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Organizational Innovation and Performance of Nonprofit Organizations in Kenya

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Abstract: **Innovation is a concept that has evolved over the past five decades and from the previous literature review it is confirmed to affect performance positively. Studies done in Pakistan and other countries have confirmed the positive relationship between innovation and performance in Non Profit Organizations. However, limited studies have been done in Non Profit Organizations here in Kenya. The study therefore attempts to fill that gap by addressing the following research objective; to determine the effect of organizational innovation on Organization Performance of Non Profit Organizations in Kenya. The study was anchored on three theories; Porters Generic Strategies; Diffusion Theory of Innovation and Schumpeter Theory of Innovation. The study adopted a descriptive cross sectional research design. The target population was the top and middle managers of Non Profit Organizations in Kenya which were selected through random sampling. Data was collected through questionnaire and analyzed through SPSS analysis software. The result of the effect of organizational innovation on organizational performance indicated a strong positive correlation between the variables with a coefficient of correlations (r) of 0.722. The coefficient of determination (R2) was 0.522 which indicated that 52.2% of change in organization performance in the Kenyan NPOs could be attributed to innovation (P<0.05). The study concluded that organization innovation is a good predictor of organization performance and hence recommended that; For the NPOs in Kenya to achieve enhanced organizational performance, they should come up with organization innovation practices within the organization which should be encouraged and embraced by all so as to achieve increased organizational performance.**

Keywords: **Organization performance, Organizational performance.**

1. INTRODUCTION

In Kenya, it is not a surprise that most nonprofit making organizations are struggling in the face of dwindling donor resources, increased competition from the different community needs and lack of high impact strategies that are effective, efficient and not costly to implement (Mukanga 2011). Since nonprofit making organizations play a key role in supplementing the government by providing basic needs to the poor and marginalized in the face of climate change, poverty, displacement, disasters and upholding the human right's needs, the role of these nonprofits are key in economic development and attaining Vision 2030. This has resulted to the need for these organizations to adopt innovation in the face of the competitive environment (Lipit, 2006).

1.1 Background of study

Drucker (1986) describes innovation as the specific instrument that endows resources to create wealth or economic value, Innovation does not have to be technical but rather an economic or social term. He further explains that the theory of innovation cannot yet be developed but it is already known enough to say how, where and when one methodically looks for innovative opportunities, and how one weighs their failure or success. Therefore, (Terninko, 1998) defines systematic innovation as the process of methodologically solving problems and analyzing with a principal concentration on identifying the right problem to be resolved and then generating innovative solution models free from mental inertia.

In a progressively challenging environment, Innovation is extensively considered as the most vital sources of competitiveness, because it creates a constant improvement that assists the organizations to endure, it leads to product and process enhancements, be more efficient, be more profitable than non-innovators, and ultimately allows organizations to develop more rapidly. The success and survival of firms regardless of their nature and size is innovation. There is very little literature on innovation for nonprofit organizations (NPOs) while a lot of literatures exist for innovation in profit making firms research (Anwar, 2019).

This research's aim was to investigate the association between innovation and not for profit firm performance. Schumpeter (1934) argues that continuous innovation is the key source of long term organizational success. Current scholars agree that organizations which fail to engage in innovation are putting themselves at a greater risk (Kotler, 2000). Other management scholars' claim that shorter product life cycles, intensified competitiveness in the market, market volatility and dynamics, technology trends among other factors are pushing organizations to innovate and increase output and uphold superior business position (Artzt al, 2010). Thornton (2016) argues that in the face of changing dynamics in the donor market in the decade, nonprofit organizations are forced to adopt innovative ways to carry out their business to remain competitive and look appealing to attract more funds.

Many researches done in the field of innovation have majored mostly on profit making organizations while creating a gap in the nonprofit making firms. This research therefore aims to fill the gap by addressing the influence of organization innovation on performance of nonprofit organizations in Kenya.

1.2 Research Objective

To determine the influence of organization innovation on performance of nonprofit organizations in Kenya

2. LITERATURE REVIEW

The study was anchored on the following theories

2.1 Porters Generic strategies

Porter (1980) defines how a company attracts competitive advantage by three types of strategies: focusing on one items or specific goal, differentiation relative to its rivals or lower cost. Attaining competitive advantage calls for an organization to make a decision about the type of competitive advantage it will try to achieve and the scope within which it will achieve it. There are two variants in the focus strategy, differentiation emphasis and cost emphasis. The two elementary kinds of competitive advantage cost and differentiation together with the opportunity the organization looks to pursue results to the generic strategies leads to attain better performance in the business. An organization's ability to cope with the five forces better than its rivals results to the organization achieving competitive advantage.

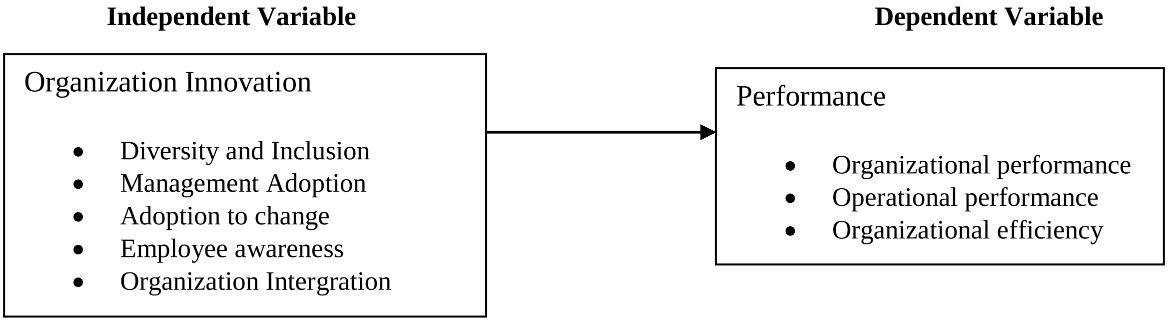
The theory examines the structural issues with an attempt to stabilize efficient operations relative to the current business environment. If an organization is targeting a given kind of customers by offering lower prices for its goods or services it is using cost leadership strategy but if this organization is providing higher service or product quality to get higher prices it is using differentiation strategy. It is trying to make itself unique to be the most preferred in the market. If the organization is only concentrating to produce one kind of service or goods it is using the focus strategy.

2.2 Schumpeter Theory of Innovation

Schumpeter (1934) argues that management is able to make an organization profitable if effective innovations are introduced. This theory suggests that the major responsibility of an entrepreneur is to bring in innovation and profit will come in the form of reward for the effort for his performance. A new policy or action that an entrepreneur introduces to increase the demand for his products and lower the general cost of production is called innovation. Thereby saying an innovation can be grouped into two; demand increasing activities such as new quality, new commodity, or new markets. Second is cost reduction activities that is; new efficient machinery, new techniques, innovative methods of organizing industry.

Damanpour (2014) supports the Schumpeter theory of innovation by arguing that Non Profit organizations can introduce innovation in the firm by introducing activities that reduce the overall cost of production and achieving the firm's objective with lesser financial resources. Schumpeter argues that the recurrent practice is completely the result of innovation in the firm, both commercial and industrial. NPOs can change the means, change the industrial organization change the procedures of production and transportation, introduction of a different market, production of a new product, etc. The innovation does not mean invention only but rather it refers to the use of new technology, new approaches and original foundations of energy

2.3 Conceptual Framework



3. METHODOLOGY

This study utilized a cross sectional descriptive research design to explore viable relationships and describe how each factor will fortify matters under study. Descriptive design provided measureable data from a cross section of the chosen population. This study comprised of a selected number of Public Benefit Organizations (both social enterprises and NGOs) located in Kenya with headquarters in Nairobi County selected through random sampling technique. According to a report by the Kenya Projects Organization (2014) there are 330 nonprofit organizations registered to operate in Kenya as at 2014 that have headquarters in Nairobi. The target population was 330 organizations. 50 organizations were randomly selected out of the 330 registered during the study. This gave us a sample coverage of 15%.A questionnaire was constructed which included an innovation measure gotten from (Lin et al. 2010) containing items and an organization performance scale adapted from (Venkatraman, 1989) comprising 3 items for the aim of testing the above specified hypotheses.The questionnaire was designed to have both open ended and closed questions. A five point Likert scale questionnaire was utilized; the Likert scale had a five anchor ratings of strongly agree, agree fairly agree, disagree and strongly disagree. Respondents were senior management cadre members i.e. head of programs and managers.The Statistical Package for Social Sciences (SPSS) was applied for analysis thus generated descriptive frequencies and inferential statistics which were used to develop answers and generalization concerning the population under study.

4. FINDINGS AND DISCUSSIONS

The study intended to investigate the impact of Organization innovation on organizational performance of NPOs in Kenya.

A total of 100 questionnaires were administered to the selected NPOs in Kenya. 81 were successfully completed by the respondents gives a response rate of 81% of the total questionnaires. To measure Organization Innovation, a set of five statements were formulated. The respondents were asked to indicate the extent of agreement with each of the organization innovation statements. The results are presented in Table 1.

Table 1: Descriptive Statistics- Organization Innovation

Organization Innovation	1(VS)	2(S)	3(M)	4(L)	5(VL)	Mean	STD
Management adoption of innovation into strategy improves performance	0(0%)	0(0%)	3(3.7%)	16(19.8%)	62(76.5%)	4.7284	0.52470
Employee awareness of the importance of innovation improves performance	0(0%)	0(0%)	7(8.6%)	44(54.3%)	30(37.0%)	4.2840	0.61714
Organization integration of departments allows for internal innovation	0(0%)	1(1.2%)	5(6.2%)	41(50.6%)	34(42.0%)	4.3333	0.65192
Management being open to change improves performance of my organization	0(0%)	0(0%)	6(7.4%)	30(37.0%)	45(55.6%)	4.4815	0.63465
Management adoption of external information improves performance of my organization	0(0%)	0(0%)	2(2.5%)	36(44.4%)	43(53.1%)	4.5062	0.55053
Diversity and inclusion improves performance of my organization	0(0%)	0(0%)	6(7.4%)	25(30.9%)	50(61.7%)	4.5432	0.63343

Note: 1=Very Small, 2=Small, 3=Moderate, 4=Large, 5=Very Large, Mean, S.D. =Standard Deviation

Source: Field Data (2019)

The findings revealed that 16(19.8%) and 62(76.5%) of the respondents agreed to a large and very large extent that management adoption of innovation into strategy improved performance. The results further revealed that more than half of the respondents confirmed that employee awareness on the importance of innovation improved performance as shown by 44(54.3%) of the respondents who agreed to a large extent and 30(37.0%) who agreed to a very large extent.

Further, 41(50.6%) and 34(42.0%) of the respondents agreed to a large and very large extent that organization integration of departments allowed for internal innovation. As concerns management being open to change hence improved performance of organizations, a majority of the respondents 30(37.0%) and 45(55.6%) agreed to a large and very large extent. A majority of the respondents also agreed that management adoption of external information improves performance of their organization as supported by 36(44.4%) who agreed to a large extent and an additional 43(53.1%) who agreed to a very large extent. The results also revealed that 25(30.9%) of the respondents agreed to a large extent and 50(61.7%) agreed to a very large extent that diversity and inclusion improved performance of my organization.

Organization Performance

To measure Organization Performance, a set of five statements were formulated. The respondents were asked to indicate the extent of agreement with each of the organization performance statements. The results are presented in Table 2.

Table 2: Descriptive Statistics- Organization Performance

Organization Performance	1(VS)	2(S)	3(M)	4(L)	5(VL)	Mean	STD
Adoption of innovative methods allows my organization to be more marketable to donors	0(0%)	0(0%)	7(8.6%)	7(8.6%)	67(82.7%)	4.7407	0.60782
Innovation allows my organization to be more efficient and effective in product management	0(0%)	0(0%)	7(8.6%)	18(22.2%)	56(69.1%)	4.6049	0.64574
Innovation allows my organization to be more financially prudent	0(0%)	0(0%)	6(7.4%)	32(39.5%)	43(53.1%)	4.4568	0.63343
High performing organizations are more environmentally sustainable	0(0%)	0(0%)	10(12.3%)	34(42.0%)	37(45.7%)	4.3333	0.68920
High performing organizations create better competitive advantage	0(0%)	1(1.2%)	8(9.9%)	20(24.7%)	52(64.2%)	4.5185	0.72648
High performing organizations have highly motivated employees	0(0%)	0(0%)	6(7.4%)	21(25.9%)	54(66.7%)	4.5926	0.62805

Note: 1=Very Small, 2=Small, 3=Moderate, 4=Large, 5=Very Large, Mean, S.D. =Standard Deviation

Source: Field Data (2019)

The findings revealed that 7(8.6%) and 67(82.7%) of the respondents agreed to a large and very large extent that adoption of innovative methods allowed their organization to be more marketable to donors. The results further revealed that innovation allowed organizations to be more efficient and effective in product management as shown by 18(22.2%) of the respondents who agreed to a large extent and 56(69.1%) who agreed to a very large extent.

Further, 75(92.6%) of the respondents agreed to a large and very large extent that innovation allowed organizations to be more financially prudent. Similarly, majority of the respondents confirmed that high performing organizations were more environmentally sustainable as supported by 34(42.0%) who agreed to a large extent and additional 37(45.7%) who agreed to a very large extent. The results also revealed that 20(24.7%) of the respondents agreed to a large extent and 52(64.2%) also agreed to a very large extent that high performing organizations created better competitive advantage. Lastly, the study findings indicated that high performing organizations had highly motivated employees with 21(25.9%) and 54 (66.7%) of the respondents agreeing to a large and very large extent respectively.

Inferential Statistics

Inferential statistics were used to check the relationship between the study variables. This comprised of correlation analysis, simple and multiple regressions at a significance level of 0.05 (95.0% confidence level).

The Pearson correlation analysis was used to investigate the relationship between organizational innovation and organizational performance on NPOs in Kenya. The study established a coefficient of correlation (r) as 0.722**, P<0.05 at 95.0% confidence level. This shows that there exist a strong and significant positive relationship between organizational innovation and organization performance implying that organizational performance in the Kenyan NPOs increases with an increase in adoption of organizational innovation and vice versa.

Table 3: Correlations

		Organization Innovation	Organization Performance
	Pearson Correlation	**1**	**.722**[**]
Organization Innovation	Sig. (2-tailed)		**.000**
	N	**81**	**81**
	Pearson Correlation	**.722**[**]	**1**
Organization Performance	Sig. (2-tailed)	**.000**	
	N	**81**	**81**

**. Correlation is significant at the 0.01 level (2-tailed).

Source: Field Data (2019)

Regression analysis was used to tell the amount of variance accounted for by one variable in predicting another variable. Regression analysis was conducted to find the proportion in the dependent variable (Organizational Performance) which can be predicted by the independent variable (Organizational Innovation). Table 4 shows the analysis results.

Table 4: Organization innovation and organizational performance

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.722[a]	.522	.516	.49360	.522	86.204	1	79	.000

a. Predictors: (Constant), Organization Innovation

Source: Field Data (2019)

Table 5: ANOVA[a]

Model		Sum of Squares	Df	Mean Square	F	Sig.
	Regression	21.002	1	21.002	86.204	.000[b]
1	Residual	19.247	79	.244		
	Total	40.250	80			

a. Dependent Variable: Organization Performance
b. Predictors: (Constant), Organization Innovation

Source: Field Data (2019)

Table 6: Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.367	.184		1.992	.050
	Organization Innovation	.715	.077	.722	9.285	.000

a. Dependent Variable: Organization Performance

Source: Field Data (2019)

The results revealed a coefficient of determination (R^2) of 0.522. This illustrates that Organization innovation could explain the 52.2% of the variance in organizational performance in the Kenyan NPOs. The adjusted r square attempts to produce a more honest value to estimate r square for the population. The F test gave a value of (1, 79) =86.204, P<0.05, which supports the goodness of fit of the model in explaining the variation in the dependent variable.It also means that organization innovation is a useful predictor of organizational performance in the Kenyan NPOs. The regression equation to estimate the Organization Performance in the Kenyan NPOs as a result of Organization innovation was stated as:

Organization Performance = 0.367+0.715Organization Innovation + e

This is in line with findings by Farhang et al. (2017) who looked at the impact of organizational innovation on the performance of manufacturing firms through innovation capabilities in process and products. The findings indicated that there was a positive relationship between organizational innovation and performance through process innovation capabilities.

5. CONCLUSIONS

The study intended to investigate the impact of innovation on organizational performance of NPOs in Kenya. Innovation was measured using one of the independent variables under study i.e. Organization Innovation. Organizational performance was measured using organizational efficiency and operational performance.

The study established a coefficient of correlation (r) as 0.722**, $P<0.05$ at 95.0% confidence level. This shows that there exists a significant positive relationship between organization innovation and organizational performance of the Kenyan NPOs. The study further revealed a coefficient of determination (R^2) of 0.522. This illustrates that organization innovation could explain 52.2% of the variance in organizational performance of NPOs in Kenya. The F test gave a value of (1, 79) =86.204, $P<0.05$, which supports the goodness of fit of the model in explaining the variation in the dependent variable. It also means that organizational innovation is a useful predictor of organizational performance in the Kenyan NPOs.

The conclusions were derived from the findings after testing the hypothesis from the research objectives. As concerns the objective, it was also concluded that there was a positive and significant relationship between organizational innovation and organizational performance of NPOs in Kenya. With the application of innovation in organizations, it is clear that organizational performance will increase.

6. RECOMMENDATION

Basing on the finding of the analysis as concerns organizational innovation, this study recommends that any organization innovation practice in the nonprofit organization should be encouraged and embraced by all so as to achieve increased organizational performance. Nonprofit organizations should also make organization innovation a key priority area in the current donor market since majority of donors look for new solutions or ideas that are efficient and effective in solving the needs of the poor and vulnerable in the local communities. Lastly, The government should come up with policies that support innovation for the Not for Profit sector since it supplements the government role in providing basic services to the people.

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