

# The Capacity Building Challenge

PART I: A Research Perspective

PART II: A Funder's Response

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# The Capacity Building Challenge

PART I: A Research Perspective

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starts on page 63*

## Editor's Note

When we commissioned *The Capacity Building Challenge: A Research Perspective*, by Paul C. Light and Elizabeth T. Hubbard, we took advantage of a study the authors already were conducting on organizational effectiveness and nonprofits. The Nonprofit Effectiveness Project, directed by Light and based at the Brookings Institution, had received funding from a diverse group of funders<sup>1</sup> to study how nonprofits achieve and sustain higher performance. (The final report from this research, *Sustaining Nonprofit Excellence: The Case for Capacity Building and the Evidence to Support It*, will be published in summer 2004.)

At the time, there was a real wave of interest in philanthropic circles in the topic of capacity building. The number of funders investing in building nonprofit capacity was on the rise, but some were beginning to question whether their grants were really as effective as they could be. In this paper, Light and Hubbard report on interviews with diverse grantmakers about the kinds of capacity building programs they were supporting, including the desired outcomes, change strategies, champions, and resources involved. In our experience, it is funders who shape the field of capacity building based on their prevailing concepts of what works.

Although *The Capacity Building Challenge: A Research Perspective* cannot answer every question about what leads to effective programs, it makes a very real contribution by providing a more orderly scientific understanding of the types of foundation-supported capacity building approaches now in the field and the key differences among them. Also, it suggests a way of thinking about comparing outcomes across different capacity building activities and funding programs. This represents an important step toward meaningful evaluation of how and when capacity building produces stronger organizations.

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1. Funders include: Atlantic Philanthropies, the David and Lucile Packard Foundation, the Eugene and Agnes E. Meyer Foundation, the Ewing Marion Kauffman Foundation, the Fieldstone Foundation, Grantmakers for Effective Organizations, the Irene E. and George A. Davis Foundation, and the James Irvine Foundation.

# Executive Summary

## Introduction

Investments to enhance the organizational capacity and performance of nonprofits have increased dramatically in recent years. Yet, despite the popularity of the concept, relatively little research is available that clearly demonstrates the value of nonprofit capacity building or links it to improved program outcomes.

What is needed are more comparable and comprehensive findings about the outcomes of capacity building, both to ensure the ongoing commitment of funders to support this work and to demonstrate what kinds of capacity building efforts have the greatest effects and when. This paper proposes a system for understanding the various approaches to capacity building and a strategy for measuring the outcomes of capacity building activities.

The findings reported here are drawn from: 1) analyses of the capacity building efforts of eight diverse funders that are home to some 16 distinct capacity building programs; 2) telephone surveys of 250 assistance providers in the organizational effectiveness movement and 250 executives of high-performing nonprofits, conducted as part of the Brookings Institution's Nonprofit Effectiveness Project; and 3) ongoing research on the state of the nonprofit sector.

## Toward a Theoretical Framework

In practice, nonprofit capacity building refers most often to activities that are designed to improve the performance of an organization by strengthening its leadership, management, or administration. However, organizations are not the only focus of capacity building activities. Capacity building efforts can be designed to serve individuals, organizations, geographical or interest communities, or the nonprofit sector as a whole. Further, the intensity and duration of the effort can distinguish a capacity building engagement as either aimed at implementing new systems (short-term) or achieving wider organizational change (long-term). These efforts can further be usefully classified based on the areas of organizational life they seek to affect: external relationships, internal structure, leadership, and/or internal management systems.

Four key elements play a significant role in determining the scope, design, and ultimate success of any capacity building engagement: 1) the desired outcome or defining goal; 2) the change strategy selected to help realize that goal; 3) the champions guiding the efforts, be they internal or external; and 4) the resources—time, energy and money—invested in the process.

## A Scan of the Field

The 16 programs of the eight funders studied fall into three general categories: 1) *direct response programs* which provide funds or services to nonprofits to address defined capacity building needs; 2) *capacity building initiatives* which target a select group of nonprofits and usually address a broad range of organizational effectiveness issues; and 3) *sector-strengthening programs* which support knowledge development (by funding research projects or educational institutions), knowledge delivery (by funding management support organizations, nonprofit consulting firms or the dissemination of research findings), or knowledge exchange (by funding “convening” efforts such as affinity groups or conferences).

Most capacity building approaches are characterized by either a focused, problem-centered approach or a broader commitment to work on a range of organizational issues. In most cases, direct response capacity building programs are problem-centered and capacity building initiatives take a broader approach to organizational development. When discrete capacity building projects are selected as the means to improve organizational effectiveness, the funders working in this way place the greatest emphasis on efforts to improve internal management systems, followed by external relations, leadership, and internal structure.

The researchers uncovered great diversity in program design and approach, ultimately making use of 103 different categories to track program characteristics. These were then collapsed into the four key elements of capacity building previously described, which reflect key program design choices and provide a framework for discussing prevailing practices among funders engaged in nonprofit capacity building.

### 1. Desired Outcomes

Outcomes vary in nature and scope. The first step toward achieving the desired outcome may actually be organizational diagnosis to determine the true scope and nature of the challenge. Although most programs studied made small investments in working to build the capacity of their grantees, some made sequential grants, enabling grantees to address complex, systemic issues.

## 2. Change Strategies

In terms of change strategies, funders favor strategic planning, fundraising and financial planning, and governance. Executives of high-performing nonprofits report that their organizations have fresh plans and benefit from engaged and hard-working boards, confirming in large part the funders' own perspective on where the capacity building leverage may be greatest. It is interesting to note, however, that although funders' faith in planning seems unshakable, nonprofit executives expressed the growing concern that traditional strategic planning models may be outdated. Executive directors also reported that leadership is the keystone of effective organizations.

## 3. Champions

Funders rely heavily on consultants as the primary champions for promoting and/or assisting with organizational improvement. Findings from the Nonprofit Effectiveness Project also suggest that outside assistance is seen as a proven means of promoting organizational improvement. Executive directors demonstrated less confidence in the value of outside assistance and believe that successful capacity building does not necessarily require outside support or assistance.

## 4. Resources

Capacity building engagements must involve sufficient resources in order to succeed. The direct response programs in this study make relatively small grants of \$10,000 or less. On average, these grants constitute less than two percent of their grantees' budgets. The relatively small size of the investments through these programs increases the importance of making the right investments. Part of determining if the investment is right is assessing whether the organization is ready and willing to work on the capacity building opportunity. Some funders make this assessment through site visits; others require a cash contribution from grantees to help ensure commitment to the capacity building project.

## Toward an Evaluation Strategy

Currently, nonprofit capacity building lacks clear metrics that might demonstrate its effectiveness to boards, funders, and potential consumers. The current debate over measuring capacity building is centered on *where* the grantmaker, evaluator, or organization should look for outcomes. There are at least three levels of outcomes that themselves make up a logical chain: 1) grant outputs—were the immediate objectives of the grant met? 2) organizational outcomes—did the engagement improve the functioning or performance of the organization? and 3) mission impact—did the engagement allow the organization to more effectively serve its mission?

Currently, most efforts to evaluate capacity building engagements focus on grant outputs (whether the immediate grant objectives were fulfilled) and on the process of the engagement (strengths and weaknesses, lessons learned, unexpected challenges). The grant outputs approach to evaluation is most common among funders with relatively small capacity building programs, is logical, and offers many benefits. It meets the grantmaker's first requirement for accountability, ensuring that grant funds are spent as promised. It is cost-effective, as it is based upon grantee self-reports. It is timely, as reports are due when the grant closes. In short, the outputs approach is a feasible method of collecting information that can be immediately incorporated into improved future grantmaking.

However, the grant outputs strategy of evaluation does not necessarily offer any evidence that meeting the objectives of the grant actually matters in any meaningful way. A mission-based view of success is most common among larger, more comprehensive capacity building programs. Given available resources and focus on mission, measuring success according to mission impact is logical and appropriate for large-scale, comprehensive capacity building programs.

Most capacity building resources are invested through relatively small, short-term grants. Holding such grants accountable for significant increases in mission-related outcomes may not be realistic. Yet, failing to hold these grants accountable for affecting the next step in the logic chain—organizational outcomes—does a disservice to both the nonprofit sector and the capacity building field.

The challenge is to develop a set of easily applicable measures that can demonstrate with greater rigor how capacity building engagements contribute to organizational effectiveness. The goal would be to shift the evaluation focus from outputs to outcomes, from whether an organization has a strategic plan to what difference that plan has made in terms of organizational functioning and performance. Developing such measures requires articulating more clearly how certain engagements are expected to contribute to organizational effectiveness or sustainability.

One promising approach would involve a 360° survey of everyone involved in a given capacity building effort, including grantmakers, champions, board members, clients, and community stakeholders. Such a survey could be used to measure post-engagement outcomes against pre-engagement expectations. The resulting data would allow researchers to search for patterns in outcomes according to organizational size, age, or type or even executive director tenure or provider qualifications. This would make a significant contribution to the field of capacity building by pushing the knowledge base beyond anecdotal evidence and compiling findings across engagements and even funders.

Evaluating the outcomes of engagements would, however, show how capacity building contributes to organizational performance. And the measures to do so (such as productivity, efficiency, and mission focus) are likely to be strongly correlated with programmatic impact.

## Conclusion

The commitment and passion that nonprofit organizations (and funders) bring to their work will continue to drive the quest for stronger, more sustainable organizations and improved mission impact. Concern about organizational performance is not likely to diminish. Yet, without evidence demonstrating how capacity building produces stronger organizations, and lacking a baseline against which to declare success or failure, it is difficult for nonprofit executives and funders alike to justify spending scarce resources on capacity building efforts.

Building a better knowledge base about the impact of capacity building requires standard measures for organizational outcomes and a methodology that allows comparison across different types of capacity building engagements and programs. Further work on the measures of organizational outcomes would generate knowledge that would help capacity builders sort through what engagements might have the greatest impact under given conditions and what kind of capacity building programs are most effective. Findings could help transform the recent spurt in capacity building activities into a more lasting commitment to organizational effectiveness within both the nonprofit and philanthropic sectors.

# Introduction

Capacity building is a popular term in the nonprofit sector these days. It is a concept that is discussed at conferences, written about in journals, promoted by consultants and funded by foundations. In fact, an Internet search for “nonprofit” and “capacity building” produces nearly 25,000 hits.<sup>1</sup> Yet, despite the popularity of the concept, relatively little research is available that demonstrates the value of nonprofit capacity building.

The focus on “capacity” may seem to suggest an interest in the size and scope of a nonprofit’s services—implying, perhaps, that building capacity would involve building larger facilities, hiring more staff, or receiving more program dollars. However, the term “capacity building” is most commonly used to describe activities that strengthen an organization so that it can more effectively fulfill its mission.<sup>2</sup> Capacity building focuses on improving the leadership, management and/or operation of an organization—the skills and systems that enable a nonprofit to define its mission, gather and manage relevant resources and, ultimately, produce the outcomes it seeks.

Interest in improving nonprofit performance is neither new nor revolutionary. It can be argued that capacity building is simply the latest term for activities that were once called organizational development, leadership training, technical assistance, or management improvement. What *is* new, perhaps, is the level of interest in and resources directed toward capacity building. That interest can be gauged in many ways, not the least of which is the rapid growth of the Grantmakers for Effective Organizations (GEO). Founded in 1997, GEO is the fastest growing affinity group of the Council on Foundations and now includes more than 600 members devoted to creating a “community of practice” among funders interested in organizational performance. That interest can also be seen in the growth of the Alliance for Nonprofit Management, which was formed in 1998 to improve technical assistance to the nonprofit sector, and in the rapid expansion of *The Nonprofit Quarterly*, which was launched in 2000 as a national source of advice on building capacity.

Fortunately, there is more than just talk about capacity building. While measuring funding for capacity building is a nearly impossible task, available data suggest that investments in organizational capacity and performance have increased dramatically in recent years.<sup>3</sup> According to Foundation Center data, investments in management development (a category that includes staff training, strategic and long-range planning,

Investments in organizational capacity and performance have increased dramatically in recent years.

budgeting, and accounting) and technical assistance (operational or management assistance) increased from 2.1 percent of foundation giving in 1994 to 2.8 percent in 2000—an increase of a third.<sup>4</sup> Given the overall rise in foundation giving during this period, the dollar value of this increase was significant. In 2000, \$422 million was granted for management development and technical assistance, up from \$132 million in 1994. Adjusting for inflation, this represented a real increase of \$269 million for capacity building.

It seems clear that foundation funding is helping spur—or at least underwrite—the nonprofit sector’s interest in capacity building. This raises a crucial question: Can this level of philanthropic investment in capacity building be sustained? Or put another way, does interest in capacity building reflect a deeper commitment to nonprofit performance or is it simply a passing fad? The answer is not yet clear. Given the increased emphasis in the philanthropic sector on measurable outcomes, however, it seems likely that funding for capacity building will wane unless there is clear evidence that capacity building does indeed build stronger, more effective organizations.

This is not to suggest that there is a complete lack of knowledge about the outcomes of capacity building activities. Anecdotal stories abound and a number of foundation-funded programs have been evaluated.<sup>5</sup> What is needed, however, are more comparable and comprehensive findings about the outcomes of capacity building. Better information is needed about both the outcomes of different types of capacity building activities or engagements (such as strategic planning, board retreats, or new accounting software) and different types of funding strategies (short-term *versus* long-term grants, targeted *versus* more comprehensive approaches, etc.). Without this kind of information, there is little guidance available to funders who are trying to determine whether and how to invest in capacity building. And perhaps more worrisome for those interested in organizational effectiveness, there is little basis for arguing that capacity building is a good use of scarce philanthropic dollars.<sup>6</sup>

The challenge facing the capacity building movement is to build the knowledge base about the impact of its work. Developing a broad and broadly shared knowledge base about capacity building is an ambitious goal, to be sure. Capacity building encompasses a wide range of activities; foundation-funded capacity building programs reflect a wide range of funding strategies; and nonprofits differ drastically in terms of mission, size, need, readiness for change, and available resources. Trying to sort out what kind of capacity building activities seem to be most effective while taking into account the differences among nonprofits is a major undertaking. Trying to come to research-based conclusions about the advantages or disadvantages of different funding approaches is similarly difficult. Both research tasks, however, begin with the same first step: determining a methodology for identifying and measuring capacity building outcomes.

Funding for capacity building will wane unless there is clear evidence that it does build stronger, more effective organizations.

This paper proposes a strategy for measuring the outcomes of capacity building activities.

The paper is divided into three main parts. “Analyzing Capacity Building: A Theoretical Framework,” focuses on clarifying terms; in this section of the paper, we examine how the term capacity building is commonly used and offer a model that describes the key elements found in capacity building work. The next section, “Funding Capacity Building: A Scan of the Field,” presents the findings from a review of foundation-funded capacity building programs and identifies some of the key differences among these programs. In the final section, “Measuring Capacity Building: Toward an Evaluation Strategy,” we suggest a way of thinking about comparing outcomes across different capacity building activities and funding programs.

Eight funders are featured in this analysis; together these funders offer 16 different capacity building programs that distributed more than \$28 million through approximately 380 grants in 2001.<sup>7</sup> The paper also draws upon research by the Brookings Institution’s Nonprofit Effectiveness Project, including a telephone survey of 500 leaders in the organizational effectiveness movement, in-depth follow-up interviews with 50 of these leaders, and ongoing research on the state of the nonprofit sector.<sup>8</sup>

# Analyzing Capacity Building: A Theoretical Framework

## Clarifying Terms

Capacity building is one of the most fashionable, yet least understood, terms in the nonprofit sector today. As Ann Philbin noted in her study on capacity building, “Within the field of capacity building, there is a striking lack of a shared definition of capacity building, its features and essential elements.”<sup>9</sup> In the report *In Other Words: A Plea for Plain Speaking in Foundations*, Tony Proscio describes capacity as “an empty word with a comfortably wide girth.” He writes: “Making grants and providing expert advice (aka technical assistance) to help these organizations run better is a profoundly philanthropic mission, and smart besides. So why has such a good idea brought with it such an infestation of vague, quasi-occult terms, beginning with capacity?”<sup>10</sup>

Interviews with nonprofit leaders, funders, researchers, and consultants confirm that the term capacity building is, at best, loosely defined.<sup>11</sup> When asked to define capacity building, respondents offered a wide range of answers. “In the simplest form, it is staff development,” said one researcher. “Meeting the needs of the community,” said a nonprofit executive. “Improving nonprofits’ ability to move toward their mission and also to reach more constituents,” offered a provider of technical assistance. “Anything that strengthens the organization as an organization, as opposed to those things that strengthen its programs and services,” said a grantmaker. “Developing networks, which in turn leads to social capital, which in turn increases the community’s capacity to provide services,” suggested a scholar.

In practice, nonprofit capacity building refers most often to activities that are designed to improve the performance of an organization by strengthening its leadership, management, or administration.<sup>12</sup> As the next section will show, however, organizations are not the only focus of capacity building activities. One way to distinguish among capacity building programs is to identify whether they are designed to serve individuals, organizations, geographical or interest communities, or the nonprofit sector as a whole.

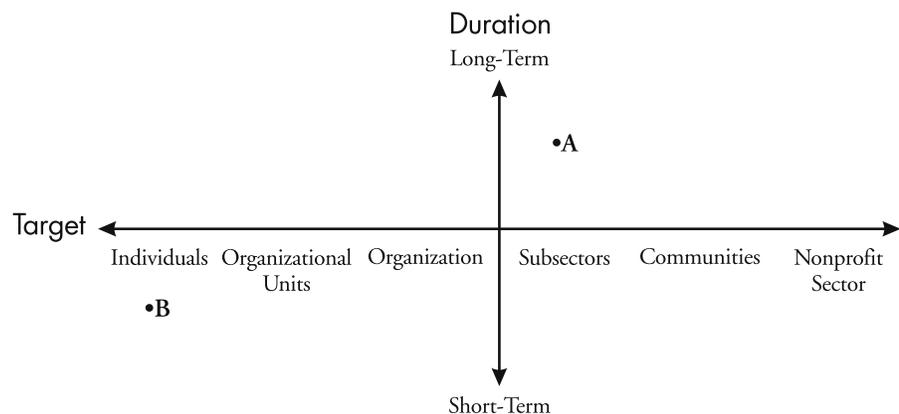
“Within the field of capacity building, there is a striking lack of a shared definition of capacity building, its features and essential elements.”

## Distinguishing Among Capacity Building Programs

An emerging view of capacity building places it within a broad theoretical framework that links capacity building to a vital civil sector, and thus, to a strong democratic society.<sup>13</sup> From this perspective, capacity building's ultimate goal should be to achieve and sustain high performance in the nonprofit sector to meet the needs of a complex, rapidly changing society. Capacity building programs, however, operate on many levels—they serve individuals, organizations, geographical or interest communities, or the nonprofit sector as a whole. These levels are interrelated. Working to build the capacity of an interest community (such as environmental advocacy groups) involves working with organizations and, ultimately, individuals. Similarly, investing directly in developing the skills and abilities of individuals can, in turn, contribute to building stronger organizations, communities, and the nonprofit sector.

To start the process of sorting the widely varying capacity building programs that currently exist in the nonprofit sector, a simple two-dimensional map can be developed. Programs are placed along a horizontal axis according to their targets for assistance, which extends from individuals to organizational units, such as development or financial management units; to organizations as a whole; subsectors of organizations (interest communities); geographical communities; and to the broader nonprofit sector. The map's vertical axis, representing duration of programs, ranges capacity building programs from short-term to long-term, which roughly distinguishes efforts to implement new systems from those intended to achieve wider organizational change.<sup>14</sup> On the map below, programs that take a venture philanthropy approach, which often have a long-term, subsector focus, would be located in the middle of the top right section (see point A below). Leadership development programs, with a shorter-term, individual-level focus would be located in the bottom left section (see point B below).

Figure 1: Mapping Capacity Building Programs



Capacity building programs operate on many levels—they serve individuals, organizations, geographical or interest communities, or the nonprofit sector as a whole.

## Distinguishing Programs, Grants, and Engagements

Part of the problem in defining capacity building involves the unit of analysis. Funders tend to talk about capacity building programs, which can be defined as portfolios of individual grants, while providers of technical assistance often talk about capacity building engagements, which is a term of art from the consulting industry that is often used to describe specific contracts or activities. Executive directors often talk about capacity building as an ongoing stream of activities that involve multiple funders and engagements, while scholars often write about broad philosophies of capacity building rooted in different images of what constitutes a high-performing nonprofit organization.

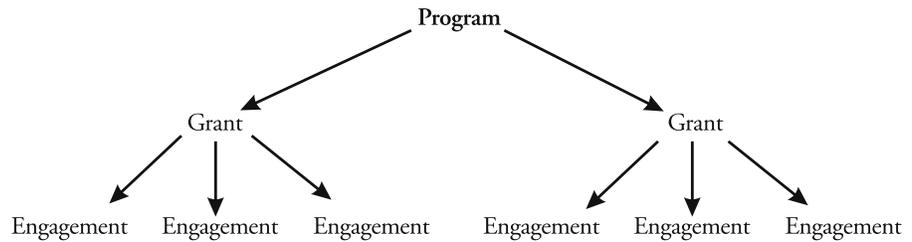
From a funder's point of view, it is useful to segment the term into three parts:

1. A capacity building *program* refers to an effort to help nonprofits through a specific approach that is defined in grantmaking guidelines. As noted above, a program can serve a small number of organizations or a geographic region, a handful of executive directors or a specific subsector of nonprofits in the arts, environment, human services, or other field. For example, a management assistance program may make consulting funds available to grantees or a comprehensive community building program may support a range of activities in targeted neighborhoods. The eight funders discussed below offer 16 different capacity building programs, most of which operate by making grants.
2. A capacity building *grant* provides support to a single organization to undertake capacity building activities (or, if the grant is made to an intermediary organization, to provide capacity building services to others).
3. A capacity building *engagement* refers to a specific capacity building effort within a single organization. Although funders often use “grants” and “engagements” interchangeably, some grants support more than one type of engagement. For example, a single grant may support both a strategic planning process and the installation of new accounting software.

Figure 2 shows the layering of these three levels of capacity building.

Funders tend to talk about capacity building *programs*, technical assistance providers talk about capacity building *engagements*, and nonprofit executives talk about a *stream of activities*.

Figure 2: A Hierarchy of Capacity Building



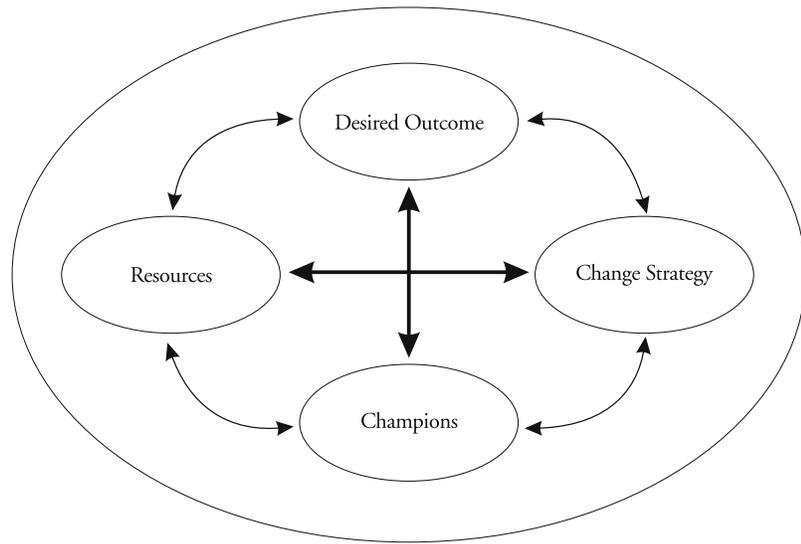
## Elements of Capacity Building Engagements

All capacity building engagements share common elements. Focusing on these discrete elements may falsely suggest that capacity building is a simple and orderly process. While this is rarely true, creating a model that describes capacity building engagements is a useful first step in identifying different capacity building approaches and learning more about what contributes to the success of each.

Four key elements play a significant role in determining the scope, design and ultimate success of an engagement: 1) the desired outcome or defining goal; 2) the change strategy selected to help realize that goal; 3) the champions guiding the efforts, be they internal or external, full-time employees or consultants; and 4) the resources—time, energy, and money—invested in the process. Other factors, such as the external environment or stakeholders, can also influence the capacity building process. Nonetheless, desired outcome, strategy, champions, and resources are the most universal and readily identifiable components of any capacity building engagement.

Desired outcomes, strategies, champions, and resources are the most universal and readily identifiable components of any capacity building engagement.

Figure 3: The Capacity Building Engagement



As Figure 3 indicates, the elements of a capacity building engagement do not necessarily operate in any kind of sequential order; moreover, the relationships among them are dynamic. Resources may constrain the scope of the goal; an external champion may drive the selection of a change strategy; an external funder may help determine the desired outcome; a favored change strategy may be repackaged as the answer for reaching a new goal. Although these elements are interactive, it is worth looking more closely at each individually.

### 1. Desired Outcomes

Organizational capacity building engagements seek to strengthen the ability of an organization or agency to achieve a desired outcome. Such outcomes may be relatively small (a new accounting system) or large (improved race relations), discrete (staff training) or more encompassing (a more highly developed advocacy movement), short-lived (a staff retreat) or more durable (substantial program growth). One way to categorize capacity building engagements according to desired outcomes is to identify which areas of organizational life they seek to affect: external relationships, internal structure, leadership, and internal management systems.<sup>15</sup>

*External relationships* involve an organization's interactions with the outside world, including issues related to organizational survival, such as collaboration with other organizations; fundraising and revenue generation; volunteer recruitment; sudden growth or decline in demand; and the general competitiveness, turbulence, or regulatory climate of the environment. External relationships may also include challenges related to mission definition, a focus on outcomes, and organizational isolation.

The desired outcomes of capacity building engagements can affect external relationships, internal structure, leadership, and internal management systems.

*Internal structure* is the basic shape of the organization and structural issues are often related to internal communication and work style. They may include the distance between the top and the bottom of the organization, incentives for internal collaboration, delegation, access to adequate technology, financial cushions such as rainy day funds, and efforts to increase diversity among the staff based on race, gender, age and/or professional expertise. Structural challenges also can be related to the need to recruit and retain talented board members, leaders, staff, and volunteers.

*Leadership* is the area of organizational life that encompasses how the overall direction of the organization is determined and how senior leadership and the board guide the organization. Challenges may include a lack of clarity in the respective responsibilities of the staff and board; issues surrounding the basic permission to take risks and make mistakes; and general questions about the executive director's ability to raise funds, motivate people, make decisions, encourage collaboration, and communicate. Sometimes problems arise due to mismatches between leadership style and the needs of the organization at a particular point in its life cycle.

*Internal management systems* are the mechanisms that organizations use to integrate external relationships, internal structure, and leadership. Challenges may exist in systems throughout the organization: personnel and pay, accounting and financial management, technology, training, and strategic planning. Organizations often seek to use information systems to improve their ability to measure what they do, make data-based decisions, and red-flag potential problems in other areas of organizational life.

Together, these four areas provide a general portrait of the overall culture and operating style of an organization. Although culture is more than just the sum of the four parts, it is embedded in the goodness of fit between environment, structure, leadership, and systems. It could be, for example, that an organization's leadership does not fit with its environment, or that its systems are no longer in sync with its hierarchy. Hence, along with problems in the four individual areas, capacity builders must also look for problems between and among the four areas.

## 2. Change Strategies

Even a cursory review of grants for capacity building reveals the wide range of change strategies now being funded. The programs included in this study included grants for the following purposes:

- study the feasibility of enhancing the organization's existing Web site;
- support professional development, including a combination of staff training and mentoring;
- undertake bylaw revisions;

- explore the merger or other combination of two organizations into a single entity;
- support board and staff in conducting an organizational assessment and developing the initial elements of a strategic plan;
- ensure the successful transfer of leadership at the executive level;
- support a market research project to aid a theater in better understanding and expanding its audience; and
- support the continuing upgrade of an organization's accounting system.

Organizational change strategies supported by the funders in this study tended to fall within two broad categories: They are directed toward either clarifying *what* an organization does or improving *how* it functions. “What” strategies focus on defining the organization’s mission and purpose, determining the best means of accomplishing its mission, and seeking alignment and commitment from stakeholders. “How” strategies tend to be more technical in nature and focus on discrete aspects of an organization’s performance. For example, “how” strategies may involve technology upgrades, new financial management systems, better market data, or more staff training.

### 3. Champions

Champions guide the effort to implement change strategies. They play a crucial role in tailoring the solution to the organization’s problem and seeing it through to implementation. They also play a key role in helping focus people’s attention on the problem-solving process—not always an easy task, given the crush of day-to-day business. Capacity building champions can be either internal champions from the staff or board who help drive the change strategy forward or external consultants or providers who offer assistance and expertise.

External consultants are perhaps the most widely recognized and fastest growing type of assistance provider. According to a 1999 Harvard Business School report, there has been a recent “proliferation of suppliers offering consulting services to nonprofits.”<sup>16</sup> This report identifies seven different categories of consulting providers: large, for-profit firms (such as Bain, Monitor, or McKinsey), for-profit boutique firms, nonprofit boutique firms, solo practitioners, volunteer brokers, management support organizations, and others (such as foundations and associations). Researchers and academic centers might constitute an eighth category.

Champions play a crucial role in tailoring solutions to an organization’s problems and seeing solutions through to implementation.

Despite this growth, it would be difficult to call “capacity building” a profession, given the lack of standards, norms, best practices, and accreditation in the industry. As funding for capacity building has increased, so has concern about the skills and abilities of consultants.<sup>17</sup> A number of recent efforts—such as the Alliance for Nonprofit Management and the Packard Foundation’s Initiative on the Effective Use of Consultants—seek to improve the quality and further the field of nonprofit consulting.

#### 4. Resources

Capacity building requires resources, especially money and time. Money is particularly crucial, of course, if an external consultant is involved. Available funds affect not only who is hired as a consultant, but also the depth and duration of the engagement. Strategic planning, for example, can be a one-day, board-only activity or year-long, highly inclusive process. The scope and design of any given engagement is often influenced more by available resources than by need.

Time and energy to devote to the capacity building engagement are also crucial resources. All capacity building involves change: identifying what needs to be changed, determining how to change it, and incorporating those changes into the daily routine. And all organizational change requires time and energy. If a nonprofit’s directors and staff do not have the time to focus on the capacity building process, it is unlikely that any meaningful change will result—even if a capable consultant has devoted many hours to the process.

The scope and design of any capacity building engagement is often influenced more by available resources than by need.

# Funding Capacity Building: A Scan of the Field

The rest of this paper draws on data collected from eight funders to describe funder-initiated capacity building programs in more detail, looking particularly at how the map of capacity building programs and the four key components of a capacity building engagement can be used to distinguish among different approaches. The “snapshot” of 2001 programs and engagements presented in this section helps ground the subsequent measurement discussion and identify the choices that funders face when implementing a capacity building program.

## The Sample of Capacity Building Funders

The information provided in the following pages is based on a review of eight capacity building funders, five of which are charitable foundations—one each an international, national, regional multi-state, regional metropolitan, and community foundation—and three of which are regrant programs, including a national fellowship program, a nonprofit venture philanthropy firm, and a state association of nonprofits. These eight were culled from an initial list of 35 funders and programs that was developed through conversations with colleagues, Internet searches, and ongoing case studies conducted by the Brookings Institution’s Nonprofit Effectiveness Project. The final sample was selected to provide a range of examples and cannot be considered representative of the whole capacity building field.<sup>18</sup> These eight funders supported at least 16 different capacity building programs, which are described in Table 1. Characteristics of the programs are described in Table 2.

Table 1: The Sample of Funders and their Capacity Building Programs

Charitable Foundations	
<p><b>Mary Reynolds Babcock Foundation</b></p> <p>Grassroots Organization Grants Program (GRO)</p>	<p>Working in 12 southern states, this foundation focuses on organizational capacity in much of its work. However, two programs in particular focus on capacity issues:</p> <ul style="list-style-type: none"> <li>• The GRO Program assists community-led, grassroots organizations by offering both operating support and organizational development funds.</li> <li>• A “regional capacity” funding stream supports nonprofit capacity building programs offered through intermediaries or state associations.</li> </ul>
<p><b>Annie E. Casey Foundation</b></p> <p>Rebuilding Communities Initiative</p>	<p>This national foundation concentrates its efforts on improving conditions for vulnerable children and families. One of its recent demonstration initiatives included an explicit focus on capacity building. This seven-year comprehensive community building initiative was designed to help transform five selected communities into safer, more supportive environments for children and their families. To do so, the funder recognized the need to build <i>community</i> capacity through supporting efforts to develop a collaborative, locally driven agenda for change. For the three-year capacity building phase of the initiative, AECF brought together a national team of more than 30 consultants to help strengthen the capacity of local organizations and citizens to develop and implement this agenda.</p>
<p><b>Greater Worcester Community Foundation</b></p> <p>Nonprofit Support Center</p>	<p>This community foundation, serving the needs of nonprofits and donors in a region made up of 60 cities and towns in Central Massachusetts, has three primary capacity building programs:</p> <ul style="list-style-type: none"> <li>• An on-site nonprofit support center that each year offers a variety of programs (speaker series, workshops, one-day and multi-session trainings) along with other resources and services to nearly 500 nonprofit leaders—board and staff.</li> <li>• An Organization Assistance Fund that helps local nonprofits, which may or may not be grantees of the foundation, address pressing organizational needs or opportunities.</li> <li>• A number of structured peer learning initiatives led by consultants that offer participants the opportunity and resources to improve aspects of organizational performance or develop new skills.</li> </ul>
<p><b>Eugene and Agnes E. Meyer Foundation</b></p> <p>Nonprofit Sector Advancement Fund</p>	<p>Serving the Washington, D.C. region, this private foundation supports a wide range of activities designed to strengthen the nonprofit sector, including a cash flow loan program that provides feedback to applicants on the strengths and weaknesses of their financial management situation. Other programs and activities include:</p> <ul style="list-style-type: none"> <li>• A Management Assistance Program (MAP) for current grantees that supports financial management, governance, organizational assessment, and human resource projects.</li> <li>• A technology circuit rider who helps selected grantees better understand and use technology to accomplish their missions.</li> <li>• Two different peer learning and support initiatives, offered in collaboration with a partner foundation and run by intermediaries, that provide selected grantees the opportunity and resources to improve organizational performance or develop new revenue-producing programs.</li> <li>• A funding program that is designed to strengthen the broader nonprofit sector through supporting key infrastructure organizations or ecosystem-wide capacity building engagements.</li> </ul>

Table 1 (continued)

Charitable Foundations (continued)	
<p><b>The David and Lucile Packard Foundation</b></p> <p>Organizational Effectiveness &amp; Philanthropy Program (OEP)</p>	<p>This international funder seeks both to improve the performance of its grantees and to strengthen the nonprofit sector using a number of strategies:</p> <ul style="list-style-type: none"> <li>• As part of the OEP’s “enhancing grantee effectiveness” goal, current and recent grantees can apply for support for management improvement projects.</li> <li>• The foundation occasionally develops capacity building initiatives that take one of three forms: 1) “custom capacity building” programs designed largely by grantees that involve consulting and peer learning activities; 2) capacity building services provided by an intermediary to a selected group of grantees; or 3) a specific and unique service provided by an intermediary to any grantee that wishes to take advantage of the opportunity.</li> <li>• A sector-strengthening program supports the development, delivery, and exchange of knowledge related to effective nonprofit leadership, governance, and management.</li> </ul>
Re-Grant Initiatives	
<p><b>Echoing Green Foundation</b></p>	<p>This fellowship program is designed to identify and support emerging social entrepreneurs. More than a leadership development program, the goal is to build sustainable organizations that bring innovative and effective solutions to critical social problems. In addition to an annual stipend of \$30,000, health care coverage and online access, Echoing Green provides fellows with technical assistance and support designed to help build strong organizations.</p>
<p><b>Maryland Association of Nonprofit Organizations (MANO)</b></p> <p>Consulting Services Fund</p>	<p>Through the pooled contributions of foundations, this state association has established a consulting fund. This fund allows MANO to hire consultants to provide in-depth services to selected members. Consulting services range from complex undertakings, such as mergers and the development of business ventures, to more routine activities, such as strategic planning. The consultants for each project are hired and supervised by MANO.</p>
<p><b>New Profit Inc.</b></p>	<p>This nonprofit venture philanthropy firm brings together financial and intellectual resources to support promising models of social change and help get these innovations to scale. The immediate goal is to identify highly effective nonprofits and assist them in becoming high-impact, sustainable organizations through multi-year grants for capacity building and substantial consulting services offered by the Monitor Group. More broadly, New Profit Inc. also seeks to influence philanthropy through implementing and refining a new form of high engagement, performance-based grantmaking. New Profit Inc. had six organizations in its portfolio as of the end of 2001.</p>

After selecting the eight funders, information was collected on each of the 16 programs, including guidelines, recent grant lists, evaluations, relevant internal memos and board documents, and any other materials describing the program. The authors also conducted 60–90 minute semi-structured interviews with each of the program directors. The goal was to develop a detailed portrait of each program in order to understand how each is distinct and/or similar to the others.

The research for this paper did not include interviews with any of the grantees funded through these programs. Information about the 16 capacity building programs reflects the funders' perspective only. However, the paper offers some insight into nonprofit views and perspectives by drawing from related research conducted for the Nonprofit Effectiveness Project at the Brookings Institution.

## The Sample of Programs

The 16 programs included in this study defy easy categorization. Nonetheless, by focusing on key aspects of each program, they can be grouped into three general categories: 1) direct response programs; 2) capacity building initiatives; and 3) sector-strengthening programs.

*Direct response programs* provide funds or services to nonprofits to address defined capacity building needs. The most common example of a direct response program is a “management assistance program” through which a funder provides relatively small grants to nonprofits to support a specific short-term activity, such as board training, a new financial management system or a strategic planning process. Most projects are completed within a year. Usually, a funder's guidelines will specify what kinds of projects they will consider funding. Once a grant is made, the funder's role is usually limited to oversight.

Of the 16 programs in this study, four can be described as providing direct response *grants*; three of the four are management assistance-type programs operated by the Greater Worcester Community Foundation, and the Meyer and Packard foundations. The fourth, which is somewhat harder to classify, is the Babcock Foundation's GRO program.<sup>19</sup> Three other programs provide capacity building *services* to nonprofits: the Greater Worcester Nonprofit Support Center's training programs and seminars for local nonprofits, the Meyer Foundation's Technology Circuit Rider program, and the Maryland Association of Nonprofits' Consulting Services Fund.

*Capacity building initiatives* target a select group of nonprofits and usually address a broad range of organizational effectiveness issues.<sup>20</sup> Nonprofits are either selected to participate by the funder or apply through a competitive process. Initiatives often address all four aspects of organizational life (external relations, internal structure, leadership, and internal management systems), although some initiative programs are

focused on narrower topics, such as the strategic use of technology. Initiatives usually provide both funding and services, and rely on a specific intermediary organization or team of consultants to deliver those services. Initiatives usually provide longer-term support; two or more years is common. The funder (or in some cases, the intermediary that is running the initiative) plays an active role, often talking with participating nonprofits on a weekly basis.

In this sample, there are six initiative-style funding programs: intermediary-run capacity programs supported by Greater Worcester, Meyer, and Packard; the Casey Foundation's Rebuilding Communities Initiative; Echoing Green's fellowships; and New Profit Inc.'s venture philanthropy portfolio.

*Sector-strengthening programs* generally support knowledge development (by funding research projects or educational institutions), knowledge delivery (by funding management support organizations, nonprofit consulting firms or the dissemination of research findings), or knowledge exchange (by funding "convening" efforts such as affinity groups or conferences).<sup>21</sup> The scope and duration of such projects vary widely, even within a single funder's portfolio of grants. The funder's role also tends to vary grant by grant, from serving as one funder among many to initiating the development of a new project. Nonetheless, most sector-strengthening programs rely heavily on the knowledge and discretion of the program officer who oversees it. Funding guidelines are generally vague or even nonexistent.

The sample for this study includes three sector-strengthening grant programs supported by Meyer, Babcock, and Packard.

Table 2: Capacity Building Program Characteristics

	Year established	Annual program budget (\$ in thousands)	Average # of grants (or activities, grantees, etc.) per year	Average size of grants (\$ in thousands)	Average duration of grants/activities
<b>Direct Response Programs</b>					
<b>Babcock Foundation</b> GRO Program	2000	\$1,000	20 grants	\$50	3 years
<b>Greater Worcester</b> Nonprofit Support Center	1998	\$70	20 program offerings	n/a	n/a
<b>Greater Worcester</b> Organization Assistance Fund	1998	\$70	7–8 grants	\$10	6–12 months
<b>Maryland Nonprofits</b> Consulting Services Fund	1998	\$200	assists 12–15 nonprofits	\$8–30	1 year
<b>Meyer Foundation</b> Management Assistance Program	1994	\$350	40 grants	up to \$10	6–18 months
<b>Meyer Foundation</b> Technology Circuit Rider	1999	\$100	assists 12 nonprofits	n/a	1 year
<b>Packard Foundation</b> Enhancing Grantee Effectiveness	1983	\$9,118	156 grants	\$35 (median)	1 year
<b>Capacity Building Initiatives</b>					
<b>Casey Foundation</b> Rebuilding Communities Initiative	1994	\$2,625	5 communities	\$1,575 <sup>a</sup>	3 years <sup>a</sup>
<b>Echoing Green</b>	1991	\$1,300	10 new fellows	\$60 <sup>b</sup>	2 years <sup>b</sup>
<b>Greater Worcester</b> Peer learning projects	2000	\$60–65	3 programs	up to \$6	8 months <sup>c</sup>
<b>Meyer Foundation</b> Peer learning projects	1999	\$125	2 programs	\$25–100	6–12 months <sup>c</sup>

Table 2 (continued)

	Year established	Annual program budget (\$ in thousands)	Average # of grants (or activities, grantees, etc.) per year	Average size of grants (\$ in thousands)	Average duration of grants/ activities
<b>New Profit Inc.</b>	1998	\$1,500 in \$1,500 TA	6 portfolio organizations	\$1,000 in \$1,000 TA	4 years
<b>Packard Foundation</b> Custom capacity building	1998	\$1,034	12 programs	\$123 (mean)	1–2 years
<b>Sector-Strengthening Programs</b>					
<b>Babcock Foundation</b> Regional Capacity	1997	\$130	3 grants	\$10–150	2 years
<b>Meyer Foundation</b> Nonprofit Sector Strengthening	2000 <sup>d</sup>	\$250	25 grants	\$1–100	1 year
<b>Packard Foundation</b> Building the Field of NP Management	1997	\$8,600	46 grants	\$100 (median)	1 year
<b>NOTES</b>					
<p>a. This only includes funds granted to support local capacity building efforts during the three-year capacity building phase of the initiative. It does not represent either the total amount granted to these communities during the seven-year initiative nor does it include the costs of a national team of consultants, which was funded directly by the foundation.</p> <p>b. This figure only represents the amount of the stipend given to each fellow during the two-year fellowship; it does not take into account the cost of health care or online access. Also, some fellows receive “bridge” funding of \$5,000–10,000 for an additional two years.</p> <p>c. Refers to the length of the structured program. In many cases, participants chose to continue meeting after the program was completed.</p> <p>d. While Meyer has a history of sector-wide or infrastructure grants, this work was consolidated under one program director in 2000.</p>					

## Findings: Capacity Building Programs

The capacity building programs in this sample varied along a number of dimensions—in fact, the authors used 103 different categories to track program characteristics. Learning more about the impact of program design choices requires selecting a manageable number of characteristics that are both significant—i.e., most likely to have the most impact on the success or failure of the capacity building—and that lend themselves to objective measurement. To do this, the four-part model of capacity building described previously was expanded to reflect key program design choices, producing these four variables:

- 1) Desired outcomes—straightforward to complex;
- 2) Change strategies—selective to comprehensive;
- 3) Champions—internally to externally directed; and
- 4) Resources—low to high.

These are certainly not the only dimensions that can be used to characterize capacity building programs. Additional dimensions could be developed related to the quality of consulting assistance, the size or life cycle stage of the participating nonprofit, or even the involvement of the funder.

The following discussion focuses on organizational capacity building and, therefore, is based upon data from the seven direct response programs and the six capacity building initiatives included in the study. Sector-strengthening programs were not included in this analysis because they seek to support broader, knowledge-related efforts rather than directly fund capacity building activities in organizations and, thus, differ dramatically in target and scope from the direct response programs and capacity building initiatives.

### 1. Desired Outcomes: Straightforward to Complex

Outcomes vary in nature and scope. Some are big, others small; some respond to issues that have been building for years, others are related to an immediate crisis such as a budget cutback; still others seek to take advantage of a new opportunity. Although there are many potential ways to separate one type of outcome from another (including its location in the external relationships, internal structure, leadership, or internal system), perhaps the most useful way is to describe the degree of complexity involved in achieving it.

It is one thing, for example, to want a networked computer system or an updated strategic plan. Both are relatively precise, identifiable needs that can be matched with specific change strategies and appropriate resources. Other desired outcomes are more complicated. For example, the

One way to understand differing desired outcomes of capacity building activities is by looking at the degree of complexity involved in achieving them.

departure of an executive director may call for a seemingly straightforward response—the hiring of a new director. Yet the departure could be simply a “presenting problem” related to more challenging issues, such as an increasingly irrelevant mission, high staff turnover, or tension with the board. To the extent a problem is more complicated, the first step toward achieving the desired outcome may actually be organizational diagnosis to determine the true scope and nature of the challenge.

## 2. Change Strategies: Selective to Comprehensive

As Blumenthal argues, most capacity building approaches are characterized by either a focused, problem-centered approach or a broader commitment to work on a range of organizational issues.<sup>22</sup> Not surprisingly, this difference in approach often helps define the difference between direct response programs and capacity building initiatives. Both approaches are ultimately concerned with promoting organizational effectiveness. The selective approach involves discrete capacity building projects as a means toward organizational effectiveness. In the comprehensive approach, the commitment is to help build an effective organization; capacity building engagements are a means of achieving this broader purpose. Venture philanthropy programs illustrate the latter approach. In an interview for this study, the director of New Profit Inc. explains that her investors do not question investments of \$1 million or more in capacity building:

For them, it would be like they decided to invest in Coca Cola but they said that we are only interested in Fanta [a Coca Cola company product]. They would never do that. When they invest in a company, they invest in the whole company. They never use the word capacity building. They don't even know what I am talking about when I say that. In our world, we distinguish between capacity building and program. They see it much more holistically.

This does not suggest that direct response funders have a more limited commitment or view of organizational effectiveness—only that they tend to use discrete grants to fund it. In two of the direct response programs, successive grants are very common. These funders are committed to the organizational health of their grantees, but use a funding approach that is based on separate, smaller grants made over time.

A problem-centered approach to change involves discrete capacity building projects, while the comprehensive approach commits to helping build an effective organization.

Table 3: Change Strategies—Selective to Comprehensive

	Selective	Comprehensive
<b>Direct Response Programs</b>		
<b>Babcock Foundation</b> GRO Program		X
<b>Greater Worcester</b> Nonprofit Support Center	X	
<b>Greater Worcester</b> Organization Assistance Fund	X	
<b>Maryland Association</b> Consulting Services Fund	X	
<b>Meyer Foundation</b> Management Assistance Program	X	
<b>Meyer Foundation</b> Technology Circuit Rider	X	
<b>Packard Foundation</b> Enhancing Grantee Effectiveness	X	
<b>Capacity Building Initiatives</b>		
<b>Casey Foundation</b> Rebuilding Communities Initiative		X
<b>Echoing Green</b>		X
<b>Greater Worcester</b> Peer learning projects	X	
<b>Meyer Foundation</b> Peer learning projects		X
<b>New Profit Inc.</b> Management Assistance Program		X
<b>Packard Foundation</b> Custom capacity building	X*	X*

\*The Packard Foundation has examples of both selective and comprehensive capacity building initiatives within its grantmaking portfolio.

### 3. Champions: Internally to Externally Directed

The programs in the study sample rely on consultants as key contributors to the capacity building process. While these consultants' primary working relationships are presumably with board and staff members of the organizations they work with, there are important differences among these programs in who hires and oversees the consultants.

Most direct response programs provide the funds for consulting projects and their grantees identify and hire the consultants involved. In fact, direct response programs generally refuse to recommend specific consultants, although they often provide some help in thinking through the selection process or in finding other nonprofits from whom to seek advice. As explained by one program director, "Who says the funder knows best how to select a consultant for a grantee? I feel that I should only recommend a consultant that I have actually worked with regarding a job similar to the one they performed for me. We coach our grantees on how to be good consumers of consulting services and then we leave the choice of consultants up to them." Given the importance of a good fit between consultant and nonprofit, most direct response programs consider it crucial that grantees control the selection process and final decision. There is one striking exception to this among the direct response programs: Maryland Nonprofits, which runs its consulting program as a service to its members, and hires and oversees the consultants for each engagement it supports.

Among the capacity building initiatives, which are built around the work of certain intermediaries or teams of consultants, the funders have a primary role in selecting consultants, and in defining the agenda for capacity building. While the goal is ultimately to meet the needs of the participating grantees, the programs are built around a certain philosophy or approach to organizational effectiveness. By defining the parameters of the programs, funders and/or consultants exert a greater influence on the capacity building process. It is not surprising, then, that the funders of these initiatives are also actively involved in their implementation. Funders of capacity building initiatives tend to be in regular contact with grantees—often talking on a weekly basis. (The peer learning projects are an exception, as they are run by intermediaries). One of the consequences for grantees seeking larger, longer-term capacity building commitments may be greater funder involvement.

Consultants are key champions of capacity building, but practice varies as to whether funders or grantees select and control these providers of technical assistance.

Table 4: Champions—Internally to Externally-Directed

	Internally	Externally
<b>Direct Response Programs</b>		
<b>Babcock Foundation</b> GRO Program	X	
<b>Greater Worcester</b> Nonprofit Support Center	a	a
<b>Greater Worcester</b> Organization Assistance Fund	X	
<b>Maryland Association</b> Consulting Services Fund		X
<b>Meyer Foundation</b> Management Assistance Program	X	
<b>Meyer Foundation</b> Technology Circuit Rider	X	
<b>Packard Foundation</b> Enhancing Grantee Effectiveness	X	
<b>Capacity Building Initiatives</b>		
<b>Casey Foundation</b> Rebuilding Communities Initiative		X <sup>b</sup>
<b>Echoing Green</b>	a	a
<b>Greater Worcester</b> Peer learning projects		X
<b>Meyer Foundation</b> Peer learning projects		X
<b>New Profit Inc.</b>		X
<b>Packard Foundation</b> Custom capacity building	X	

- a. These programs rely on consultants and other nonprofit leaders as trainers. While any work that comes out of such trainings is ultimately self-directed, the “curriculum” for these trainings is externally driven.
- b. In this program, funds were made available to local communities to hire their own technical assistance providers. In addition, the Casey Foundation assembled a national team of consultants that led most of the capacity building.

#### 4. Resources: Low to High

The majority of funders in the sample for this study invest less than \$20,000 per grantee in capacity building grants or services. In general, grants (or services) of this size constitute less than 10 percent of their grantees’ budgets. There are four capacity building programs in the sample that do support grants that comprise more than 10 percent of their grantees’ budget: the Babcock Foundation GRO program, the Casey Foundation Rebuilding Communities Initiative, Echoing Green, and New Profit Inc. (see Table 5). The grants given by these funders include operating support in addition to funds granted for capacity building expenses. These funders view operating support as crucial in helping sustain grantee organizations as these organizations devote time and energy toward improving their performance. According to the director of one capacity building initiative, the funder has to be willing to make a substantial investment “if you are going to ask for high engagement and if you want [the executive director’s] ‘mindshare’ and time.”

Table 5: Resources—Low to High

	Dollar value of resources as percentage of nonprofit budget (on average)	
	10% or less	Greater than 10%
<b>Direct Response Programs</b>		
<b>Babcock Foundation</b> GRO Program		X
<b>Greater Worcester</b> Nonprofit Support Center	X	
<b>Greater Worcester</b> Organization Assistance Fund	X	
<b>Maryland Association</b> Consulting Services Fund	X	
<b>Meyer Foundation</b> Management Assistance Program	X <sup>a</sup>	
<b>Meyer Foundation</b> Technology Circuit Rider	X <sup>a</sup>	
<b>Packard Foundation</b> Enhancing Grantee Effectiveness	X <sup>a</sup>	

Funders must be willing to make substantial investments if they want high engagement and the nonprofit executive’s “mindshare’ and time.”

Table 5 (continued)

	Dollar value of resources as percentage of nonprofit budget (on average)	
	10% or less	Greater than 10%
<b>Capacity Building Initiatives</b>		
<b>Casey Foundation</b> Rebuilding Communities Initiative		X
<b>Echoing Green</b>		X
<b>Greater Worcester</b> Peer learning projects	X	
<b>Meyer Foundation</b> Peer learning projects	X	
<b>New Profit Inc.</b>		X
<b>Packard Foundation</b> Custom capacity building	X <sup>a</sup>	

a. These programs are only available to the funders' current or recent grantees. Thus, the funders also provide these grantees with some level of program support separate from the capacity building grant.

There is, of course, a trade-off between breadth and depth in capacity building. Funders reported that they struggle with this trade-off as they try to decide how to invest limited resources. The four “high” resource funders in this sample directed nearly \$8 million to 41 organizations and communities. “Low” resource funders spent over \$11 million yet provided funding and services (such as training programs, in the case of the Greater Worcester’s Nonprofit Support Center) to more than 400 organizations.

## The Sample of Engagements

To identify how funders are investing in the capacity of nonprofits at a level of detail below programs, the authors analyzed the types of engagements supported by grants. Not all in the sample of 16 funding programs could be easily studied this way, however. The six capacity building initiatives, being more comprehensive in their approach, do not keep track of the specific capacity building engagements undertaken within each participating nonprofit. And while the three sector-strengthening programs did serve nonprofits directly through their investments in intermediaries, there was no feasible way of tracking the specific services received by individual nonprofits.

As they decide how to invest limited resources, funders struggle with the trade-off between breadth and depth in capacity building.

The following analysis, therefore, is based only on the seven direct response programs that offer grants or services to nonprofits. In all, these programs supported 271 grants (or services, such as a training program offered by the Nonprofit Support Center), representing approximately \$11 million in funding. Most of these grants had been assigned a grant purpose by their funders; the authors determined the purposes of the remaining 54 grants for this analysis.<sup>23</sup> Many of the grants supported more than one type of engagement (e.g., strategic planning and board development) and, thus, were assigned to more than one category. As a result, these 271 grants and services supported 503 different capacity building engagements, which constitute the core data set for the findings presented here. Table 6 presents an analysis of the 503 capacity building engagements for the seven direct response programs according to which areas of organizational life the grants or services addressed.<sup>24</sup>

Table 6: Engagements by Grant Purpose

Direct Response Programs	Babcock Foundation GRO Program	Greater Worcester Nonprofit Support Center	Greater Worcester Organization Assistance Fund	Maryland Nonprofits Consulting Services Fund	Meyer Foundation Management Assistance Program	Meyer Foundation Technology Circuit Rider	Packard Foundation Enhancing Grantee	Totals	%
External Relations								81	16
Mission	5	0	0	0	8	0	0	13	2.6
Strategy	0	1	0	0	7	0	0	8	1.6
Mergers, alliances, joint ventures	0	0	2	7	1	0	7	17	3.4
Communications, marketing	0	2	0	0	0	0	31	33	6.6
Constituent relationships	7	0	0	0	0	0	0	7	1.4
Program development	0	0	1	0	0	0	0	1	0.2
Business venture development	0	0	0	2	0	0	0	2	0.4

Table 6 (continued)

<i>Direct Response Programs</i>	<i>Babcock Foundation GRO Program</i>	<i>Greater Worcester Nonprofit Support Center</i>	<i>Greater Worcester Organization Assistance Fund</i>	<i>Maryland Nonprofits Consulting Services Fund</i>	<i>Meyer Foundation Management Assistance Program</i>	<i>Meyer Foundation Technology Circuit Rider</i>	<i>Packard Foundation Enhancing Grantee</i>	<i>Totals</i>	<i>%</i>
<b>Internal Structure</b>								<b>43</b>	<b>9</b>
Human resources, staff development	3	1	0	0	3	0	33	40	8.0
Structure, management issues	3	0	0	0	0	0	0	3	0.6
<b>Leadership</b>								<b>48</b>	<b>10</b>
Executive director transitions	0	0	1	15	0	0	18	34	6.8
Executive leadership, management skills	3	8	0	0	3	0	0	14	2.8
<b>Internal Management Systems</b>								<b>326</b>	<b>65</b>
Planning, strategic planning	0	2	4	3	6	0	89	104	20.7
Organizational assessment	0	0	0	2	8	0	32	42	8.3
Governance, board development	10	9	1	0	14	0	28	62	12.3
Fundraising, financial management	8	4	1	0	12	0	46	71	14.1
Technology planning, training	0	2	1	0	1	12	15	31	6.2
Technology acquisition	0	0	0	0	4	0	0	4	.8
Evaluation	1	0	0	0	4	0	7	12	2.4
<b>Other</b>	0	0	0	0	0	0	5	5	1
<b>Totals</b>	<b>40</b>	<b>29</b>	<b>11</b>	<b>29</b>	<b>71</b>	<b>12</b>	<b>311</b>	<b>503</b>	

## Findings: Capacity Building Engagements

The sample of seven direct response programs, 271 grants and their 503 associated engagements provides a glimpse of the prevailing approaches to foundation-funded capacity building today. Although the seven programs studied in detail cover only a tiny portion of all capacity building funding, several are recognized exemplars in the field. To the extent that they favor certain desired outcomes, change strategies, champions, and resource levels, they set the mark for many funders in the field.

### 1. The Desired Outcomes that Funders Favor

As illustrated in Table 6, the seven direct response programs focus primarily on efforts to improve internal management systems (65 percent of engagements), followed by external relations (16 percent), leadership (10 percent), and internal structure (9 percent). These figures suggest a belief that organizational effectiveness is rooted in strong management systems.

In contrast, findings from the Nonprofit Effectiveness Project's surveys of assistance providers and executive directors demonstrate that leadership is generally seen as the keystone of effective organizations. Asked to choose what a below-average organization should work on first—external relationships, internal structure, leadership, or internal management systems—both groups voted overwhelmingly for leadership, (See Table 7 below.) As one assistance provider explained in a follow-up interview:

I think organizations are driven by champions, whether those champions are the founder, the CEO, or strong board leaders. Committed, involved, active, knowledgeable, and aware leadership can overcome a great many faults in structure and other lack of resources. But without strong leadership, no amount of structure is going to take you from capacity building to organizational effectiveness. Another way of saying that, I think, is that the mission of an organization is held within the hearts and minds of its leaders, rather than in a mission statement and organizational plan.

Funders tend to invest in improving grantees' management systems, whereas assistance providers and nonprofit executives see leadership as the keystone of effective organizations.

Table 7: Capacity Building Program Emphasis versus Organizational Needs Perceived by Assistance Providers and Nonprofit Executive Directors

Organizational Area Targeted	A Direct Response Program Emphasis	B Assistance Provider Emphasis	C Executive Director Emphasis
External Relationships	16%	2%	3%
Internal Structure	9%	14%	12%
Leadership	10%	64%	71%
Internal Systems	65%	17%	12%

**Notes**

Column A shows the distribution of capacity building engagements or services funded by the direct response capacity building programs in this sample (see Table 3 above). Columns B and C report findings from the Nonprofit Effectiveness Project’s 2001 survey of nonprofit assistance providers (funders, consultants and researchers) and executive directors. The survey respondents were asked: “Thinking about these four aspects of an organization—its external relationships, internal organizational structure, leadership and internal management system—which is the most important one for a below-average performing organization to improve first?”

Although leadership development is not a priority focus in this sample of direct response capacity building programs, discussions with these funders reveal that they do see leadership as fundamental to high performance in nonprofits. There are at least three possible explanations for why leadership receives little explicit attention in most discussion about capacity building:

1. Most grantees that receive capacity building support already have effective leadership in place; they tend to be “above average” rather than “below average” performers. Evidence of leadership seems to be an unstated requirement for funding in many of these programs.
2. Leadership development is generally seen as a different field than capacity building, complete with its own programs, methodologies, and funders.
3. It is generally assumed that capacity building engagements *help* develop leadership skills—that capacity building is a form of leadership development.

It should be noted, however, that there does appear to be increasing interest in the issue of leadership transitions. Two direct response programs, in particular, highlight succession planning and transition assistance as eligible for support; at least two others are considering increasing their focus on succession issues. Routine leadership assistance may not fall within the definition of capacity building for these programs, but times of leadership crisis (or opportunity) do.

## 2. The Change Strategies that Funders Favor

Table 6 also shows that the direct response programs tended to focus on strategic planning (21 percent); fundraising and financial management (14 percent); and governance (12 percent).

**Strategic Planning.** Five out of the seven direct response programs provide support for strategic planning engagements. The funders' belief in the value of strategic planning is echoed in the Nonprofit Effectiveness Project's surveys. Assistance providers and executive directors were asked how much various reforms had improved performance in the nonprofit sector. (See Table 8 below.) Strategic planning ranked extremely high with both groups: 87 percent of assistance providers thought that the encouragement to do strategic planning had made a difference, as did 84 percent of executive directors. Follow-up interviews with 25 executive directors of exemplary nonprofits reinforced this point. Nineteen of these leaders reported that their organizations have a strategic plan in place; six said they commit resources to planning, but without going through a formal strategic planning process. In the words of one executive director,

I think the whole thing comes down to planning. Far too often we don't begin with a blueprint of where we want to go. We think we have, because we have ideas. But far too often we do not put the ideas down on paper. We don't put numbers against them. We don't work out an action plan of how to get there. We tend to see a lot of organizations whether they are in the arts or elsewhere saying 'we are going to be the best in the world' and everybody applauds that and says 'what an aim.' But that is only the beginning. You have to put that on page 100 of your plan and work backwards.

Even among those nonprofits that undertake a formal planning process, however, there was a strong sense that traditional strategic planning models may be outdated. A number of executive directors suggested that planning activities had to be regular, flexible, and more frequent. One said:

The world is changing rapidly, so I think the idea of a strategic plan lasting for five years doesn't work anymore. You

Funders as well as assistance providers and nonprofit executives believe in the value of strategic planning.

are going to have to do it closer to two to three years. It is a constant thing. I think the old-fashioned way of doing strategic planning isn't going to be very effective anymore with things changing so rapidly. You have to abbreviate that process and incorporate it almost annually with the activities that you do.

**Fundraising and Financial Management.** Four out of the seven direct response programs provide support to improve fundraising and/or financial management capabilities; a fifth program (Meyer's MAP) only funds financial management improvements.

Money may not ensure effectiveness, but it does help ensure survival. When executive directors were asked in interviews for the Nonprofit Effectiveness Project about the greatest challenges they face, fundraising topped the list. As one director explained, "The perennial favorite is fundraising and membership development. Membership, major donors, and foundations are a three-pronged sword that is just crucial for the ongoing health of the organization, and there is mind-boggling competition from anyone and everyone."

There are also good reasons to be concerned, both programmatically and administratively, about the ability to track and manage money. Said one executive director, "There are only so many dollars and so many people that you can help and, economically, if you take in that marginal client . . . that one client can tip the whole organization to disaster, if you don't know what you are doing. You can only help those people who want to be helped and then you can only help the people that you have resources to. Then you have to say, 'Sorry, I will refer you to another agency.'"

An accurate and fast method of tracking income and expenses is fundamental to good management and, not surprisingly, a common feature in high-performing organizations. In fact, in the Nonprofit Effectiveness Project survey, seventy-three percent of executive directors of exemplary organizations reported that they had good accounting systems in place. As explained by one community foundation official, high-performing nonprofits "follow the money" and pay close attention to their finances.

High-performing nonprofits pay close attention to their finances and have fast and accurate methods of tracking income and expenses.

Table 8: Survey Responses

*How much have various reforms improved performance?*

Source	Great Deal or Fair Amount		Not Too Much or Not at All	
	Assistance Providers	Executive Directors	Assistance Providers	Executive Directors
<b>Funder/funding changes</b>				
Encouraging more funding for capacity building	80%	65%	19%	32%
Management assistance grants	77%	32%	32%	63%
More active donor involvement	39%	58%	47%	22%
<b>Standards/reviews/transparency</b>				
Creation of management standards	52%	54%	38%	42%
Strengthening external reviews	20%	10%	67%	87%
Making nonprofits more open to the public and media	48%	54%	46%	44%
<b>Partnerships/alliances</b>				
Encouragement to collaborate with other nonprofits	61%	63%	35%	28%
Reducing duplication and overlap among nonprofits through mergers and alliances	51%	36%	42%	61%
<b>Executive director investments</b>				
Giving executive directors greater access to training	88%	69%	12%	28%
Encouraging executive directors to stay longer in jobs	50%	61%	41%	34%
<b>Management practices</b>				
Encouragement to do more strategic planning	87%	84%	13%	15%
Increased emphasis on outcomes measurement	66%	79%	30%	20%
Increased openness to using standard business tools	77%	82%	19%	17%

Source: 2001 Nonprofit Effectiveness Project Survey; N=247 for opinion leaders, N=250 for executive directors.

Equally predictable, funders—more than researchers, consultants, or executive directors—seem to focus on the value of good accounting systems. Yet not even funders seem to consider financial management as a lever for significant organizational change or improvement. Among the funders in the Nonprofit Effectiveness Project’s survey of assistance providers who believed that reforming internal systems was the first step toward improving performance, an “accurate and fast” accounting system ranked third behind strategic planning and staff training.

**Governance.** Finally, five out of the seven direct response programs also support board development or governance engagements. This recognition of the importance of governance was, once again, a clear finding in the Nonprofit Effectiveness Project surveys. In those surveys, “clarifying board/staff relationships” was the highest and second highest ranked recommendation among assistance providers and executive directors, respectively, as a starting point for organizational improvement.

In describing high performance, 90 percent of the assistance providers reported that most well-run nonprofits they knew held at least four board meetings a year. They were right on target. The survey of executive directors found that 89 percent meet with their boards at least four times a year (and 35 percent meet nine times or more). In follow-up interviews, executive directors made it clear that they view a strong board as vital to their success. As explained by one director,

If you’re building your obituary and you just want to be able to list a bunch of boards, don’t include [our organization]. And if you’re already serving on 11 boards, don’t make us be your 12th one. Maybe you would like to serve on our board at another time that would be better for you, because we do have an expectation for attendance. We’re seeking you because you bring a particular knowledge of community, a particular skill, a particular background, a particular something that makes you important to the organization. And therefore, know that we’re not just looking for board members. And we’re not going to just put your name on our letterhead.

The interviews also made it clear that board members of these high-performing nonprofits *were* extremely dedicated and hardworking. As one executive director reported, “They put in tremendous amounts of time. We have nine board meetings a year plus committee meetings, which is a little unusual, but that is sort of a tradition and when we try to cut that back people say, ‘Well, if you only had meetings every other month and I missed one, it would be four months and I would not know what the hell was going on.’ That creates some work for the staff, but it certainly keeps the board in touch.”

Capacity building funders and nonprofit executives agree on the importance of board development and attention to governance.

### 3. The Champions that Funders Favor

Most direct response programs in this study rely on consultants as the primary champions for promoting and/or assisting with organizational improvement. Grant funds are usually directed toward paying consulting fees; in the case of Greater Worcester's Nonprofit Support Center, outside consultants teach courses and lead seminars. (The exception in this sample may be Babcock's GRO Program. While grantees usually seek some type of technical assistance during the course of their three years of support, consultants play a relatively limited role in their organizational development work.)

Findings from the Nonprofit Effectiveness Project also suggest that outside assistance is seen as a proven means of promoting organizational improvement. When assistance providers were asked in open-ended interviews about the most effective means of capacity building, employing outside assistance (whether offered by independent consultants or a management service organization) topped the list. This finding was echoed in the structured survey as well. When asked who has helped improve nonprofit sector performance the most, the number one answer was "providers of technical assistance" (30 percent of respondents) followed closely by management service organizations (25 percent). (See Table 9.)

This favorable view of consulting may reflect a biased sample—one-third of the assistance providers were consultants. However, the funders in our sample also talked convincingly about the value of consulting. In the words of one funder, "Often, organizations just don't know what their options are and if somebody who has expertise in that area is helping them, it can immediately change the way that they are doing things." Another funder admitted, "The foundation world has just fallen in love with management consultants. And they just love them. And by the way, I do too. And so these are folks who will tell you in a very convincing way, and they are often right, that it's possible to do a much better job."

"The foundation world has just fallen in love with management consultants," but nonprofit executives show less confidence in outside assistance.

Table 9: Survey Responses

*Who has helped improve nonprofit sector performance most?*

Source	Great deal		Fair amount		Not too much		Not at all	
	Assistance Providers	Executive Directors						
<b>Funders</b>								
Foundations	8%	27%	34%	39%	53%	22%	3%	13%
Government	1%	8%	13%	21%	54%	26%	28%	45%
<b>External assistance</b>								
Providers of technical assistance	30%	15%	54%	47%	11%	28%	2%	10%
Management service organizations	25%	8%	46%	25%	20%	34%	2%	30%
Associations of nonprofits	20%	14%	54%	44%	21%	27%	2%	15%
<b>Others</b>								
Graduate schools	16%	4%	44%	20%	31%	33%	3%	41%
External rating organizations	2%	8%	16%	18%	43%	24%	19%	46%

Source: 2001 Nonprofit Effectiveness Project Survey; N=247 for opinion leaders, N=250 for executive directors.

Executive directors demonstrated less confidence in the value of outside assistance. In the survey of executive directors, only 15 percent thought technical assistance had contributed a great deal to nonprofit performance, and only 8 percent thought the same of management service organizations.

It is not clear why assistance providers and executive directors have such different opinions on the value of outside assistance. It may simply be that the majority of executive directors have had less than stellar experiences in working with consultants or other providers of technical assistance. Many of the funders interviewed for this study acknowledge that finding talented consultants can be a real challenge. As one noted, “The really good people get top dollar and tend to work for larger organizations and they are fully booked.”

Another possible explanation is that most executive directors have not had many opportunities to work with consultants and, thus, their evaluation of consultants is based on a more limited set of experiences. The majority of funders in this study, in comparison, help support dozens of consulting engagements per year. With that kind of bird's-eye perspective, it would be hard not to find some evidence of real success.<sup>27</sup>

This raises an interesting question about the nature of capacity building. It is worth noting that capacity building, as defined by executive directors in interviews for the Nonprofit Effectiveness Project, does not necessarily require outside support or assistance. When asked whether they had received funding for capacity building, approximately one-third of executives reported receiving outside funding, one-third said they supported capacity building engagements through their own funds or budget, and one-third said they used some combination of internal and external support. Consider, for example, how this director invested in capacity building:

Capacity building for us was being able to help service providers—and in our case that's early childhood educators, teachers, and their directors—and provide them more support so that every day their work with children and families got better. Now, I have not found much money out there that is going to help me build my capacity. So, what we did was build up the amount of services that we provided and tried to generate a small profit there that would allow us to then hire somebody for the central office that provides services to the front-line service workers.

Other examples of self-directed capacity building focused on strategic planning. Based on interviews with executive directors, it appears that most nonprofits undertake a planning process without the help of a consultant. As explained by the director of a child care agency, "Every year we get a couple of key board members, and I have found that as vice presidents or as lawyers or as accountants they bring a lot of expertise to this. So, we have not yet had to go outside." Another executive director made it clear that he preferred not to use outside assistance:

We didn't hire someone from the outside, a facilitator or something like that. I'm not real keen on them either. Because they tend to be very generic and when it's all said and done, the documents, the validity is going to rest on the contribution of your own employees. So I have enough confidence in my ability to put them together that I don't want a facilitator.

Capacity building can be both self-directed and financed by nonprofits.

This study does not have data to determine whether internal or external champions lead most capacity building efforts. However, given the limited nature of available capacity building funding, it is plausible that a great deal of capacity building work relies primarily on internal resources. In follow-up interviews to the Nonprofit Effectiveness Project survey, executive directors reported increasing demands for effectiveness and accountability. Foundation Center data, however, show that funding for technical assistance, management development and evaluation represented less than 4 percent of all grants given in 2000. Thus, it is likely that most organizations are attempting to meet rising expectations using existing resources.

#### 4. The Resources that Funders Provide

Capacity building engagements must involve sufficient resources in order to succeed. While there is a debate about what is “sufficient” in terms of money, financial resources can at least be measured. Assessing the willingness and ability of an organization to devote sufficient time and energy to capacity building is a more difficult challenge.

The direct response programs in this study make relatively small grants. On average, these grants constitute less than 2 percent of their grantees’ budgets.<sup>28</sup> Both funders and grantees alike recognize that resources provided through these programs are limited. An executive director noted with some frustration that:

... [a local foundation] with great fanfare announced that they were re-tooling their grant guidelines and would be focusing a lot of effort on capacity building, and they were starting a management assistance grant program and putting a lot of emphasis in this area, and then they started up this assistance grant program which allows organizations to get grants for capacity building up to \$10,000. That is ridiculous. You can do barely anything with \$10,000. You certainly can’t do enough management assistance to make significant change in an organization with that.

The relatively small size of the investments through these programs increases the importance of making the right investments—those that target the right issues and leverage meaningful change. Part of determining if the investment is right is assessing whether the organization is ready and willing to work on the capacity building opportunity. Three out of the four nonprofit assistance funds do this assessing through a site visit (involving both board and staff) prior to even considering a grant proposal. Four out of the seven programs require a cash contribution from grantees to help ensure commitment to the capacity building project.

The relatively small size of many capacity building grants increases the importance of targeting the right issues and leveraging change.

# Measuring Capacity Building: Toward an Evaluation Strategy

Metaphorically speaking, capacity building calls out for measurement. After all, what is capacity but something that can be measured, expended, and renewed? Despite its metaphorical calling, capacity building lacks clear metrics that might demonstrate its effectiveness to boards, funders, and potential consumers. What are the measurable outcomes of an outcomes measurement system, for example? What are the strategic consequences of strategic planning? The developmental impacts of board development?

This is not to suggest that capacity builders and their funders make no effort to measure results.<sup>29</sup> Indeed, there is much to admire in the growing movement to develop what some call “negotiated outcomes” to capacity building engagements. Consider, for example, how a national funder describes the objectives of a strategic planning program:

Specific objectives are: 1) to develop a three-year corporate strategy for the period 2001–2004 by first conducting interviews, producing a current situational analysis, then by conducting a retreat with the board, selected stakeholders and staff; 2) to create related program strategies for the government relations, communications, constituency development, and policy dialogue functional divisions by incorporating and reviewing thought pieces from each division into the strategic planning process; 3) to develop detailed work plans to support the functional strategies by further discussion with the relevant division heads; 4) to recommend a fully integrated annual planning cycle by producing a step-by-step guide for future use; and (5) to develop performance indicators to measure the impact of the various strategies defined during the strategic planning process.

Also consider the three-year organizational development goals submitted by a grantee to a regional funder:

Capacity building lacks clear metrics that might demonstrate its effectiveness to boards, funders, and potential consumers.

The real question is not just whether a capacity building engagement produces its desired result, but how it changes the overall performance of the organization.

- develop a five-year strategic plan;
- develop and implement a fundraising program that ensures the organization has adequate resources from diverse sources of income to carry out its mission;
- develop policies and procedures to guide the organization's operations in fiscal, personnel, and other functions and to ensure compliance with legal mandates and standards for nonprofit accounting; and
- improve capacity to provide appropriate and needed services to its constituent groups . . . and to achieve the level of fiscal and public accountability that is a hallmark of a well governed and managed nonprofit organization.

Finally, consider how a funder describes the expected results of a board development process:

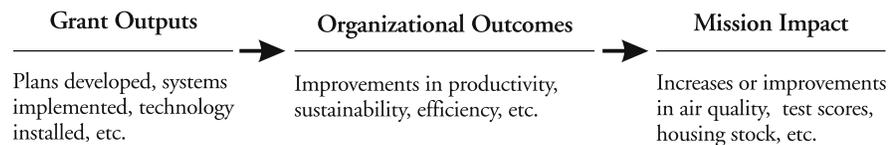
1. The organization has a revitalized board of directors reflecting the diversity of its county. Board members understand and carry out their roles and responsibilities and clearly understand the roles and responsibilities of staff.
2. A board-approved strategic plan serves as the basis for decision-making. The plan balances its mission with operating realities and includes specific tactics to achieve greater financial stability.
3. The organization's board has functioning committees with explicit expectations. Each board member is a contributing member of a committee and is also active in raising funds for the organization.

Negotiated outcomes ensure that both funders and grantees are clear about the purpose(s) of a grant and the anticipated results. Yet the real question is not just whether a given engagement produces its desired result, but how it changes the overall performance of the organization or organizations in which it occurred. It is one thing, for example, to say that board development produced a more developed board, and quite another to argue that a more developed board produced a more effective organization, which in turn produced more programmatic outcomes, higher quality service, and so forth. In other words, the outcome of capacity building can be viewed as but one of many inputs to organizational performance.

## Three Levels of Outcomes

The current debate over measuring capacity building is centered on *where* the grantmaker, evaluator or organization should look for outcomes. Are they to be found in the behaviors of employees, leaders and the board? The organization as a whole? The community or population it serves? The tapestry of organizations that form the nonprofit sector? Looking at capacity building as an input to the grantee organization suggests that at least three levels of outcomes exist: 1) grant outputs—were the immediate objectives of the grant met? 2) organizational outcomes—did the engagement improve the functioning or performance of the organization? and 3) mission impact—did the engagement allow the organization to more effectively meet its mission?

Figure 4: Capacity Building Outcomes



Currently, most efforts to evaluate capacity building engagements focus on grant outputs—i.e. on whether the immediate grant objectives were fulfilled. Evaluation often focuses as much on the *process* of the engagement—strengths and weaknesses, lessons learned, unexpected challenges—as on the actual changes enacted in the organization. This “outputs” approach to evaluation is logical and offers many benefits. It meets the grantmaker’s first requirement for accountability, which is to ensure that grant funds are spent as promised. It is cost-effective, as it is based upon grantee self-reports. It is timely, as these self-reports are due when the grant closes. In short, the outputs approach is a feasible method of collecting information that can be immediately incorporated into future grantmaking efforts. (Are grantees having trouble selecting or working with consultants? Are grant timelines realistic? What unexpected problems are being encountered?)

Not surprisingly, the grant outputs approach to evaluation seems most common among funders with relatively small capacity building programs. One funder, who offers grants of \$10,000 or less, acknowledges the constraints her foundation faces in evaluating grants:

I am not looking at more clients served, more programming, *per se*. I feel confident that those will result if the consultancy has been effective. *But that will likely take time to assess. I do not follow these grants over a period of years* [emphasis added]. So I must count on the early indicators

Most efforts to evaluate capacity building focus on grant outputs rather than actual changes in the organization.

of progress, which are picked up in the changes seen from the beginning of the process, what is happening organizationally mid-way and what they (board and staff) conclude and how they have changed operationally at the end.

The problem with the grant outputs strategy of evaluation is that it does not necessarily offer any evidence that meeting the objectives of the grant actually matters in any meaningful way. Having a strategic plan in place is useless if it does not lead to more organizational buy-in and better decision-making. A website is a waste of energy if it does not improve communication or increase client or volunteer recruitment. Looking primarily at whether a grantee has met the objectives of the grant does not establish whether the engagement has contributed to the performance or mission of the organization.

Within the capacity building field, there is a growing call for focusing evaluation on the other end of the outcomes continuum: Did the engagements produce meaningful results for the ultimate client or constituency? From this point of view, capacity building cannot be fully understood without at least some consideration of mission-related results. Simply asked, if capacity building does not contribute to mission impact, why do it?

This mission-based view of success is most common among larger, more comprehensive capacity building programs—particularly those that employ a venture philanthropy approach. These programs often invest up to \$1 million a year in an organization, providing program support and working to improve all aspects of the organization’s functioning, from program design to leadership. This type of investment, usually paired with technical assistance, continues for a number of years. These funding programs are designed to meet mission outcomes—such as reducing poverty or improving outcomes for children—and invest in organizations as the means to do so. Capacity building engagements “pay off” if the organization is able to demonstrate better results in the community or among its clients.

Given their available resources and focus on mission, measuring success according to mission impact is logical and appropriate for large-scale, comprehensive capacity building programs. Yet this approach may not be realistic for funders who make smaller, shorter-term investments in organizations. In complex organizations, a single capacity building grant—while perhaps helping to strengthen or sustain an organization—may not produce noticeable improvements in client outcomes or mission impact. As one funder explains, “These grants are small, relatively speaking, and it would be the height of *hubris* to say that our \$30,000 planning effort has resulted in better client services in a two-million-a-year direct service organization. So I think we need to not be distorting what we do. If you want to pour \$6 million into a problem through one organization, then you can claim that you made that happen.”

Measuring mission impact may not be realistic for funders who make smaller, short-term investments in organizations.

## Organizational Outcomes as a Means of Measurement

The three levels of outcomes described above form a logic chain for capacity building: Grants produce engagements that strengthen organizations that, in turn, deliver better mission-related outcomes. Choosing *where* to look for outcomes may depend primarily on the size, scope, and aims of the capacity building engagements. While all capacity building is ultimately designed to improve programmatic outcomes, the size and type of investment may determine how far a given engagement is able to move an organization along that continuum.

A scan of the field suggests that—consistent with the findings of this study—most capacity building resources are invested through relatively small, short-term grants. Holding such grants accountable for significant increases in mission-related outcomes may not be realistic. Yet, failing to hold these grants accountable for affecting the next step in the logic chain—organizational outcomes—does a disservice to both the nonprofit sector and the capacity building field. The supply of capacity building dollars will always be scarce relative to the need for capacity building. Making wise investments in capacity building requires understanding what kinds of engagements are most likely to produce lasting and significant gains in organizational performance.

The challenge is to develop a set of easily applicable measures that can demonstrate with greater rigor how capacity building engagements contribute to organizational effectiveness. The goal is to shift the evaluation focus from outputs to outcomes, from whether an organization has a strategic plan to what difference that plan has made in terms of organizational functioning and performance. Developing such measures requires articulating more clearly how certain engagements are expected to contribute to organizational effectiveness or sustainability. This is particularly important because a single type of engagement can be used for multiple purposes. To use strategic planning as an example once more, a planning process can be used to refine program strategies, winnow out obsolete programs, lay the groundwork for expansion, or fire the current director. As always, clarifying the desired output and related outcomes is the first step in effective measurement. Table 10 provides a sampling of possible organizational outcomes.

Clarifying the desired output and related outcomes is the first step in effective measurement.

Table 10: Types of Organizational Outcomes

Outcome	Meaning & Significance
<b>Productivity</b>	Ability to use existing resources to achieve greater impact
<b>Efficiency</b>	Ability to use fewer resources to achieve existing tasks
<b>Security</b>	Increase in funding base
<b>Focus</b>	Greater clarity of purpose
<b>Accountability</b>	Ability to collect, analyze, and incorporate relevant program data
<b>Reputational Capital</b>	The perception of the organization among key stakeholders
<b>Human Capital</b>	Quality, motivation, retention of workforce, including board, volunteers and staff

Given the absence of a bottom line against which to measure productivity and efficiency, and the absence of clear metrics for assessing security, focus, accountability, and so forth, the question is how a grantmaker or evaluator might actually use organizational effectiveness as a standard for measuring capacity building success. One promising approach would involve a survey of everyone involved in a given capacity building effort, including grantmakers, champions, board members, clients, and community stakeholders. Such a survey could be used to measure post-engagement outcomes against pre-engagement expectations. The resulting data would allow researchers to search for patterns in outcomes according to organizational size, age, or type or even executive director tenure or provider qualifications. This would make a significant contribution to the field of capacity building by pushing the knowledge base beyond anecdotal evidence and compiling findings across engagements and even funders.

It is important to note that an outcome measures methodology would still face one of the universal challenges of evaluating foundation-funded projects: the tendency of grantees to inflate outcomes. There is little incentive for a grantee to admit that a capacity building investment produced negligible results. Encouraging honesty might require separating the outcome measurements from the grant-reporting process and using an independent third-party to administer the questionnaire and blind the findings.

## Management and Measurement

Any effort to develop more powerful measures for evaluating organizational outcomes of capacity building raises issues about the relationships between nonprofit management and nonprofit performance. “The rationale behind capacity building,” according to one funder, “is an assumption, but one that is easy to accept—that a well managed and governed organization is better able to meet its programmatic goals.” An organizational outcomes approach to evaluation neither proves nor disproves this assumption. Evaluating the outcomes of engagements would, however, show *how* capacity building contributes to organizational performance. Moreover, the measures to do so (such as productivity, efficiency, and mission focus) are likely to be strongly correlated with programmatic impact.

The “management matters” assumption is widely held in the nonprofit sector, particularly among nonprofit executives. In the Nonprofit Effectiveness Project’s survey, 44 percent of the assistance providers strongly agreed that an organization can be very well managed and still not achieve its program goals, while only 35 percent of the executives agreed. More significantly, whereas 27 percent of the assistance providers strongly agreed that an organization can be very effective in achieving its program goals and still not be well managed, only 16 percent of the executives agreed.

The importance of management to the executives is particularly clear when the two questions are combined. Whereas 57 percent of the assistance providers agreed that an organization could be both a) very effective in achieving its program goals and not well managed, and b) very well managed and still not achieve its program goals, only 39 percent of the executives agreed with both statements. In short, executives were significantly less likely to believe that an organization could be very effective in achieving its program goals and not be well managed.

“The rationale behind capacity building is an assumption . . . that a well managed and governed organization is better able to meet its programmatic goals.”

Table 11: Management Matters—Assistance Provider and Executive Director Views

An organization can be very effective in achieving its program goals but not be well managed.	An organization can be very well managed and still not achieve its program goals.			
	Strongly Agree and Somewhat Agree		Somewhat Disagree and Strongly Disagree	
	Assistance Providers	Executive Directors	Assistance Providers	Executive Directors
Strongly Agree and Somewhat Agree	57%	39%	23%	37%
Somewhat Disagree and Strongly Disagree	11%	9%	14%	15%

Source: 2001 Nonprofit Effectiveness Project Survey; N=247 for opinion leaders, N=250 for executive directors. Each cell shows percentage of all respondents.

Another reason that nonprofit management and measurement of capacity building outcomes are connected is that such a measurement effort would also require developing a reasonable baseline against which to declare success or failure. Simply asked, does a capacity building program need to succeed across 100 percent of its engagements? 50 percent? 20 percent? According to one of the funders interviewed for this study, “success in [our] program will be achieved if 80 percent of the organizations funded have increased their impact in the community, including both tangible improvements in people’s lives (through their programs and services) and in the development of new grassroots leaders. We also expect 80 percent of the organizations to be better managed and governed, with strong and more stable financial positions.”

Unfortunately, no one knows for sure just how deeply a program must penetrate to be declared a success. One study of *Fortune 1000* companies shows a 20–50 percent success rate on “radical” reengineering; another shows a 16 percent satisfaction rate among 350 executives; another shows a 75 percent success rate for 600 large North American and European firms that pursued process efficiency and productivity increases; still another shows a 27 percent success rate among 166 U.S. and European firms; and a final study shows a 23 percent success rate among 75 North American companies.<sup>30</sup> Does that mean that reengineering has failed? That it is a very tough initiative to sustain? Or that it has been wildly successful?

Evaluating the outcomes of engagements would show how capacity building contributes to organizational performance.

The same question holds for other private-sector change efforts. Total quality management has a success rate between 23 percent and 39 percent; mergers and acquisitions run from 27 percent to 80 percent; downsizing, 19 percent; efforts to change organizational culture, 10 percent to 32 percent; software development, 16 percent to 33 percent; and new computer systems, 17 percent to 24 percent. One study of 7,500 software projects shows a 16 percent “fully successful” rate, meaning on-time, on-budget, and fully functional; another of 1,000 downsized companies shows a 19 percent success rate in actually producing savings and productivity gains; still another of 135 companies that attempted “massive restructuring” showed that 50 percent failed to achieve significant increases in value compared to their competition; and still another of 30 North American companies showed that 17 percent successfully implemented a new computer system. It is quite possible that the private sector continues to invest in these efforts precisely because a 10–15 percent success rate is, in fact, good enough to justify the effort, or that failures have some positive impact by stimulating greater learning.

Benchmarks for the success of organizational improvement—even drawing from the experience of for-profits—are not clear.

# Conclusion

The commitment and passion that nonprofit organizations (and funders) bring to their work will continue to drive the quest for stronger, more sustainable organizations and improved mission impact. Concern about organizational performance is not likely to diminish. Yet, without evidence demonstrating how capacity building produces stronger organizations, it is difficult for nonprofit executives and funders to justify spending scarce resources on capacity building efforts.

Building a better knowledge base about the impact of capacity building requires a methodology that allows comparison across different types of capacity building engagements and programs. Developing a set of standard measures for organizational outcomes does that. While it is true that evaluating organizational outcomes cannot prove whether specific capacity building investments produce better mission-related results, it can show whether and how organizations are better able to do their work as a result of the engagement. This is highly useful information. As the dean of the RAND Graduate School, Robert Klitgaard, writes of evaluation impacts:

When we talk about developing “evaluation capacity,” we are not (or should not be) talking only about the quality dimensions of the craft—in the Webster’s definition, how careful the evaluations are and how much study they evince. We should be talking about the *purposes* for which evaluations are or should be done, which includes the helpfulness of the answers actually obtained through evaluations and the uses to which the answers and the evaluation process are put.

“More research” is hardly a compelling rallying cry. Yet investing in the “evaluation capacity” of the capacity building field may prove to be crucial to sustaining the recent interest in capacity building work. Further work on the measures of organizational outcomes would generate knowledge that would help capacity builders sort through what engagements might have the greatest impact under given conditions and what kind of capacity building programs are most effective. Findings like this could help transform the recent spurt in capacity building activities into a more lasting commitment to organizational effectiveness within both the nonprofit and philanthropic sectors.

Investing in the “evaluation capacity” of the capacity building field may prove crucial in sustaining the recent interest in capacity building work.

## Endnotes

1. Google search, November 27, 2002.
2. See Thomas E. Backer, “Strengthening Nonprofits: Foundation Initiatives for Nonprofit Organizations” in *Building Capacity in Nonprofit Organizations*, edited by Carol J. De Vita and Cory Fleming (Washington, DC: The Urban Institute, April 2001), p. 38: “capacity building involves strengthening nonprofits so they can better achieve their mission.” See also, Paul Connolly and Carol Lukas, *Strengthening Nonprofit Performance: A Funder’s Guide to Capacity Building* (St. Paul, MN: Amherst H. Wilder Foundation, November 2002), p. 7: “the process of strengthening an organization in order to improve its performance and impact.” See also Laura Campobasso and Dan Davis, “Reflections on Capacity Building” (The California Wellness Foundation, 2001, available at [www.tcdf.org/reflections/2001/april/](http://www.tcdf.org/reflections/2001/april/)): “Capacity building is the development of an organization’s core skills and capabilities, such as leadership, management, finance and fundraising, programs and evaluation, in order to build the organization’s effectiveness and sustainability. It is the process of assisting an individual or group to identify and address issues and gain the insights, knowledge, and experience needed to solve problems and implement change. Capacity building is facilitated through the provision of technical support activities, including coaching, training, specific technical assistance, and resource networking.”
3. There are no readily available data that show the degree to which nonprofits are investing their own time and dollars in capacity building.
4. The Foundation Center data are based upon a sample of approximately 1,000 of the largest private and community foundations—or less than 3 percent of total number of all active foundations. While these large funders give more than 50 percent of the total grant dollars in the U.S., it is likely that measured support for capacity building would be much higher if the sample included smaller and/or community-based foundations.
5. See, for example: David R. Stevenson and Allison Fine, “Sustained Improvement in Nonprofits, Research Results of a Survey on the Management Assistance Program of the Eugene and Agnes E. Meyer Foundation, 1995–2000” (unpublished); Renee A. Berger, “Community Foundations Initiative on Management Assistance, Phase I Evaluation,” The David and Lucile Packard Foundation, September 1999, available at: [www.packard.org/index.cgi?page=publications](http://www.packard.org/index.cgi?page=publications); Maura Harrington, Morgan Lyons, and Jeffrey Knudsen, “Youth Development Initiative Overarching Assessment,” The James Irvine Foundation December 1999 (unpublished); Rita O’Sullivan and Anne D’Agostino, “MRBF Organizational Development Program 1995–1998 Strategic Evaluation Report,” Fund for the City of New York (unpublished and undated); “Managing the Future: A Leader’s Guide,” Fund for the City of New York, July 1999.
6. At least one foundation included in this study has discontinued its capacity building program area. In September 2002, the Packard Foundation announced that it would no longer fund its Organizational Effectiveness and Philanthropy program due to financial constraints.
7. The data for this study were collected in November–December 2001. The authors sought to collect data from the last complete year of funding. In most cases, this was 2001. However, one funder had not yet completed the 2001 grant cycle and thus submitted information for 2000.
8. In 2001, Princeton Survey Research Associates conducted a random-sample telephone survey of 250 nonprofit “assistance providers,” funders, consultants, and researchers—for the Nonprofit Effectiveness Project. The sample was drawn from the membership lists of Grantmakers for Effective Organizations, the Association for Research on Nonprofit

- and Voluntary Action, and the Alliance for Nonprofit Management. As part of this survey, assistance providers were asked to name nonprofits that they consider to be “high performing.” A second survey was conducted with 250 executive directors drawn from this sample of high-performing nonprofits. Following the telephone surveys, Elizabeth Hubbard conducted a total of 50 semi-structured follow-up interviews, 25 with assistance providers and 25 with executive directors.
9. Ann Philbin. “Capacity Building Work with Social Justice Organizations: Views from the Field.” Submitted to Anthony Romero, Director, Human Rights and International Cooperation, The Ford Foundation, 1998, p. 4.
  10. Tony Proscio. “In Other Words: A Plea for Plain Speaking in Foundations,” Edna McConnell Clark Foundation, 2000, p. 27.
  11. A total of 50 semi-structured interviews were conducted in 2001 with nonprofit leaders, funders, researchers, and consultants. Elizabeth Hubbard conducted these interviews on behalf of the Nonprofit Effectiveness Project, which is part of the Brookings Institution’s Center for Public Service. A 1998 *Foundation News & Commentary* “Verbatim” feature also found that among grantmakers and grantseekers, definitions of capacity building were “all over the map” ([int1.cof.org/foundationnews/august1998/verbatim.html](http://int1.cof.org/foundationnews/august1998/verbatim.html)).
  12. Much of the current writing and research on the subject defines capacity building as an organization-level activity. See, for example: Paul Connolly, “Building to Last: A Grantmaker’s Guide to Strengthening Nonprofit Organizations,” The Conservation Company, March 2001; Thomas E. Backer, “Strengthening Nonprofits: Foundation Initiatives for Nonprofit Organizations” in *Building Capacity in Nonprofit Organizations*, edited by Carol J. De Vita and Cory Fleming (Washington, DC: The Urban Institute, April 2001); Barbara Blumenthal, “How Can We Help? A Comparison of Capacity Building Programs,” (unpublished manuscript) April 25, 2001; “Effective Capacity Building in Nonprofit Organizations,” Venture Philanthropy Partners, August 2001; and “Echoes from the Field: Delivering Quality Capacity Building Services,” InnoNet, February 2001.
  13. A number of authors and thinkers conceptualize capacity building in collective and holistic terms, recognizing the relationships among and between individual, group and community development. See, for example: Carol J. DeVita, Cory Fleming, and Eric C. Twombly, “Building Nonprofit Capacity, A Framework for Addressing the Problem” in *Building Capacity in Nonprofit Organizations*, edited by Carol J. De Vita and Cory Fleming (Washington, DC: The Urban Institute, April 2001); Ann Philbin, “Capacity Building Work with Social Justice Organizations: Views from the Field,” submitted to Anthony Romero, Director, Human Rights and International Cooperation, The Ford Foundation, 1998; and Emil Angelica, Ted Bowman, and Carol Lukas, “Capacity Building,” (unpublished) July 31, 1996.
  14. Barbara Blumenthal sorts organizational capacity building into at least two broad approaches: a focused approach characterized by short-term thinking and the implementation of new systems, and a developmental approach characterized by longer-term engagement around organizational change. See Barbara Blumenthal, “How Can We Help? A Comparison of Capacity Building Programs,” unpublished manuscript, April 25, 2001. (This was published by The Foundation Center in November 2003 as *Investing in Capacity Building: A Guide to High Impact Approaches*. It is available at [www.fdncenter.org/marketplace/catalog/product\\_monograph.jhtml?id=prod41001](http://www.fdncenter.org/marketplace/catalog/product_monograph.jhtml?id=prod41001).)
  15. This organizational “ecosystem” is adapted from Paul C. Light, *Sustaining Innovation: Creating Nonprofit and Government Organizations that Innovate Naturally*, San Francisco: Jossey-Bass Inc., 1998.
  16. Heiner Baumann, John Kalafatas, Stephanie Lowell, Shivam Mallick, and Ndiri Okonkwo, “Consulting to Nonprofits, An Industry Analysis,” Social Enterprise Field Study, Harvard Business School, April 30, 1999, p.7.

17. Many observers are quick to point out that a successful consulting engagement depends upon the quality of the relationship between consultants and the organizations they serve as well as the level of skills they bring. See, for example, “Echoes from the Field: Delivering Quality Capacity Building Services,” InnoNet, February 2001.
18. The final sample also does not necessarily represent all of the capacity building work supported by the eight funders. In many cases, capacity building was woven deeply into the work of the organization; thus, the sample does not include every single capacity building grant or activity supported by the funder. With the help of the funders themselves, we sought to identify and include the most prominent programs at each organization.
19. The GRO Program does provide funding for grantees to select and hire consultants to work on targeted capacity needs. Yet, it also provides operating support, longer-term grants (usually three years) and annual convening opportunities. Given its emphasis on allowing grantees to define and seek assistance for identified capacity building needs, GRO has been classified for this research project as a direct response program. It offers a good example, however, of the challenges associated with sorting complex programs into simple categories.
20. Thomas Backer uses the term “capacity building grantmaking initiatives” to refer to a broad range of foundation-funded capacity building programs. He defines grantmaking initiatives as either categorical (those that address a particular population or subject focus) or general (those that offer capacity building to the foundation’s grantees or other nonprofits in the funder’s geographical area of interest). See Thomas Backer, “Strengthening Nonprofits, Foundation Initiatives for Nonprofit Organizations,” in *Building Capacity in Nonprofit Organizations*, edited by Carol J. De Vita and Cory Fleming (Washington, DC: The Urban Institute, April 2001).
21. The Packard Foundation uses the knowledge development, delivery, and exchange framework to describe its sector-strengthening work. This framework also works well to describe the types of work undertaken by other sector-strengthening funders.
22. See Barbara Blumenthal, “How Can We Help? A Comparison of Capacity Building Programs,” unpublished manuscript, April 25, 2001.
23. It is a challenge to accurately and precisely code grant engagements. In one organization, an “organizational assessment” grant may focus primarily on strategic planning; in another, on staff communication and morale. In a grassroots organization, a “staff development” grant could just as accurately be coded as a “board development” grant given the board’s role as unpaid staff. Similarly, many of the grants could be coded as having a leadership development component, given that an organization’s leadership is crucial in determining its external relations, internal structure, and internal management systems.
24. The categorization scheme within the four major organization areas is adapted from Paul C. Light, *Sustaining Innovation: Creating Nonprofit and Government Organizations that Innovate Naturally*, San Francisco: Jossey-Bass Inc., 1998.
25. At least one program in this sample, the Greater Worcester’s Nonprofit Support Center, does focus on leadership development as a means of capacity building.
26. CompassPoint’s 1999 report, *Leadership Lost: A Study of Executive Director Tenure and Experience*, has been highly effective in raising the visibility of this issue. A number of program directors referred to it when discussing their work on leadership transition. See Timothy Wolfred, *Leadership Lost: A Study of Executive Director Tenure and Experience*, CompassPoint Nonprofit Services, 1999.

27. Disaggregating the “assistance providers” sample in the 2001 Nonprofit Effectiveness Project Survey shows that 28 percent of funders thought that providers of technical assistance had made a great deal of difference in improving nonprofit performance. Not surprisingly, consultants were most convinced as to the value of technical assistance: 44 percent of the consultants surveyed thought that technical assistance had made a great deal of difference.
28. Funding through capacity building initiatives, in comparison, sometimes constitutes as much as 10–20 percent of a grantee’s budget. However, such funding is not only intended to support a broad and ambitious capacity building agenda, but often includes general operating support as well.
29. Two funders, in particular, are using distinctive approaches to measuring and tracking growth in capacity. Echoing Green requires fellows to complete (and annually update) a logic model to describe their programs and goals. New Profit Inc. is using the Balanced Scorecard method as the basis of performance measurement, both for the firm itself and its portfolio organizations. The Balanced Scorecard, developed by Robert S. Kaplan and David P. Norton, is “a tool that translates an organization’s mission and strategy into a comprehensive set of performance measures that provides the framework for a strategic measurement and management system” ([www.bscol.com](http://www.bscol.com)). See also Robert S. Kaplan and David P. Norton, *The Balanced Scorecard: Translating Strategy Into Action*, Harvard Business School Publishing, 1996.
30. See Pierre Mourier and Martin R. Smith, *Conquering Organization Change: How to Succeed Where Most Companies Fail*, New York: CEP Press, 2001.
31. Robert Klitgaard, “Informal Notes on Improving Evaluation Capacity,” unpublished note, May 26, 1994, p. 4.

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# **The Capacity Building Challenge**

## **PART II: A Funder's Response**

Barbara Kibbe

*Part I: "A Research Perspective"  
starts on page 3*

## Editors' Note

From the perspective of a seasoned grantmaker, Barbara Kibbe discusses the practical implications of the *The Capacity Building Challenge: A Research Perspective* by Paul C. Light and Elizabeth T. Hubbard. In this provocative essay, she proposes a framework to help funders define terms and focus capacity building initiatives more precisely, align foundation policies and procedures more carefully to the needs of capacity building programs, and reflect more systematically on the findings from past efforts in order to strengthen future capacity building programs. Kibbe urges funders to share their knowledge and collaborate in other ways to speed advances in the field.

The essay is designed as a companion to the Light/Hubbard paper and offers questions for grantmakers to consider as they plan capacity building efforts. It can be used as the basis for individual reflection or group discussion.

Patricia Patrizi  
Kay Sherwood  
Abby Spector

# Introduction

Funders who work with grantees to build their organizational capacity can easily accept the concept that a well-managed, well-governed organization is more capable of achieving its program goals. Funders who see nonprofits up close know that a lack of good management or governance can create unproductive activity. Board members, executives, and staff of troubled organizations are often too distracted to focus on their work. Even seemingly small management issues—such as the lack of written personnel policies, inadequate cash flow management, or poorly facilitated board meetings—can balloon into major problems, generate conflict, and draw precious time and resources away from pursuing the agency’s mission.

From this vantage point, it seems obvious that grant funds can be invested profitably to support capacity building for nonprofits, remove boulders from the road, and boost an organization’s performance. And, given the fact that small grants can potentially have enormous leverage in this arena, capacity building grants can be relatively inexpensive insurance against organizational and programmatic failure. In fact, one might ask: Why *wouldn’t* a funder be concerned about and invest in building the capacity of grantees?

Yet, more and more often, capacity building advocates are being asked to demonstrate the value of their efforts. Skeptics question why funders should deflect resources away from direct service or policy work to tinker with organizational issues. Even those who are convinced that capacity building enhances organizational success have good reason to ask which approaches yield the greatest benefits, especially given the vast array of capacity building approaches now in use.

Through their recent and ongoing research as part of the Brookings Institution Nonprofit Effectiveness Project, Paul Light and Elizabeth Hubbard are challenging the field to answer these questions and do it now. Every funder of capacity building, from modest in size to large, can contribute in a meaningful way to building the body of knowledge that will demonstrate the benefits of *effective* capacity building. The seeds of how to start down this path are imbedded in the Light/Hubbard paper, *The Capacity Building Challenge: A Research Perspective*, and are echoed in other recent research and publications.

This paper, a grantmaker’s response to Light and Hubbard’s research, was written for funders who are considering experimenting with capacity

Skeptics ask why funders should deflect resources away from direct service or policy work to tinker with organizational capacity building.

building for the first time, as well as for those who caught the wave of growth in organizational effectiveness and capacity building and want to stay the course. The essay is neither a critique of the research findings nor a complete endorsement of the researchers' conclusions. Rather it presents one grantmaker's perspective on how to begin applying the lessons from research to the craft of making grants that will strengthen the ability of nonprofits to serve their communities.

## Experiments Proliferate

As Light and Hubbard point out, philanthropic interest in capacity building has grown rapidly in the past ten years, and with it a “thousand flowers” have bloomed. The field is characterized by diversity—with no common language or conceptual framework to define or categorize capacity building approaches. In their book, *Strengthening Nonprofit Performance: A Funder's Guide to Capacity Building*, Paul Connolly and Carol Lukas<sup>1</sup> discuss nearly a dozen options, including general operating support and forms of capital financing, for funders aiming to develop nonprofit capacity. In turn, Light and Hubbard focus on three broad types of capacity building programs:

- *Direct response programs*, which provide funds or services to nonprofits to address defined short-term capacity building needs, such as board training, new financial management systems, or strategic planning.
- *Capacity building initiatives*, which target a select group of nonprofits and usually address a broad range of longer-term organizational effectiveness issues across multiple aspects of organizational life.
- *Sector-strengthening programs*, which generally support knowledge development through research and educational institutions, knowledge delivery (via management support organizations, consultants, research dissemination), and knowledge exchange through conferences and convenings.

Light and Hubbard found that they needed more than 100 variables to describe the capacity building initiatives of just the eight funders they studied. While high, the number of variables should not be surprising given the array of factors—including organizational size, maturity, specialty, community need, recent stresses (such as changes in leadership or funding streams), and external context—that can influence the choice of strategy, focus, and approach for capacity building efforts.

It is understandable that the field has given rise to such diversity. In fact, the degree of earnest experimentation is a testimony to the

The field is characterized by diversity: The researchers needed more than 100 variables to describe the capacity building initiatives of just eight funders.

commitment of many. However, with the recent rapid increase in funding for management and capacity building, documentation of at least 350 capacity building programs at foundations around the country, and more than 100 variables needed to describe the programmatic approaches taken by just a few funders, there may be *too much* variety to support systematic learning about funders' efforts to build the capacity of nonprofits.

Light and Hubbard call for greater clarity about what constitutes capacity building, but it will take years to amass the data and analysis to answer that question conclusively. In the meantime, the capacity needs of nonprofits are urgent, as is the growing need within foundations to justify future outlays for organizational capacity and effectiveness. Light and Hubbard, along with a growing cadre of other authors and researchers, point the way for funders who want to predicate their capacity building investments on the best knowledge that is available now—and contribute to the knowledge base for the future.

## Key Questions for Funders Making Choices

Given the wide array of capacity building approaches now in use, how do funders decide where to focus their capacity building efforts and resources? When is it best to concentrate on building the skills of individuals *versus* upgrading organizational systems? When should capacity building support be offered for short-term “upgrades” as compared to sustained, long-term change efforts? What is the best method to select a change strategy? Who should diagnose the problem, design the strategy, and/or lead the effort? What resources are required for the initiative to succeed? When is it best to invest in intermediaries who can provide capacity building technical assistance to nonprofits? When is it wiser to provide direct, responsive grants to nonprofits so that they can pursue organizational improvement on their own?

It seems that the frustrating answer to all of these questions is—*it depends*. But what does it depend on? And where does one begin as a funder with limited resources, and even more limited time?

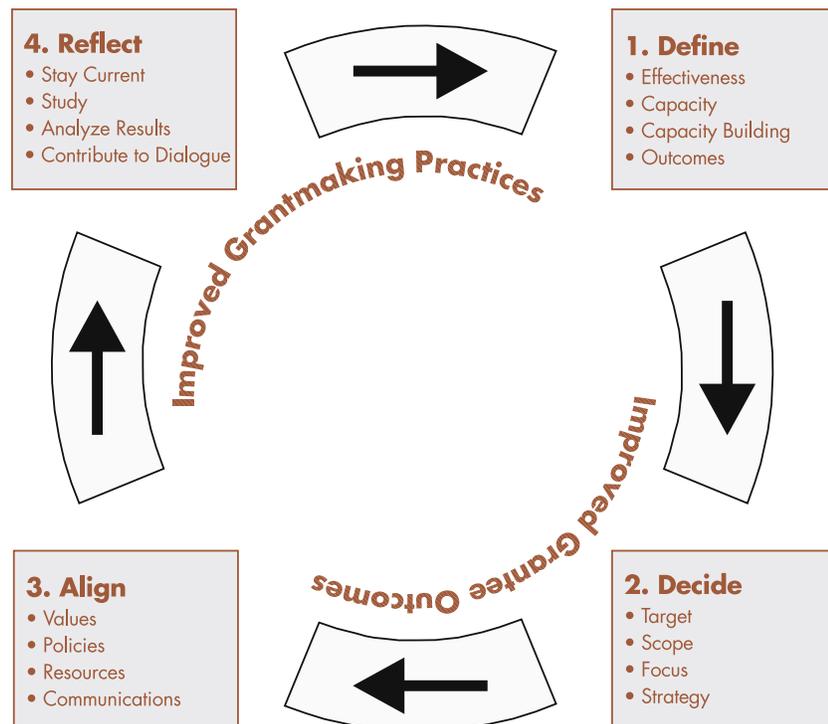
Now is the perfect time for the foundation community to reflect on the growth and variety of capacity building approaches, and move toward a more systematic approach to capture learning about what works and when.

How do funders decide where to focus their capacity building efforts and resources?

# Define, Decide, Align, and Reflect: A Model for Funders of Capacity Building

There are at least four practical lessons that can be drawn from the Light/Hubbard study and other recent research. Simply stated, funders involved in capacity building need to:

- Take steps to *define* terms.
- *Decide* on a focus for their capacity building work.
- *Align* their policies and practices with the intended outcomes of their initiatives.
- *Reflect* on the results.



Then, funders need to begin the process anew with the benefit of experience and knowledge. Figure 1 displays the iterative nature of this process of capacity building work.

This simple approach would accomplish two important and complementary goals. It would help immediately to clarify and strengthen capacity building programs offered by individual funders, and it would enable the philanthropic community to begin generalizing from the lessons learned across foundations—a clear win-win for the field.

## Define

First and foremost, it is time to define terms, or at least define them more clearly than ever before. A definition of organizational *effectiveness* that incorporates the organizational, programmatic, and resource-related elements of a successful nonprofit, and acknowledges the critical role of leadership in making all of the components work in concert is a step toward clarity. Further, a definition of organizational effectiveness is needed that goes beyond capacity, which is a prerequisite to effectiveness but not sufficient in and of itself to assure positive results. Although not complete or perfectly measurable, the definition that follows is offered as a step along the way, meant to help funders to frame their capacity building work.

Organizational *effectiveness* is the ability of an organization to define a meaningful mission and to advance or to achieve that mission. Organizational *capacity* contributes to and sustains organizational effectiveness over time. Organizational factors (or capacities) that contribute significantly to effectiveness include:

1. *Relevant programs* that are regularly reviewed to ensure that service delivery is consistent with known best practices and related to evolving needs and context.
2. *Policies and processes* that are efficient, cost effective, aligned with mission and goals, and focused on clear, measurable outcomes.
3. *Assets and resources* adequate to accomplish organizational and programmatic objectives, including physical and human resources as well as financial assets.
4. *Stability* through multiple funding streams, a high level of earned income, and/or adequate cash reserves or endowment.

A definition of organizational effectiveness is needed that goes beyond capacity.

At the outset, funders need to make explicit decisions about the target, scope, focus, change strategy, and champions for capacity building initiatives.

5. *Skilled leaders* who:

- model continuous learning in terms of their personal and professional growth, as well as the management of their organizations;
- pursue strategic alliances and partnerships enabling them to better address big issues and solve big problems; and
- embrace accountability by seeking, reflecting on, and responding to feedback and criticism from constituents, the media, colleagues, and competitors.

Beginning with a working definition of organizational effectiveness offers two significant advantages. First, grantseekers can understand the funder's point of view and determine whether it is aligned with their own capacity building needs. In addition, foundations can more easily assess when it is necessary to develop their own capacity to design, deliver, and/or measure the impact of their efforts.

## Decide

Light and Hubbard discovered great complexity while examining the capacity building programs of only eight funders. Their work makes it clear that funders need to make explicit decisions at the outset about the target, scope, focus, change strategy, and champions for the capacity building initiatives they support. When the issues are addressed up front, it becomes easier to articulate and monitor progress toward intended outcomes.

**Target.** Funders need to be clear about where they will intervene and why. Will support focus on enhancing the skills of individuals, on organizational change, program improvement, strengthening community capacities, or sector-wide change?

**Individual skills building.** It is relatively easy to determine whether an individual has learned new skills or acquired new knowledge as the result of a funded training program or internship, but it may take many years before it is possible to assess whether that specific knowledge influenced an individual's career or achievements. Further, many funders have found that programs that take nonprofit leaders out of their organizations through fellowships or sabbaticals result in high rates of turnover, temporarily destabilizing the nonprofits they leave behind. Funders considering capacity building aimed at individuals should ask themselves:

- Is the field I am concerned about lacking in leadership generally? Is the field likely to lose significant leadership in the coming years?

If the answer is “yes,” a priority on training and mentoring for people entering the field may be appropriate.

- Is overall leadership in the field robust but handicapped by the need for a specific skill set?

A “yes” answer here suggests the need for highly targeted training or peer learning that keeps leaders in place.

*Organizational capacity building.* Organizations are complex systems. Before launching an organizational capacity building effort, a careful assessment usually is needed of the current state of the nonprofit’s program, leadership, and operations, as well as the capacities needed to attain the organization’s goals. (An essential capacity for one organization may not be needed at all in another context.) Funders aiming to build the capacity of organizations should consider the following questions:

- Are you committed to understanding (assessing) the organization and its specific challenges?
- If yes, how will you go about this process? Would you charge your grantees with the responsibility to assess themselves, or would you require an external assessment? How would you support either type of assessment, which necessarily precedes the actual capacity building effort?

There are different points of view on how to assess an organization. Some contend that an organizational self-assessment is adequate, or even superior, to a consultant-led process. Others believe that the objectivity of a skilled outsider is needed for the type of honest assessment that can lead to fundamental change. Based on the research to date, it is not possible to develop a vision for the outcomes of capacity building efforts at an organizational level without understanding the specific nature of the organization being helped. Fortunately, expertise about the organization and its challenges can be found in copious supply within the nonprofit itself. Whether done by the nonprofit itself or by an outsider, the trick is to somehow objectify that perspective and see the organizational challenges in a broader context.

*Field- or sector-wide capacity building.* Sector-wide change requires sustained effort over time. A single funder working alone seldom has the resources to achieve meaningful change in an entire field. Moreover, sector-wide change generally is the result of many factors outside of a funder’s

A careful assessment usually is needed of a nonprofit’s program, leadership, operations, and the capacities needed to attain the organization’s goals.

control. Funders considering or undertaking sector- or field-wide change, should try to answer the following:

- Can you describe the outcomes you are looking for?
- Can you identify partners to work with in galvanizing the resources and support for change?
- Can you identify one or more points of leverage where you believe that a modest effort could have a snowball effect?

**Scope.** Once a funder has chosen a target for capacity building and articulated the rationale for the choice, the next important decision relates to the scope of the effort. As Light and Hubbard explain, capacity building efforts range from short-term, responsive, highly focused efforts—such as training programs, board or staff retreats, and Web site development—to sustained, long-term organization-building efforts with multiple objectives.

Clearly, resources are fundamental to decisions about scope. Long-term, systemic change requires time and money, while small, strategic, well-focused capacity building grants sometimes can leverage big change. For example, grants for planning or staff and board development timed early in the tenure of a new executive or board chair can have positive results that far outweigh the scale of the investment.

Funders must be careful to relate the scope of their capacity building efforts to the resources that are needed and available. Expectations about outcomes and accountability should be commensurate with the scale, intensity, and duration (*scope*) of the effort. Clearly, funders cannot expect an organization or community to undergo fundamental change in structure or operations based on a one-day retreat. Questions to ask in considering the proper scope of a capacity building effort include:

- What are the grantseeker's highest priorities for capacity building?
- Does the foundation's perspective differ markedly from the grantseeker's?
- If grantseeker and foundation are in basic agreement, what resources are needed to accomplish the goals of the project?
- Can the foundation meet the resource needs for the entire effort? If not, are other resources available? If not, are the foundation's resources adequate to lead to meaningful results, or can the work (and the objectives) be divided into phases?

Long-term systemic change requires time and money—yet small, strategic, well-focused capacity building grants can sometimes leverage big change.

**Focus.** The Light/Hubbard study cautions against looking in the wrong place for results. For example, the adoption of a new accounting system might make financial management easier and point to some excessive costs or unproductive investments, but this improvement in capacity would not usually be expected to increase an organization's standing with its external audiences. It is important to be clear *at the outset* whether the improvement in capacity is intended to enhance external relationships, internal structure, leadership, and/or internal management systems.

As with scope, many factors influence the appropriate focus of a capacity building effort. Regardless of the paradigm chosen to describe the interlocking realms of capacity, the goals of capacity building and the steps undertaken should be related to the focus of the effort. When all is said and done, funders should be asking, Did we hit the target we were aiming for? Not, what was the target? Or worse, what did we hit?

Questions to ask when determining the focus of a capacity building effort might include:

- Is the primary outcome of the effort intended to affect organizational vision? Strategy? Partnerships? Internal operations? Service?
- What should be different in the internal functioning of this organization as a result of the capacity building effort? Will the constituents/clients of the organization see a difference?
- How should the capacity building effort affect the functioning of the executive or board?

**Change strategy and champions.** In addition to clearly defining the goals and resources available for the project, Light and Hubbard found that the success of capacity building efforts is closely related to the change strategy that is selected and the champions who will do the work. For grantmakers, the important decisions are not what the change strategy should be or who the champion must be. Instead, the critical concern is determining the best *process* for creating a change strategy and identifying the champion. Key questions include:

- Who should be involved in the process?
- What is the appropriate role of the funder? The grantee?
- What are the conditions under which it is advisable to have an external facilitator or champion?
- How do you sequence the work? Set priorities? Develop a plan of action? Ensure the enthusiastic commitment of the grantee?

Funders should be asking: Did we hit the target we were aiming for? Not, what was the target? Or, what did we hit?

There are great advantages in making these decisions jointly with the individuals, organizations, or communities to be affected. Collaboration on the front end of a capacity building effort clarifies expectations on all sides, allows for the creation of mutually held goals and objectives, and enhances commitment to the hoped for outcomes.

Once decisions about target, scope, focus, and change strategy/champions have been made, it is easier to articulate the intended outcomes, ensure that the outcomes are in line with the resources available, and track the results of the capacity building efforts. As the Light/Hubbard research points out, the next important step is for funders to align their policies and practices with the goals of the initiative.

## Align

Like all people, funders work from a set of assumptions—some explicit, others implicit. Explicit assumptions are easier to understand and relate to, while implicit assumptions can be a puzzle to those outside the loop. It is essential for funders to carefully align their policies and practices regarding capacity building with the hoped for outcomes, and to communicate clearly to grantees the assumptions, intended outcomes, process, and guidelines for funding the effort.

Once the rationale for a capacity building initiative is in place, a funder is well on the way to alignment. Key elements are:

- Make assumptions explicit.
- State hoped for outcomes.
- Make an explicit decision to target one or more levels (individual, program, organization, community, field, or sector).
- Explain the decision—build the rationale.
- Develop values or operating principles, guidelines, and a grants process that relate logically to the outcomes that are sought.

In other words, funders should do as much as possible to ensure that they are in sync with grantees about the direction, process, and destination of the capacity building activities. An articulated program theory (or logic model) openly shared with grantseekers will help ensure that the travelers are together on the bus. An important reason for extra effort to align funder and grantee goals is that capacity building is fundamentally something an individual, organization, or community strives to accomplish for itself; it cannot be forced upon or done to an uninterested or unwilling party.

Funders should do as much as possible to make sure that they are in sync with grantees about the direction, process, and destination of capacity building activities.

As they begin capacity building efforts, funders may need to adjust or complement their own capabilities as well. In doing so, they should select strategies that fit well with their overall grantmaking approaches. For example, if a funder's greatest strength is in working intimately with grantees to shape and deliver programs, consider building knowledge of organizational theory and practice on the team and working collaboratively with grantees to diagnose and address capacity needs. Funders who have worked deeply and successfully with and through intermediary organizations should consider using intermediaries to provide capacity building services.

Funders should consider the limitations of their resources and establish realistic goals. If a program relies on external consultants, it is critical to understand the capabilities and limitations of the pool of available experts.

Also, funders should be careful not to punish candor. Nonprofits need to feel that they can be honest about their organizational challenges as they work with funders and consultants to craft approaches to build capacity. An authentic, trusting relationship between grantmaker and grantseeker will provide many short cuts on the way to building capacity, facilitated by honest collaboration on mutually shared goals.

## Reflect

In summarizing and drawing conclusions from their study, Light and Hubbard encourage funders to confront the difficulties inherent in measuring the success of capacity building efforts. Every funder can and should contribute to the body of knowledge about the outcomes of capacity building and the relative effectiveness of funder efforts. All funders can make a commitment to focus, clarity, and reflection in their capacity building work whether or not they have the resources for external evaluation. Arguably, the bigger the investment in capacity building, the greater the potential benefits of external evaluation and the greater the motivation to invest in systematic study of outcomes. Short of that, however, there are some steps that even modest funders of capacity building can take to learn from their work.

First, ask grantees to report on their capacity building grants. In addition to asking grantees to discuss the objectives achieved, ask them to reflect on the challenges of the effort, including:

- What was learned?
- What changed in their organization's operations as a result of the capacity building grant activity?
- What would have made the effort more effective?

Nonprofits need to feel that they can be honest about their organizational challenges as they work with funders and consultants on capacity building.

Over time, lessons from these reports can be aggregated and grants processes improved as a result.

Also, funders should ask grantees to reflect on how the funded capacity building efforts improved, or otherwise affected, program effectiveness and impact. This simple request has two benefits: it encourages grantees to think deeply about the connection between capacity and impact, and it will help build knowledge of how capacity and impact are related.

A final recommendation is to sponsor or co-fund evaluations of capacity building efforts with colleagues in order to build a more useful body of knowledge. The result would be meaningful, comparative studies and, in this way, a modest investment would be leveraged for the benefit of all.

## New Questions, New Opportunities for Funders of Nonprofit Capacity Building

As grantmakers, researchers, and practitioners grapple with the fundamental questions of what works and when in building nonprofit capacity, they should take care to examine the efficacy of prevailing practices in the field. At least three areas deserve greater thought and research: funders' faith in strategic planning; their heavy reliance on outside consultants; and the acknowledged importance of executive leadership and engaged boards.

*Strategic planning.* According to the Light/Hubbard research, executives of high-performing nonprofits report that their organizations have fresh strategic plans, which would seem to confirm the viewpoint of many funders that planning is an area where capacity building leverage is significant. However, many nonprofit executives expressed the concern that traditional strategic planning models may be outdated. Future research should examine whether traditional, linear strategic planning is too slow and too costly for most nonprofits. If so, what are the alternatives?

*External consultants.* Funders rely heavily on consultants as the primary champions for promoting and/or assisting with organizational improvement. However, executive directors are less confident in the value of external assistance and believe that successful capacity building does not necessarily require outside help. Recently, at least one study concluded that the quality of consulting available to nonprofits is variable and directly related to the effectiveness of capacity building efforts.

Research is needed to explore:

- Are there some areas where capacity building is best undertaken from within? In those cases, how does a funder ensure objectivity and accountability?

- What are the core competencies of an effective nonprofit consultant? How can funders help build those competencies among consultants in their own communities?

*Engaged boards and exceptional leaders.* Recent research supports the conclusion that the most effective nonprofits have exceptional executive leadership as well as highly engaged boards. This is easy to believe but difficult to achieve. Studies should examine:

- What are the key factors responsible for exemplary partnerships between nonprofit boards and executive leadership?
- What skills can be cultivated to enhance the leadership of boards and executives?

These and other questions, when answered, will make the grantmaker's job of supporting grantee capacity easier and more predictable. Until the answers are available, the best course of action is to work with current knowledge, stay up to date on the results of new research, and engage in an iterative process of defining, deciding, aligning, and reflecting on capacity building efforts.

Three areas need study: funders' faith in strategic planning, reliance on outside consultants, and the importance of executive leadership and engaged boards.

## Conclusion

Individually, grantmakers can and should contribute to expanding their own knowledge about nonprofit organizational capacity building—how it works, what it accomplishes, and its relationship to mission impact. Funders who clarify their goals, monitor the progress of capacity building efforts, and assess the results will be able to continuously improve their approach and effectiveness.

At the same time, each funder is a local laboratory that is part of a larger, evolving system. If funders pool their efforts, they can begin to address the need for clear, widely accepted definitions of capacity building approaches and comprehensive, normative data. No one funder can address all of the needs for knowledge. But together, they can develop the knowledge needed to support sustained and increasingly effective efforts to build a capable and effective nonprofit sector. Two possible steps are immediately apparent.

First, groups of funders involved in capacity building could convene to develop common definitions of nonprofit effectiveness and organizational capacity. They could struggle to come to consensus on a set of hypotheses about how to build capacity and effectiveness. If these definitions and hypotheses were robust and descriptive enough to be measured, the field could begin to compare the efficacy of varied approaches.

Once any group of funders (even two would be a significant beginning) has developed working definitions and aligned their capacity building efforts with the common definitions and hypotheses, they could take a second step: co-funding evaluation of the outcomes of their individual and collective efforts with a commitment to sharing lessons learned with the field as a whole.

Defining terms, aligning efforts, and collaborating on experiments and evaluation is easy to recommend but difficult to achieve in philanthropy, which has long been characterized by a spirit of independence and individual initiative in innovation. But the opportunity to advance the knowledge that can propel a growing field to new levels of impact should make the challenge irresistible.

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## Endnotes

1. St. Paul, MN: Amherst H. Wilder Foundation, November 2002.
2. See Heather Joslyn, “Leadership Training Benefits Executives, but Not Always Their Charities,” *Chronicle of Philanthropy*, September 19, 2002.
3. Renee A. Berger. “Community Foundations Initiative on Management Assistance, Phase I Evaluation,” The David and Lucile Packard Foundation, September 1999, and “Phase II Evaluation,” June 2001, available at [www.packard.org/index.cgi?page+publications](http://www.packard.org/index.cgi?page+publications).
4. See Paul C. Light, *Pathways to Nonprofit Excellence*. Washington, DC: The Brookings Institution Press, 2002.

# About the Author

## Barbara Kibbe

Barbara Kibbe is Vice President for Program and Effectiveness at the Skoll Foundation where she is responsible for leading a growing team of professionals who guide the foundation's grantmaking, as well as for designing and implementing a system for measuring the results of grantmaking.

Ms. Kibbe has more than 20 years of experience in the nonprofit sector as a nonprofit executive, grantmaker, and foundation program director. Previously, she was on the staff of the David and Lucile Packard Foundation, where she ultimately served as director of the Organizational Effectiveness and Philanthropy Program. Also, she has been a consultant and served as executive director of Bay Area Lawyers for the Arts (now California Lawyers for the Arts).

Ms. Kibbe is the coauthor of two books: *Succeeding with Consultants* and *Grantmaking Basics*. She is a founder of Grantmakers for Effective Organizations (GEO). She received her J.D. degree from Brooklyn Law School.

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