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What Determines the Capacity for Continuous Innovation
in Social Sector Organizations?

Rockefeller Foundation Report
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Executive Summary

The dimensions and complexities of global social and environmental problems are challenging the ability of social sector organizations to remain relevant. Supporting the ability of organizations to continuously innovate is therefore a prime mechanism by which funders can contribute to progress. This report informs a process leading up to a future research program that aims to generate actionable insights into the mechanisms that promote or inhibit the capacity for continuous innovation in social sector organizations. It provides an overview of the mainstream organizational and social sector literature on innovation capacity. On that basis, we propose an analytical process model of organizational capacity for continuous innovation. It captures the dynamic of how ideas are generated internally or accessed from external sources and how they are evaluated, experimented with, adopted or rejected, and formalized in organizations as technical or managerial innovations, new products, or services. This model is used to integrate a number of internal and external factors that are known from the literature to impact innovation capacity.

Engaging with a large set of scholarly and practitioner literature, we conclude that the particular perspective of organizational capacity for continuous innovation in the social sector is highly underresearched, that focused research could provide important new insights, and that very little is currently being done to enable an appropriate long-term effort that is grounded in a solid research strategy. The report raises concerns about searches and hopes for easy answers and recipes that could predictably generate innovation. It also highlights a need for new research designs and provides multiple avenues for future research to address practical and important questions.

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I. Introduction

This report summarizes our findings from reviewing the scholarly and practitioner literature on the topic of capacity for continuous innovation in established social sector organizations. Innovation as used in this review is the process by which an idea that is new to an organization gives rise to a new set of activities. This definition encompasses different types of innovation – administrative innovation, operational innovation, technical innovation, new products and services or new business models. Organizational capacity for continuous innovation integrates this definition of innovation but expands it to reflect its position in an organization that is already operating at a meaningful scale delivering products and services.

This is a selective review and not a stand-alone authoritative synthesis of the multitude of issues and perspectives that existing literature has generated on this topic. Rather, it provides stimulus as well as structure to a journey that the Rockefeller Foundation is leading toward progress on this important topic. This report is an input into an expert workshop that will synthesize, validate, expand, and adapt our findings. The outcome of this workshop will be a priority list of important questions informing a subsequent call for research proposals as a next step in that journey.

For our review we employed a snowball sampling process to select primary literature and perspectives by starting with the most recent papers and reports and interviewing experts in the field. This enabled us to identify a robust set of core issues that seem to determine in important ways an organization's capacity for continuous innovation. We did not integrate "anything to do with innovation" but remained selective and grounded in the primary focus of this report: understanding what constitutes and impacts the capacity for continuous innovation in social sector organizations that are already providing products and services. We selected those perspectives that we felt were relevant due to their plausible impact on innovation capacity and were potentially actionable in the sense that knowledge about these factors might fruitfully inform practical interventions. We based this review on a belief that the mainstream organizational innovation literature matters for this topic but that we need to be sensitive to the peculiarities of social sector organizations and their contexts.

The terms social sector organizations (SSOs) and nonprofit organizations (NPOs) in this review pragmatically refer to the same organizational population. The term NPO is used more frequently in the literature, and we have used it in the text whenever we refer to published research where authors have adopted this term. Due to the large variance in the characteristics of SSOs and NPOs across the globe, we are agnostic about the legal status or the types of financing they might have, although both of these may affect innovation. The definitional characteristics for the terms SSO and NPO as used in this report include organizations that are measured primarily by their ability to achieve nonfinancial goals that are part of the larger set of the "Millennium Development Goals" of the United Nations and that are beyond their foundational and initial growth phases and operate at a robust scale delivering products and services.

This review is organized as follows. Because the term organizational capacity for continuous innovation is not well defined in the literature, we first build a process model that makes it clear what we are trying to explain. Using this model as our central perspective, we then map a number of organizational and contextual factors that are known from the literature to impact organizational innovation capacity. Because the number of factors is very large, we have clustered them into four perspectives to facilitate reflections and evaluations of their importance and the state of knowledge. We conclude with some implications of this review for future research on this topic. We kept synthesis of findings to a minimum to provide unbiased input for the workshop. However, the perspectives we have chosen to build the central model and the literature and factors that affect innovation capacity that we have selected reflect our biases as scholars and our own research priorities and interests.

II. Organizational innovation and organizational capacity for continuous innovation (OCCI)

What do we know about organizational innovation and about organizational capacity for continuous innovation (OCCI)? Fortunately, there is an extensive body of literature in mainstream organizational science on these topics. We have made quite a bit of progress in understanding how organizations develop new ideas and new knowledge internally as part of innovation processes, i.e., how organizations learn or fail to learn (Schilling & Kluge, 2009; Vera & Crossan, 2006). We also understand many aspects of how the adoption of external ideas and innovations depends on the particular characteristics of organizations (Cohen & Levinthal, 1990; Lewin, Massini, & Peeters, 2011; Rogers, 1983). Unfortunately, the research has not led to a coherent set of theories. The practical value of the research findings is potentially high. But realizing this value requires deep reflection on the nature and limits of existing theories and a serious engagement with the contingencies of local organizational realities on a case-by-case basis. Existing theories may need to be expanded by focused research on the special context and other particularities of social sector organizations (SSOs) and may require different research approaches. We will reflect on these issues throughout the text and in the concluding chapter.

We begin our review with a quick and condensed overview of the mainstream organizational innovation literature. We broadly evaluate the state and usefulness of this literature for practitioners. In the next section, we extend our review to innovation in SSOs.

The complexity of innovation challenges practical usefulness

A number of authors have reviewed the vast and rapidly expanding organizational innovation literature (Anderson, Carsten, & Nijstad, 2004; Crossan & Apaydin, 2010; Damanpour, 1991; Drazin & Shoonhoven, 1996; Walker, 2007; Wolfe, 1994). One robust insight is that understanding innovation requires a multi-level perspective. Anderson et al. (2004) list a large number of factors at the individual, group, and organizational levels that researchers have found to influence innovation in organizations:

- **Individual level:** personality, motivation, cognitive ability, job characteristics, mood states
- **Work group level:** team structure, team climate, team member characteristics, team processes, leadership style
- **Organizational level:** structure, strategy, size, resources, culture

The authors identified 58 important dimensions that characterize these factors, ranging from “tolerance of ambiguity” at the individual level to “risk-taking norms” at the organizational level. In a more recent review, Crossan and Apaydin (2010) synthesized thousands of scholarly papers on organizational innovation. In an effort to identify actionable determinants that are within the realm of organizational and individual power, the authors clustered nearly 80 determinants of innovation into three main perspectives:

- **Innovation leadership** provided by the CEO, the board, and the top management team
- **Managerial levers** including mission, goals and strategy, resource allocation, organizational structure and systems, organizational learning and knowledge management, and organizational culture
- **Business processes** such as initiation and decision making, development and implementation, portfolio management, project management, and commercialization

Our collective understanding of the factors that influence innovation in organizations has grown substantially, and we understand at least for some of them quite well how they work individually. But the complexity generated by numerous co-existing factors and their particular constellations in any given organization, whether for-profit or nonprofit, challenges our ability to translate the knowledge into practical useful advice. Crossan and Apaydin (2010) summarize their evaluation of the state of the innovation literature as follows:

Innovation is a broad term with multiple meanings; it draws on theories from a variety of disciplines and has been studied using a wide range of research methodologies. The synthesis is further complicated by multiple levels of analysis and dimensions, and inconsistent operationalization of the primary constructs, which in turn led to mixed empirical results. However, as our review has demonstrated, innovation research is fragmented, poorly grounded theoretically, and not fully tested in all areas. Even the latest innovation models fail to consistently capture across and within sector factors.

In fact, all the authors of reviews on innovation that we cited above express a deep frustration with the state of the literature. Wolfe (1994) argues that “the most consistent theme found in the organisational innovation literature is that its research results have been inconsistent” and that it is “low in explanatory power and thus offers little guidance to practitioners.”

New research approaches are required

Apart from the inherent complexity of innovation as an organizational phenomenon, scholars also point out that the way we study innovation stifles progress. Anderson et al. (2004) criticized innovation research as lacking creativity and innovativeness:

Indeed, existing innovation research can be fundamentally criticized for its largely inaccurate portrayal of innovation in organizations as being static, snapshot, linear processes that display a discrete end-point of the innovation or innovativeness as measured by the researchers themselves. Despite others raising similar criticisms in the past ... the march of applied studies treating innovation solely as an outcome variable has shown no sign of abating, even in the last 5 years.

We therefore caution against naïve hopes for easy and quick answers to the question of how to build OCCI. Much more focused and systematic work will have to be done. We have integrated in our approach the following recommendations for making innovation research more fruitful (Anderson et al., 2004; Damanpour, 1991):

- Treating innovation as a process, not primarily as an outcome
- Treating innovation as an independent variable and reflecting on multiple positive and negative “spin-off” outcomes during the process of innovating
- Studying innovation processes across multiple levels that integrate individual, group, and organizational cognitive and behavioral dimensions
- Reflecting on innovation over time and not as a static snapshot across populations of organizations or by focusing on single innovation events
- Reflecting on the differences in innovation processes, influencing factors, and outcomes across cultural and geographic dimensions

Innovation in social sector organizations (SSOs)

The traditional assumption is that innovation capacity is an inherent characteristic of SSOs (Nielson, 1979; Osborne, Chew, & McLaughlin, 2008; Salamon, Hems, & Chinnock, 2000). However, some scholars point out that this is more of a normative argument rather than one based on empirical data on particular innovation outcomes or on theoretical perspectives (Fyvie & Ager, 1999; Osborne & Flynn, 1997). Particularly, the absence of grounding research in the mainstream innovation literature is seen as a challenge to building a more robust theoretical basis (Jaskyte, 2011; Osborne & Brown, 2005). Despite the fragmented state of the organizational literature, progress requires that we link and compare the nonprofit and mainstream organizational innovation literature to understand which aspects are shared and more general and which aspects are more particular to a sector.

Scholars have noted that little systematic information exists about the factors that influence innovation in nonprofit and public sector organizations (Jaskyte, 2011; Jaskyte & Dressler, 2005; Walker, 2007). Osborne (1998c), studying voluntary community organizations, found that innovation capacity was determined less by their organizational characteristics such as organizational structure and culture than by the institutional and policy environment. However, the heterogeneity of types of organizations that comprise the social sector and the heterogeneity of the social, economic, political, and cultural contexts in which they are embedded do not facilitate generalizations across research findings (Seelos, Mair, Battilana, & Dacin, 2011). The forms and types of innovations that are prevalent in the nonprofit sector have also not been studied systematically (Jaskyte, 2011). Some argue that process innovations are more prevalent than product innovations given the types of needs that nonprofits address (Morris, Coombes, Minet, & Allen, 2007) and the particular risk propensities of nonprofits (Hull & Lio, 2006), but only anecdotal data exist.

Moving from innovation “stories” to causal models of innovation

Understanding innovation in SSOs is not challenged only by the lack of systematic studies. It is also potentially complicated by the existence of multiple organizational goals, nontraditional financing mechanisms, diverse stakeholders, volunteer and contracted employees, organizational values, and contextual variance. As does the mainstream innovation literature, we currently lack a comprehensive theoretical framework that allows us to integrate the diverse findings and the “rich stories” in the literature on innovation and innovation capacity in the social sector. DiMaggio (2001) strongly emphasizes the need to move from rich stories in the social sector to causal models if we are to assess the effectiveness of organizations and inform practice and public policy decisions. To develop such a model of innovation capacity, we fulfill an important requirement for productive and pragmatic research: to define clearly what we are trying to explain when we talk about OCCI. This requirement also overcomes the above discussed critiques that innovation is a broad, ambiguous term with multiple meanings.

Our first task in this review was therefore to develop an analytical model of organizational capacity for continuous innovation that serves several purposes:

- The model integrates the recommendations for making progress in innovation research that we outlined in the previous section. In particular, it specifies the concept of innovation capacity in terms of a dynamic process that integrates four levels of analysis: individual, group, organization, and task environment.

- The model defines the phenomenon that we are trying to explain (i.e., the sub-processes and elements that constitute the capacity of established social sector organizations for continuous innovation) using practical terminology.
- The model enables identification of important factors determining OCCI within organizations and external to organizations. We hope this will engender and motivate thoughtful reflections on priorities in our workshop in New York.
- The model facilitates reflections on the differences in OCCI as a process and its determining factors across cultures and geographies. This has been highlighted by innovation scholars as another analytical move necessary for making progress.
- The model is not a fully validated way of elaborating the concept of OCCI but provides an explicit and transparent basis for further refinement and expansion. It is a starting point for identifying fruitful avenues for further research. Integrating future insights into the model thus improves and expands our knowledge base in a progressive and transparent manner.

Development of an analytical model of OCCI

“Pressures to innovate confront businesses with a demanding balancing act: keeping up with the activities already committed to, to reap the benefits of the investments in them, while at the same time starting new activities that will be of benefit in the future” (Kanter, 1989).

Organizational innovation as used in this review is the process by which an idea¹ that is new to an organization gives rise to a new set of activities, such as new technologies, new managerial processes, new products, or new services (Damanpour, 1991; Hage, 1999; Rogers, 1983). Innovation therefore produces minor or major discontinuities in the organization with its prior status quo (Damanpour & Aravind, 2012; Osborne, 1998b).

Successful organizations and core rigidities

Dougherty and Hardy (1989) observe that innovation often happens despite rather than because of organizations. The organizations they studied seemed to display an “anti-innovation configuration” of resources, processes, and cultures. Light (1998), summarizing his insights from the “surviving innovation project” in the nonprofit sector, shares similar observations: “[A] very high percentage of nonprofit and government innovation occurs against the odds, brought forth in organizations that are hostile to change.” He notes that many innovations “die quickly” because they are killed by accident, neglect, or intent.

This “rigidity” of established organizations has been observed in a number of industries and organization settings. Leonard-Barton (1992) points out that as organizations learn how best to create value for their stakeholders, they develop integrated sets of knowledge and routines. Over time, knowledge and routines are “institutionalized” into “core capabilities” and become part of an organization’s taken-for-granted reality. Thus, when organizations enact and complete innovation processes, they have changed as an organization (Damanpour & Aravind, 2012). On the one hand, core capabilities are important drivers of innovation because as knowledge accumulates, organizations get better at innovating (Cohen & Levinthal, 1990). But they are also difficult to change because managers “unwittingly collude to avoid actions that challenge accepted modes of behavior” (Weick, 1979). Thus, the dilemma for organizations that have become really good at doing something is that they might also institutionalize all the reasons not to change anymore and thus over time turn “core capabilities” into “core rigidities” (Gerstner, 2002; Leonard-Barton, 1992). As Leonard-Barton (1992) puts it: “Core capabilities simultaneously enhance and inhibit development.”

Thus, a tricky balance between the old and the new underlies the capacity for continuous innovation in organizations, and this has become an enduring theme in organizational research (Levinthal & March, 1993; March, 1991) for a recent review, see Lavie et al. (2010). Organizations are challenged to efficiently exploit existing knowledge that has been institutionalized into organizational systems, processes, and routines and at the same time to explore new ideas that could give rise to new processes, products, and services (Crossan 1999). Balancing and integrating exploration and exploitation are critical for OCCI. But the two types of organizational activities entail inherent contradictions that need to be managed (Tushman & O’Reilly, 1996).

¹ An idea as used in this report refers to a unit of knowledge, i.e., a plausible assumption (e.g., observed or learned) about a relation between a set of actions and their outcomes. Ideas pragmatically expand the perceived set of possible courses of action available to organizational members, but the modes of enacting ideas and the outcomes in a particular setting can never be certain.

Why exploration and innovation might be “bad” and exploitation and resisting change might be “good”

Kanter (1989), in line with authors in the previous section, argues that the mainstream activities in organizations (i.e., the ongoing exploitation of existing knowledge and core capabilities and the products and services thus provided) create powerful momentum that pushes organizations along an established path. Exploitation has legitimacy and the prestige of the “already established and already understood.” Exploitation resists change because people have made a variety of commitments, from financial to personal and professional investments, in careers and in expectations about the future. At any single moment, the universe of organizations creates value only from the productive exploitation of its knowledge learned and developed by past innovations because innovation always creates value only tomorrow. Furthermore, a series of smaller, more incremental service improvements over time may produce a much more profound effect than a single innovation (Van de Ven, Angle, & Doole, 1989). March (1991) points out:

The essence of exploitation is the refinement and extension of existing competences, technologies, and paradigms. Its returns are positive, proximate, and predictable. The essence of exploration is experimentation with new alternatives. Its returns are uncertain, distant, and often negative.

The author warns that organizations that focus on innovation and exploring new possibilities to the exclusion of productively enacting what was learned and developed in the past risk failure caused by “too many undeveloped new ideas and too little distinctive competence” and the fact that “most new ideas are bad.” Osborne & Flynn (1997), studying UK-based voluntary nonprofit organizations, point out that only one third of the organizations in their sample were inherently innovative. Being non-innovative and not building innovation capacity served important roles, including the provision of specialist services, individual advocacy, and the ability to campaign for the needs and rights of disadvantaged groups. Incremental organizational development that may produce large benefits needs to be traded off against risky acts of innovation that may not produce anything. Thus, OCCI is not an inherently desirable feature of organizational performance and social value creation.

Developing a meaningful model of OCCI challenges us to be conscious of and to integrate all the good reasons why exploration and innovation from the perspective of established organizations might be less desirable or — as we somewhat provocatively stated — bad.

Building the OCCI model

To create the main theoretical structure of our OCCI model, we merge two highly relevant streams of organizational literature that explicitly speak to the challenges discussed above.² For the purpose of this study we conceptualize OCCI as constitutive of four sub-processes.³

1. **Internal idea creation and/or accessing external ideas or innovations** — the starting point of innovation processes, i.e., when organizational members create new ideas or access externally established ideas or innovations that are new to the organization by actively searching for them or through processes of diffusion and dissemination.
2. **Interpreting and evaluating ideas** — new ideas that give rise to innovations lie somewhat outside the established mental models of organizational members; they need to be communicated and interpreted at the individual and group levels of organizations. Their potential value requires evaluation, and organizational members need to agree on appropriate actions from the context of prevailing organizational goals, cultures, and mental models of organizational members.
3. **Experimenting and consensus building** — new ideas need to be integrated into the organizational system (e.g., through resource allocations and assigning responsibilities) to generate explorative action that evaluates the

² One stream is the literature on absorptive capacity (Cohen & Levinthal, 1990; et al.). Absorptive capacity is understood as the evaluation, assimilation, and application of externally derived new ideas and innovations. Organizations develop ideas internally, but there are always more new ideas and innovations generated and available in their external contexts. Thus, absorptive capacity is seen as a prime mechanism for building a continuous innovation capacity in organizations. We will go deeper into the elements of absorptive capacity and issues related to diffusion and dissemination of external innovations in the sections “External-relational perspectives” and “Internal-instrumental perspectives.” The second stream of literature uses organizational learning as a dynamic process of renewal and innovation in organizations over time (Crossan, Lane, & White, 1999). This process maps along the whole innovation cycle that starts with the creation of new ideas in organizations, the communication and interpretation of the value and fit of new ideas by organizational groups and teams, the decisions that lead to resource allocation and experimentation or trial of ideas, and the eventual decision to adopt the innovation and institutionalize it as a new set of formal activities. The two streams of literature use slightly different perspectives and concepts but, we feel, are highly related. This enables us to combine them into a core process that represents and constitutes continuous organizational innovation that is both externally and internally triggered.

³ These processes resemble the ones described by Crossan et al. (1999), but we have used less conceptual and perhaps more practical terminology.

practicalities and actual value of the potential innovation; groups seek a consensus about its potential and fit with organizational objectives; this includes decisions about retaining the new idea and deciding on appropriate scale and scope.

4. **Formalization and routinization** — innovations are transformed from prototype status to new ongoing programs by formalizing appropriate structures and processes as a basis for creating value, i.e., exploiting the innovation. This creates a new reality for organizations and a new knowledge base — the organization has changed.

These four sub-processes constitute a dynamic organizational capacity for continuous innovation whereby

[t]he firm innovates and renews itself through the feed-forward process and new knowledge is created and institutionalized. At the same time, organizational level systems, structures, strategies, and routines guide the future learning of individuals and groups through the feedback process, exploiting what the firm has already learned (Vera & Crossan, 2006).

Importantly, the feedback processes also include all the reasons why exploitation and getting good at new activities stifles new innovation and exploration processes, as discussed above.

Figure 1 illustrates this process as our main analytical model for OCCI. The OCCI model enables reflection on different types of innovation — technical, managerial, new products or services — and degrees of “radicalness” of innovations. We propose that an understanding of the concept of organizational capacity for continuous innovation requires reflection on the positive factors that make this process productive and the pathologies by which it may derail (Schilling & Kluge, 2009). Having a clearer understanding of OCCI as a dynamic process, we can now evaluate both positive and negative determining factors in the next chapters.

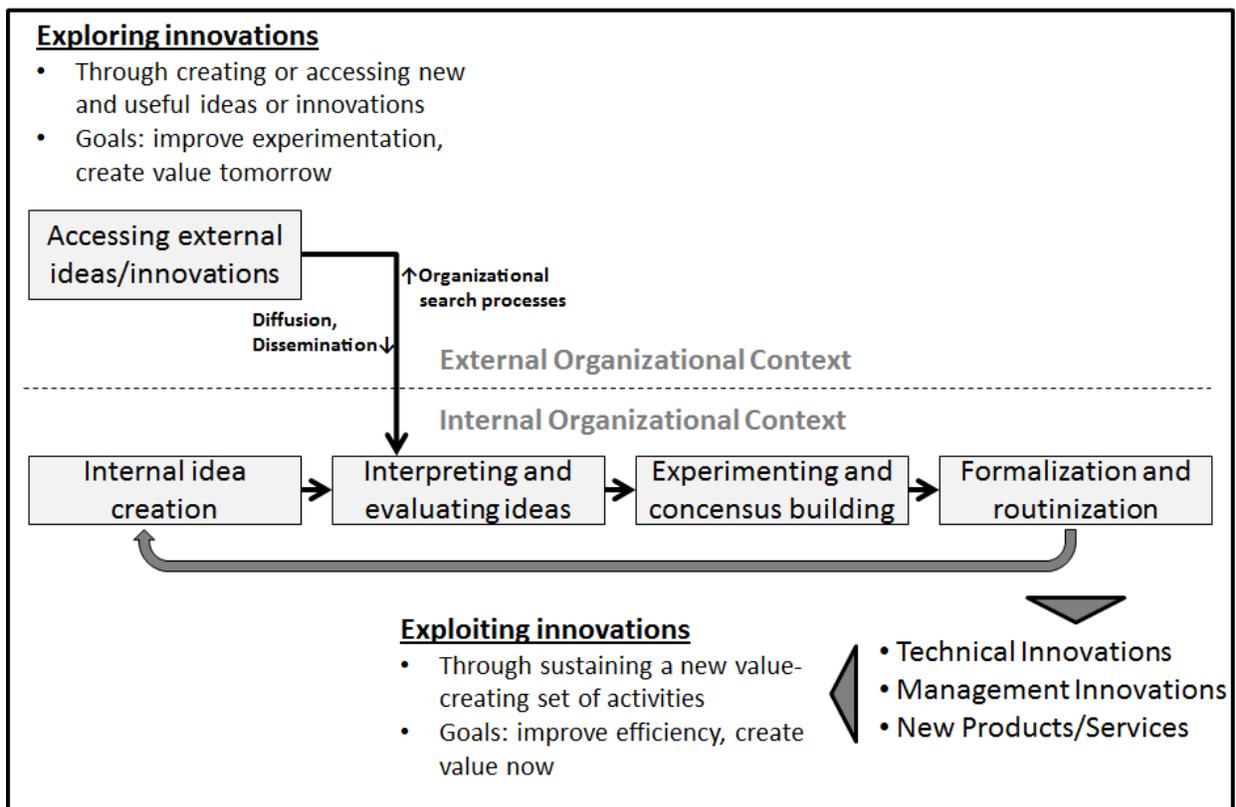


Figure 1. Process of adopting external ideas and innovations (which enter an organization through active search processes or diffusion and dissemination processes) and/or creating, developing, and adopting internal ideas. This OCCI model constitutes our main framework that will guide collective evaluations of factors influencing OCCI in social sector organizations.

III. Factors that enable or impede OCCI in social sector organizations

As discussed above, the innovation literature has identified a large number of factors that impact innovation in organizations. Authors have clustered these factors usually in “external environmental” and “internal organizational” dimensions. Some have added additional dimensions such as “senior management team” (Lavie et al., 2010) or have divided the internal organizational dimension into “instrumental” and “expressive” dimensions (Frumkin, 2002) or into “internal structure,” “internal management systems,” and “leadership” (Light, 1998).

To structure our review and facilitate joint reflection during the workshop, we have used the following dimensions: “external” versus “internal” and “instrumental” versus “relational.” This provided us with four perspectives:

1. **External-relational** — the impact of relations to the institutional context, funders, diffusion of external ideas and innovations, competitors, and collaborators on OCCI
2. **External-instrumental** — the impact of serving and engaging with direct beneficiaries (i.e., an SSO’s customers and communities) on OCCI
3. **Internal-relational** — the impact of relations between the members of an SSO and between individual members and the organization as a whole on OCCI
4. **Internal-instrumental** — the impact of technical and managerial organizational processes and structures on OCCI

See Figure 2 for a summary of the factors discussed in the following sections. The four perspectives do not refer to empirically separate objects or processes but only serve analytical purposes. The factors in the four perspectives relate to each other and the central OCCI model in complex ways. However, the benefit of modularity and clarity provided by this artificial structure in our view exceeded the cost of losing some of the implications of the underlying complexity. Furthermore, the factors we have discussed in the four perspectives constitute a selective sample. We may have ignored some important factors or may have included less important ones.

We want to emphasize again that the analytical model of OCCI and the factors that relate to the model presented here are a starting point to enable a collective effort of progressive theorizing of OCCI. The model does not constitute a defined and comprehensive theory. It is an instrument to facilitate more focused discussions and identify areas of future research for the purpose of this project.

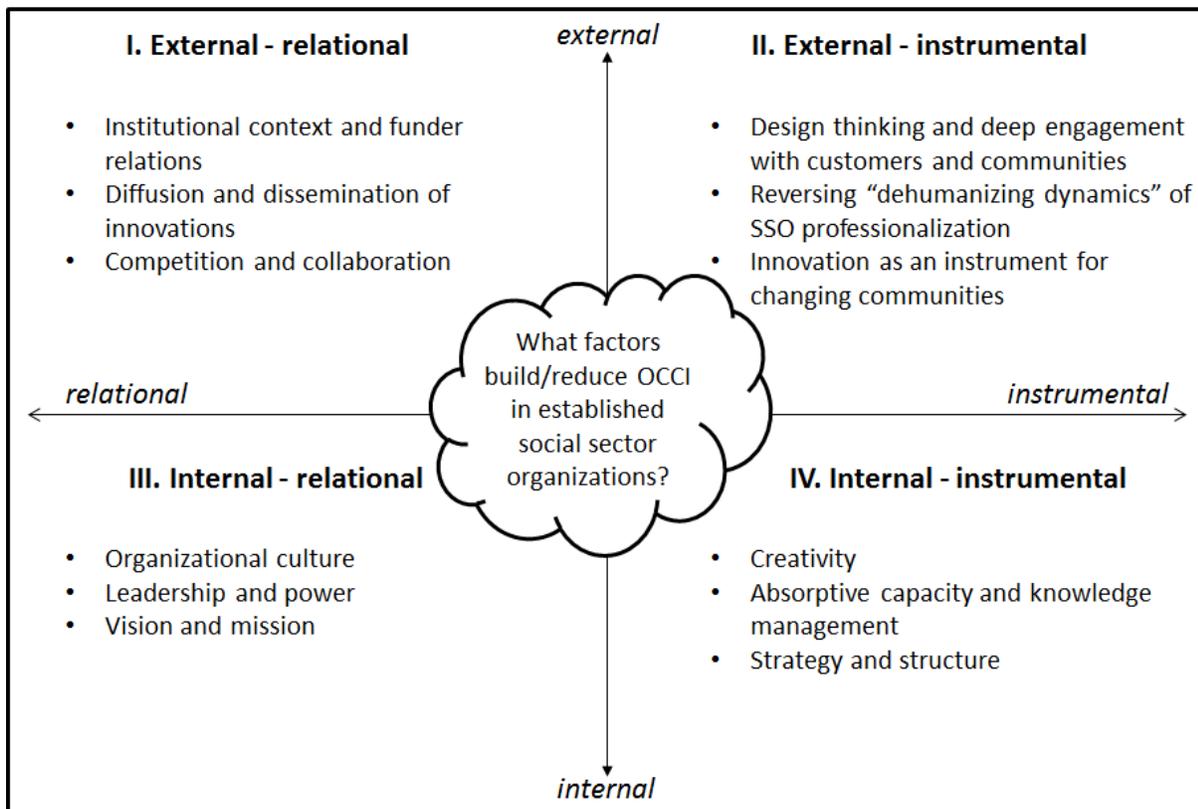


Figure 2. The four perspectives and the categories of factors we chose to evaluate in the following sections. The categories with bullet points refer to the subheadings discussed in the next chapters.

Brief note on scholarly and practitioner literature on these factors

Authors have been quite critical about the state of scholarly research on innovation (see previous sections). A look at the complexities of the factors and their spatio-temporal contingencies elaborated on in more detail in the next sections further emphasizes why it is so difficult to generalize findings into a comprehensive framework or theory of innovation or OCCI. That social phenomena are complex has become somewhat of a cliché, but the importance of this view for research cannot be stressed enough. Scholars often operate at a very low level of complexity in order to isolate and characterize certain perspectives or mechanisms. They are not primarily trying to be practical but rather to add to our common knowledge base. In the field of innovation this has generated highly fragmented research using a confusing number of terminologies and concepts, theoretical perspectives, and methodological approaches. Even for specialists it is often hard to find the common ground that connects these streams of literature, making progress slow and seemingly uninteresting and incomprehensible to practitioners. In scholarly work, transparency of research designs and methodological perspectives often trump considerations of usefulness. But the effort of linking insights to each other and to existing theories aids progress and better definition of contingencies.

The practitioner literature is equally difficult to assess. Practitioner research also operates too often under assumptions of low complexity. A prevailing expectation among practitioners (and some scholars) is that smart research on successful organizations can unearth the underlying factors or recipes by which “success” or intended and desired outcomes can be generated more predictably. If we peel away layers of complexity we can find these nuggets of highly practical research insights. Unfortunately, as we point out in this review, making research more practical means that social phenomena need to be understood at a much higher level of complexity.

Our review of the literature on innovation and innovation capacity by thought leaders and informed practitioners revealed a number of biases. First, there is strong assumption that innovation is inherently a “good and desired” thing, something that is essential to address old problems in new ways. However, as we have pointed out, not only is innovation risky and

costly with uncertain outcomes, it also is not the only or perhaps even the main route by which organizations create value. Incremental developmental improvements may be extremely valuable in certain contexts.

The second bias in this literature lies in a tendency to prioritize recipes and recommendations. Relatively little attention is given to how innovation works to bring about the desired social change. Published work often focuses on:

- **What is needed to push innovation**, such as national innovation systems in general. For example, studies and reports carried out by the World Bank, national foundations (National Innovation Foundation, India), agencies (GTZ/GIZ, www.giz.de), and think tanks that consult with governments and increasingly also companies (e.g., NESTA) often focus on recommendations for an enabling environment and innovations systems.
- **The outcomes of innovation**, that is, what innovation “produces” — for example, the innovative services/products per se or the desired outcomes, such as competitive advantages for companies (Simanis & Hart, 2009).
- **Specific countries and regions** (various reports from the World Bank [<http://econ.worldbank.org>]; see also Rodriguez et al. (2008).
- **Opportunities for companies**, this is particularly true of research from business school faculty; they also tend to adapt existing business concepts (such as disruptive innovation) to social sector organizations (Christensen, Baumann, Ruggles, & Sadtler, 2006).

A third bias lies in the fact that much of the literature is based on commissioned research. As a result, the mandate of the organization conducting and/or sponsoring the study often determines the particular angle or how broadly or narrowly innovation is defined. For example, the Lemelson Foundation or the German GTZ/GIZ emphasizes technology, the Aga Khan Foundation targets studies toward reflecting realities in specific geographies, and a number of studies sponsored by national foundations focus on specific sectors, such as education, and/or policy level recommendations. While most studies come up with well-intended recommendations, these recipes on what is needed are rarely based on a thorough on-the-ground and rigorous analysis of why a recipe will or would work. Prominent examples of entities commissioning research in this area are the U.K. government and foundations such as the Kellogg Foundation (Kasper & Clohesy, 2008). The ideas put forward in these reports are often used to inform subsequent studies and therefore create dominant opinions (e.g., see Mulgan, 2006). As mentioned, unfortunately these opinions and ideas are often not grounded in systematic analysis of cases or data. Rather, snippets of cases (i.e., one particular aspect that seems to work) are used to substantiate arguments, which does not suffice to provide a thorough understanding of the conditions and contexts for why and how things work or do not work.

We conclude that the state of the current scholarly and practitioner literature offers a significant opportunity to build on past work, but making it effective and practical challenges us to be both more creative and more rigorous in our approach. We will reflect on this more systematically in the conclusion section.

1. External-Relational Perspective

Published research on SSOs and innovation — regardless whether these are scholarly or more practitioner-oriented papers — often start like this paragraph taken from a recent paper by McDonald (2007):

Nonprofit organizations are facing environmental pressures from “increasing numbers of agencies seeking support, shifting government funding, and the presence of for-profit organizations in human services” (Chetkovich & Frumkin, 2003). Success, and even survival, demands that nonprofits operate more like for-profit organizations, seeking competitive advantage through innovation (Dart, 2004; Ferris & Graddy, 1999; Gillian Sullivan, Weerawardena, & Carnegie, 2003; Goerke, 2003; Jaskyte, 2004). Managers of nonprofit organizations are being called on to be more entrepreneurial (Morris & Jones, 1999; Zimmermann, 1999) and find a balance between maintaining fiscal health and accomplishing their mission (Chetkovich & Frumkin, 2003; Herman & Renz, 1998, 1999).

External pressures on and expectations of SSOs to be more innovative are increasing. This may have both positive and perhaps — counterintuitively — negative effects on building OCCIs, as we elaborate below.

1.1. Institutional Context and Funder Relations

i. Institutional context

Scholars have highlighted the importance of national context on the competitive performance and levels of innovation of companies (Nelson, 1993; Porter, 1990). Anecdotal data point to the importance of the institutional context for SSOs as well (Szirmai, Naudé, & Goedhuys, 2011). The innovative capacity of organizations is dependent on the external institutional context and, as some authors claim, even more than on organizational characteristics (Osborne, 1998a). The work of innovators depends on a number of cognitive, normative, and regulative institutions that shape their task environment (Seelos et al., 2011). These institutions define the local context for innovation in important ways — for example, by influencing how resources get distributed, the perceived set of possibilities and thus which types of new ideas are created, or what constitutes legitimate action and outcomes (Mair & Martí, 2009). Institutions enable, motivate, and constrain what individuals and organizations can or will do. Institutional context is therefore critical for OCCI, but the diversity of institutional configurations across time and place limits the ability to generalize findings and generate more robust theories.

Rodriguez et al. (2008) provide a broad, cross-sector analysis of Brazil's capacity for producing knowledge and innovation. The authors recommend that Brazil “re-evaluate its education system, its information technology infrastructure, and its policy framework for encouraging innovation to ensure that its economy as a whole is growing fast enough to keep up with the global competition while also guaranteeing progress in its fight against poverty.” There is a great deal of literature that highlights “desired states” for enabling organizational innovation from a macro-perspective, for example, on national innovation systems. What is too often missing is a coupling of these macro-perspectives with an investigation of the micro-processes that enable innovation at the level of organizations. Too many studies focus on the “right thing to do” without elaborating on the “why” and “how.” In countries such as China where the nonprofit sector is only now emerging, we know very little about the nature of these organizations, how they innovate, and how this depends on the institutional innovation context (Hu & Yu, 2008). While many authors recognize the importance of innovation, they also highlight the different nature of innovations across different countries, different institutional contexts, and different levels of economic development (Szirmai et al., 2011). This would warrant new comparative research designs, new research questions, and sensitivity to the limits on generalizing findings.

Social sector organizations have been shown to build innovation capacities despite severe institutional obstacles and lacking any supportive innovation system. For example, Seelos and Mair (2007) have shown how Sekem in Egypt was able to build innovation capacity by shaping cognitive, normative, and formal institutions in important ways. However, what is often ignored is the fact that these “success stories” cannot be replicated at will or using standard “recipes.” Replication is not just knowledge transfer but also depends on characteristics such as patience and stubbornness at the leadership levels of organizations and on organizational learning over long time-horizons (Seelos & Mair, 2007; Seelos & Mair, 2009). This ability of SSOs to shape their institutional environment to improve their OCCI is highly underresearched (Mair, Martí, & Ventresca, In Press).

An important additional lens was contributed by Voeten et al. (2011). The authors looked at innovation capacity in traditional Vietnamese craft villages and found that cluster strategies are important ways to overcome institutional challenges: “The small producers innovated by themselves, drawing on their own strengths and initiative via internal processes, interactions, and knowledge accumulation within the cluster.” Other authors have pointed out that the concept of innovation capacity also needs to be understood more at the level of local clusters, i.e., geographic concentrations of interconnected organizations (Carpinetti, Gerolamo, & Galdámez, 2007). Clusters carve out controlled and enabled space for their innovative activities even in the context of an otherwise nonsupportive institutional context. This line of research is highly underdeveloped for SSOs and developmental topics.

ii. Funder relations

“Funds, control over funds, and conditionalities associated with funds are common themes in debates over relations between NGOs and their international funders,” writes Ebrahim (2005). The author points out that the professionalization of funders creates higher demands for reporting, accountability, and meeting expectations, and this may in fact stifle OCCI because organizations are forced to learn how funders tick. They thus tend to deliver low-risk programs that look good, meet targets and metrics, are auditable, and stay within budget. The bureaucratic processes required for accounting and reporting often leave little time for other activities, including innovation-related activities. Stone (1999) reviewed the nonprofit strategy literature and found that innovation in NPOs is generally not driven by a reflection on customer needs but by symbolic or compliance needs to satisfy the demands of powerful stakeholders such as funders and legislators.

Funders and other stakeholders are pressuring SSOs to deliver more bang for the buck (Bradley, Jansen, & Silverman, 2003) and to take over provision of important public services (Osborne, 1998a). One explanation for this dynamic is that SSOs have traditionally been perceived as having a “natural” innovative capacity. However, increasing expectations on the sector are challenging this myth of natural innovativeness (Borzaga & Fazzi, 2011; Osborne & Flynn, 1997). Osborne and Flynn (1997) cite evidence for a dynamic where demonstration of innovative capacity is becoming a precondition for funding. They studied a sample of 197 U.K.-based voluntary NPOs (VNPOs) and found that funding patterns influence innovative capacity of NPOs in important and partly counterintuitive ways:

This research found that the innovative organizations were significantly more likely to receive funding from a governmental source ... than from voluntary or other income (like donations or fees). This runs counter to much of the conventional wisdom, which has often argued for voluntary income, and the consequent freedom to experiment, as being a key source of the innovative capacity of VNPOs.

Stability of funding and the ability to develop some “organizational slack” that enables experimentation seems to be a positive factor for building OCCI. At the same time the authors are concerned that NPOs might become “hostage to their own rhetoric” about innovation capacity. Innovation involves real risks and costs, and leaders of NPOs need to be careful not to be “forced into a role which is neither inherent to their nature nor conducive to mission-critical goals” and that NPOs may downgrade or underdevelop their core organizational capabilities. The message is an important one: Pushing innovation capacity without addressing the important ways that innovation (i.e., exploration) is balanced with mainstream operation of services and existing competencies (i.e., exploitation) may in fact lower the potential to deliver value to customers in the long run while pleasing other stakeholders (e.g., funders) in the short run.

Interestingly, studying their original sample of organizations more than 10 years later, Osborne et al. (2008) note that the number of organizations engaged in innovative activities has declined from 38% to 19%. The study found that the more innovative organizations tended to be younger, had paid staff, were more concerned with community needs than the needs of organizational members, and had stable government funding rather than voluntary incomes or fees. The study indicates that both external environmental and internal organizational factors determine innovation capacity over time, consistent with our framework for this review. The study also highlights the need for more longitudinal studies and not just the cross-sectional studies that still dominate much of the innovation literature.

1.2. Diffusion and Dissemination of Innovations

The institutional context matters for OCCI across the population of organizations and thus also influences how ideas and innovations flow between organizations. This dynamic is vital because innovation can be triggered by both internal and external ideas. Here we discuss the link between the characteristics of innovation on OCCI and the channels through which external ideas and innovations flow from the source of the innovation to potential target adopters.

i. Characteristics of innovations and propensity to adopt

“Most new ideas are bad,” claims March (1991). Thus, accessing and adopting external ideas and innovations — particularly those that have proven useful — is extremely important. Greenhalgh et al. (2004) conducted a systematic review of adoption and diffusion of service innovations with a particular focus on health services. The authors developed a conceptual model of the diffusion, dissemination, and adoption process of innovations that we reproduce in Appendix 1 for illustrative purposes. Two things appear significant to our review. First, the phenomenon is very complex and dependent on a large number of factors. The authors thus explain their objective as “illuminating the problem” rather than “giving definitive answers.” This serves as a warning that hopes for easy recipes are not warranted. And second, their framework is compatible with our OCCI model. We discuss here two topics of their diffusion framework: i) the characteristics of innovation and how they relate to potential adoption processes, and ii) aspects of diffusion and dissemination processes. Other elements of their framework are discussed in the following sections of this review.

Rogers (1983) lists five characteristics of innovations that matter in important ways for the rate of adoption of innovations (slightly modified here for the purpose of this review):

- **Relative advantage** — the idea that adoption of an innovation is more likely if it is perceived as better than the one it supersedes
- **Compatibility** — the idea that adoption is more likely if the innovation fits the prevailing organizational values and beliefs, is compatible with recently introduced innovations and existing knowledge and practices, and fits the needs of important stakeholders such as customers or funders

- **Complexity** — the idea that adoption is more likely if an innovation has relatively low technical and social complexity (i.e., it can be understood and used easily)
- **Trialability** — the idea that adoption is more likely if important elements of an innovation can be tried, e.g., in the form of prototypes that require less investment or if peers have already tried the innovation successfully
- **Observability** — the idea that adoption is more likely if an innovation is visible to potential adopters

OCCI requires that useful external ideas or innovations are not systematically ignored or rejected by an organization. In the nonprofit sector, little is known about the link between innovation characteristics and rates of adoption. Authors have highlighted this perspective as important for understanding the propensity of innovations to be replicated, i.e., by the innovating organization or other organizations that adopt the innovation (Dees, Anderson, & Wei-Skillern, 2004). A recent study in the public sector (Damanpour & Schneider, 2009) investigated whether the following three characteristics of innovation influence adoption: (1) innovation cost, given the resource scarcity in the nonprofit sector; (2) complexity, which makes it more difficult to comprehend the innovation and assess its usefulness and feasibility in the adopting organization; and (3) innovation impact, the perceived benefit derived from implementing the innovation. The study did not find negative correlations between adoption and innovation costs or complexity but did find a positive relation to innovation impact. Greenhalgh et al. (2004) think that further research on individual aspects of innovation characteristics may provide only marginal benefits. Instead, they propose more practice-oriented research that evaluates how to design “packages” of characteristics in particular constellations to increase adoption rates in different situations and types of organizations.

Strang and Soule (1998) emphasize an important distinction for observability as an innovation characteristic. They ask whether potential adopters see an innovation as a practice (i.e., a set of organizational actions) or whether they actually see the outcomes or impacts of innovations. The lack of a clear distinction about what is observed in diffusion studies may be a potential challenge for SSOs because of the multiple objectives they aim to achieve and the several levels of outputs, outcomes, and impacts that they and their funders focus on. Unfortunately, systematic research into the characteristics of innovations and adoption rates in SSOs is missing.

An important additional insight relevant to this review was also contributed by Rogers (1983). He points out that the process of “re-invention” rather than adoption of innovations can be beneficial to organizations. This may be a valid lens for at least three types of innovations: (1) innovations in the social sector with complex informational/social character whose outcomes are easily observable but lack trialability; (2) innovations that require unforeseeable adaptations to fit local realities and organizational characteristics; and (3) innovations in which the process of innovating is as important as the innovation outcome — e.g., when innovation work is instrumental in changing important institutional aspects, such as norms and beliefs among internal and external stakeholders (further discussed in the next section, “External-relational perspective”). Particularly in the context of deep poverty and institutional “backwardness,” organizational capacity for re-invention may be crucial (Seelos et al., 2011).

ii. Diffusion and dissemination processes

Rogers (1983) provided an authoritative review of decades of diffusion studies, which deal with how innovations diffuse from the original source into the larger ecosystem of organizations. He defined diffusion as “the process by which an innovation is communicated through certain channels over time among the members of a social system. It is a special type of communication, in that the messages are concerned with new ideas.” Diffusion is often discussed together with its organizational counterpart — the capacity of organizations to absorb and adopt new ideas or innovations (see section “Internal-instrumental perspective”). Diffusion and dissemination lie on a continuum of unplanned, decentralized, ad hoc, and informal diffusion processes and more purposeful and often actively managed processes of dissemination (Greenhalgh et al., 2004).

An important element of diffusion and dissemination processes lies in the structures of relations that connect adopters and sources of new ideas and innovations. There is extensive literature on the social structures underlying communication processes — e.g., those that connect sources of ideas and innovations and potential adopters (Burt, 1995; Inkpen & Tsang, 2005; Rogers & Kincaid, 1981; Uzzi, 1996). On the dissemination side we are facing a large amount of literature on social marketing (Andreasen, 2006; Kotler & Roberto, 1989; Mirabella, 2006) and stakeholder influence on organizations (Donaldson & Preston, 1995; Freeman, 1984). Clearly, whether or not external ideas reach potential adopters, as well as the characteristics of the channels through which this happens, influences OCCI in important ways. Centola and Macy (2007) cite Granovetter for providing an essential insight on network structure and diffusion: “Whatever is to be diffused can reach a larger number of people, and traverse a greater social distance, when passed through weak ties rather than strong.” “Weak ties” refer to informal, casual relations that exist in abundance and connect people over long distances (e.g., friends of friends). They are therefore also referred to as “long ties.”

Centola and Macy (2007) extend this perspective by an important insight relevant for this review. They propose that for innovations that are more radical and/or uncertain and thus perceived as more costly, risky, or controversial, the willingness to participate may require independent affirmation or reinforcement from multiple sources: “Many innovations are costly, especially for early adopters but less so for those who wait. The costs and benefits for investing in public goods often depend on the number of prior contributors — the ‘critical mass’ that makes additional efforts worthwhile.” Prior adopters create credibility and legitimacy and thus lower the marginal risk of further adoption. Thus, the authors point out that for risky innovations, Granovetter’s long ties are in fact weak ties. This has obvious implications for funders, for example, in designing network structures and trusted communities of practice around adoptions of innovations. Network structure is only one important characteristic of diffusion and dissemination processes. Others include cultural and professional distance between current users of an innovation and potential adopters and the roles and characteristics of key opinion leaders and organizational champions for an innovation (Greenhalgh et al., 2004; Rogers, 1983; Strang & Soule, 1998).

We are not aware of any systematic research that evaluates diffusion or dissemination processes and their impact on OCCI in social sector organizations, although this knowledge might have important practical uses. Dearing (2009) points out that diffusion of innovation theory is useful for practice and is already applied in agricultural, international development, public health, and educational interventions. He believes that “diffusion theory with validated concepts that concern different aspects of personal, organizational, and social change, offers social work researchers a menu of concept combinations that maybe quite adaptive to different social work innovations, different types of service providers and clients, and varied settings.” This might be a fruitful lens for a meta-review on diffusion theory with an explicit focus on synthesizing insights for the purpose of this project and for capturing the learnings from applied diffusion fieldwork more systematically.

1.3. Competition and Collaboration

Organizations may not be motivated to exchange ideas and innovations, as discussed in the last section. The institutional context and characteristics of funders shape a competitive playing field in which organizations compete over legitimacy and resources. From an OCCI perspective, competition may appear to be beneficial because it pushes organizations to innovate on an ongoing basis or be left behind. However, overall competition may also stifle OCCI because it may restrict exchange of innovations and ideas. But many other factors need to be considered to understand the impact of competitive and collaborative dynamics on OCCI.

i. Competition

According to Morris et al. (2007), evidence suggests that “new nonprofits are being created at a record pace, and existing ones are failing at historically high rates (Cordes, Steuerle, & Twombly, 2001; National Center for Charitable Statistics, 2006).” This may indicate that the act of primary innovation that generates new organizations is easier than sustaining innovative capacity after the founding period of SSOs. March (1991) and others have pointed out that competition pushes organizations to strive for efficiency and improvement-type innovations in processes, products, and services. Because competition furthers comparison, e.g., in the form of benchmarking, it may also create pressures and motivation for narrower imitative innovation to close relative performance gaps. These incremental improvements along the exploitation path create value but may not be sufficient to overcome the negative effects created by lower variance in more radical new ideas and explorative action (March 1991). Diffusion of innovations and “best practices” may thus lower innovation capacity over time.

SSOs measure performance along multiple dimensions, and they are evaluated by stakeholders with different interests and priorities. The impact of competition on types of enacted innovations and impact on building OCCI is thus potentially much more complex than in the for-profit sector and is not well established in the literature. Weerawardena et al. (2010), studying 10 NPOs in Australia, proposed that an increasingly competitive environment whose dynamics are constantly changing has forced nonprofit organizations to adopt entrepreneurial and businesslike strategies aimed at building a sustainable organization. A major problem facing the sampled NPOs was the absence of large and sustained strategic funding in the form of block grants. This resulted in the need to be cautious in strategic resource commitments, requiring strict financial management and a focus on delivering existing services. Another consequence was a tendency to innovate around diversifying their income streams to minimize the reliance on government sources for project funding. These structural innovations included bingo games, raffles, bake sales, special events, formalized donor programs, and even licensing agreements. It appears that competition exacerbates some of the potential negative effects of funder relations for OCCI that we have discussed above. Understanding the joint impact of funding strategies and the effects of competition on OCCI seems an important lens for focused research.

ii. Collaboration

Parmigiani and Rivera-Sontas (2011) have recently performed a meta-review of the literature on interorganizational relationships that include alliances, joint ventures, supply agreements, licensing, co-branding, franchising, cross-sector partnerships, networks, trade associations, and consortia. The authors labeled their task as “clearing a path through this forest of studies,” highlighting the enormous amount of research undertaken and perspectives that define this literature. Consistent with our OCCI model, the authors find that the collaboration literature mainly revolves around the two “pure” perspectives of joint exploitation or joint exploration. In their view, this tension between exploration and exploitation as the main intention of partner organizations is a more significant feature than the form or mode of collaboration.

On the question “why do organizations collaborate?” the literature revealed several perspectives. From an economic perspective, organizations partner because it improves some dimension of efficiency. The focus here is on “creating an appropriate governance structure, obtaining complementary resources, and aligning incentives among partners.” From an organizational perspective that focuses on social structures and relations, including prior relationships and issues of trust, the motivation to partner might include gaining legitimacy, status, or reputation or reducing dependency on powerful stakeholders or resource providers and uncertainty. Collaborative approaches are thus important learning platforms for organizations. Powell and Grodal (2006) propose that participation in organizational networks significantly increases the capacity for innovation among member firms. It appears that understanding the main question of this review — i.e., how to build capacity for continuous innovation — requires a shift in the focus from single organizations to ecosystems of organizations and other actors. Joint learning and sharing of resources as well as co-creation of new resources might enable emergent innovation capacities among the collective beyond what individual organizations could do on their own. This perspective seems most fruitful for advancing knowledge that might inform practitioners interested in building OCCI. However, as Inkpen (2002) points out: “So many studies, so many unanswered questions.”

One of the questions of interest to our review is whether learning is more about how to make the partnership work or whether joint learning actually drives innovation. The failure rate of collaborative activities of all forms is high. This implies that learning about the partner or how to sustain the partnership might require significant resources. We speculate that the need to justify resource allocations to managing partnerships might perhaps lower the rates of joint exploration, instead pushing partners in the direction of exploitation. This would actually lower OCCI over time. This warrants further studies towards a more explicit understanding of the links between collaboration activities and their impact on the elements of our innovation capacity framework. For example, do collaborations produce more and better ideas? Are collaborators better at communicating and evaluating the adoption of new ideas and or/external innovations? Can collaborative efforts better manage the risk associated with experimentation of new ideas or innovations? Can collaborative efforts overcome organizational resistance to formalization and routinization of new practices or new product/service models? Does joint innovation influence the diffusion of innovations from the collaborating organizations to the larger population, e.g., because of the higher credibility and observability of joint innovations that might drive adoption rates?

Studies of collaboration in the nonprofit sector have created an equally vast and fragmented literature. Kasper and Clohesy (2008) proclaim: “Collaborate. Forget the normal boundaries and bring together talented people from a wide variety of fields and disciplines to work together and cross-fertilize. Look both inside and outside your existing organization for new types of innovation partnerships.” Many of the recommendations in the practitioner literature are inspirational but not always do they create new knowledge. Case studies are not linked or compared to each other or to existing theory, and some of the authors appear to be more interested in pushing their favorite consulting frameworks than generating and sharing novel insights. Often recommendations stay at too high a level of abstraction and complexity or are focused too much on physical technologies with disregard for social technologies.

Repeating the question authors have raised above, “why do organizations collaborate?” but now referring to the nonprofit sector, Vernis et al. (2006) list the following benefits of collaborative efforts between NPOs for the organization and the wider social system:

- Collaborations contribute to enhance organizational efficiency and resource optimization through phenomena such as economies of scale, experience sharing, and so on.
- Collaborations may increase the impact, reach, and coherence of sector interventions, enabling organizations to address more complex issues requiring multidisciplinary and cross-sectional approaches.
- Collaborations may help organizations to adjust to the environment by providing opportunities for mutual learning and experience exchanges.
- Collaborations boost nonprofits’ strength and negotiating leverage for future transactions.

- Collaborations among nonprofits may turn out to be an additional appeal for collaboration agreements with business companies and/or public administrations.
- “The whole is more than the sum of its parts,” on account of intervention complementariness and created synergies.
- Collaborations allow for the development of social self-control and self-regulating mechanisms, designed by sector organizations.
- Collaborations contribute to developing agents’ co-responsibility culture and cooperative skills — such as openness, trust, and transparency.
- Collaborations help the sector consolidate and improve its social positioning. A plural yet coordinated sector is more legitimate and trustworthy for society and other agents — public administrations and business companies — as well.

Evidence indicates substantial increases in SSO partnership formations between organizations whose characteristics lie on a continuum of cooperation, coordination, collaboration, and service integration (Chen & Graddy, 2010). Scholarly interest in these topics also seems high with recent publications of three special issues in scholarly journals. In 2010, *Business and Society* published an issue on “Role of Nongovernmental Organizations and the Business-Government-Society Interface” and *Business Strategy and the Environment* published a special issue on “Collaborative Engagement for Sustainability in the Asia-Pacific Region.” In 2011, the *Journal of Business Ethics* published on “Cross-Sector Social Interactions.” The growing literature has produced a large body of evidence and perspectives, including on lead organization networks (Chen & Graddy, 2010), open innovation practices (Holmes & Smart, 2009), business-NGO partnerships (Jamali, Yianni, & Abdallah, 2011), government-NPO partnerships (Brinkerhoff, 2002), multiparty alliances (Warner & Sullivan, 2004), and many others. Again as with other innovation literature, we know a lot and the research momentum is high, but making this research practical remains a big challenge. And the current literature on social sector collaboration and competition has not explicitly or systematically addressed the relation to building OCCI.

The perspective on competition and collaboration is changing in interesting ways.⁴ Anecdotal evidence, for example, from Canada highlights several important dynamics. On the one hand, the effects of the recent economic crisis seem to trigger NPOs to consider innovation as the only way out going forward. At the same time, the banking industry but also other industries seem to discover social innovation as a way to regain trust and confidence in communities. Thus, both NPOs and for-profit companies at the same time collaborate and compete over “owning” the community space. They bring to the table different tools and attitudes. The willingness exists to collaborate across sectors innovating around a shared community space. However, the closer the partners come together around that space, the harder it gets to align organizational differences in cultures, motivations, and competencies. Different institutional and organizational logics seem to be important factors shaping the decision about whether and how to collaborate across sectors (Vurro, Dacin, & Perrini, 2010). Furthermore, communities are starting to engage in innovative actions themselves, making this space even more complex (Peredo & Chrisman, 2006). All of this raises some fascinating questions for future research on the perspective of building innovation capacity at the intersection of an organization and its organizational and institutional context.

2. External-Instrumental Perspective

2.1. Design Thinking and Deep Engagement with Customers and Communities

Customer needs drive innovation. At the same time, innovation often “creates” customer needs. Some very innovative companies such as Apple seem to follow the motto that most customers don’t know what they want in a new product. Supposedly, Steve Jobs of Apple did not even bother asking them as an input into innovation. On the other hand, scholars have pointed out that customers innovate by themselves (von Hippel, 2005) or that the future of innovation for firms lies in “co-creating” personalized innovation together with customers (Prahalad & Ramaswamy, 2004). It is thus unclear what the role of customer closeness is for OCCI. Andreasen and Kotler (2003) argue that nonprofits must serve multiple stakeholders. But this requires important trade-offs between the particular needs and expectations of stakeholder groups. As Morris et al. (2007) point out, when a nonprofit serves its clients better, this does not necessarily translate into better financial performance. It is thus questionable to what extent a customer focus drives innovative activities in SSOs. Stone et al. (1999), reviewing 20 years of strategy research in the nonprofit sector, found little evidence that nonprofits were responsive to client needs and demands. Nutt and Backoff (1992) likewise claimed that nonprofits lacked accurate and timely market information. To what extent understanding customer needs should or can drive innovation in SSOs is thus

⁴ We thank Oana Branzei for sharing her insights.

not clear. But some evidence points to the importance of close engagement with customers and communities as an ingredient in building and sustaining OCCI.

Simanis and Hart (2009) propose that innovation capacity requires deep engagement with communities: “Create demand by building a social movement, adapting the model nonprofits have used to tap purchasing power in low-income communities. Let the community pull your company into new markets or products.” They suggest that organizations should achieve buy-in from the communities they are working with rather than trying to implement the innovation and achieve buy-in from the community afterwards. Brown and Wyatt (2010) describe the design of the Naandi treatment center in India that produces clean and potable water for communities and highlight missed opportunities for designing “an even better system because they failed to consider the culture and needs of all of the people living in the community.” The authors point out that many initiatives fail or insufficiently exploit their potential because they fail to incorporate customer perspectives and needs and to prototype approaches for efficient learning and experimenting. This directly links to several stages of our OCCI model, such as idea creation, idea communication and experimentation, and consensus building. The philosophy behind design thinking seems to be an important research area for understanding approaches to improve innovation capacity in SSOs.

2.2. Reversing “Dehumanizing Dynamics” of SSO Professionalization

Innovating more closely with communities and customers would also address another important factor of OCCI. We have noticed concerns among SSO leaders in our interviews and among scholars (Eikenberry & Kluver, 2004; Padaki, 2007) that the professionalization of SSOs and the tendencies toward “funder-driven” innovation (Ebrahim, 2005) may constitute a trend toward “dehumanizing” organizations. Characteristics include lower levels of social relations inside organizations, transactional leadership styles and more “objective” HR approaches, and a remoteness of professionals from their communities. This might have at least three important effects on lowering OCCI:

1. The bandwidth for idea creation and accessing external ideas may be lower;
2. The capacity to communicate and share new ideas internally may be lower; and
3. SSO professionals may lose motivation and commitment to the organization’s mission.

Thus, finding ways of linking SSOs and communities as part of innovation and learning processes may be an important angle for building and sustaining OCCI. Laila Iskandar (CID Consulting, Egypt) expressed it in this way: “Motivating people matters. Getting them closer to the actual impact that organizations create fuels excitement.”⁵

Authors have also raised concerns that professionalization generates objective but potentially inadequate measures of performance that may lead to suboptimal or even negative outcomes of SSO activities for their constituencies (Drucker, 1992). Kanter and Summers (Kanter & Summers, 1987) argued that a focus on objective performance measures may start SSOs on a narrow path of defining minimally acceptable standards. This might remove pressures from innovating around customer needs and at the same time challenge the sense of mission that makes an SSO unique and legitimizes its existence. This implies that getting SSO members closer to the point of impact so that they understand SSO performance in terms of real differences for the lives of the people they serve in the long run may matter for OCCI to balance the “dehumanizing” effects of SSO professionalization.

2.3. Innovation as an Instrument for Changing Communities

The relationship between SSOs and communities or their customers often cannot be reduced to a product or service alone. In many cases, SSOs cater to multiple related or linked sets of needs. BRAC in Bangladesh was “forced” to become innovative around multiple customer needs. Whenever they catered to a single need of the poor, they became aware of several other related needs that the poor had. Furthermore, it became clear that changing habits and traditions and building cognitive capacity was essential in gradually moving people out of a self-reinforcing reality of poverty (Mair et al., In Press). Thus, becoming a learning organization with a dedicated research unit to evaluate and enable smart prototyping was essential to BRAC. Eikenberry and Kluver (2004) recommend that we “shift our way of thinking about and working with nonprofit organizations.” They point out that NPOs “are more than just tools for achieving the most efficient and effective mode of service delivery; they are also important vehicles for creating and maintaining a strong civil society.”

A purely instrumental view of innovation outcomes based on adopting the values and methods of markets may constitute an important threat to the broader roles of NPOs in society. This may require further reflection for a definition of and ways

⁵ Interview, Nov. 2011.

to support the building of OCCI. In that sense, co-creation of innovation rather than replicating or copying innovations might matter greatly as well. This would expand the notion of OCCI to organizational capacity for re-invention — i.e., being inspired by an external innovation and taking the idea behind it to move it through a process of re-invention in the local context. This expanded OCCI would require different skills, different funds, and a commitment to longer timescales and tolerance for higher risk and uncertainty. Unfortunately, this important perspective is often ignored in the scaling literature in the nonprofit sector, which assumes that existing organizational recipes can be replicated quickly across contexts.

3. Internal-Relational Perspective

Organizational members and their perceptions of organizational values and expectations are especially important for understanding innovation processes (Daft, 1978; McDonald, 2007; Vera & Crossan, 2004). However, it is not known how to plan for or how to “produce and control” the set of behaviors that generate innovation. Thus, inspiring statements like that of Kasper and Clohesy (2008) are probably true but are not necessarily helpful to practitioners: “Creating an innovation-friendly culture means moving steadily toward comprehensive changes that make the organization a different place.” What we need to know is not just *why* culture matters but *how* to build the right culture for OCCI. March (1991) points out that the organizational code, its languages, beliefs, and practices constitute important structural and cultural elements in organizations that define appropriateness of means and ends that members learn to adopt in a process of individual socialization. The prevailing organizational code thus may impact OCCI in positive and negative ways, for example, through the following mechanisms:

- The code acts as a filter or preselects search processes for types of new information so that only a subset of ideas enters innovation processes.
- New ideas that enter or are internally generated but do not fit prevailing norms or sense of identity may be resisted by the majority.
- The code influences the perception of adequacy of existing levels of performance. This determines whether pressures or motivations for new ideas and innovations are generated.
- The code may prevent adoption of the business language of innovation or OCCI because it does not fit the shared sense of identity of an SSO.

However, while the nature and pace of innovation depends on the organizational code, innovation is not fully determined by these factors. Individual agency also shapes the prevailing norms through acts of personal leadership or formal and relational power. Building OCCI thus depends on tradeoffs and conflicts in the relationship of individuals and their beliefs in the benefits of new ideas versus the strength of the collective commitment to the prevailing organizational reality. March (1991) notes that one mechanism by which the threat of cultural rigidity that resists change and innovation can be allayed might lie in preventing new members of an organization to become socialized to the prevailing code too fast and tolerating or perhaps even encouraging a moderate level of turnover. This is also reinforced by Westley and Antazde (2010): “Innovation scholars suggest that there is often a period of mutual adjustment between innovator’s core values and those represented by the dominant regime.” The authors point out that the innovator as leader needs to be able to convince the dominant regime of his/her values for pushing an innovation through the cycle of organizational learning that is at the center of our OCCI model.

3.1. Organizational Culture

Anderson (2004), reviewing the mainstream innovation literature, highlights important links between organizational culture and innovation, including support for experimentation, tolerance for idea failure, and risk-taking norms. But he warns against simplistic views on this link: “Culture dimensions may thus impact innovation at work in rather complex ways and intervene at different phases of the innovation process.” In 2003, with the support of the National Science Foundation, the School of Social Work at the University of Georgia undertook a research project to examine the role of organizational culture in facilitating innovation in nonprofit organizations. Jaskyte in the third year report of this study noted that it was increasingly evident that the cultural perspective might be useful for understanding innovation in SSOs. The author states: “Unfortunately, while recognized as important, the influence of organizational culture on organizational innovativeness remains at the level of theory. The existing research is plagued with conceptual and methodological issues that preclude researchers from drawing conclusions regarding the role of culture in fostering or inhibiting innovation.” What makes it difficult to study the effects of culture is the multidimensionality of the construct (Jaskyte, 2010), which has at least three important dimensions: organizational values (organizational culture content), cultural consensus (the extent to which values are widely shared), and cultural structure, or existence of subcultures.

Hull and Lio (2006) note that NPOs have a low tolerance for risk compared to for-profit organizations, which may “be willing to take risks in the hope of obtaining a better return on their owners’ investments.” Failure in nonprofits may have devastating consequences, including loss of financial support, loss of key employees whose expectations for making a difference are not met, and potentially severe consequences for the clients they serve who may have difficulties coping with this loss of service. The authors suspect a link between this risk adversity and a general deficiency in the learning (and thus innovation) capacity of many nonprofits. The authors state: “This obstacle derives from a regrettable short-sightedness among some — perhaps many — nonprofit members and supporters, in that they can more easily see the good of a dollar of their donation going to buy food for a starving child than they can that of a dollar going towards research on efficient food distribution routes.” Since risk aversion may not be changed easily, the authors conclude that building absorptive capacity around adopting external innovations that have been proven may be the easier route toward building OCCI.

Several authors have noted an important shortcoming of existing research: ignoring cultural differences and changes across place and time (Hennessey & Amabile, 2010; King & Anderson, 2002). Anderson (2004) states:

Cross-cultural differences and the international generalizability of findings from innovation research carried out predominantly in the USA have received scant attention by researchers active in this field. This is a pointed gap in our understanding of innovation processes across different cultural contexts, and one ... that we raise as an important pathway for future research.

This highlights a potentially important and fruitful area for further research in the social sector. First, mainstream research findings that originated primarily from a North American cultural context might not be valid in different contexts. And second, SSOs operate in very different cultural realities around the world in which they are embedded or need to become embedded to be effective (Seelos et al., 2011).

Hwang and Powell (2009) investigated the effects of professionalization of the nonprofit sector, which is characterized by more and better paid staff and professionals with more rational and instrumental orientations. The authors cite competitive pressures and demands from stakeholders for more efficiency, accountability, and use of objective metrics as drivers of this institutional change. The authors share an impression from their most “colorful interview” where “the director of a religious-training organization showed us his PowerPoint presentation to Christian leaders that urges them to ‘Build Market Share for God.’” The authors noted that organizational cultures that transition toward professionalization tend to become more formalized. This may change the relationship to the core constituencies of SSOs and reinforce a dynamic that we already highlighted in a previous section: Strategic plans, resource allocation, and innovation may be driven more by the demands of powerful stakeholders (e.g., funders) than by mission priorities (Stone et al., 1999).

Unfortunately, Hwang and Powell (2009) did not interpret their findings from the perspective of innovation capacity, but it seems that this dynamic generates some important questions for future research. Frumkin and Andre-Clark (2000) also reflected on this trend toward more nonprofit efficiency based on business concepts such as reengineering and benchmarking. They think that this dynamic may not contribute to sustained success in NPOs. Instead, the authors think that refocusing on strategy based on value and values rather than operational efficiency may be more fruitful. However, instead of ignoring an efficiency focus, the authors claim that efficiency may be a platform for building a strategy that aims at being different and unique grounded in core values of the organization and substantial needs of communities. Although the authors do not directly extend their argument to the notion of innovation, the implications are intriguing. For example, the question of whether a reversal of efficiency- and external reporting-driven efforts toward remembering and communicating an organization’s mission and values would benefit innovation capacity might be an interesting avenue for further investigation.

3.2. Leadership and Power

Research on the link between leadership and organizational performance has a long tradition. Hambrick and Mason (1984) proposed the development of upper echelon theory as a research stream that aims to understand the important role of top management and their experiences, values, and personalities on the question “Why do organizations act as they do?” and how leadership influences the strategies and performance of organizations. This has created a dynamic field of investigation whose insights and implications are beyond the scope of this review (Hambrick, 2007). Interestingly, research on strategic leadership remains somewhat disconnected from research on organizational learning and innovation. Kouzes and Posner (2010) state:

When it comes to innovation, the leader's major contributions are in the creation of a climate for experimentation, the recognition of good ideas, the support of those ideas, and the willingness to challenge the system to get new products, processes, services, and systems adopted. It might be more accurate, then, to say that leaders aren't the inventors as much as they are the early patrons and adopters of innovation.

Authors in the nonprofit literature have also emphasized this perspective (Bays & Capozzi, 2010; Patterson, Kerrin, Gatto-Roissard, & Coan, 2009).

Vera and Crossan (2004) thus point out fruitful avenues for future research. In particular, the authors highlight a need to understand how to balance transformational and transactional leadership styles (Bass, 1985) during different phases in the life cycle of an organization (founding phase versus growth and relative maturity). Additional important contingencies for understanding the differential impact of leadership styles on learning and innovation include radicalness of new ideas, prevailing organizational mission and culture, actual or perceived levels of environmental uncertainty, and level of organizational performance (poor- versus well-performing organizations).

So far, research on leadership and OCCI in the social sector is not conclusive. Strategic leadership theory makes the link between leadership and nonprofit organizational performance, including the capacity to innovate plausible (Phipps & Burbach, 2010). However, Phipps and Burbach (2010) also suggest that there is "evidence in the literature suggesting that the exercise of strategic leadership is different in the nonprofit context." The authors developed some interesting propositions in that direction, but they have not been empirically validated. Chung and Lo (2007) studied leadership behavior in SSOs and found both high levels of transformative and transactional leadership styles that correlated with organizational performance. They conclude that leadership matters, but they did not address specifically the link to innovation in their study. Damanpour and Schneider (2009) studied the effects of personal characteristics of public sector managers on the levels of innovation adoption. They tested for managers' age, tenure, education, gender, pro-innovation attitude, and political orientation. However, while some of these factors (tenure, pro-innovation attitude) had a direct relation to innovation adoption, the perceived benefit derived from the adopted innovation was a much stronger explanatory factor than personal characteristics.

Jaskyte (2004), in an exploratory study of the impact of leadership styles on innovativeness of 19 U.S.-based nonprofits, found that leadership practices such as inspiring a shared vision, teamwork, detail orientation, and people orientation were positively correlated with consensus-type cultures. This may indicate that leadership styles have an impact on culture, although the direction of causality is not clear. Unfortunately, no relationships between any leadership styles and levels of innovativeness were found. It is speculated that leadership practices that were not related to cultural consensus, such as challenging the process, seeking challenges, challenging the status quo, experimenting, and risk taking, might be more likely to be associated with generating innovations. In a more recent study (Jaskyte, 2011), the author found that transformational leadership was a significant predictor of both administrative and technological innovations. If true, this implies that leadership training programs, particularly for transformative leadership development for NPO executives, could be a productive and cost-efficient way to build OCCI. Morris et al. (2007) found a positive relationship between leadership and entrepreneurial orientation. However, it is not clear whether entrepreneurial orientation captures innovation capacity or refers to a different set of activities. Crossan is currently exploring the role of personal character on her learning and innovation framework, which is at the center of the OCCI model in this study (Crossan, Lane, & White, 1999).⁶ This stream of work promises to be a fruitful lens for understanding the link between leadership and innovation and strategic renewal in organizations.

An important view on leadership has recently been provided by Dover and Lawrence (2011). They have explicitly evaluated the effects of organizational power (Lawrence, Mauws, Dyck, & Kleysen, 2005) on innovation in nonprofit organizations using the Crossan et al. (1999) framework that we adopted for modeling OCCI. The authors note that power is critical in understanding the innovation and learning process, i.e., how ideas get generated and embedded in the organization and finally implemented and formalized or discarded. At each stage of the innovation process, particular forms of power are necessary for building innovation capacity. Importantly, the authors develop a framework for understanding "innovation pathologies" depending on whether power is overdeveloped or underdeveloped at individual stages. This may result in "confused identities" and little creativity, uneven adoption of innovations, resistance to new ideas, and failed routinization of innovations (for example, by simply ignoring them). Improper type and extent of power may thus contribute to low capacities for continuous innovation at the levels of individuals, groups, and organizations. Power might be an important diagnostic lens on innovation pathologies, particularly because organizational power can be controlled and to some extent "designed" to fit the particular characteristics of innovation challenges of organizations. The

⁶ Personal communication, Nov. 2011.

authors note that the framework requires empirical validation before its usefulness can be evaluated. Unfortunately, Tom Lawrence mentioned that he is not at the moment pursuing this line of investigation further.⁷

3.3. Vision/Mission

A mission statement that is clear and motivating could be expected to play an important role in triggering and sustaining action that is relevant in achieving an organization's goals. O'Connell et al. (2011) cite a long list of studies that have defined the concept of "vision" as an idealized goal state, a set of blueprints for the future, an agenda, a map for members to follow, and an image of what needs to be achieved. It may include both long-term, future-oriented goals and emotional appeals embedded in a set of values. Furthermore, visions are focused on change and depict a future that is credible, realistic, attractive, inspiring, and better than the status quo. Organizational change such as a new management innovation, a new technical innovation, or a new product or service can be an important trigger for a search for vision (O'Brien & Meadows, 2003). This indicates that resistance to a new vision or a perceived lack of fit of a new idea or innovation with the old vision may stifle the uptake of innovations in companies, but the extent to which this explains variance in OCCI is not clear. For example, Kotter (1996) claims that leaders in organizations undercommunicate vision "by a factor of 10." However, mere communication of vision and in particular of a new vision as part of an innovation process may not be sufficient to trigger action and implementation of new ideas. Rather, organizations might consider communication of ideas and visions that link feasibility and actionability such that organizational members can better comprehend and be stimulated by the message (Kirkpatrick & Locke, 1996).

McDonald (2007) reported on an exploratory study of the link between mission and innovation in NPOs. The author states his surprise about how "little empirical work has been done in the area of innovation in nonprofit organizations" and in particular about the lack of research on the fulfillment of the nonprofit's mission. He cites Ahmed (1999), who had suggested that a clear and compelling mission statement may be associated with an innovative culture. Based on a review of existing literature, McDonald (2007) hypothesizes that "a clear, motivating mission will help organizations identify and focus on the development or adoption of innovations that will support their mission." Evaluating the insights from this paper suggests that mission clarity may contribute to innovation capacity through the following mechanisms that mimic our analytical framework:

- Creation of ideas that are relevant to the organization's objectives
- Lower hurdles to communication and fair evaluation of new ideas at the group and organizational levels because new ideas are grounded in a common mental model
- Lower levels of push-back and resistance during the processes of experimentation and evaluation of outcomes among various stakeholders that are committed to the mission
- Lower levels of organization resistance toward formalization and internal diffusion of the innovation

Weerawardena and Sullivan-Mort (2006) also argue that social mission is central to NPOs because it guides overall strategy: what businesses and services are initiated, what services are grown, how fast they are grown, and which linkages (e.g., through board memberships) are pursued. However, the particular mission may also have negative implications for OCCI. Social sector organizations are often founded by charismatic leaders driven by engaging with a particular need or community. Although this may generate a strong sense of mission, authors report that this in turn may also stifle innovation or at least may stifle radical innovation (Letts, Ryan, & Grossman, 1999).

Many authors have commented on the "commercial turn" of the nonprofit sector (Child, 2010; Frumkin, 2002; Weisbrod, 1998). Anheier (2005) states that this is a "dominant force shaping the nonprofit sector." If SSOs refocus toward short-termism and a reluctance to adopt innovative but non-revenue-generating aspects of their missions, they might generate only marginal innovations aimed at efficiency to the detriment of more risky innovations. However, some argue that the commercial turn promotes entrepreneurial behavior that is linked to more innovative and riskier experimentation and strategic renewal (Anderson, Covin, & Slevin, 2009; Morris et al., 2007). On the other hand, Van Wart and Berman (1999) voiced concerns that a focus on entrepreneurship in established SSOs could compromise their core mission, values, and services with potential negative effects on sustaining a continuous innovation capacity. Thus, the impact on and importance of these dynamics on OCCI is not clear.

Recent research has examined a related concept, the role of organizational motivations. Motivations are "the goals that an institution pursues and the vigor with which it pursues those goals" (Jun & Weare, 2011). The authors cite a long history of this topic in the diffusion of innovations literature (Mohr, 1969). Motivations may explain why certain ideas are created or

⁷ Personal communication, Nov. 2011.

adopted in organizations. For example, organizations motivated by efficiency-based considerations or by social inclusion-based considerations will generate different types of innovations and build different bases for innovation capacity. The authors highlight the need to better understand how motivations vary in different levels of an organization and how they change over time. Both are directly relevant for understanding enablers and barriers to innovation capacity.

4. Internal-Instrumental Perspective

The processes and structures of organizations and the ways they enable and trigger effective and efficient action are the instruments by which value is created for customers. A large number of internal-instrumental factors are potentially relevant for OCCI. We have selected three perspectives that are directly related to OCCI: creativity, the creation of new and useful ideas within organizations; absorptive capacity and knowledge management, the ability to transform external ideas and innovations into internal innovations; and strategy and structure, the overarching framework that coordinates an organizations goals and activities. We have probably ignored a number of other potentially fruitful perspectives. For example, there is a large amount of literature on management innovation — i.e., how to govern and manage organizations better to improve performance in the for-profit (Birkinshaw, Hamel, & Mol, 2008), the nonprofit (Bradley et al., 2003), and the public sectors (Walker, Damanpour, & Devece, 2011). Our OCCI framework enables integration of this perspective. Management innovations also start with the creation of an internal idea or adoption of an external idea that needs evaluation, experimentation, and then formalization into new management practices or organizational structures. We felt that the three internal-instrumental dimensions of creativity, absorptive capacity, and strategy are fundamentally relevant for both technical and managerial innovation.

4.1. Creativity

Creativity, the generation by individuals of new and useful ideas, is considered an important precursor to innovation (Amabile, 1988; George, 2008). Creativity maps to the first subprocess (i.e., internal idea creation) of our OCCI model. Creativity research has developed into a large body of literature that offers a number of useful insights. Causal factors and processes that lead to creativity depend on personal (e.g., intrinsic/extrinsic motivation), job-related (e.g., task intensity; mood; incentive system; signals of safety, autonomy, availability of resources), process (focused reflection on problems versus unconscious processing and intuition), contextual (stimuli that are external or internal to an organization, e.g., external networks and internal work group dynamics), and problem (e.g., open or closed task domain) characteristics. George (2008), reviewing the literature, highlights the importance to ground research in an understanding of constellations of factors rather than isolated factors, which might include organizational signals of safety for developing and communicating ideas, trusted networks, leadership and supervisors, organizational culture, perceived time pressure, sense of direction and mission, and other elements. Important from the perspective of OCCI are also positive and negative feedback mechanisms in process steps downstream of idea creation. If ideas are usually rejected by an organization or never get the resources to be enacted, then fewer ideas will be produced or creative people may start to leave the organization.

This opens the door for multiple interventions and for creating a work context that furthers creativity and enables organizations to progress on the path toward improving OCCI. Runco (2004) points out that organizations tend to invest more in skill development and less in creativity education and training. Few organizations reflect systematically on how to design a work environment that enables people to produce new and useful ideas that can trigger innovation cycles. Conroy (1987) proposed that creativity is crucial for NPOs to reach the “cutting edge” of innovation. However, scholars reflect that creativity research is highly underdeveloped in the nonprofit sector (Jaskyte, Byerly, Bryant, & Koksarova, 2010; Suh & Shin, 2005). Jaskyte and Byerly (2010) provide evidence that managerial tools such as concept mapping may be productive ways to transform NPO work environments and stimulate the idea generation and reflection that are important parts of building OCCI. Furthermore, much creativity research is grounded in Western perspectives. Hennessey and Amabile (2010) point to important avenues for future creativity research: “We cannot presume that the models, paradigms, theories, and measures constructed by scholars in the Western world can adequately explain or tap the creativity of persons living in cultures very different from those of the United States, Canada, and Western Europe.” This research could be highly relevant for understanding OCCI in the development-oriented SSOs around the world.

4.2. Absorptive Capacity and Knowledge Management

Becoming aware of external ideas and innovations through explicit search or diffusion and dissemination processes is an essential part of our OCCI model. This process potentially enhances and multiplies the value from a single innovation dramatically. We have already discussed how the characteristics of innovations determine in important ways the likelihood

of adoption by other organizations. But adoption is also dependent on characteristics of the adopting organization. Cohen and Levinthal (1990) pioneered the concept of absorptive capacity, the ability of an organization to identify, value, assimilate, and apply new knowledge. Since their 1990 publication, the concept has been further developed and given rise to more than 10,000 published papers (Lane, Koka, & Pathak, 2006; Lewin et al., 2011; Todorova & Durisin, 2007; Vasudeva & Anand, 2011; Zahra & George, 2002).

A central claim of absorptive capacity is that prior organizational knowledge influences the adoption of new knowledge and new ideas. This perspective highlights both positive and negative feedback mechanisms for building OCCI. Organizations that are good learners and invest in upgrading their knowledge base through R&D or through formal and effective learning processes are better at recognizing useful new ideas and innovations in their environment and are better at integrating and experimenting with it in a new setting. The new knowledge gained from the adoption process increases absorptive capacity in return, thus constituting a positive feedback cycle. This has important implications for the innovative performance of organizations over time; in other words, it builds OCCI. On the other hand, bad learners also get worse at adoption, which lowers their innovative performance over time. Fiol (1996), reflecting on this important dynamic, notes that researchers have focused primarily “on the means to effectively squeeze innovative activity out of organizations, with little regard for the continuous accumulation of knowledge that provides the source of that capability.”

This is also where absorptive capacity connects with diffusion and dissemination of ideas, discussed in previous sections. If the external knowledge is too different from prevailing knowledge in an organization, then evaluation will be more difficult and adoption less likely. In fact, all of Rogers' (1983) characteristics of innovations discussed above make sense from this perspective. This also highlights another — perhaps less positive — effect of absorptive capacity on OCCI. Knowledge pathways may get narrower over time. This includes search processes, i.e., what kind of ideas and knowledge organizational members search for and recognize. Over time, “cognitive blinders” get stronger, and loss of diversity of knowledge may generate more marginal and incremental innovations (Sorensen & Stuart, 2000). This is one of the important mechanisms that generate the tension between exploration and exploitation, which is at the center of our analytical OCCI framework.

Despite its importance in the organizational literature, absorptive capacity as a concept has not been much applied in the nonprofit sector. The related concept of knowledge management in SSOs has been primarily framed in terms of enhancing the efficiency and quality of services (Lettieri, Borga, & Savoldelli, 2004) and assuring funders that resources are being spent properly (Keating, Gordon, Fischer, & Greenlee, 2003). Knowledge management as a research stream in SSOs has only recently developed (Lettieri et al., 2004; Matzkin, 2008), and the role of knowledge management practices in building innovation capacity in SSOs is not well understood. Matzkin (2008) studied SSOs in Peru and found that much of the knowledge management was implicit, i.e., happening without a conscious awareness of the managers and not specifically linked to innovation but rather to short-term organizational needs. Authors have stated that developing countries that are characterized by a lack of innovation could find knowledge management to be a useful pathway toward innovation (Matzkin, 2008).

Recently, scholars have started to link the intellectual capital (IC) perspective to the capacity of SSOs for harnessing knowledge that leads to innovation for the pursuit of social and commercial objectives (Kong, 2010a; Kong & Ramia, 2010). These authors believe that “IC embraces a comprehensive viewpoint of both internal and external aspects of intellectual resources that are embedded in the personnel, organizational routines, and network relationships.” They see IC as an important resource for organizational innovation and strategic renewal in SSOs. This research direction is compatible with our OCCI model and highlights a select number of the factors that influence innovation capacity in SSOs. These factors are mapped into our four quadrants and discussed there. They include core values and mission (internal-relational), personal leadership (internal-relational), knowledge residing in external actors and organizations (external-relational), and the supportive organizational infrastructure for innovation (internal-instrumental). At the moment, the usefulness of the concept of IC in the context of SSOs remains unclear to academics and practitioners (Kong, 2010b). Since this recent stream of research is an important part of our framework, it will be interesting to connect the forthcoming findings to the question of understanding OCCI in social sector organizations.

4.3. Strategy and Structure

“Successful innovation requires a clear articulation of a common vision and the firm expression of the strategic direction. This is a critical step in institutionalizing innovation. Without a strategy for innovation, interest and attention become too dispersed” (Lawson & Samson, 2001).

An important assumption is that organizations are unlikely to get lucky consistently and produce innovations on an ongoing basis by chance alone. If this is true, then idea creation and absorptive capacity need to be integrated into a larger organizational strategy that ensures a continuous functioning of these sub-processes of our OCCI model. Stone et al. (1999) reviewed 20 years of strategy research in the nonprofit sector. Some of the findings speak to the topic of OCCI. The authors found that many NPOs do not engage in formal development of strategies. When they do, it may be driven more by funder expectations than by other considerations. This was linked to the observation of mission drift as a frequent phenomenon: NPOs shifting away from the original mission and goals to reflect funder priorities. However, robustness of mission has been highlighted as an important element for building and sustaining OCCI (Bryson, 2004; Light, 1998).

Although Bryson (2004) in his review of the public and NPO sector strategy literature claims that strategic planning in NPOs is an innovation “that is here to stay,” other authors are more skeptical. The fundamental values and the social mission of NPOs might create resistance to adopting “businesslike” tools such as strategic planning. Sharp and Brock (2010) demonstrate that careful consideration of organizational peculiarities of how to introduce strategies in NPOs is required if strategizing is expected to promote building of OCCI. More recent reviews on this topic with a focus on the public sector also highlight inconclusive findings on how to best introduce strategy processes in NPOs and public sector organizations (Bryson, Berry, & Kaifeng Yang, 2010; Poister, Pitts, & Hamilton Edwards, 2010). Authors also point out that strategy research in NPOs has ignored the link between strategy processes and content and organizational performance. Although OCCI and organizational strategy share important links, we currently have an insufficient knowledge base for making claims about the link between NPO strategy and OCCI (Weerawardena & Mort, 2008).

The structures, processes, and strategies in mature organizations are often “hostile to creativity.” Dougherty and Hardy (1996) found that the prevalent structures and processes in the organizations they studied favored and sustained routine work, not innovation. Power imbalances and strong functional boundaries created hurdles to collaboration around innovative projects. The mere formation of cross-functional teams did not overcome these hurdles, pointing to the need to understand the causal organizational mechanisms at play. According to the authors, organizational members simply had no experience in and thus did not know how to go about collaborating laterally and vertically. Getting the critical resources to push an idea from the evaluation to the experimentation phase was also often difficult and seemed to have prevented many innovations. Protecting the nascent innovation from resource withdrawals by powerful actors seemed to be a challenge as well (Dougherty and Hardy, 1989).

How to design organizational structure to enable the coexistence of exploitation and exploration as a central element of OCCI has thus become an important lens in the mainstream innovation literature (Burgelman, 1984; Daft, 1982; Damanpour & Aravind, 2012; O'Reilly & Tushman, 2004). Case studies of firms such as 3M or Google or more recently IBM have indicated that explicitly designing appropriate structure and processes matters greatly to OCCI. The structural complexities of social sector organizations with a high OCCI such as BRAC in Bangladesh or Sekem in Egypt also provide interesting anecdotal evidence for the importance between structure and OCCI in the nonprofit sector as well. However, despite the obvious importance and practical relevance of these topics, the impacts of structural configurations on OCCI in social sector organizations have not been investigated systematically.

IV. Pathologies of the OCCI Sub-Processes and Concerns over the Search for “Success Factors”

One problem with both scholarly and practitioner literature lies in a fascination with success stories and a search for success factors. A recent example is the work of Bloom and Chatterji (2009). They propose the SCALERS model, which posits that an organization’s success at scaling social impact will be a consequence of its capabilities in seven areas: staffing, communicating, alliance building, lobbying, earnings generation, replicating, and stimulating market forces. The expectation is that getting these factors right would be the fastest and most efficient way to achieve scale in social sector organizations. Another example is Light’s (2004) study of explanations of nonprofit effectiveness. He offers 10 “statistically significant” success factors: (1) rating of the organization as innovative, helpful, fair, and trusted; (2) pride in the organization; (3) competence of executive director; (4) rating of the disciplinary process; (5) rating of past reform as having made the job easier to do, reducing the need for further reform and producing fewer layers of management; (6) access to information, training, enough staff, and technology; (7) rating of the hiring process as fast and simple; (8) competence of middle-level employees; (9) competence of the board; and (10) being a senior staffer in the organization.

Scholars have voiced concerns over the expectations on “social engineering” as implied by success factors. Merton has highlighted the “unintended consequences” of purposeful action as an important reminder that “social life is not as simple as it first seems” (Merton, 1968). Contrary to scholarly efforts of searching for success factors — i.e., those factors

suspected to generate intended consequences — Merton (1968) states that the discovery of unintended consequences and the circumstances of their workings represent an even more important approach for significant progress in sociological knowledge. Portes (2000) also makes a strong statement for the analysis of the unexpected. He warns about ignoring “derailing factors” in favor of simplistic linear means-ends perspectives. Portes views this attention to the unexpected as an important practice of bashing myths. One of these myths is our ability to deliberately design organizations that generate expected outcomes. This myth “clashed inevitably with the paradoxes of social life” (Portes, 2000). Charles Tilly expands this focus on the unexpected by including that which did not occur. “Sound social science concerns counterfactuals: explaining what actually occurs, which ironically requires specifying what did not occur but could have occurred, then comparing factual with counterfactual” (Tilly, 1996). Tilly calls for much more attention to errors, their consequences, and their rectification.

Schilling and Kluge (2009) also criticize our optimistic beliefs that we can implement at will the factors that are positively associated with desired outcomes in organizations. The authors summarize findings about the main barriers and “pathologies” of the processes that constitute our OCCI model. The number of potential pathologies identified in all four sub-processes is extensive but serves as a source of inspiration for reflecting on the particular issues in SSOs. We reproduce the main classes of pathologies that the authors identified in Appendix 2. This may also be a source for the further development of useful analytical or diagnostic instruments of OCCI. Diagnosis of the main pathologies is necessary before any success factors can potentially create their desired outcomes or before Sutton’s (2003) “weird management ideas that work” are able to “spark nonprofit innovation.”

V. Conclusion

Every year, hundreds of new innovation books are published with well-meaning and intriguing recommendations for managers and organizations. Enabling factors such as risk-taking cultures, inspiring leadership, openness to outside ideas, etc., are all relevant for organizational innovation. Yet we don't know:

- Which of these factors to push and in which combination in a particular organizational context
- The appropriate speed or pace of pushing when organizations have their own “rhythm”
- A realistic time scale between cause and reasonably expected effect, i.e., between pushing and creating intended outcomes
- The set of unintended outcomes this might create in a particular organization short term and in the long run
- How to push (e.g., how to actually build pro-innovation cultures)
- How pathologies might suppress pushing or how such pathologies create unintended and undesirable outcomes

Therefore, we emphasize again our concern about approaches that favor a search for success factors and recipes. This outlook has become a standard in the increasingly impatient development sector and is evident in the focus on quick fixes, efficiency, linear metrics, and replication of success formulas. At the same time, we are less pessimistic than other authors about the usefulness of existing literature. For example, many of the topics in this review and the expanded literature can be used by funders who want to build their own capacity to innovate around enabling and triggering OCCI in social sector organizations. This may require a learning effort to figure out which interventions will work for particular types of organizations operating in particular environments. The OCCI pathologies discussed in Section IV and the topics in the four sections on external and internal factors in this review could, for example, be developed into a diagnostic instrument. This could guide the identification of organizational pathologies and the development of more systematic interventions to overcome them. See Appendix 4 for some exploratory ideas about a multilevel approach to enabling and triggering OCCI in social sector organizations.

On the research side, this review makes the point that we already have significant knowledge about many aspects of what builds or stifles OCCI. In many areas further efforts toward theory building may only produce marginal progress. As a result, the SSO innovation literature might eventually suffer from the same fragmentation and lack of practicality as the mainstream innovation literature discussed in our introduction has shown. But there are specific areas where new and creative theorizing may be warranted and fruitful. This might include innovation factors that are sensitive to cultural and other institutional context where we would expect high variance across geographies. Unfortunately, these topics have been studied primarily in a Western context. For example, we know very little about how creativity, leadership, and organizational power operate in African or Asian contexts.

Another area for relevant and useful research lies in examining the impact of particular constellations or bundles of factors identified by the existing innovation literature and exemplified in our OCCI framework. The important point to make here is that such an approach requires us to deeply engage with SSOs as these bundles cannot be captured from annual reports or might even be difficult to observe. After all, OCCI is not only an organizational phenomenon, so interventions and observational research need to consider four important levels concomitantly: individual, group, organizational, and contextual levels. Scholars might participate in the design and implementation of interventions and observe outcomes as they unfold. This would reflect the call of Van de Ven (2007) for more “engaged scholarship.” But for these concrete research findings to make an impact, funders need to learn to absorb research output. The weakness of funders’ ability and willingness to allow research information and concrete evidence to shape funding strategies has been pointed out by some of our interviewees as a major hurdle to progress.

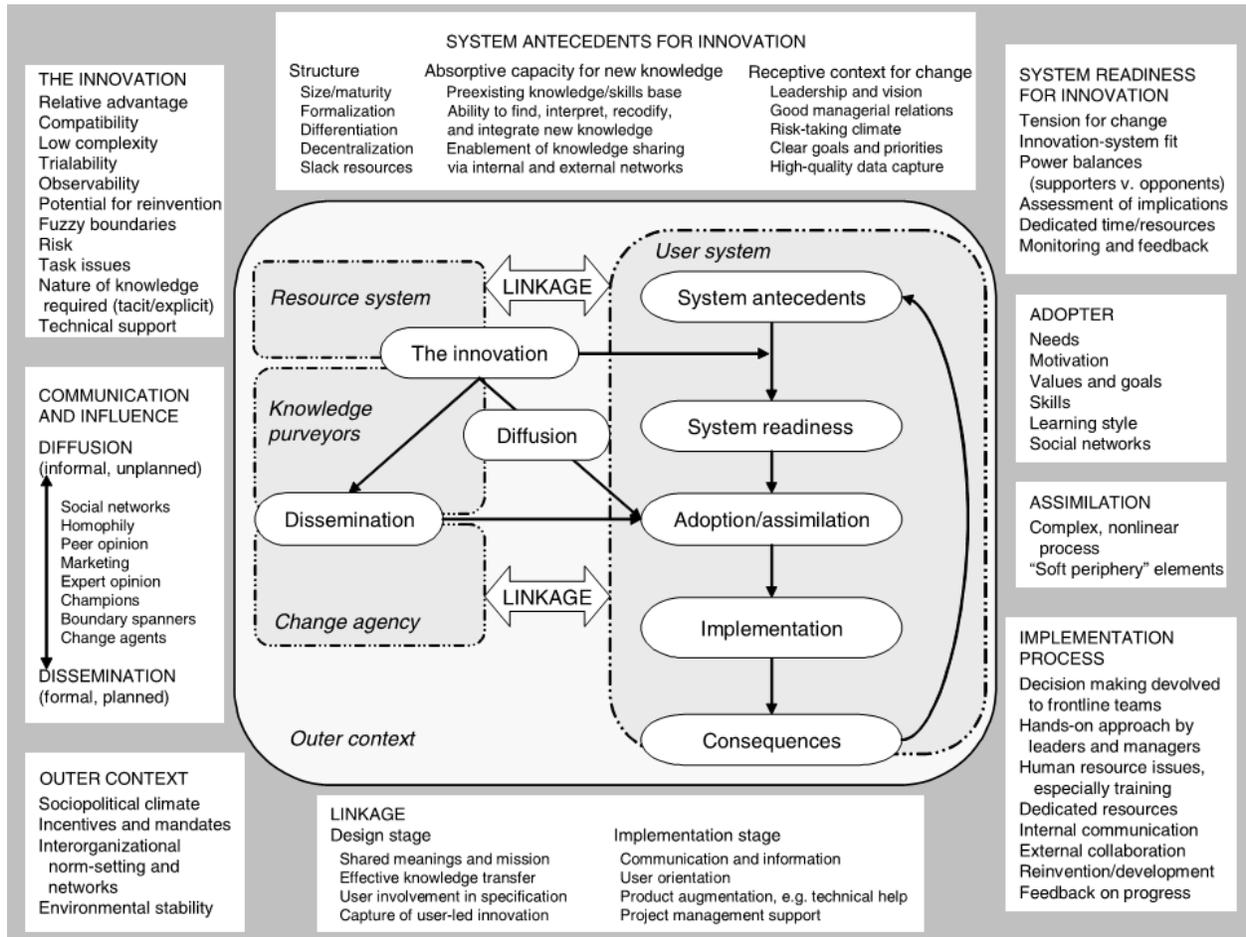
One of the most promising avenues for research that might benefit from methodological creativity is a mechanism-based understanding of OCCI. Our review revealed that literature typically focuses on either the process of innovation or outcomes of innovation. But the causal relations, i.e., the mechanisms that generate the causal links between innovation processes and their outcomes, remain unclear. Mechanism-based approaches could also more explicitly integrate dimensions of “derailing factors” and counterfactuals, as discussed in the previous section (Seelos & Mair, 2010).

Pushing the agenda on research on OCCI might require us to think and act out of the box. It might require someone outside of mainstream academia or SSOs to take leadership to further this agenda. We end this review with a provocative quote from March & Weil’s (2005) book *On Leadership* that makes this point:

Organizational leadership is a contradiction in terms. The essence of organization is routine, conventional behavior, bound by the standards of knowledge, morality, and legality of the time. The essence of leadership, on

the other hand, is escaping the routine, the standard, and the contemporary to implement a new morality, knowledge, and legality quite different from that seen by others. Leadership is pre-eminently anti-organizational. Leaders confront organizations rather than build or serve them. Thus, to speak of the CEOs of business firms, the presidents of labor unions, the directors of governmental agencies, and the commanders of conventional military units as leaders is absurd. They are not and could not be. Leadership will always come from outside organizations and will always be resisted by individuals who are conventional and reliable enough to be given formal positions of authority. There is no possibility of an organizational career for anyone with true leadership capabilities and instincts.

Appendix 1. Reproduction of Figure 3, from Greenhalgh et al. (2004): Conceptual model for considering the determinants of diffusion, dissemination, and implementation of innovations in health service delivery and organization, based on a systematic review of empirical research studies



Appendix 2. Potential pathologies of OCCI sub-processes (adapted from Schilling & Kluge, 2009)

1. Barriers to Idea Creation

1.1. Actional-personal

- Biases and deficiencies of employees in their function as sensors of the organization
- Superstitious learning
- Lack of know-how concerning systematic failure analysis
- Lack of motivation of the innovator
- High level of stress
- Professional identity characterized by first-order problem solving
- Fear of disadvantages
- Restrictive, controlling management style

1.2. Structural-organizational

- Lack of clear, measurable goals and performance feedback
- Stocks and inventories that cover process errors
- Narrow corporate identity
- Monolithic corporate culture with homogeneous workforce
- Strict work rules and regulations
- Narrow job descriptions and high division of labor ("not my job" phenomenon)
- Organizational blame culture (scapegoating)

1.3. Societal-environmental

- Complex, dynamic, and competitive market environments
- Branch with unclear criteria of success
- Cultural distance and low level of experience in the relevant culture
- Complex, ambiguous, and difficult knowledge
- Relevant but implicit and immobile knowledge

2. Barriers to Interpreting and Evaluating

2.1. Actional-personal

- Fear of loss of ownership and control of knowledge
- Lack of political and social skills on part of the innovator and/or sponsor
- Low status, confidence, and trustworthiness of the innovator
- Conflictual relationship between innovator and group
- Perceived lack of relative advantage over existing practices
- Lack of absorptive/retentive capacity on the part of the group members
- Anxiety and lack of motivation on the part of the group members

2.2. Structural-organizational

- Organizational silence
- Status culture
- Missing link between knowledge and important organizational goals
- High workload and frontline context
- Failure-avoidance group norms
- Ego defenses of a strong collective identity
- Divergent objectives and values and hidden agendas in the group

2.3. Societal-environmental

- Knowledge incompatible with existing (occupational) mindsets

3. Barriers to Experimenting and Consensus Building

3.1. Actional-personal

- Fear of disadvantages for the team benefit
- Lack of recognition/fear of punishment for the innovation
- Lack of formal authority on the part of the innovator and/or sponsor
- Lack of top management support
- Overconfidence of managers in existing practices

- Rigid and outdated core beliefs, values, and assumptions of senior managers
- Managers' desire to retain a positive self-image
- Inconsistency between employees' and managers' metaphors and visions for the organization
- Defensive routines of other departments ("not invented here" syndrome)
- Lack of participation and communication/forced top-down change
- Perceived incompatibility with culture and structure of the organization

3.2. Structural-organizational

- Competition with other teams/units
- Low turnover in top management
- Long-term organizational success: competence traps
- Inadequate communication between units
- Power structures and relations
- Ineffective resource allocation
- Lack of learning-orientated values in the organization
- Lack of fit between innovation and organizational assumptions and beliefs

3.3. Societal-environmental

- Industrial recipes standing against the innovation
- Time lag between organizational action and environmental response: failure traps

4. Barriers to Formalization and Routinization

4.1. Actional-personal

- Perceived irrelevance of the innovation for future purposes
- Lack of knowledge to implement the innovation on the part of teams/employees
- Perforated memories
- Laissez-faire senior management style
- Inadequate down-the-line leadership skills
- Past experiences of conflicts during learning transfer
- Low level of acceptance and trust towards teams/employees
- Cynicism towards the organization or innovation
- Divergent aspirations of teams: innovation as a threat
- Low degree of openness to new ideas on the part of teams/employees
- Opportunistic behavior

4.2. Structural-organizational

- Stable/static conditions of the workplace
- Lack of time and resources (transfer processes, training and development; communication methodology and space for implementation)
- High employee and management turnover
- Lack of clear responsibility concerning the implementation/storage
- Lack of a consistent norm system: organizational hypocrisy
- Inconsistent organizational strategy, systems, policies, and practices
- Inconsistency between initial goals of the innovation and success criteria to evaluate it
- Decentralization (silo structure, turfism with powerful departmental structures)
- Lack of means and measures to control organizational behavior and performance

4.3. Societal-environmental

- Rapid technological change
- Emerging management fads that promise quick success
- Problem with linguistics and national culture
- Technical/structural difficulties of storing implicit knowledge

Appendix 3. List of experts interviewed during this review process

We are grateful to the following experts for sharing insights and helping with identifying fruitful perspectives, literature, and recommendations.

- Jacob Harold, Philanthropy Program Officer, Hewlett Foundation
- Adrian Ely, Research Fellow STEPS Center; Lecturer at SPRU - Science and Technology Policy Research, University of Sussex
- Stephen Osborne, Chair of International Public Management, University of Edinburgh
- Heloise Emdon, Program Leader Innovation for Inclusive Development, IDRC
- Kadria Motaal, President, Sekem Academy, Egypt
- Laila Iskandar, Chairperson, CID Consulting, and serial innovator, Egypt
- Thomas B. Lawrence, Weyerhaeuser Professor of Change Management, Simon Fraser University
- Banny Banerjee, Associate Professor, Institute of Design, Stanford University
- Mary M. Crossan, Professor of Strategic Management, Taylor/Mingay Chair in Business Policy, Richard Ivey School of Business, University of Western Ontario
- Kristina Jaskyte, Associate Professor, School of Social Work, Institute for Nonprofit Organizations, University of Georgia
- Oana Branzei, Associate Professor, Director, Sustainability Certificate Program, David G. Burgoyne Faculty Fellow, Richard Ivey School of Business, University of Western Ontario
- Marc Ventresca, University Lecturer in Strategic Management, Säid School of Business, University of Oxford
- James G. March, Jack Steele Parker Professor of International Management, Emeritus, Stanford University
- Dean Karlan, Professor of Economics, Yale University
- Noshua Watson, Research Fellow, IDS - Institute of Development Studies, University of Sussex

Appendix 4. A multilevel approach to engage with SSOs on the topic of innovation capacity

Developing a diagnostic instrument would require integration of potential pathologies at all four levels relevant for OCCI.

- **Individual level:** Do people misunderstand an organization's mission and vision? Are they too far removed from the point of impact that an organization makes? Do they never have time to reflect on their work and the organization's future? All of these factors and many more may contribute to a lack of new and useful ideas to be developed and put forward by individuals.
- **Group level:** Are groups built ad hoc so that there is no consistency and learning in evaluating ideas? Are participants in groups too competitive so that there is no trusted environment? Are groups dominated by senior executives with a tendency to say no to people who generate ideas? These factors and others may contribute to creating type I errors (too few bad ideas are filtered out) and type II errors (too few good ideas are promoted).
- **Work group and organizational level:** Are resources withdrawn from prototype innovations too early or ad hoc by powerful executives or other departments? Do projects that don't work tend to be sustained for too long? Does a power and leadership vacuum prevent successful innovations from being formalized and adopted to become the new mainstream? All of these factors and many more may contribute to organizations becoming more rigid over time and wasting resources without exploiting them to realize the value-creation potential of innovations.
- **Task environment level:** Do funders push organizations in certain directions? Does a hostile environment stifle efforts at innovation by aggressive or even illegal actions? Are crucial resources required for innovation available? These and similar factors may prevent innovations to be executed or may lower their value-creation potential.

Getting good at diagnosing and finding ways to eliminate the causes of pathologies increases the potential of funders to **enable** OCCI in a target social sector organization. Both diagnosing and understanding how to intervene in particular constellations of pathologies and types of organizations require progress along a drawn-out learning curve. When OCCI is enabled, ways can be found to positively **trigger** the realization of OCCI. Again, this requires reflections on potential positive factors along all sub-processes of our OCCI model.

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