

The Capacity Building Challenge

PART I: A Research Perspective

PART II: A Funder's Response

A Research Perspective by

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Elizabeth T. Hubbard

A Funder's Response by

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April 2004

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Practice Matters: The Improving Philanthropy Project is supported by the California Endowment and the Robert Wood Johnson, Ewing Marion Kauffman, John S. and James L. Knight, and David and Lucile Packard Foundations. The project is housed at the OMG Center for Collaborative Learning in Philadelphia. Patricia Patrizi, Principal, Patrizi Associates, directs the project. Abby Spector serves as project manager and Kay Sherwood is the principal manuscript editor.

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ISSN 1545-6781



The Capacity Building Challenge

PART II: A Funder's Response

Barbara Kibbe

*Part I: "A Research Perspective"
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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.

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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 Lukas¹ 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?

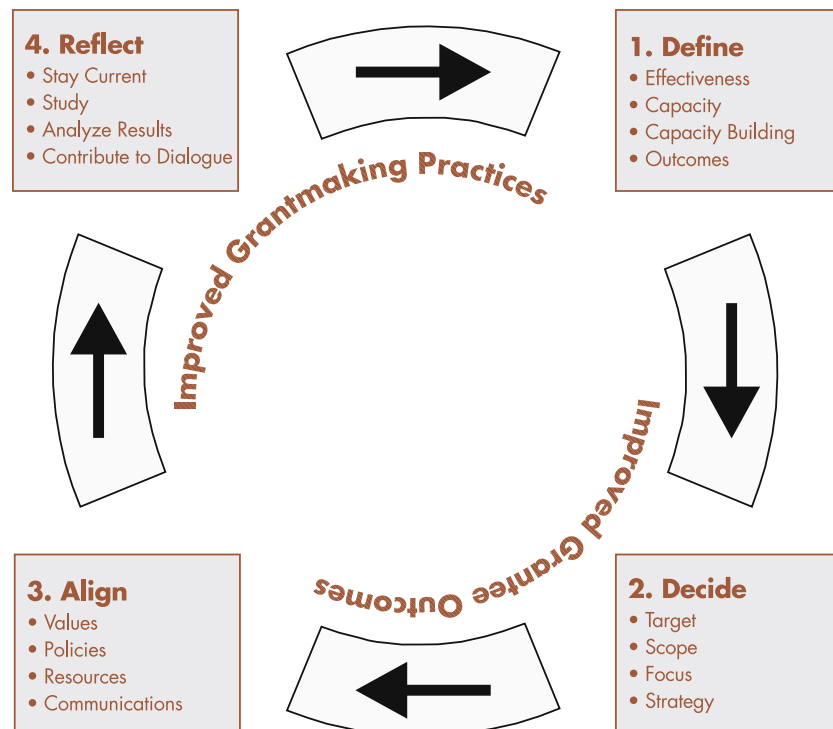
Now is the perfect time for the foundation community to reflect on the growth and variety of capacity building approaches, and move toward a more systematic approach to capture learning about what works and when.

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.

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.

Endnotes

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2. See Heather Joslyn, “Leadership Training Benefits Executives, but Not Always Their Charities,” *Chronicle of Philanthropy*, September 19, 2002.
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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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