organizations that instituted innovative programs and services, boards of directors were cited by 31% of those surveyed as a factor motivating the adoption of performance measurements to evaluate those innovations. In keeping with these results, Evashwick and Ory (2003) found that the majority of innovative projects that were successfully initiated by community health care organizations not only had a visionary leader within the organization, but also had a board member serving as a secondary champion of the innovation. Coombes et al. (2011) found that organizations with passive boards demonstrate less entrepreneurial behavior.

Although there has been significant research on boards of directors in both for-profit and nonprofit contexts (Bradshaw, 2009; Brown & Iverson, 2004; Herman & Renz, 2000; Miller-Millensen, 2003), there has been little empirical work specifically addressing the characteristics of the board that drive, foster or hinder innovation in nonprofit organizations. Monteduro, Hinna, & Ferrari (2009) found that the skill set and knowledge base of board members had significantly more impact on a nonprofit's degree of innovation than overall board demographic profile. They found a strong positive correlation between the business expertise of individual members and the adoption of major innovations in grant-giving

foundations. Consequently, the EO of the board is relevant to the adoption and implementation of innovation.

The Role of Key Staff

While the entrepreneurial orientation of the senior manager is critical for the development and implementation of innovation, the ability to engage other organizational members is critical. Research suggests that continued innovation requires a culture of sustained organizational learning and creativity (e.g. Prugsamatz, 2010). Lee and Kelley (2008) established the need for collaboration and collective activity to develop the ability to learn and develop new approaches to achieve innovative outcomes. Senior managers can shape organizations at a broader level and create an environment that promotes and encourages experimentation and innovation (Hornsby, Kuratko, & Zahra, 2002).

Damanpour and Schneider (2006) found a positive relationship between favorable attitudes towards innovation within the organization and innovation adoption. In a social entrepreneurship study, Corner and Ho (2010) found that even though many patterns of opportunity development exist, most opportunities grow over time and are developed by multiple actors aware of a particular need working together to create social value. Prahalad and Hamel (1990) noted that in order to create new resources and facilitate innovation, firms must mobilize and combine individual knowledge and skills across boundaries. Sarros, Cooper and Santora (2008) found that organizational culture plays a moderating role in the positive relationship between leadership and innovation. Thus, there is groundwork in the literature to support the link between engagement from multiple sources and innovation success, suggesting that key staff members play a critical role in the development and implementation of innovation.

Infusing entrepreneurial orientation is vital for engaging key staff members but is difficult. Unlike for-profit firms, nonprofits are typically resource constrained and cannot pay rates competitive with the private markets or offer stock option packages (Oster, 1995). Many nonprofits also rely on volunteers to perform key functions. Further, the culture of nonprofits is historically more risk averse than for profits. As noted by Morris, Coombes, Allen, & Schindehutte (2007), the logic of being entrepreneurial, pursuing a social mission, serving multiple stakeholders, and operating with scarce resources is often not a clear proposition. Further, complex responsibility structures, public policy influences, and a reliance on government funding that specified program requirements limited the need and incentive for nonprofits to pursue innovative solutions to problems (Hull & Lio, 2006). Nonprofits have also tended to suffer from a culture steeped in social work ideals focused on solving social problems quickly and within budget rather than investing in longer term solutions that may be difficult to implement. Unless the senior executive can share knowledge and motivate other organizational members to engage, innovative initiatives are likely to fail. As Light (1998) noted, for innovation to become a viable alternative for nonprofits, nonprofit leaders must prepare the organization to innovate.

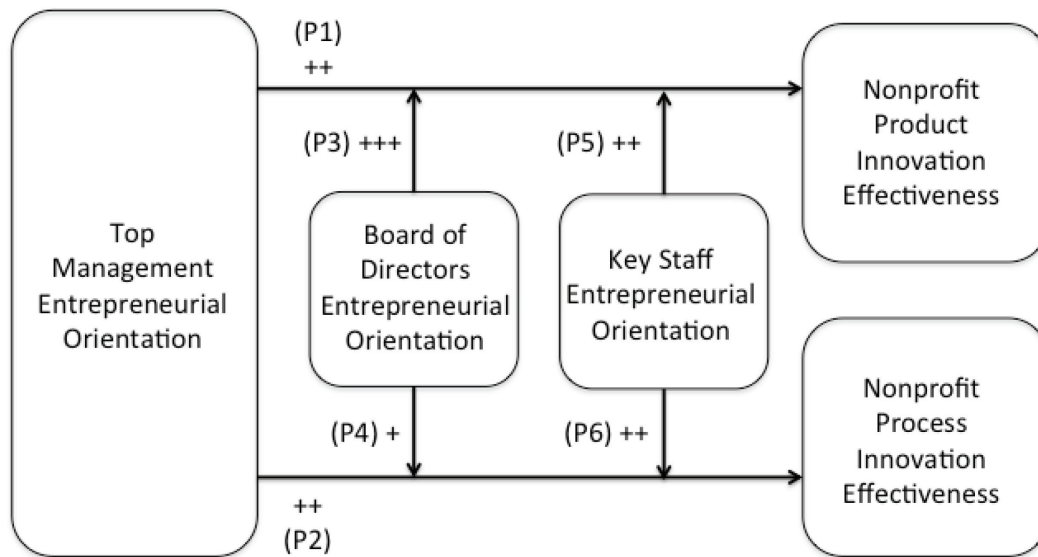
Morris et al. (2011) suggested that the inclusion of the board in the nonprofit context may be appropriate but the EO of key staff members may not be relevant to decision making. However, an argument can be made that the extent to which the key staff value innovation, risk taking, proactiveness, and are committed to changes is relevant for to the successful implementation of innovation. While organizational culture or shared values regarding entrepreneurship has not been measured before, Rauch et al, (2009) advocate the inclusion of moderators in the EO-performance relationship. Thus, evaluating the extent to which key staff members value innovation, risk taking, and proactiveness may affect the relationship between EO and innovation.

THEORETICAL MODEL AND PROPOSITION DEVELOPMENT

After a careful review of the literature, a theoretical model (see Figure 1) and several testable propositions emerge. All are predicated on the notion that entrepreneurial orientation is related to innovation and that the nature of this relationship is multidimensional across stakeholder groups. EO is usually measured by either querying top management or assessing top management's actions to assess top management's strategy in relationship to innovativeness, proactiveness and risk taking (Covin & Slevin,

1989; Lumpkin & Dess, 1996; Miller, 1983). Given the realities of nonprofit shared governance, we posit that it makes sense to expand the operationalization of entrepreneurial orientation to include the board as well as the top executive team. The entrepreneurial orientation of executive management is still the primary force, but the extent to which the board embraces innovativeness, proactiveness and risk taking plays a role in determining the success of the organization in pursuing and implementing innovation.

FIGURE 1
MODEL OF INNOVATION IN NONPROFIT ORGANIZATIONS



Another dimension is the type of innovation impacted by top management and the board. Previously, we identified two key categories of innovation: process and product/service. Process is more focused on the internal improvement of the delivery of goods and services, whereas product/service innovation is the development of new products/services to clients and customers. Incremental or operating changes occur in small steps and involve modifying peripheral organizational elements. They typically build upon existing knowledge and internal competencies. In contrast, major changes to the organization's core services and/or operations, impact many organizational components. Major changes may require the development of new competencies and/or the acquisition of new resources.

The top managers, as the people in charge of strategic and operating strategies, are likely to be involved with both types of innovation. The board, on the other hand, is less involved in the operations of the organization (particularly the day-to-day operations) and more likely to be responsible for approving and supporting strategic decisions involving the development of new products and services. As noted by Salamon et al., (2010), the board is more apt to serve as a catalyst for change rather than a hindrance of change. Further, the board does not work in isolation to affect EO, but provides a support role. Hence, the board plays a moderating role such that when both the EO of the board and senior executives are high, the nonprofit should be in a stronger position to move forward in an innovative fashion. Therefore, based on this model, we propose six propositions:

Proposition 1: There is a positive relationship between top management's EO and the level of product/service innovation in a nonprofit organization.

Proposition 2: There is a positive relationship between top management's EO and the level of process innovation in a nonprofit organization.

Proposition 3: The EO of the board strongly moderates the positive relationship between the top management's EO and the level of product/service innovation. When the board's EO is higher, the relationship between executive management's EO and the level of product/service innovation in a nonprofit organization is stronger.

Proposition 4: The EO of the board weakly moderates the positive relationship between the executive management's EO and the level of process innovation. When the board's EO is higher, the relationship between executive management's EO and the level of process innovation in a nonprofit organization is stronger.

What role does key staff play in the adoption of innovation? As noted, because of the lean nature of nonprofits, the support of key staff members is critical to the successful implementation of innovation. The EO of the key staff is not relevant to strategic decision making, as that is the domain of top managers and the board. However, key staff members play a significant role in the implementation process, and a lack of support from the key staff members can doom innovation just as the support of key staff members can positively affect innovation implementation. Further, because key staff members are involved in both the process and product /service innovations, their EO is relevant to both types of innovations.

Consequently, we propose the following:

Proposition 5: The EO of key staff members moderates the positive relationship between the top manager's EO and the level of product/service innovation such that when the EO is higher of key staff is higher, the relationship between the top managers' EO and the level of product/service innovation in a nonprofit organization is stronger.

Proposition 6: The EO of key staff members moderates the positive relationship between the top managers EO and the level of process innovation such that when the EO of key staff is higher, the relationship between the top managers' EO and the level of process innovation in a nonprofit organization is stronger.

The model presented in Figure 1 identifies both main effect and the moderated effects of the variables. The central independent variable in this model is the EO of the top manager(s). The dependent variable in this model is innovation effectiveness, and we distinguish between product/service innovation and process innovation. We posit that the remaining variables in the model, the EO of the board and of key staff members, moderate the relationships between the top managers' EO and the level of innovation.

IMPLICATIONS AND DIRECTIONS FOR FUTURE RESEARCH

The model we have proposed attempts to expand our understanding of innovation in nonprofits. Innovation is becoming essential to the survival and sustainability of nonprofits. In order for innovation to be successful, the top manager(s) cannot act in isolation. Innovation requires the support of the board, particularly for new strategic initiatives where new products or services are introduced. The unique shared governance structure of the nonprofit requires that the board provide support in terms of resource allocation, implementation ideas and the development of community support. For these strategic plans to be carried out, yet another layer of support is necessary. Key staff members must understand and internalize the EO values of innovativeness, proactiveness and risk taking to successfully implement innovation. This can be a tall order in a culture where innovation has not been demanded or even expected until relatively recently. Nevertheless, regardless of how much the market demands it, a failure to embrace innovation can doom implementation from those on the front lines who must do the work.

These propositions have significant obvious and non-obvious implications for the future of nonprofits. First, how do we train nonprofit managers, both in existing organizations and in undergraduate and graduate universities? Where should nonprofits be looking to recruit new managers? What selection

criteria with respect to knowledge, skills, and experiences should be used when hiring new managers? How should boards be selected? What degree of alignment or misalignment is most effective and how do organizations get to such alignment? What are the implications for board selection and subsequent board training? While a perfect alignment between the top managers, board and key staff members may not be obtainable, nonprofits may benefit from devoting some time to assessing the extent to which innovation is valued and envisioned as part of the organizational fiber and taking steps to educate and communicate.

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