

## THE CAPACITY BUILDING CHALLENGE

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Interest in improving nonprofit management is neither new nor revolutionary. Whether called organizational development, leadership training, technical assistance, management improvement or capacity building, funders have long supported efforts to increase the organizational performance of nonprofits. 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. Founded just four years ago, GEO is the fastest growing affinity group of the Council on Foundations and now includes more than 480 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.

There is also good evidence that capacity matters to programmatic outcomes. Although good management is not a guarantee of programmatic success, it is considered a necessary precondition. According to a 2001 survey by the Brookings Institution’s Nonprofit Effectiveness Project, more than half of the executives in a sample of high-performing nonprofits believe that an organization simply cannot be effective in achieving its program goals without being well managed.<sup>1</sup>

Fortunately, there is more than just talk about capacity building. While measuring funding for capacity building is a nearly impossible task, available data suggests that investments in organizational capacity and performance have increased dramatically in recent years. According to Foundation Center data, investments in management development (a coding category that includes staff training, strategic and long-range planning, 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>2</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 assistance and technical assistance, up from \$132 million in 1994. Even adjusting for inflation, this represented an increase of \$269 million for capacity building.

Considering the increased funding available and the rise of new donors with primary interests in capacity building, it is hard to imagine anything but growth in the effort to increase organizational effectiveness.

As this paper will show, however, progress on capacity building requires more clarity in three areas: (1) understanding how the term is actually operationalized; (2) developing a typology that might help consumers and providers alike sort the many options for capacity building; and (3) confronting the difficulties in measuring the ultimate success of actual engagements.

This paper will address these questions through a brief review of the capacity building work of eight funders, who together offer 16 different capacity building programs that distributed more than \$28 million through approximately 380 grants last year.<sup>3</sup> In addition, the paper draws upon research by the Brookings Institution's Nonprofit Effectiveness Project, including a recent survey of 250 assistance providers in the organizational effectiveness movement (funders, consultants and researchers) and 250 executives of the high performing nonprofits those leaders identified, plus ongoing research on the state of the nonprofit public service.

## DEFINING TERMS

Capacity building is one of the most fashionable, yet least understood, terms in the nonprofit sector today. As Ann Philbin has observed, "Within the field of capacity building, there is a striking lack of a shared definition of capacity building, its features and essential elements." Tony Proscio echoes the point. "Making grants and providing expert advice (a/k/a 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>4</sup>

Interviews with nonprofit leaders, funders, researchers and consultants confirm the confusion.<sup>5</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.

### *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 word of art from the consulting industry that is often used to describe a specific contract or activity. 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.

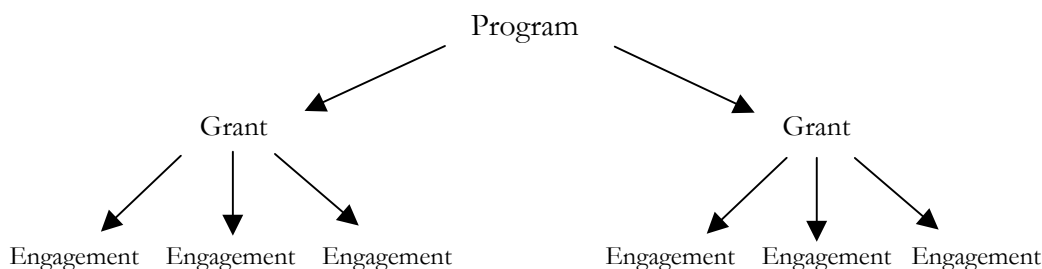
From a funder's point of view, it is useful to segment the term into three parts:

1. A capacity building *program* refers to an effort to help nonprofits through a specific approach that is defined in grantmaking guidelines. A program can serve a small number of organizations or a community as a whole, a handful of executive directors or a specific subsector of nonprofits in the arts, environment, human services, and so forth. 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 programs operate by making grants (see below).

2. A capacity building *grant* provides support to an organization to undertake capacity building activities (or, if an intermediary organization, 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, it is important to recognize that 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 1 shows the layering of these three levels of capacity building in hierarchical terms.

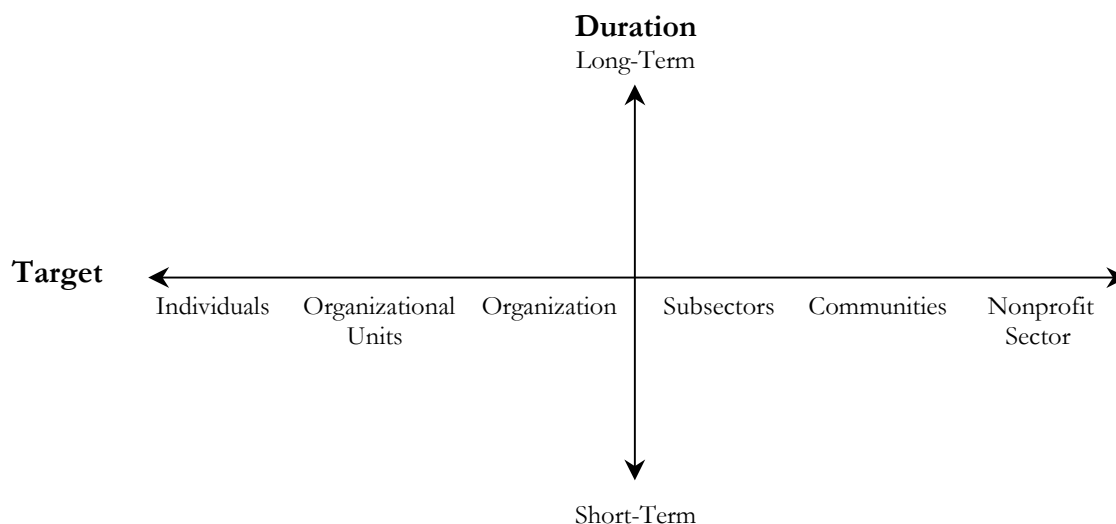
**Figure 1: A Hierarchy of Capacity Building**



*Sorting 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, a strong democratic society.<sup>6</sup> From this perspective, capacity building’s ultimate goal should be to achieve and sustain high performance in meeting 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, by definition, 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, etc. As such, a capacity building program can be mapped along at least two dimensions: (1) target—from individual to an organizational unit such as the development or financial management unit, the organization as a whole, a subsector of organizations, a geographical community or the broader nonprofit sector; and (2) duration—from short term to long term.<sup>7</sup>

**Figure 2: Mapping Capacity Building Programs**

Using this simple map, one can start the process of sorting the capacity building programs currently underway across the nonprofit sector. Some programs, such as those that take a venture philanthropy approach, have a long-term, single organization or subsector focus, while others such as leadership development programs have a shorter-term, individual level focus.

A reconnaissance of the field suggests that most of the work commonly termed “capacity building” is focused on an organizational level. This holds true whether one is reviewing the literature on capacity building or looking at how foundations are spending capacity building dollars.<sup>8</sup> Thus, most of the discussion within this report will focus on capacity building as means for promoting organizational effectiveness.

Narrowing the focus to organizational capacity building does little to actually narrow the definition of capacity building. There are dozens, if not hundreds, of approaches to strengthening the capacity of organizations, from training programs to strategic planning, board development, management systems, leadership recruitment, organization restructuring and fundraising, each of which can be sorted again by cost, durability, portability and impact.

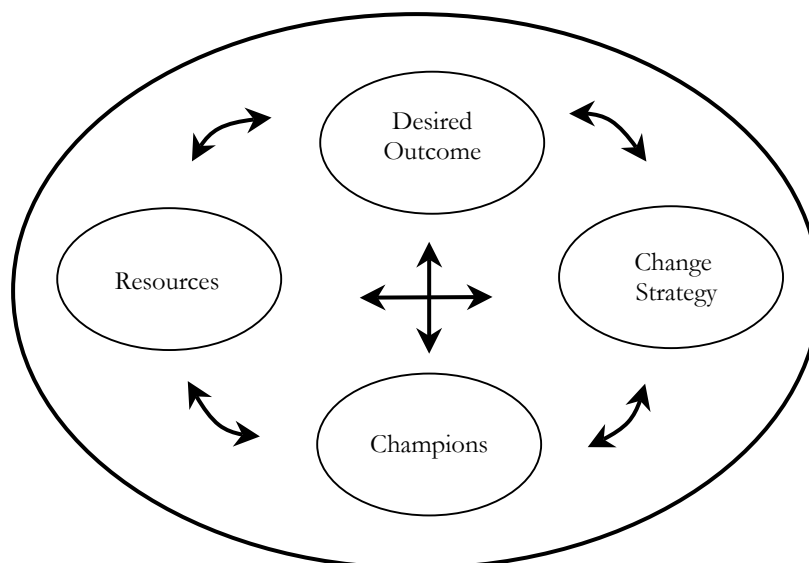
### *Sorting Engagements*

Given the range of goals and activities that fall beneath the rubric of capacity building, a widely shared definition of the term may be elusive. Indeed, the choice of words to describe the act of capacity building can be laden with controversy.

Nonetheless, all capacity building engagements share common elements. Focusing on the discrete elements that comprise capacity building activities is admittedly reductionist—it suggests that capacity building is simply the sum of its parts rather than a dynamic, complex process. Nonetheless, analyzing capacity building through its component parts allows one to identify different capacity building strategies and learn more about what contributes to the success of each.

While there are numerous factors that help shape capacity building engagements, four key elements play a significant role in determining the size, shape 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.

**Figure 3: The Capacity Building Engagement**



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. It is important to note that these elements 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 Outcome

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).

When trying to study a broad range of organizational capacity building engagements, it is useful to begin by categorizing them according to desired outcomes. One way to do so is to identify which areas of

organizational life they seek to affect: external relationships, internal structure, leadership, and internal management systems.<sup>9</sup>

External relationships involve an organization's interactions with the outside world and often involve issues related to organizational survival. These may include 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.

Internal structure focuses on the basic shape of the organization and often involves issues related to internal communication and work style. These 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, be it racial, gender, age and/or professional. Structural challenges also can be related to the need to recruit and retain talented board members, leaders, staff and volunteers.

Leadership focuses on the overall direction of the organization by its senior leadership and board. 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 lifecycle.

Internal management systems focus on the mechanisms that organizations use to integrate external relationships, internal structure, and leadership. Challenges may exist in systems throughout the organization: in personnel and pay, accounting and financial management, technology, training and strategic planning. In terms of information systems, organizations often seek to improve their ability to systematically 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, 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, one 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 website;
- support professional development, including a combination of staff training and mentoring;

- undertake bylaw revisions;
- explore the merger or other combination of these 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 that will aid the theater in better understanding and expanding its audience; and
- support the continuing upgrade of the 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.

The kind of changes an organization may be seeking depends upon a number of factors beyond its own history, experience and immediate needs, including the environment in which it operates and its stage of lifecycle development. Discerning what kind of change strategy is likely to be most effective at any given time is a crucial skill for both nonprofit leaders and capacity building funders alike.

### 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, as defined by this study, 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>10</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 should perhaps be included as an eighth category.

Despite this growth, it would be difficult to call “capacity building” a profession, given the lack of standards, norms, best practices and accreditation that exist in the industry. Thus, as funding for capacity building has increased, so has concern about the skills and abilities of consultants.<sup>11</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 involves a number of resources, including 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 problem-solving engagement. Strategic planning, for example, can be a one-day, board-only activity or year-long, highly inclusive process. The size and shape 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. Any type of 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 hours and hours to the process.

The rest of this report concentrates on three discrete questions. First, does this description of capacity building fit the reality of a sample of actual capacity building programs? Second, how might the four components of a capacity building engagement be used to distinguish among different approaches? Third, how can the impact of capacity building be realistically and systematically measured?

### **CAPACITY BUILDING TRENDS**

One way to test the strength of the capacity building map presented above is to examine a sample of actual capacity building programs. Such a “snapshot” of current programs and engagements helps ground the measurement discussion and identify the choices that funders face when implementing a capacity building program.

#### *The Sample of Initiatives*

The following pages are based on a review of eight capacity building funders, five of whom are charitable foundations (one each international, national, regional multi-state, regional metropolitan and community), and three of whom are re-grant programs (a national fellowship program, a state association of nonprofits and a nonprofit venture philanthropy firm). These eight were culled from an initial list of 35 initiatives developed through conversations with colleagues, Internet searches, and ongoing case studies conducted by the 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>12</sup> As Table 1 shows, these eight funders supported at least 16 different capacity building programs.

**Table 1: The Sample of Initiatives**

<b>CHARITABLE FOUNDATIONS</b>	
<p><b>GREATER WORCESTER COMMUNITY FOUNDATION</b> 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 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—each year.</li> <li>• An Organization Assistance Fund that helps local nonprofits (who may or may not be grantees of the foundation) address pressing organizational needs or opportunities.</li> <li>• A number of structured peer learning initiatives 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> 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 that 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, 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>
<p><b>MARY REYNOLDS BABCOCK FOUNDATION</b> 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 that supports capacity building programs offered through intermediaries or state associations.</li> </ul>
<p><b>ANNIE E. CASEY FOUNDATION</b> 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>THE DAVID AND LUCILE PACKARD FOUNDATION</b> Organizational Effectiveness &amp; Philanthropy Program</p>	<p>This international funder seeks both to improve the performance of its grantees and to strengthen the nonprofit sector. They do this in a number of ways:</p> <ul style="list-style-type: none"> <li>• Current and recent grantees can apply for support for management improvement projects.</li> <li>• The foundation will occasionally develop 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</li> </ul>

	related to effective nonprofit leadership, governance and management.
<b>RE-GRANT INITIATIVES</b>	
<b>ECHOING GREEN FOUNDATION</b>	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 on-line access, Echoing Green provides fellows with technical assistance and support designed to help build strong organizations.
<b>NEW PROFIT INC.</b>	This nonprofit venture philanthropy firm brings together financial and intellectual resources to support promising models of social change and help them get their 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.
<b>MARYLAND ASSOCIATION OF NONPROFIT ORGANIZATIONS</b> <b>Consulting Services Fund</b>	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.

After selecting the eight funders, the project proceeded with a two-stage method of analysis. First, the project collected information on each of the 16 programs, including guidelines, recent grant lists, evaluations, relevant internal memos and board documents, and any other materials that describe the program. Second, the project team conducted a 60-90 minute semi-structured interview with each of the program directors, all of which were transcribed for accuracy. The overall goal of the conversation was to develop a detailed portrait of each program for use in building a typology of capacity building engagements.

It is important to note that the research for this paper did not include interviews with any of the grantees funded through these various programs. Information about the 16 capacity building programs reflects the funders' perspective only. All data within the report that offers some insight into nonprofit views and perspectives are drawn from related research conducted for the Nonprofit Effectiveness Project at the Brookings Institution.

### *The Sample of Programs*

The 16 programs included in this study are diverse enough to 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 grant 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 grantees with relatively small grants to support a short-term, specific activity, such board training, a new financial management system or a strategic planning process. Most projects are completed within a year. 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 are management assistance funds operated by Greater Worcester, Meyer and Packard. The fourth, which is somewhat harder to classify, is the Babcock Foundation's GRO program.<sup>13</sup> Three others provide capacity building services directly 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 Maryland Nonprofits' Consulting Services Fund.

Capacity building initiatives target a select group of nonprofits and usually focus on a broad range of organizational effectiveness issues.<sup>14</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 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.

The final category is sector-strengthening programs. These 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>15</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 non-existent. The sample for this study includes three sector-strengthening grant programs supported by Meyer, Babcock and Packard.

Table 2: 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>					
GREATER WORCESTER Nonprofit Support Center	1998	\$70	20 program offerings	n/a	n/a
GREATER WORCESTER Organization Assistance Fund	1998	\$70	7-8 grants	\$10	6-12 months
MEYER FOUNDATION Management Assistance Program	1994	\$350	40 grants	up to \$10	6-18 months
PACKARD FOUNDATION Enhancing Grantee Effectiveness	1983	\$9,118	156 grants	\$35 (median)	1 year
BABCOCK FOUNDATION GRO Program	2000	\$1,000	20 grants	\$50	3 years
MEYER FOUNDATION Technology Circuit Rider	1999	\$100	assists 12 nonprofits	n/a	1 year
MARYLAND NONPROFITS Consulting Services Fund	1998	\$200	assists 12-15 nonprofits	\$8-30	1 year
<b>CAPACITY BUILDING INITIATIVES</b>					
GREATER WORCESTER Peer learning projects	2000	\$60-65	3 programs	up to \$6	8 months*
MEYER FOUNDATION Peer learning projects	1999	\$125	2 programs	\$25-100	6-12 months*
PACKARD FOUNDATION Custom capacity building	1998	\$1,034	12 programs	\$123 (mean)	1-2 years
CASEY FOUNDATION Rebuilding Communities Initiative	1994	\$2,625	5 communities	\$1,575**	3 years**
ECHOING GREEN	1991	\$1,300	10 new fellows	\$60***	2 years***
NEW PROFIT INC.	1998	\$1,500 in \$1,500 TA	6 portfolio organizations	\$1,000 in \$1,000 TA	4 years
<b>SECTOR-STRENGTHENING</b>					
BABCOCK FOUNDATION Regional Capacity	1997	\$130	3 grants	\$10-150	2 years
MEYER FOUNDATION Nonprofit Sector Strengthening	2000****	\$250	25 grants	\$1-100	1 year
PACKARD FOUNDATION Building the Field of NP Management	1997	\$8,600	46 grants	\$100 (median)	1 year

## NOTES TO TABLE 2

- \* Refers to the length of the structured program. In many cases, participants chose to continue meeting after the program has completed.
- \*\* 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.
- \*\*\* 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 on-line access. Also, some fellows receive “bridge” funding of \$5,000-10,000 for an additional two years.
- \*\*\*\* While Meyer has a history of sector-wide or infrastructure grants, this work was consolidated under one program director in 2000.

*The Sample of Engagements*

To identify how funders are investing in the capacity of nonprofits, the research team analyzed the types of engagements supported by grants. Not all funding programs can be easily studied this way, however. The six capacity building initiatives, being more comprehensive in their approach, do not track the specific capacity building engagements 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 services received by individual nonprofits.

This analysis, therefore, is based only on the seven direct response grant programs. In all, these programs supported 271 grants (or activities, such as a training program offered by the Nonprofit Support Center) in the last year representing approximately \$11 million in funding. Most of these grants had been coded according to grant purpose by their funders; the authors assigned codes to the remaining 54 grants.<sup>16</sup> Many of these grants supported more than one type of engagement (e.g. strategic planning and board development) and thus, were coded in more than one category. As a result, these 271 grants and activities supported 503 different capacity building engagements.

Table 3: Engagements by Grant Purpose

## DIRECT RESPONSE PROGRAMS

	GREATER WORCESTER Nonprofit Support Center	GREATER WORCESTER Organization Assistance Fund	MEYER FOUNDATION Management Assistance Program	PACKARD FOUNDATION Enhancing Grantee Effectiveness	BABCOCK FOUNDATION GRO Program	MEYER FOUNDATION Technology Circuit Rider	MARYLAND NONPROFITS Consulting Services Fund	TOTALS	%
<b>EXTERNAL RELATIONS</b>								<b>81</b>	<b>16%</b>
Mission	0	0	8	0	5	0	0	13	2.6
Strategy	1	0	7	0	0	0	0	8	1.6
Mergers, alliances, joint ventures	0	2	1	7	0	0	7	17	3.4
Communications, marketing	2	0	0	31	0	0	0	33	6.6
Constituent relationships	0	0	0	0	7	0	0	7	1.4
Program development	0	1	0	0	0	0	0	1	0.2
Business venture development	0	0	0	0	0	0	2	2	0.4
<b>INTERNAL STRUCTURE</b>								<b>43</b>	<b>9%</b>
Human Resources, staff development	1	0	3	33	3	0	0	40	8.0
Structure, management issues	0	0	0	0	3	0	0	3	0.6
<b>LEADERSHIP</b>								<b>48</b>	<b>10%</b>
Executive director transitions	0	1	0	18	0	0	15	34	6.8
Executive leadership, management skills	8	0	3	0	3	0	0	14	2.8
<b>INTERNAL MANAGEMENT SYSTEMS</b>								<b>326</b>	<b>65%</b>
Planning, strategic planning	2	4	6	89	0	0	3	104	20.7
Organizational assessment	0	0	8	32	0	0	2	42	8.3
Governance, board development	9	1	14	28	10	0	0	62	12.3
Fundraising, financial management	4	1	12	46	8	0	0	71	14.1
Technology planning, training	2	1	1	15	0	12	0	31	6.2
Technology acquisition	0	0	4	0	0	0	0	4	.8
Evaluation	0	0	4	7	1	0	0	12	2.4
<b>OTHER</b>	0	0	0	5	0	0	0	<b>5</b>	<b>1%</b>
<b>TOTALS</b>	<b>29</b>	<b>11</b>	<b>71</b>	<b>311</b>	<b>40</b>	<b>12</b>	<b>29</b>	<b>503</b>	

## SUMMARY OF PROGRAM CHARACTERISTICS

The sample of programs, grants and their associated engagements provides a glimpse of the prevailing approaches to 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 in the field.

### *Desired Outcomes*

As illustrated in Table 3, 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. However, 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 overwhelming for leadership (see table 4 below). As one assistance provider explained in a follow-up interview:

I think organizations are driven by champions, whether those champions are the founder and the CEO or by 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.

**Table 4: Program Emphasis versus Organizational Need**

<b>PROBLEM FOCUS</b>	<b>Direct Response Program Emphasis</b>	<b>Assistance Provider Emphasis</b>	<b>Executive Director Emphasis</b>
External Relationships	16%	2%	3%
Internal Structure	9	14	12
Leadership	10	64	71
Internal Systems	65	17	12

Although leadership development is rarely articulated as a goal in this sample of capacity building programs, these funders do see leadership as fundamental to high performance.<sup>17</sup> There are at least three possible explanations as to why leadership receives little explicit attention in most discussions 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; or
3. It is generally assumed that capacity building engagements *help* develop leadership skills—that capacity building is a form of leadership development.

Also, it should be noted that there appears to be emerging interest in the issue of leadership transitions.<sup>18</sup> Two 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.

### *Change Strategies*

As Table 3 above shows, the direct response programs tended to focus on three broad areas: 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 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. 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.

**Table 5: What Will Work?**  
*How much have various reforms improved performance?*

SOURCE	Great Deal or Fair Amount		Not too much or Nothing 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

N=497

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 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. "The world is changing rapidly, so I think the idea of a strategic plan lasting for five years doesn't work anymore," one said. "You are going to have to do it closer to 2-3 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 just 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, both programmatically and administratively, to be concerned 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 that 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 survey, seventy-three percent of executive directors reported that they had good accounting systems in their organizations. In the words of a community foundation official, good organizations "follow the money."

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. Even among GEO members 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 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 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 the center. And if you're already serving on 11 boards, don't make us be your 12<sup>th</sup> 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.”

### *Champions*

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).

This bias toward 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.”

**Table 6: Who Will Help?**  
*Who has helped improve nonprofit sector performance most?*

SOURCE	Great deal		Fair amount		Not too much		Nothing at all	
	Assistance Providers	Executive Directors	Assistance Providers	Executive Directors	Assistance Providers	Executive Directors	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

N=497

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 technical assistance providers. 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 executive directors simply have not had many opportunities to work with consultants and thus, gauge the value of their contributions. The funders in this study, in comparison, helped support anywhere from 5-255 consulting engagements per year. With that kind of bird’s-eye perspective, it would be hard not to find some evidence of real success.

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 supported capacity building engagements through their own funds or budget, and one-third 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 childcare 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.

Unfortunately, this study does not have the 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 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.

### *Resources*

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>19</sup> Both funders and grantees alike recognize that resources 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’t 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 so 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.

## **SORTING ENGAGEMENTS AGAIN**

Capacity builders—whether funders, consultants or nonprofit leaders—make implicit or explicit choices when it comes to designing and implementing organizational capacity building programs or engagements. Trying to determine the consequences of those choices first requires naming them. For research purposes, key differences among capacity building strategies can be considered independent variables. Identifying these variables, then measuring outcomes of related engagements, allows one to draw some conclusions about impact of competing capacity building approaches.

The capacity buildings programs in this sample varied along a number of dimensions—in fact, the research team used 103 different categories to track program characteristics. Thus, any number of important choices were made when designing these programs. Trying to learn more about the impact of these design choices requires selecting a manageable number that are both significant—i.e. most likely

to have the most impact on the success or failure of the engagement—and that lend themselves to objective measurement.

Identifying these design choices forms a typology that can be used to categorize capacity building approaches. The following typology is based upon key choices related to the four common components of capacity building: (1) desired outcome—straightforward to complex; (2) change strategy—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 various capacity building approaches and engagements. Additional dimensions could be developed related to the quality of consulting assistance, the size or lifecycle stage of the participating nonprofit or even the skill and involvement of the funder.

It is important to note that the following discussion focuses only on the seven direct response programs and six capacity building initiatives; sector-strengthening programs were not categorized according to this typology.

### *1. Desired Outcome: 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 and 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 difficulty 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 and appropriate responses. Other challenges are more complicated. For example, the 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 complicated 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 size, shape and degree of the challenge.

### *2. Change Strategy: 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. Not surprisingly, this difference in approach often helps define the difference between direct response programs and capacity building initiatives.

**Table 7: CHANGE STRATEGY—Selective to Comprehensive**

	GREATER WORCESTER Nonprofit Support Center	GREATER WORCESTER Organization Assistance Fund	MEYER FOUNDATION Management Assistance Program	PACKARD FOUNDATION Enhancing Grantee Effectiveness	BABCOCK FOUNDATION GRO Program	MEYER FOUNDATION Technology Circuit Rider	MARYLAND ASSOCIATION Consulting Services Fund	GREATER WORCESTER Peer learning projects	MEYER FOUNDATION Peer learning projects	PACKARD FOUNDATION Custom capacity building	CASEY FOUNDATION Rebuilding Communities Initiative	ECHOING GREEN	NEW PROFIT INC.
	DIRECT RESPONSE PROGRAMS							CAPACITY INITIATIVES					
Selective	X	X	X	X		X	X	X		X*			
Comprehensive					X				X	X*	X	X	X

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

Both approaches are ultimately concerned with promoting organizational effectiveness. The selective approach funds 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 part of this. 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:

It would be like for them, if they decided to invest in Coca Cola and they said that we are only interested in Fanta. 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.

### 3. *Champions: Internally to Externally Directed*

As discussed above, the programs in this sample rely on consultants as key contributors to the capacity building process. All of these consultants seek to serve the nonprofits they work with; their primary working relationships are presumably with board and staff members of these organizations.

Nonetheless, there are important differences among these programs in who hires and oversees the consultants.

**Table 8: CHAMPIONS—Internally to Externally-Directed**

	GREATER WORCESTER Nonprofit Support Center	GREATER WORCESTER Organization Assistance Fund	MEYER FOUNDATION Management Assistance Program	PACKARD FOUNDATION Enhancing Grantee Effectiveness	BABCOCK FOUNDATION GRO Program	MEYER FOUNDATION Technology Circuit Rider	MARYLAND ASSOCIATION Consulting Services Fund	GREATER WORCESTER Peer learning projects	MEYER FOUNDATION Peer learning projects	PACKARD FOUNDATION Custom capacity building	CASEY FOUNDATION Rebuilding Communities Initiative	ECHOING GREEN	NEW PROFIT INC.
	DIRECT RESPONSE PROGRAMS							CAPACITY INITIATIVES					
Internally	*	<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>				<b>X</b>		*	
Externally	*						<b>X</b>	<b>X</b>	<b>X</b>		<b>X**</b>	*	<b>X</b>

\* 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.

\*\* 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.

Most direct response programs provide the funds for consulting projects; their grantees identify and hire the consultants involved. In fact, these 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 consultant up to them.” Given the importance of a good “fit” between consultant and nonprofit, most 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, hires and oversees the consultants for each engagement it supports.

The capacity building initiatives are built around the work of certain intermediaries or teams of consultants. This not only means that the funders of such initiatives have a primary role in selecting these consultants, but in also in defining the “agenda” for capacity building. While the goal is ultimately to meet the needs of the participating grantees, it nonetheless means that the programs are built around a certain philosophy or approach to organizational effectiveness. By simply 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 trade-offs for grantees in seeking larger, longer-term capacity building commitments may be greater funder involvement.

4. Resources: Low to High

The division in relative size of investments is based primarily on whether programs offer general operating support as part of their capacity building investment. The four programs that, on average, support grants that comprise more than 10 percent of their grantees’ budgets all provide operating support in conjunction with capacity funding or services. Operating support is seen as crucial in helping sustain these organizations as they devote time and energy toward improving their performance. According to the director of one capacity building initiative, you have 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 9: RESOURCES—Low to High**

Dollar value of resources as percentage of nonprofit budget (on average)	GREATER WORCESTER Nonprofit Support Center	GREATER WORCESTER Organization Assistance Fund	MEYER FOUNDATION Management Assistance Program	PACKARD FOUNDATION Enhancing Grantee Effectiveness	BABCOCK FOUNDATION GRO Program	MEYER FOUNDATION Technology Circuit Rider	MARYLAND ASSOCIATION Consulting Services Fund	GREATER WORCESTER Peer learning projects	MEYER FOUNDATION Peer learning projects	PACKARD FOUNDATION Custom capacity building	CASEY FOUNDATION Rebuilding Communities Initiative	ECHOING GREEN	NEW PROFIT INC.
	DIRECT RESPONSE PROGRAMS							CAPACITY INITIATIVES					
Less than 10%	X	X	X*	X*		X*	X	X	X	X*			
Greater than 10%					X						X	X	X

\* 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. Last year, the “high” resource funders 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 nonprofit support center) to more than 400 organizations. Until better information is available about the relative impact of various funding approaches, it is difficult to determine the best use of funds.

## MEASURING RESULTS

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 remains desperate for metrics the 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 argue that capacity builders and their funders make no effort to measure results.<sup>20</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:

- 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 on the Southside and to achieve the level of fiscal and public accountability that is a hallmark of a well governed and managed non-profit organization.

Finally, consider how a third 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.

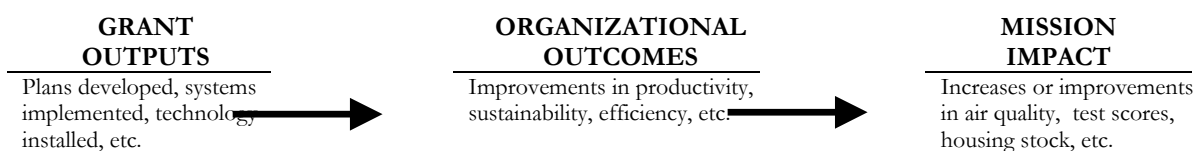
2. A board-approved strategic plan serves as the basis for decision-making. The plan balances its mission with operating realities and includes specific tactics to achieve greater financial stability.
3. The organization’s Board has functioning committees with explicit expectations. Each Board member 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. As such, 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 organizational performance 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, it 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 they face in evaluating their 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 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?

Not surprisingly, 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. Given the complexity of an organization, 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. You know what I mean?"

*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 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 grave 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 kind 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 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. This is particularly important as 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 measures of organizational outcomes.

**Table 10: Potential Measures of Organizational Outcomes**

<b>OUTCOME</b>	<b>MEANING &amp; SIGNIFICANCE</b>
Productivity	Ability to use existing resources to achieve greater impact
Efficiency	Ability to use fewer resources to achieve existing tasks
Security	Increase in funding base
Focus	Greater clarity of purpose
Accountability	Ability to collect, analyze and incorporate relevant program data
Reputational Capital	The perception of the organization among key stakeholders
Human Capital	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 tool for measuring success.

One promising alternative 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.

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.

### **DOES MANAGEMENT MATTER?**

“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.

It is worth noting that 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 assistant 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 in Table 11. Whereas 59 percent of the assistance providers agreed that an organization could be both (a) be 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.

**Table 11: Management Matters**

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	
	<i>Assistance Providers</i>	<i>Executive Directors</i>	<i>Assistance Providers</i>	<i>Executive Directors</i>
Strongly Agree and Somewhat Agree	57%	39%	23%	37%
Somewhat Disagree and Strongly Disagree	11	9	14	15

N=247 for opinion leaders, N=250 for executive directors. Each cell shows percentage of all respondents.

Developing more powerful measures for evaluating organizational outcomes 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 time reductions 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>21</sup> Does that mean that reengineering has failed? That it is a very tough initiative to sustain? Or that it has been wildly successful?

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.

## CONCLUSION

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.”<sup>22</sup>

Evaluating the organizational outcomes of capacity building cannot necessarily prove whether such investments produce better mission-related results. Yet it can show whether a given organization is better able to do its work as a result of the engagement. It is a feasible and cost-effective approach to developing the kind of knowledge that will help capacity builders sort through what engagements might have the greatest impact under given conditions—and diagnose the problems when outcomes fall short of expectations.

There is no question that such research might help the nonprofit sector convert the recent spurt in capacity building into a longer trend. As one executive director of a high performing nonprofit argued,

I think it’s too small probably even to call it a trend. I hope it’s a beginning trend and I think non-profit leaders really need to articulate that. Too often, we get before a funding source and kind of listen for what they want and then scramble to get an idea together. Now, here, I have asked all of our development staff to really be proactive around capacity building. If the donor believes in the work of the organization, and we see the results we get, their investment can help us do more. So we do articulate that quite often. Now, I would hardly call it a trend yet, an awakening, small and slow. And I think, I hope, it will grow.

The trend is likely to grow faster and sturdier as its caretakers learn more about the degree to which capacity building engagements actually contribute to capacity.

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## NOTES

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1. Paul C. Light, *Pathways to Nonprofit Excellence*, Washington, D.C.: Brookings Institution, 2002, p. 162.
2. It is worth noting that 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 do give more than 50 percent of the total grant dollars in the U.S., it is likely that support for capacity building would be much higher if the sample included more smaller and/or community-based foundations.
3. 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.
4. 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.; Tony Proscio, *In Other Words: A Plea for Plain Speaking in Foundations*, Edna McConnell Clark Foundation, 2000, p. 27.
5. 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.” (<http://int1.cof.org/foundationnews/august1998/verbatim.html>)
6. 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, April 2001: The Urban Institute; 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; Emil Angelica, Ted Bowman and Carol Lukas, “Capacity Building,” unpublished paper, July 31, 1996.
7. 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.
8. 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;

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- 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, April 2001: The Urban Institute; 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; “Echoes from the Field: Delivering Quality Capacity Building Services,” InnoNet, February 2001.
9. 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.
  10. Heiner Baumann, John Kalafatas, Stephanie Lowell, Shivam Mallick, and Ndidi Okonkwo, “Consulting to Nonprofits, An Industry Analysis,” Social Enterprise Field Study, Harvard Business School, April 30, 1999, p.7.
  11. 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.
  12. The final sample 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.
  13. 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 in this paper as a direct response program. It offers a good example, however, of the challenges associated with sorting complex programs into simple categories.
  14. 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, D.C.: Urban Institute, 2001).
  15. 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.

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16. 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.
  17. 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.
  18. It is worth noting that 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.
  19. 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.
  20. 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 firm itself and its portfolio organizations.
  21. See Pierre Mourier and Martin Smith, *Conquering Organization Change: How to Succeed Where Most Companies Fail*, New York: CEP Press, 2001.
  22. Robert Klitgaard, “Informal Notes on Improving Evaluation Capacity,” unpublished note, May 26, 1994, p. 4.