Building Capacity in Nonprofit Organizations

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The Urban Institute

De Vita and Fleming, Editors
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Acknowledgments

This report is the result of a very productive and rewarding collaboration among the John S. and James L. Knight Foundation, the Human Interaction Research Institute (HIRI), and the Center on Nonprofits and Philanthropy (CNP) at the Urban Institute. Through a series of conference calls and meetings, staff from these three organizations discussed the concepts of building capacity in the nonprofit sector, reviewed drafts of the papers, and planned a daylong seminar held at the Urban Institute on June 20, 2000. We gratefully acknowledge the financial support of Knight Foundation in this undertaking and greatly appreciate the intellectual leadership its staff provided. The strong working relationship that developed between HIRI and CNP also benefited this project tremendously.

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1 Introduction

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THE JOHN S. AND JAMES L. KNIGHT FOUNDATION

Capacity building is a popular term these days—too popular and expansive a term, in fact, to mean much to individuals making specific decisions about programs and grant strategies. As a result, everyone—from practitioners to foundation CEOs—is calling for increased attention to the capacity-building needs of nonprofit organizations. So far, however, the rhetoric is ahead of the work. In this report, we try to advance that work in two ways. First, we define capacity building as the ability of nonprofit organizations to fulfill their missions in an effective manner. We already know that many nonprofit organizations are small and possess limited resources, particularly when measured against the challenges and critical issues that they address. The push to link indicators of capacity to overall performance is critical to strengthening the sector.

Second, we examine capacity building as it relates to the overall quality of life in the communities nonprofit organizations serve. For nearly a century, nonprofit organizations have fulfilled a variety of functions that help build and maintain civil society. They offer resources to residents of local communities, including social services, advocacy, cultural opportunities, monitoring of government and business practices, and much more (Boris 1999). They enable individuals to take an active role in their communities and contribute to the overall well-being of these communities. Nonprofit organizations also provide the basis and infrastructure for forming social networks that support strong communities. Civil society requires more than linking individuals to institutions; it requires building relationships among people. In these ways, nonprofit organizations add value to community life. While the nonprofit realm should not be mistaken for all of civil society, "most of the country's vast charitable endeavor is very much a part of civil society" (O'Connell 1999).

There is a growing consensus among scholars and practitioners that creating and maintaining active citizen involvement through associations and groups of all kinds is an important feature of strong communities. Robert Putnam's study (1993) of regional governments in Italy popularized the concept of civil society. He found that the strong tradition of civic engagement among a myriad of social and cultural groups was a key factor in producing strong government and economic success. Putnam argues that differences in community networks and norms can make a difference in a community's ability to thrive. Seen in this context, building the capacity of nonprofit organizations can be viewed as an important strategy for building civil society in local areas.

The John S. and James L. Knight Foundation, through its Knight Community Partners Program, aims to improve the quality of life in 26 U.S. communities where the Knight brothers owned newspapers. Given this interest, the Foundation views the development of strategies for improving nonprofit capacity as a critical element in enhancing the quality of life in its communities. When the Foundation decided to explore the connection between the capacity of nonprofit organizations and the well-being of its communities, it approached two institutions with strong track records of serving the nonprofit sector: The Center on Nonprofits and Philanthropy (CNP) at the Urban Institute, which was established to explore the role and impact of nonprofit organizations in democratic societies; and The Human Interaction Research Institute (HIRI), a Los Angeles–based center for research and intervention on innovation and change in nonprofit organizations and the funders supporting them.

Knight Foundation, CNP, and HIRI joined together to examine the issue of building capacity in nonprofit organizations as it relates to strengthening the quality of life for communities. Investigators presented two papers at a daylong seminar on June 20, 2000, at the Urban Institute. Nonprofit practitioners, technical assistance providers, foundation representatives, and researchers provided feedback to ensure the information would serve the sector. The group discussed in-depth issues related to capacity building for nonprofit organizations, identified gaps in knowledge, and debated how knowledge could best be turned into practice.

The two papers presented at the June meeting offer new and creative insights into the challenge of building capacity in nonprofit organizations. Carol De Vita, Cory Fleming, and Eric Twombly, researchers at the Urban Institute, develop a conceptual model for capacity building that is based on a review of literature regarding civil society, sustainable development, and organizational management. They use the theory from these three bodies of literature to demonstrate how nonprofit capacity is intertwined with community capacity. The resulting model offers a new perspective on how nonprofits and funders alike might consider efforts to build capacity in nonprofit organizations and the sector as a whole.

Thomas E. Backer, president of HIRI, presents an environmental scan of the type of programs foundations have established to build nonprofit capacity. This paper explores existing capacity-building programs and the traits that make each effective and successful. It goes on to discuss some of the barriers and challenges facing effective programs and recommends several field-building activities to promote improved programs. Knight Foundation, for example, supports community-wide efforts to build capacity for effective marketing in nonprofit arts organizations in nine communities across the country. In Charlotte, North Carolina, this funding facilitated creation of the Marketing Services Organization, which since 1995 has supported the marketing work of both larger and smaller arts organizations throughout the community.

The report aims to advance the ongoing conversation about capacity building, intending to push toward the intersection where research informs practice. This transfer must occur for the work to benefit the field. The final section of this report discusses how each stakeholder—nonprofit practice, foundation, and research—might work to turn knowledge into action. Each of these groups has responsibilities for strengthening the health, not only of individual nonprofit organizations, but of the local nonprofit sector and the overall community as well. By examining capacity building from a new perspective and agreeing to work collaboratively, each group can reinforce the other's efforts. In the end, they will know more about what works, what does not work, and why.

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2 Building Nonprofit Capacity

A Framework for Addressing the Problem

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Community structures are generally organized around three realms: the government, business, and nonprofit sectors. Like a three-legged stool, all three sectors must be present, sturdy, and working together to achieve balance and stability. However, in today's rapidly changing environment, there is considerable concern that the third sector—community-based nonprofit entities—may lack the capacity and technical expertise to keep up with change and thereby contribute to an enriched and healthy quality of life. Many small, community-based groups are organizationally fragile. Many large groups are stretched to their limits. As demand for community-based services grows, as new needs are identified, and as new paradigms for exchange and interaction emerge, the nonprofit sector is continually challenged to devise ways to increase and strengthen its capacity. Indeed, capacity building must rest on the notion that change is the norm and not a passing anomaly (Amherst H. Wilder Foundation 2000).

This paper develops a conceptual model for thinking about effective ways to build the capacity of nonprofits. Capacity building traditionally has occurred primarily at the organizational level. For example, nonprofits have received assistance to develop sound financial management practices or to improve fundraising capabilities. This paper, however, expands upon this historical paradigm by suggesting that nonprofit capacity also may be conceptualized in collective terms. This new vision of nonprofit development is based on nurturing and growing the sector's capacity as a whole.

While the ultimate goal of capacity building is to create safe and productive communities where people can work, live, play, and develop their potentials, the strategies for intervention can be approached from several perspectives—the nonprofit organization, the nonprofit sector, and the community. Although enhancing the capacity of nonprofit groups is not synonymous with building healthy communities, there are important linkages that need to be explored. This study reviews theoretical literature and draws on empirical insights to sketch out these relationships and suggest possible interventions to improve nonprofit capacity.

Theoretical Frameworks

Building the capacity of community-based organizations and the nonprofit sector is not a simple task. There is no magic formula that guarantees success, and little agreement exists on where to begin or what to do. Instead, the process of creating and maintaining a robust and effective nonprofit sector exemplifies the tensions and trade-offs that individuals and organizations face when adapting to change. It is through this dynamic process that organizations, like people, learn to adapt and grow to their full potential.

To better understand the complex and multidimensional facets of change and capacity building, three bodies of literature are reviewed: (1) sustainable development, (2) civil society and social capital, and (3) organizational development and management theory. These bodies of literature highlight different aspects of the relationships between communities and nonprofit organizations. Sustainable development literature illustrates the inherent tensions and trade-offs that are associated with the investment versus consumption of physical and human resources. Civil society and social capital literature provides insights into the dynamics of building trust among individuals and institutions, which lead to citizen action. Organizational literature addresses the internal versus external pressures and trade-offs that are frequently encountered in designing and implementing a capacity-building strategy. The nexus of these three distinct but intersecting literatures provides a new framework for nonprofit capacity building.

Sustainable Development

Sustainable development literature aptly illustrates the concepts of balance, time, and place—concepts that are important dimensions of capacity building. Balance relates to the tensions and trade-offs inherent in identifying needs, developing strategies to address these needs, and allocating scarce resources. The temporal dimension is a reminder that strategies can be devised for both long- and short-term goals. This is an important distinction because the time horizon selected will influence not only the types of approaches that can be taken but also the indicators of success that can be achieved in different time frames. Because no community is entirely self-contained, self-sufficient, or self-reliant, place and spatial scale are important concepts. Differing spatial scales can create tension among local, regional, and global concerns. Capacity-building strategies need to examine the interconnected nature of both the local and larger networks.

In its report, *Our Common Future,* the World Commission on Environment and Development (WCED) (1987) first introduced the concept of sustainable development. It defined sustainable development as "development that meets the needs of the present without compromising the ability of future generations to meet their own needs" (WCED 1987, 43). Although first applied to the business sector's use of the natural environment, the concept now goes beyond the desire for economic returns and incorporates the idea of planned social change. For communities seeking to improve their quality of life over time, the concern is not just for the current generation, but also future generations (Roseland 1998). While the actual definition of quality of life may vary from one community to the next, the process by which it is achieved—sustainable development—relies on a long-term agenda and the use of available resources in a just and equitable manner.

Many people think of sustainable development in strictly ecological and environmental terms. It can be applied, however, to a wide range of social and economic concerns, such as poverty, education, health care, or cultural enrichment. Like natural resources, time, money, and human capital can be scarce or difficult resources to access. Unless these resources are carefully managed, they can be squandered, leaving few viable options for improving the quality of life in a community.

Sustainable development focuses on managing the process of change, not on setting an end goal with fixed outcomes. It recognizes that uncertainties exist, necessitating flexible and ongoing processes. It also supports diversity and differences within the local setting. Inherent in this concept is consideration of the social, political, economic, and cultural relationships fundamental to the organization of society (Innes and Booher 1997). Sustainable development requires looking at the broader picture of communities, while constantly thinking critically about and fine-tuning the small intricacies of the relationships that ultimately shape these communities. In popular terms, the implementation of sustainable development means to think globally and act locally.

In "The Tragedy of the Commons," Hardin (1968) elaborates on the problems associated with using community resources (referred to as "the commons"). According to Hardin, if individuals and organizations were to pursue their own economic self-interests in accessing a given resource, the resource would be put at risk of becoming depleted or destroyed and providing no value to anyone. Society, therefore, has a responsibility to protect and maintain the commons so they will be available to both current and future generations. This notion underscores the concept of resource management and the balance that must be struck between current economic considerations (such as jobs), social interests (such as quality of life), and long-term investments in the future.

To identify community needs and set priorities, sustainable development theorists emphasize the need to determine community preferences and balance competing interests. As Serageldin (1994) notes, people and their social institutions must be included in the community planning process to increase the probability of achieving a successful outcome. Empirical evidence indicates that lasting change generally comes from local involvement. Communities from San Francisco, California, to Curitiba, Brazil, have engaged their citizenry in the process of planning for sustainable development and achieved remarkable results (Roseland 1998).

The long-term goals of the sustainable development movement are to empower people, increase community participation, foster social cohesion, enhance cultural identity, and strengthen institutional development. Equity and fairness are also integral to sustainable development. If community members have a sense of ownership in the decision-making processes and feel that scarce resources have been distributed in an equitable and fair manner, the likelihood of success is vastly improved. Under the right conditions, societies can meet human needs by organizing in new ways and responding with innovative approaches (Innes and Booher 1997).

Because nonprofit organizations are the mechanism by which many people actively participate and become involved in their communities, they are important conduits for voicing community preferences (Boris 1999). Nonprofit organizations are frequently the common vehicle for mobilizing and empowering local residents and for representing their collective interests through the advocacy process. They often serve as the counterpoints to purely economic considerations, arguing for the maintenance of or an improvement in local quality of life. The importance of nonprofit organizations and other nongovernmental organizations in promoting sustainable development was internationally recognized in Agenda 21, the comprehensive plan of action adopted at the 1992 United Nations Conference on Environment and Development (UNCED) in Rio de Janeiro, Brazil. Chapter 27 of the report notes the role that nongovernmental organizations have in shaping and implementing participatory democracy and activating a common sense of purpose within all sectors of society (United Nations 1992).

Although nonprofit organizations frequently are on the frontlines of representing community interests, they are a community-based resource that cannot be taken for granted. They require continual renewal to maintain their value and effectiveness. Leadership is a particularly important factor. Each generation must train and mentor the next generation to understand the important role and mission that nonprofit organizations play in expressing community interests. In an era of accelerating change and competing demands, this renewal process takes on greater urgency and requires investments of time, money, and energy. Sustainable development theory suggests that human and social capital should be treated much like natural resources—that is, carefully nurtured and effectively used to provide long-term, sustainable benefit to local communities. It also highlights the need to assess capacity on a scale larger than a single organization.

Civil Society and Social Capital

Civil society and social capital theories emphasize the relational aspects of community life. These theories hold that participation in formal and informal organizations builds trust in individuals and institutions and forms habits of interaction. Nonprofit organizations facilitate trust and interaction "by defining mutual obligations and member rights, by creating sets of specialized roles internal to the organizations, by establishing internal authority and accountability systems, by promoting norms and behavioral patterns regarded as useful to the group and inhibiting those regarded as detrimental. Organizations incorporate important accumulations of human experience and knowledge, which is social capital" (Cernea 1994, 9).

As community leaders search for new ways to strengthen and enrich community life, they have increasingly turned their attention to the concepts of civic participation and social cohesion. Edwards (2000, 40) notes that in the last decade, "*civil society* (the realm of citizen action) and *social capital* (a convenient shorthand for the norms and institutions that make societies work) have been accepted as key components of the development equation." Part of the desirability of a community lies in its social fabric and the connections among its people and institutions. These qualities are the basis for civil society and healthy communities. As Putnam (1993) found in his study of regional governments in Italy, the stronger a community's social capital and tradition of civic engagement are, the greater is its potential to grow and thrive.

Civil society is multidimensional in form and multipurpose in function (Minkoff 1997). Nonprofit organizations play a critical role in civil society by building and maintaining important social relationships (Boris 1999). They provide a means by which people can interact and work toward common goals. The social capital that is created can come through a variety of channels—volunteers working alongside each other, staff interacting with clients, or board members promoting the organization's activities in the community. Such experiences build ties between people and enhance social capital. In addition to individual connections, nonprofits offer a means for creating community infrastructure. Nonprofit organizations often work jointly on common concerns, sharing ideas, responsibilities, and resources. They collaborate with government agencies and businesses to further community interests. The social networks formed through these interactions contribute to a community's overall quality of life and help strengthen it.

Although much of the literature on civil society and social capital tends to emphasize local-level community building, Minkoff (1997) cautions that national social movement organizations should not be overlooked as a means of producing social capital. She finds that national organizations play a critical role in a changing environment through their extensive use of networks and affiliations. These networks, she argues, provide "an infrastructure for collective action and act as visible proponents of group claims to help shape public discourse and debate" (Minkoff 1997, 614).

The mechanisms by which civil society and social capital form and expand have changed over time. Hall's work (1995) discusses the origins of the concept of civil society and provides a historical context for its formation. The advancement of literacy and mass print media, in particular, greatly enhanced the ability of people to organize and form social groups. "[Civil society's] role was vastly amplified by changes in means of communication. . . . This infrastructure made it possible . . . to image new communities" (Hall 1995, 6).

In today's world of rapidly changing technology, new communication tools such as the fax, e-mail, the Internet, and teleconferencing are once again transforming the ways in which the formation and production of civil society and social capital occur. The telecommunications revolution is redefining communities and personal interactions. The linkages of cyberspace, for example, have created virtual communities for many individuals who subscribe to listservs or participate in online chat room discussions. While these forums provide access to information and connections with people in even remote or faraway places, they also create an environment in which direct human interactions can be limited or ignored. Such isolation has the potential of undercutting a sense of community and exacerbating differences, especially between individuals who are technologically skilled and those who are not. The power of the computer revolution will be one of the most critical forces to shape civil society in the years ahead. It not only will bring people together in new ways, but it also will separate us and make us more acutely aware of our differences. Harnessing and adapting the power of this modern revolution to strengthen our communities and open new opportunities for individuals will be a key factor in building a healthy and productive civil society.

Organizational and Management Theory

The literature on organizational and management theory emphasizes the operational decisions and trade-offs that groups face when building their financial and political capacity. Decisions concerning the use of staff, choice of products and services, fundraising and marketing strategies, and even the selection of a board of directors can significantly impact the success or failure of an organization. Decisionmaking involves foregoing one option in favor of another. In short, organizational management decisions produce trade-offs that may be either beneficial or detrimental to the short-run or long-term viability of the organization.

All types of organizations face pressures from other groups when attempting to meet their goals. Institutions such as government and for-profit firms may either cooperate or conflict with one another in their efforts to promote community decisionmaking—each with a specific view on what constitutes economic and social balance. Nonprofits also play a key role in affecting local decisionmaking, particularly by representing less popular and competing views in the political process. However, to be effective players, nonprofit organizations must build and sustain financial and political capacity.

Literature on organizational decisionmaking suggests that the unique nature of nonprofits propels them to act similarly to their for-profit counterparts, but in a manner that accentuates their mission of promoting the public good. One theory is that nonprofit organizations are important to communities because they address the flaws of competitive markets. For example, Weisbrod (1988) notes that nonprofit organizations can overcome government failure. Government tends to respond to majority concerns and, as a result, some minority concerns are not addressed through public action. For example, there may be a need for after-school programs for children in low-income urban areas, but if the constituency for such programs is not large or strong enough to produce government action, a nonprofit organization may form to supply the after-school care. Nonprofit organizations often provide public goods where government fails to respond to the preferences of small groups of citizens.

Another theory is that the formation of nonprofit organizations is encouraged by the availability of tax benefits for charitable organizations. Such benefits generally include exemptions from property and sales taxes and, in some cases, tax deductible charitable donations (Brody and Cordes 1999). In the United States, nonprofit organizations are granted tax-exempt status by the Internal Revenue Service (IRS) under Section 501(c) of the Internal Revenue Code (IRC). About 60 percent of nonprofits in 1998 had tax-exempt status under subsection 501(c)(3) of the IRC, which allows them to receive contributions that are tax deductible to donors.

In addition to their legal status, nonprofits have unique characteristics that cause them to evaluate and act upon problems differently than do for-profit firms. Smith and Lipsky (1993, 22) argue that nonprofit human service providers are "tangible, significant manifestations of community." Voluntary action, in which people provide time and financial resources, produce positive societal outcomes. As Smith and Lipsky note, “such voluntary organizations may be particularly strong because they are autonomous and not subject to market vagaries or changing government priorities. They also enjoy a special sort of legitimacy because their existence derives from free association rather than the law or anticipation of profit, and because they are thought to arise from the sort of passionate convictions that tend to be respected in politics disproportionately to the number of people who hold the benefits” (1993, 23). Because of their attachment to and reflection of the community, nonprofits are more likely than for-profit providers to put charitable and community preferences before profitability. A strong mission orientation is a distinguishing characteristic of the nonprofit sector and a motivating force for many nonprofit organizations.

For-profit organizations are not necessarily devoid of a charitable mission, however. Some companies, such as Ben and Jerry’s, attempt to integrate corporate philanthropy into their business plans. Yet, because their primary responsibility is to make a profit for their shareholders, for-profit organizations approach philanthropy and social entrepreneurship from a different perspective than nonprofits. Most for-profits develop their philanthropic programs as a residual to the company’s main enterprise. In contrast, the existence of community needs is the primary reason for the existence of nonprofit organizations.

Cordes et al. (2000) suggest that nonprofits face two broad decisions when attempting to succeed in their complex environments. They can institute either internal or external strategies. Although an organization can follow both approaches simultaneously, it is likely to place greater emphasis on one strategy relative to the other. Internal strategies comprise various management initiatives designed to produce greater organizational efficiency, effectiveness, and flexibility. This approach might include internal management changes that allow nonprofits to continue their current activities, but in a more efficient and effective manner. Strategic management theory suggests that nonprofits can revamp their operational activities to enhance their organizational capacity. Strategies such as increased staff training, greater use of volunteers, or more public outreach programs can reduce the costs of delivering services or build a stronger community constituency.

Externally oriented capacity-building strategies attempt to alter the relationship between individual nonprofits and the funding and political systems in which they operate. Organizations will adopt new resource strategies to address uncertainty and to heighten the prospects of organizational survival, stabilize relations with other groups in the community, and reduce overdependence on specific sources of funding (Pfeffer and Leong 1977; Pfeffer and Salancik 1978; Aldrich 1979; Provan et al. 1980; Twombly and Boris 1999). One typical external approach is to shift resources to more profitable activities or services (James 1983). A homeless shelter, for example, may create a job training program in order to take advantage of a new foundation or government initiative in this area. Such external strategies are not uncommon. There is mounting evidence that nonprofit organizations are becoming increasingly business oriented and more inclined to diversify goods and services to expand their financial capacity (Weisbrod 1998).[1]

Some researchers have argued that efforts directed toward the management of external factors may be of greater utility than time spent on internal management strategies (Aldrich and Pfeffer 1976; Bielefeld 1990; Gronbjerg 1993). Gronbjerg (1993) notes that initiatives to increase the predictability and continuity in funding will improve a nonprofit's ability to plan the allocation of resources, staff, space, and activities. Moreover, resource diversification strategies to reduce dependence on single sources of revenue, such as government funding or foundation support, can be internally or externally driven. For example, the recent shift from the traditional community chest model to donor choice by the United Way in the Washington, D.C., metropolitan area caused many member agencies to search for alternative sources of funding (Cordes et al. 1999).

Technological changes have produced mixed results for nonprofits. Technology has broadened funding sources for some nonprofits and restricted funding options for others. The growing use of the Internet has prompted some charitable organizations to promote their causes and raise funds online. Donors can now contribute to their favorite charity via the Internet. While computer-based fundraising may reduce fundraising costs for some organizations, the viability or effectiveness of this approach has not been adequately tested or fully analyzed. How many and what types of nonprofit organizations can benefit from this high-tech approach are largely unexplored questions. Organizations that lack the technological infrastructure to participate or the name recognition to attract online donations may be left out of this new fundraising approach. Computer-based fundraising also raises the question of what role federated campaigns such as the United Way will play in the future.

The burgeoning wealth created by the information and technology revolution has also spawned the social venture capital movement. The new philanthropists who are emerging from the high-tech industries are seeking ways to apply the principles of high-tech venture investments to social causes. They emphasize concepts such as strategic planning, program evaluation, and performance measurement. Whether such concepts can be transferred successfully to community-based organizations is largely unknown, but it has established a tension between traditional modes of operation and newer styles of organizational management.

The recent expansion of the nonprofit sector,[2] coupled with the greater involvement of for-profit firms in areas previously dominated by nonprofit providers, have created greater competition for funds. Nonprofits in increasingly competitive environments have more difficulty in diversifying their resource base to reduce organizational uncertainty to manageable levels. Research suggests that environmental characteristics, such as the number of organizations competing for funding or political legitimacy, can affect the efficacy of management choices (Kimberly 1975; Rowan 1982; Hall 1987; Gronbjerg 1993).

Cordes et al. (2000) suggest another choice that nonprofits face when attempting to build institutional capacity. Nonprofits may strengthen themselves through economic means (altering their product mix, diversifying funding sources, and increasing marketing activity) or they may attempt to alter public policy through political strategies such as lobbying legislators, mobilizing public opinion, and making campaign contributions (Galaskiewicz and Bielefeld 1998). Because of legal prohibitions, some nonprofits are constrained from engaging in direct political action.[3] Nevertheless, legal restrictions do not entirely strip them of political options (Reid 1999).

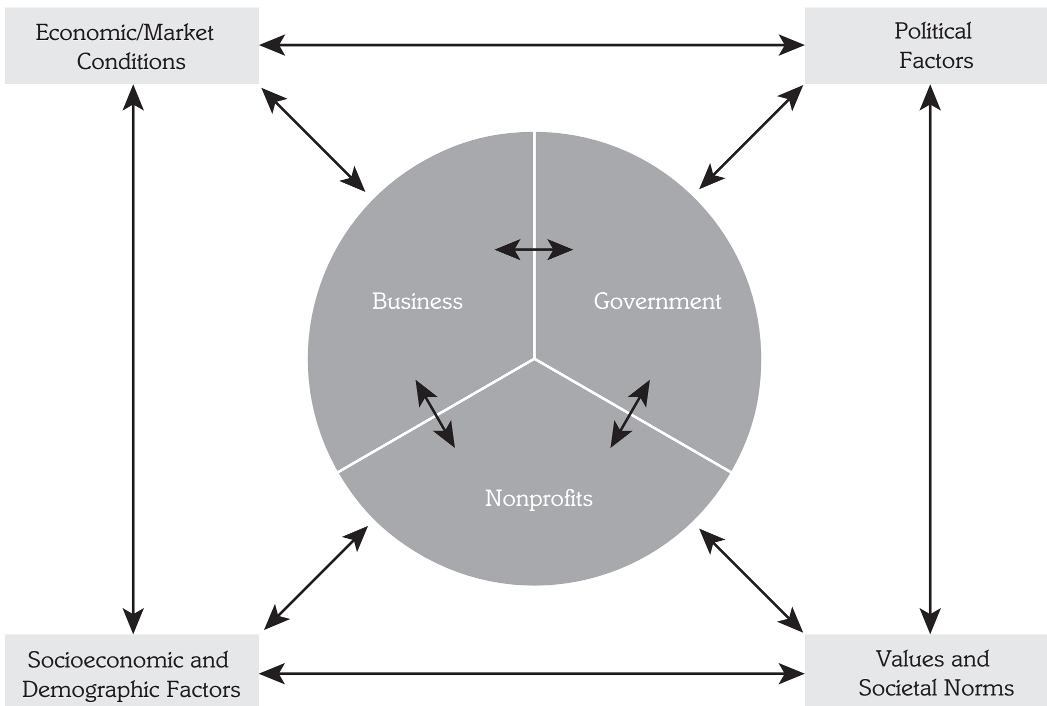
Which options a nonprofit pursues to build its organizational capacity (internal versus external, economic versus political, or a mix of these) depends on numerous factors, some particular to the organization and others to the local context. The organization's formal status as a nonprofit or for-profit entity may impose legal limitations. The group's willingness to embrace change may also be a factor. Because change is difficult and uncertain, organizations often prefer to follow familiar and comfortable courses that have worked successfully in the past. Such rigidity can hamper the organization's capacity to serve the community, especially in environments that are in flux (Gronbjerg 1989).

The Environmental Context for Nonprofit Capacity Building

Nonprofit leaders make management decisions in dynamic and changing environments (figure 1). At the hub of these fluid environmental systems are three key institutional players: business, government, and nonprofit organizations. These institutions relate and react to one another, forming an exchange of ideas, resources, and responsibilities. They also are affected by consistently shifting external forces, such as sociodemographic factors, economic conditions, political dynamics, and the values and norms of the community. This convergence of evolving factors creates the environmental context in which capacity-building initiatives must operate.

As the literature suggests, some nonprofit organizations form to fill voids left by government and business. For example, a nonprofit may begin operations to meet the needs of an underserved population or to satisfy a perceived need in the community. The organization will continue to operate until its mission is achieved or it cannot be sustained, at which point the nonprofit will cease to exist. During its life cycle, a nonprofit will cooperate and compete with other nonprofit organizations and with business and government entities. This dynamic can be seen in many ways. For example, several nonprofit groups may come together to form collaborative ventures for the purpose of sharing capital or program costs, or they may form a coalition that works with local government and the business community to address complex and multifaceted issues, such as affordable housing or economic development. While the goals for such projects may come from a shared vision (such as the desire for high-quality public schools), the proposed operational form may create conflict (e.g., direct funding for public schools versus use of vouchers). The coalition of nonprofits, government, and business that formed to address one set of issues may dissolve if conditions change or if a consensus cannot be reached on a particular course of action. Indeed, the relationships among institutional players are continuously evolving and are likely to change over time and across issue areas.

FIGURE 1 Environmental System Influencing Nonprofit Capacity Building



Environmental factors consistently push and pull institutional relationships, as shown in figure 1. Socioeconomic and demographic factors not only change the composition of a community, but also its needs and preferences. Single-parent families may need a different mix of services than two-parent families need. A change in racial and ethnic composition may introduce a new set of cultural values into the community. Economic and market conditions may affect the labor market structures and industrial base in communities. If a major employer enters or leaves the local area, the livelihood and economic stability of local residents can be affected. Political factors encompass a myriad of conditions, such as how decision-making power is distributed among grassroots groups and community elites, and how tax policies or regulations affect market structures. Values and norms undergird and affect each of the other conditions and relate to the sense of justice, fairness, and equity embedded in a community. For a nonprofit to develop or sustain its organizational capacity, it must successfully navigate these environmental factors.

Shifts in environmental conditions usually occur in an incremental fashion. Lindblom (1990) described in detail the slow evolution of policy and public action over time. The shift of many urban labor markets from a manufacturing base to a service-oriented economy unfolded gradually over the previous three decades, although the information and technological revolution has accelerated the pace of environmental changes. In systems that are slowly transforming, nonprofit organizations have more time to adjust to changing demographic, market, or political conditions, but when a sudden and fundamental change occurs, organizations are forced to respond quickly or they will miss new opportunities. The introduction of welfare reforms in 1997, for example, fundamentally altered the funding patterns and rules for some human service providers. Nonprofit social service providers scrambled to adapt to new funding and program requirements.

Not only are environmental factors changing, but the factors also are interrelated and reinforcing. In some urban communities, for example, the demographic shift from a largely African American constituency to a multicultural citizenry has important implications for labor markets and political representation. There may be more non–English speakers in the workplace, and new constituency groups may vie for recognition in the political process. Such changes are likely to introduce a different set of values and expectations into the workplace and the community.

Environmental factors also place pressure on nonprofits to conform to community norms and expectations. Existing economic and political structures often press nonprofits to conduct business as usual. Because developing institutional capacity requires time and resources, some nonprofits decide that conforming to the existing norms is the best way to heighten their chance of survival. New nonprofits may sometimes find themselves struggling to operate within the rules of an environment that was formed decades earlier. These groups may push outward from the institutional nexus—in cooperation or competition with other groups—to change the environment around them. For example, they may use their influence within the community to push for new policies or they may mobilize their members to support leaders who better reflect their values and views of healthy communities. These underlying tensions—to conform to the existing socioeconomic and political structures or to initiate change—must be weighed and balanced in the development of a capacity-building strategy.

A Model for Nonprofit Capacity Building

The nonprofit sector encompasses a wide range of interests and activities. It includes hospitals and universities, museums, dance theaters, art galleries, employment and training centers, youth development programs, child care centers, food banks, drug treatment and prevention centers, animal shelters, and more. Some of these groups are large, multiservice organizations with multimillion-dollar budgets; others are small, one- and two-person operations that focus on a single issue.

Because of the tremendous diversity in the nonprofit sector, the needs and ability of nonprofit organizations to build future capacity will vary widely from one organization to the next. Walker and Weinheimer (1998), for example, document the rich and varied history of Community Development Corporations (CDCs) in 23 cities and analyze the different types of assistance CDCs need to expand their level of activity. In cities with less experienced CDCs, the emphasis may be on developing organizational capacity through staff and board training and resource generation. In cities with more experienced CDCs, the focus may be on new models of collaboration or an expansion of the types of programs undertaken. As Milofsky (1988) notes, nonprofit organizational models and systems, particularly at the local level, are fluid, loosely structured, and ever changing, making it difficult to generalize about effective intervention points or strategies for building capacity.

Determining an organization's capacity-building needs is not a simple or clear-cut process, in part, because no one has established what characteristics actually make an effective organization (Light 2000). The existing literature provides no easy formula for building organizational capacity or achieving favorable outcomes. Instead, the model presented below can serve as a guide in the development of intervention strategies.

Figure 2 illustrates a common framework for analyzing and assessing potential pathways for addressing the capacity needs of the nonprofit sector. It consists of five components that are commonly found in all organizations and intermediary structures: vision and mission, leadership, resources, outreach, and products and services. As suggested by the direction of the arrows, these five factors are interrelated and mutually dependent on one another. As a system, each factor reinforces and bolsters the other factors in the model. It is unlikely, however, that all five factors are equally present in any particular organization. Some groups may emphasize one factor over another, but a healthy mix of these five components is necessary for an organization to survive and thrive. Each factor, discussed more fully below, can be viewed as a possible intervention point for enhancing organizational capacity.

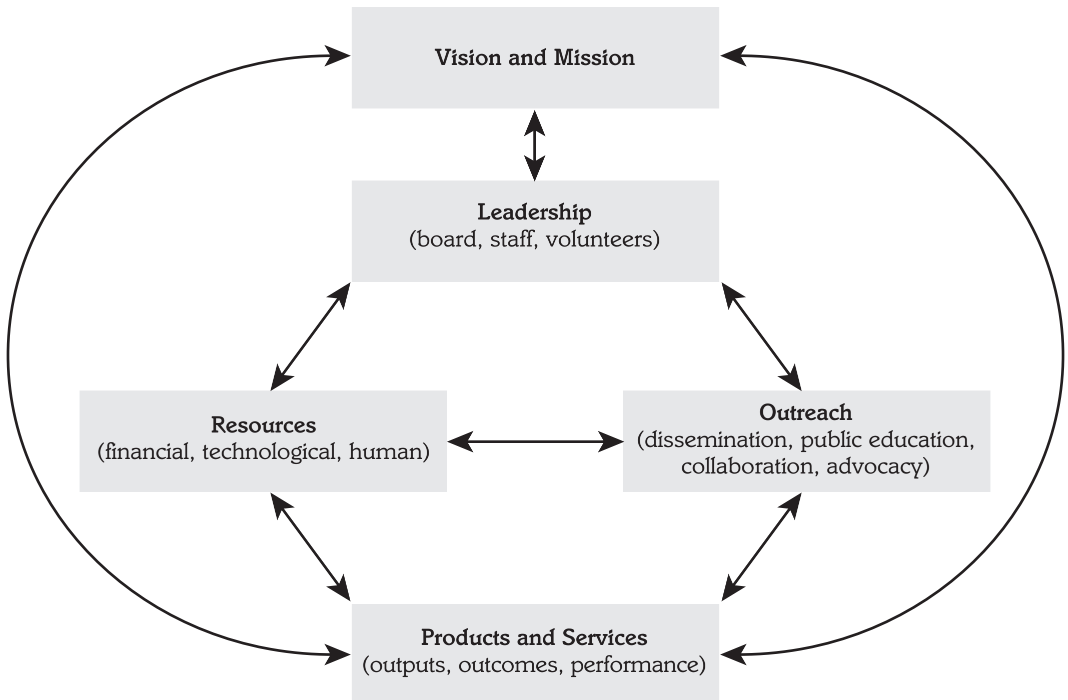
Vision and Mission

The legal basis for establishing a nonprofit organization is "to advance the welfare of the community in a noncommercial way" (Bryce 1992). This legal definition, however, tells us very little about the purpose or goals of the group. It is the vision and mission statement of an organization that more directly answers the question of why the organization exists. A clear statement will articulate what is unique or distinctive about the organization and can serve as a long-range planning tool for the organization.

An organization's vision and mission provide a good starting point for assessing its capacity and needs. They not only reflect the types of programs and services offered by the organization, but also affect the other components of the capacity-building model. For example, the vision and mission of an organization will influence its ability to attract and retain leaders who share its goals. The leaders, in turn, will be influential in setting, maintaining, or redirecting the mission of the organization.

The vision and mission of the organization are probably most directly articulated through the leadership component of the organization, but other factors in the model also are affected. For example, as the organization seeks resources—whether recruiting staff or seeking funds—the vision and mission of the organization come into play. Potential staff and donors must find a comfortable match between their own needs and values and those of the organization's vision and mission. Similarly, the guiding principals of the vision and mission statement will shape the outreach activities of the organization. While most nonprofit organizations engage in some type of networking or

FIGURE 2 A Framework for Addressing Nonprofit Capacity Building



sharing of information, how actively they pursue this goal and with whom they seek external contacts may vary depending on their overall vision and mission. An organization established primarily to serve the needs of its members is likely to engage in a very different set of outreach activities than one that seeks to advocate for social change.

The organization's vision and mission also provide an important context for measuring the effectiveness of its work. For example, if a community theater group's mission is to offer culturally diverse arts programs, it can use "cultural diversity" as a criterion for assessing its program activities at the end of the year. In many instances, however, mission statements are written in ways that make it very difficult to measure and evaluate outcomes. A mission statement might focus on improving the community's quality of life, promoting youth development, creating arts, or preventing disease. While such missions are worthy goals, they are difficult to measure and assess. Particularly in an era of public accountability, organizations are being asked to demonstrate their accomplishments in concrete ways. Public perceptions of effectiveness can be influenced by the ability of the organization to demonstrate clear and measurable outcomes of their products or services.

Although vision and mission statements are meant to have enduring qualities, they need to be reviewed and possibly revised from time to time. Nonprofit organizations can sometimes stray from their original purpose or become bogged down in routine activities that distract them from seeking new opportunities (Bright and Skahen 1987). A local chamber of commerce, for example, may find that its sponsorship of an annual town celebration has overtaken its original purpose, namely the improvement of general economic climate of the community. A reevaluation or rededication to the organization's vision and mission are important first steps in answering the question, "Build capacity for what?"

Leadership

Strong and effective leadership is the lynchpin of the system. According to Gardner (1988b, 4), it is "the process of persuasion or example by which an individual (or leadership team) induces a group to pursue objectives held by the leader or shared by the leader and his or her followers." Leadership for nonprofit organizations may come from many sources, including professional staff, board members, and volunteers. While leadership is an essential ingredient for an effective organization, it is difficult to define and capture. Leaders motivate others and create action. They envision and articulate the organization's goals and establish the systems and mechanisms to achieve those goals.

As noted above, leadership is closely tied to vision and mission. Leaders possess vision and can translate those ideals into the organization's mission. Most importantly, they have a commitment to the mission and a willingness to work toward fulfilling it. They articulate the organization's dream of what can be and then marshal the resources necessary to make that dream a reality.

Structurally, an organization requires leadership at every level. This arrangement encourages problem solving and decisionmaking throughout the organization and frees the organization from the constraints of a top-down management style. "Leaders concerned for organizational vitality will push rulemaking to the subsystems and trust supervisors at every level to make the rules work by supplying human judgement. To the extent feasible, they leave in the hands of individuals the power to make decisions and to experience the consequences of those decisions" (Gardner 1988a, 7).

Solid and consistent leadership has important spillover effects into other areas of the organizational model. It can facilitate the acquisition and development of resources, and it can enhance the organization's outreach activities. In short, the organization's leadership provides direction for selecting among the constraints and options posed by both the internal and external environments. In particular, it sets the tone for internal management decisions and provides the public face to the external world. Effective leaders enhance the organization's image, prestige, and reputation within the community and are instrumental in establishing the partnerships, collaborations, and other working relationships that advance the goals of the organization.

Strong leadership can make the difference between success and failure in implementing programs and services. Leaders have a strong sense of ownership in the work of their nonprofit organization and set standards for organizational performance. According to Bernstein (1997, 14), good leaders "insist on excellence in the organization's performance, and reject complacency and rigidity. They have vision and are flexible about the possibility of change, yet realistic and practical when considering its feasibility."

To build capacity in the leadership component of nonprofit organizations, two factors must be considered: (1) enhancing existing leadership, and (2) developing new leadership. Working with existing leadership can take a variety of forms. Administrative and procedural policies can be reviewed and updated to streamline operations and better reflect environmental conditions. Training can be provided to staff and volunteers to upgrade skills or promote team-building efforts. The organization can also formulate a board development strategy to review the functions of the board and help individuals understand and fulfill their roles and responsibilities as board members.

Identifying and developing new leadership is akin to the sustainable development process. Without an eye toward the future, the present leadership runs the risk of becoming outdated, obsolete, and depleted. Not only must new leaders with new ideas and energy be brought into an organization from time to time to stimulate and invigorate the work, but also current leaders should be aware of the need to mentor the next generation of leaders. This process is likely to lead to greater racial and ethnic diversity within the leadership ranks of the nonprofit sector as organizations reflect the people and communities that they serve. Organizations, like individuals, pass through developmental life cycles. The ability of the nonprofit sector to renew and sustain its work can only be met through a pool of younger people who have been prepared and groomed to carry on the activities in future years.

Resources

Resources are an essential and critical component of the system. They can affect the organization's ability to carry out its mission, attract competent leadership, and get its work and message out to the community. Although resources do not necessarily have to be extensive, they do have to be well managed. Bringing organizational capacity up to scale to deliver essential services and programs is one of the continual challenges of the nonprofit sector.

Resources come in many forms. Financial resources are arguably the most central aspect of the organization's resource pool because they can affect the recruitment of human resources (paid staff, volunteers, and board members) and the acquisition of physical resources (such as building space and equipment). In today's world, physical resources increasingly involve access to computer-based technologies, such as databases, tracking systems, Web sites, and listservs. Computer technologies and people with the skills to use these tools effectively can open new horizons, but these resources are often in short supply in nonprofit organizations.

Traditional efforts to build nonprofit capacity typically focused on expanding an organization's resources. Interventions took the form of providing more money, staff, or equipment. Simply providing more resources, however, is not necessarily the only answer to the challenges faced by nonprofit groups. How resources are used is also a critical factor. One way to use resources wisely is to periodically train staff, volunteers, and board members. In a rapidly changing environment, upgrading skills and revamping established procedures can help stretch limited resources. Improved technology has also enabled organizations to use their resources in new and more effective ways. Computer software programs have altered the ways in which routine, internal management tasks are handled. Scheduling a meeting, for example, no longer requires one person to make multiple phone calls to check everyone's schedule, but rather sending one e-mail to the group to determine the best available times to meet. Financial management software has made paper accounting ledgers almost extinct. Internal management systems and procedures must be accompanied, however, by periodic monitoring, evaluation, and feedback to assure that the organization is getting the most from its often scarce resources.

External communications and outreach have also been changed dramatically by the telecommunications revolution. In today's fast-paced world, a nonprofit organization without connections to e-mail service and the Internet can be at a distinct disadvantage. Organizations that have Internet access have the potential to provide enhanced services and programs. Animal shelters and humane societies have greatly improved their ability to place abandoned animals by building and maintaining Web sites where potential clients can view the animals before visiting them in person. Performing arts organizations routinely advertise performances via the Internet, along with the more traditional radio, television, and newspaper ads. Technology also broadens and facilitates an organization's ability to collaborate with people both locally and around the world through listservs and e-mail. These communication options help generate new ideas and increase public participation and networking opportunities.

Size is not necessarily a predictor of a well-run or efficient organization. There are many examples of effective organizations that operate with a small staff and limited budget. However, sufficient resources must be devoted to the infrastructure to keep any organization running smoothly. The effective allocation and use of available resources are keys to the long-term success of a nonprofit organization.

There are many possible intervention points from which to address the resource needs of nonprofit organizations, but two areas are receiving considerable attention in the nonprofit sector: fundraising and financial management. As indicated above, fundraising and financial management practices are critical elements of any nonprofit organization and demand careful attention in capacity-building efforts. Resource dependency theory, as studied by Gronbjerg (1993), Smith and Lipsky (1993), and others, notes the difficulties of sustaining programs or staying true to the organization's mission when funding streams are in flux. Gronbjerg's work also notes that nonprofit organizations generate income in different and more numerous ways than for-profit firms and therefore require more complex tracking and reporting systems. As nonprofits are asked to show greater transparency and accountability in their financial operations, the need to improve accounting and reporting systems becomes more pressing.

In recent years, nonprofit organizations have been asked to pattern their programs and operations after business models. These models typically take one of two approaches, either (1) more formalized systems of monitoring and tracking finances, clients, and program outcomes to provide greater accountability, or (2) more loosely structured practices that give greater flexibility to capitalize on environmental opportunities and experiment with new service delivery practices. While these two approaches may not be incompatible, they are difficult to achieve simultaneously. Because nonprofit organizations often have multiple constituents (clients, audiences, members, the community, board members, volunteers, donors, contractors, and others), responding to demands for greater accountability can be quite complex. Standardization of practices may alleviate some of this burden, but it may undermine the unique qualities of some nonprofit groups. On the other hand, calls for innovation may require the type of loose organizational structure that is often found in small businesses, start-up firms, and many small nonprofits. Protocols and hierarchical boundaries are minimized or eliminated to generate a greater flow of ideas and results. This structure (sometimes called chaos theory in the business literature) may be effective in the early stages of capacity building, but there is little research on the long-term consequences of these structures as organizations mature.

Outreach

An organization can have a vital mission, good leadership, and sufficient resources, but unless it is known in the community, its impact will be limited. Outreach is an essential element for strengthening and extending the work of community-based organizations. It can take many forms, including marketing and public relations; community education and advocacy; collaborations, alliances, and partnerships; networking; and more. As the Amherst H. Wilder Foundation (2000) notes, "For capacity approaches to truly achieve their potential, attention must be given to the web of connections affecting all the persons, organizations, groups and communities involved." This strategy in part is building social capital, but it also is good management practice.

Outreach is the mechanism for building a base of support. Even groups that offer confidential services, such as family planning services or suicide prevention hotlines, must engage in some type of outreach to let people know what programs and services they offer. Increased networking and greater outreach mean access to more people. The more people who know about the organization and its work, the more opportunity there is to attract people to the organization as board members, staff, volunteers, clients, or supporters. Outreach and networking activities can have multiple purposes. A children's science museum, for example, may participate in a community festival not only to promote its educational programs to the public, but also to introduce the museum to a new source of potential donors or volunteers.

The effectiveness of an organization's outreach and networking efforts can have short- or long-term benefits. If an organization decides to host a rally to call media attention to an issue, the extent of coverage that the event receives may depend on whether a few hundred or several thousand people turn out for the rally. The Million Mom March, held in Washington, D.C., in May 2000, received wide media coverage, in part because of the estimated size of the gathering. The march was organized and supported by hundreds of organizations, including medical associations, housing groups, law enforcement organizations, teachers' unions, mayoral associations, and many others. Such broad-based support demonstrates the legitimacy of the coalition that is seeking to place the issue of gun control on the public policy agenda. The longer-term test, however, will be if the coalition can hold together for the difficult work of promoting change after the media spotlight fades.

Outreach can increase the resources available to an organization, but it does not replace the need for an effective strategy to secure new or additional resources. New methods of fundraising are challenging the old styles of philanthropy. Computer technologies have made it easier to obtain information about nonprofit organizations. GuideStar, for example, is a new Web site that offers financial and program information about charitable organizations throughout the United States. The site contains a searchable database of over 640,000 nonprofit organizations, allowing potential donors to compare and contrast the charities they are considering supporting. E-philanthropy, with its ability for donors to give online, is creating a new fundraising path for organizations that are able and willing to engage in this technological strategy. Designated donor funds are making it easier for potential donors to contribute to a wide variety of charitable organizations.

Research shows that isolated organizations are the ones most likely to struggle and fail (Galaskiewicz and Bielefeld 1998). Without supportive networks and effective outreach efforts, organizations may limit their access to resources and fail to establish a positive image or reputation within the community. Intermediary organizations, such as regional arts councils or affinity groups of nonprofit child care providers, for example, provide connecting links among individual groups. They can be important resources for younger organizations that are starting out and vital networks for older organizations. These groups offer opportunities for organizations to share information, learn from one another, and coalesce on issues of common concern. In short, they help build the organizational relationships (or social capital) that are important to organizational stability.

Products and Services

The persistent call for nonprofit organizations to demonstrate that their products and services are making a difference to society and that they are effectively using their resources heightens the need to measure and evaluate these products and services. Funders and community leaders want to know how well a program is working and what it has accomplished.

Two schools of thought have developed on how to assess the work of nonprofit groups. Traditionally, nonprofit organizations have used output measures to demonstrate their effectiveness. “Outputs are immediate program products resulting from the internal operations of the program, such as the delivery of planned services. Examples of output indicators might include the numbers of children immunized, home visits by case managers, or youth completing a job training program” (Harrell et al. 1996, 3). These measures tend to be quantitative in nature. More recently, however, the trend has been to demonstrate performance outcomes (Morley, Bryant, and Hatry 2001). Outcomes are generally more qualitative in nature than outputs and attempt to demonstrate how the program has produced desired benefits or changes. For example, a desired outcome might be safer neighborhoods, better educational opportunities, or strengthening the lives of children and families in low-income neighborhoods.

Conceptually, organizational outputs and outcomes are the product of the multiple and cumulative interactions of vision and mission, leadership, resources, and outreach. These components work together to create effective outputs and outcomes, driving the model and helping to shape the quality of the end product. The outputs and outcomes, however, provide a feedback loop to the other elements in the model and can enhance or diminish their availability and capacity. Poorly delivered products or services, for example, may result in fewer resources coming to the organization or signal the need to change leadership. In contrast, high-quality products and services can increase access to resources, create greater networks, give more visibility to the organization, and strengthen leadership.

Nonprofit organizations are much more adept at measuring outputs than outcomes and are only beginning to explore how to develop outcome measures. The community indicators movement is one effort aimed at assessing community outcomes. The movement sprang from a need for communities to have a way to measure their overall health and quality of life and document changes over time. Indicators provide communities with benchmarks by which they can gauge their progress and can cover a broad range of issues. High school graduation rates and SAT scores, for example, can serve as measures of educational quality. Crime statistics and unemployment rates may be benchmarks for a community's economic health. Kingsley notes that indicators are especially helpful in monitoring trends in outcomes. "The indicators tell you in what areas, and to what extent, things are getting better or worse, and that presumably tips you off as to where policy changes and new action programs may be needed. The process also inherently supports accountability" (Kingsley 1998, 4).

New requirements by government and other funders have increased the pressure on nonprofit organizations to improve performance and develop measurable outcomes. Light (2000, 1) notes that "the sector suffers from a general impression that it is less efficient and more wasteful than its government and private competitors." The pressure to improve, however, is not focused in just one area. Light (2000) identifies four tides of management reform that place new pressures on nonprofit organizations: (1) scientific management, concentrating on setting standards and codes of conduct; (2) the war on waste, focusing on reorganization, downsizing, and strategic alliances; (3) the watchful eye, emphasizing accountability and transparency in operations; and (4) liberation management, promoting deregulation, a market orientation, and performance-based measures. While each of these tides raises legitimate concerns regarding nonprofit management, they are neither uniform in intent or method. When confronted with pressures to improve many things at the same time, a nonprofit organization with limited resources is likely to ignore these pressures and do nothing.

Approaches to Building Nonprofit Capacity

In natural ecosystems, a rich diversity of species is considered a sign of sustainability and relative health. Similarly, diversity in the number, types, and structures of nonprofit organizations in a community may also be seen as a sign of community well-being.

Because the needs of nonprofit organizations and the conditions of the community environment often vary, approaches to capacity building must be customized and flexible. A one-size-fits-all model is likely to yield inappropriate or ineffectual results in many communities.

Drummond and Marsden (1995) in their study of sustainable development note that effective interventions are targeted at points in which flows of energy are most concentrated and have the greatest influence on the overall dynamics of the system. This idea of targeting interventions is echoed by Light (2000). If nonprofit organizations are asked to undertake too many changes simultaneously, the efforts are likely to be diluted, ineffective, or ignored. The philanthropic community must answer the question, "What are we building capacity for?" Foundations will need to examine how their goals and interests intersect with those of nonprofit organizations or the nonprofit sector in a given community to determine where mutual energies are concentrated and how to effect change.

Because of the enormous differences in the number and types of nonprofit groups in a community and variations in their readiness to embrace change, we identified five steps that will enable foundations to strategically and systematically determine potential intervention strategies. These steps can be applied to both individual nonprofits and supportive organizations seeking to strengthen the sector as a whole.

1. Determine the basic needs and assets of the community. A first step in developing a capacity-building strategy is to learn about the basic needs and strengths of the community. This can be done through a variety of mechanisms—surveys, focus groups, town meetings, individual interviews, or community indicators. The purpose of this step is to obtain a variety of perspectives and learn from differing points of view. For example, community indicators that use existing information and data can be a cost-effective way to identify potential weaknesses or strengths in the socioeconomic conditions of the community. They also provide benchmarks for monitoring change over time. On the other hand, discussions with local leaders and residents can help identify areas of concern and target specific needs. Perhaps more importantly, this process can generate local support for a capacity-building initiative.

2. Assess the number and types of nonprofit organizations in a community through mapping. Having determined the needs and strengths of a community, a next step is to measure the community-based resources that are potentially available to address local concerns. Mapping nonprofit organizations to determine both their prevalence and geographic distribution within a community provides a framework for identifying potential gaps in service or a spatial mismatch between needs and resources in local areas. For example, are nonprofit organizations geographically located in areas of high need, and are they accessible to residents who seek such services? Are the capacities of these organizations sufficient to meet the demand for service? In addition, mapping government agencies and for-profit businesses in the area can enhance the assessment of potential resources available to address local problems.

3. Identify the infrastructure that can be used to build nonprofit capacity. An environmental scan can be conducted to determine if there are networks or organizational structures that can expand the capacity of community-based organizations. For example, is there a regional association of nonprofits that can help nonprofit groups access information and resources? Are there management support organizations that can provide technical assistance for building organizational systems or technology skills? Are there potential partnerships with the business or public sectors that can facilitate capacity-building strategies? Determining the presence, scope, capacity, and quality of such groups can be helpful in targeting and leveraging resources. Attention should be given to the intermediary or support organizations that can foster capacity building throughout the sector.

4. Select appropriate capacity-building strategies. Because the needs of the sector vary, capacity-building efforts must determine the type of intervention that is most needed. For example, some groups may benefit from technical assistance, such as help with fundraising, accounting systems, outreach, or marketing activities. Others may require help in building networks and collaborations with other organizations in the local area or across the region. Tailoring the strategy to local needs and organizational readiness is likely to require some flexibility in the approach and expected outcomes.

5. Monitor and assess progress on a periodic basis. Building nonprofit capacity is not a short-term undertaking. As strategies are implemented and environmental conditions change, periodic assessments help guide the process. Mid-course corrections are likely as new conditions unfold and new needs arise. The process of ongoing feedback and adjustment can both strengthen the nonprofit community and promote wise use of foundation resources.

Like other institutions, foundations are subject to external forces and internal pressures—factors that influence both their approach and commitment to capacity-building strategies. Some foundations, for example, may be tied to a particular aspect of community life (such as the arts or health care) by their founding covenant and are unable to address issues beyond these parameters. Other foundations may simply have a long tradition of working with particular types of organizations (such as human service providers or youth development programs) and may be unwilling to entertain a change in direction or focus.

Foundations are well positioned, however, to act as agents of change. As grantmakers, they can direct resources to programs or issues that concern themselves and the communities in which they work. However, to be an agent of change may also require looking at community needs through a new set of lenses and designing new strategic approaches.

The traditional style of grantmaking that focuses on programs and services may be too narrow for addressing the complex and fluid organizational needs and environmental factors that limit current nonprofit operations. As nonprofit groups scramble to deliver programs that meet funding requirements, they may shortchange the managerial aspects of organizational life. In other words, they may never build the organizational infrastructure necessary for smooth operation. Staff training may be deferred, management and information systems may stagnate, or the acquisition and use of new technologies may be considered an unaffordable luxury. While program grants may address current needs, they may not necessarily create the organizational infrastructures that build nonprofit capacity.

The movement toward market-based strategies of grantmaking has its own sets of tensions and trade-offs. Because they emphasize bottom-line performance and measurable outcomes, market-based strategies may run counter to the ways that many nonprofit organizations function, producing a clash of organizational styles and cultures. Many nonprofit groups are process driven, not outcome driven, and tend to stress the relational and social capital building aspects of their products, programs, and services, not the efficiency of their operations. While the market approach may help streamline some aspects of operating a nonprofit organization, it may also threaten the mission and orientation of the organization. Nonprofits following the new venture capital models may also risk being perceived as adopting a top-down managerial style. If venture capitalists fail to establish a strong rapport with the grassroots communities that they hope to assist, the long-range outcome of new ventures may be disappointing.

In addition to the market orientation of nonprofit capacity building, another lens by which to view the nonprofit world is through its promotion of civic participation. As the civil society and social capital literatures suggest, healthy communities, in part, rest on the active engagement of local residents on public issues. Because nonprofit organizations frequently are the venues in which individuals meet, exchange ideas, and get their voices heard, these organizations are a critical part of the democratic process of governance. The multitude of groups in the nonprofit sector provides an outlet for opposing points of view and fosters the pluralistic nature of democratic society. Who sits at the policymaking table is likely to reflect not only community preferences but also better access to vital resources. To be sure, the balance of power is often uneven or skewed. For example, minority populations and low-income people generally have limited access to the policymaking or community-building process. Some groups will be labeled as "special interests"; others will be readily dismissed, ignored, or given token status. It is the cacophony of voices, however, that makes democracy such a messy but enduring process, and it is the diversity and voluntary nature of the nonprofit sector that helps to strengthen the participatory aspects of civil society and build social capital.

How the question "Building capacity for what?" is addressed will depend on the values that are brought to the table and the lens that is used to guide the process. There is no right or wrong answer. Instead, it rests on the needs that are identified in the community, the resources that can be mustered, the political will that can be tapped, and the sustained vision of leaders and community residents to accomplish the goals. The sustainable development literature, in particular, provides important insights into the capacity-building process. Like the changing ecosystem, capacity building is neither a one-time fix nor a permanent solution. As community needs and environments change over time, the need to revisit and redefine the question "capacity for what?" becomes a dynamic force. If done well, this repeated cycle promotes a healthy community environment in which to address current needs and prepare for future generations.

Notes

1. Many charitable organizations have become increasingly reliant on entrepreneurial strategies and government funds because of shifting public priorities, increased calls for accountability and program evaluation, and the use of market-based mechanisms to deliver goods and services. Some nonprofits use a mix of commercial methods to promote organizational capacity. James (1983) notes that nonprofits cross-subsidize their purposive activities (such as providing youth services) with more profitable activities (such as selling cookies). Other researchers have chronicled the crowding-out of private donations to charitable providers as government funding increased in various program areas (Schiff 1985; Steinberg 1987; Payne 1998).
2. Twombly (2000) notes that the nonprofit sector grew by nearly 31 percent between 1992 and 1996, which equals an annual growth rate of roughly 6.1 percent. The rate of growth in the nonprofit sector was considerably higher than the growth rate in the for-profit sector. According to the U.S. Bureau of the Census (1999), the for-profit sector expanded at an annual rate of roughly 1.4 percent between 1992 and 1997.
3. Nonprofit organizations that receive their tax-exempt status under subsection 501(c)(3) are restricted in the extent to which they may formally lobby for legislative proposals or engage in electoral politics. Organizations that receive tax-exempt status under other subsections of Section 501(c) operate with less stringent constraints on their advocacy activity, but they cannot receive contributions that are tax deductible to donors.

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3 Strengthening Nonprofits

Foundation Initiatives for Nonprofit Organizations

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Just as a city's physical infrastructure crumbles over time if it is not maintained, so it is with nonprofit infrastructures. While the signs of erosion are rarely dramatic in one year, prolonged neglect will ultimately result in their total breakdown—and in the collapse of the programs they operate. Nonprofits are essential to the well-being of our citizenry; the need to strengthen their organizational capacity cannot be ignored. Grantmakers, because of their unique relationships with nonprofits, are well-suited to help build their infrastructure.

—Joyce Bove and Lawrence Mandell
Strengthening New York City Nonprofit Organizations: A Blueprint for Action

While the value of strengthening nonprofits to improve their performance is obvious, the answer to the question of *how* to do this effectively and *who* should be responsible is not so obvious. Recently the "who" question has focused on the role foundations can play, with a resulting increase in the visibility and frequency of capacity-building activities in philanthropy. Capacity building in philanthropy is not new, but increased activities mean new opportunities to learn from them, and thus to address the "how" question as well.

The John S. and James L. Knight Foundation commissioned an environmental scan of capacity building and philanthropy to guide their own discussions at the staff and trustee levels. Knight's people wanted information to help them decide whether to make increased commitments to capacity building in their national and local grantmaking programs (the latter in 26 communities of interest across the country). The resulting review also aimed to facilitate field building in this increasingly important area of philanthropic work.

The environmental scan involved interviews with thought leaders and technical experts along with a combined print and Internet literature search (details are presented at the end of this paper). To help provide context, the review also examined briefly the capacity-building activities of nonprofit organizations, consultants and other service providers, intermediaries, and academic institutions.

The scan's results begin with (a) a summary of concepts and definitions of capacity building, (b) an overview of the field's infrastructure, including types of participating organizations, and (c) a review of recent research on capacity building. These establish a framework for four sets of findings:

1. Eight ***core components*** of effective capacity building
2. Five current ***challenges*** to that effectiveness
3. Forty ***"good practice"*** capacity-building activities of American foundations
4. Six specific ***recommendations for field building*** in the capacity-building arena

These findings are analyzed in the larger context of overall trends in philanthropy and nonprofit management—including some which may help account for the increased visibility and frequency mentioned above. Results from this small-scale environmental scan are all *preliminary*, comprising just one initial perspective on this growing and fast-changing field.

Scope of Capacity-Building Activities Covered

Capacity-building activities in philanthropy are wide-ranging. For example:

- A foundation pays for the services of a consultant to help one of its grantees with board development and strategic planning.
- A nonprofit obtains a grant from a foundation to support purchase of computer software and hardware for improving its financial and client information systems.
- Another nonprofit is invited by a foundation to participate in a capacity-building, grantmaking initiative through which it receives both direct financial support and technical assistance in a number of management areas—with all this help coordinated through an intermediary organization.

Sometimes capacity building focuses on assisting other philanthropies, which in turn fund and serve the nonprofit community. For instance, a community foundation receives support from a private foundation to both build its asset base and improve its management infrastructure. The community foundation then sets up and staffs its own management service program in order to offer capacity-building services to nonprofits in its geographical area.

The scope of capacity-building services covered in this paper is broad, but with certain limits discussed further in a later section on the definition of capacity building. For example, financial activities such as direct operating support are not emphasized. Like the paper itself, definitions given here are "works in progress," and boundaries for further inquiry are deliberately left wide because it is assumed that there is no one right path to strengthening nonprofits.

Underlying Motivations

Foundations have taken on capacity-building activities for various reasons. For instance, at the David and Lucile Packard Foundation, which has had a major capacity-building program since 1983, these activities reflect the donor's commitment to applying business principles to nonprofits. The Boston Foundation's efforts, which began in 1987, grew out of the observation that many of the homeless and battered women's shelters it had been funding in Massachusetts were failing in their first five years of operation.

Intertwining themes of *values* and *necessity* will reoccur throughout this paper as inspirations for the capacity-building efforts described here. As several interviewees commented, it is easy to miss the underlying values because of the "press of necessity," but in fact, theory-driven, model-based capacity building with good evaluation behind it seems to have the best chance for success. Moreover, perhaps the most important values question of all is, "Capacity building for what?" Without a clear focus on the ultimate objective of capacity building—to improve quality of life for the people and communities served by participating nonprofits—the activities conducted under this concept are not likely to have significant impact.

Foundations, in their typical role of supporting nonprofits and communities through grantmaking and other mechanisms, have at least one other stake in strengthening nonprofits. In a recent study, Light (1998) demonstrates empirically what is already well known intuitively—that strong, healthy nonprofits are more able to be innovative. "Give me food, and I eat for today; teach me to farm, and I eat forever" is a maxim that applies to nonprofit innovation as well as to the overall operation of nonprofit organizations. Since much foundation grantmaking is oriented to funding innovative programs, capacity building can increase the number of "healthy applicants."

There is also, however, both historical and current resistance to the use of philanthropic funds for capacity building. Letts, Grossman, and Ryan (1998) assert that, in too many cases, funders see "investment in the infrastructure of nonprofit organizations as overhead—the connotation is that these are deadweight costs that take money away from program beneficiaries." In a recent capacity-building paper, *Finishing the Job*, the Edna McConnell Clark Foundation amplifies this point of view: "The role of organization builder is not a familiar or comfortable one for many foundations. . . . Wary of becoming life-support systems for undercapitalized institutions, foundations have tended to concentrate on refining methods and generating ideas more than on funding and building the productivity, versatility and staying-power of the institutions that implement ideas and distribute services." In particular, funders (including both foundations and government) have been reluctant to pay for core administrative costs—such as staff training, information technology, and strategic planning.

As a result, nonprofit organizations struggle to keep these vital infrastructures intact, and in tight times, are inclined to reduce commitments made to maintaining them, rather than cut back further on direct services. Moreover, certain grantmaking practices (e.g., reluctance to pay for core administrative costs, making small rather than large grants to smaller nonprofits, and typically short rather than long periods of support) may contribute to what Kramer (2000) calls the "culture of inadequacy." Nonprofit leaders come to believe that they will never have the resources to "do things right," so they simply accept that they will always be underresourced and struggling for survival.

For foundations, this situation creates an additional problem: organizational capacity is directly related to whether a new program will survive and prosper once its original funding has ended. Thus, foundations actually deepen their own "exit problem." If they want to see a program endure, much less replicated and built to scale, investments in nonprofit capacity building are essential.

Preview of Key Findings

Eight core components of effective capacity building are discussed at the end of this paper. As this review's limited data set is examined further, and later expanded by findings from other studies, these components are likely to be refined and to grow in number. However, from the perspective of this environmental scan, effective capacity-building programs sponsored or operated by foundations tend to be:

1. **Comprehensive.** While narrowly-defined interventions can work, foundations' most effective capacity-building activities offer some degree of "one-stop shopping" in which grantees can access a range of assessment services, technical assistance, financial aid, and other kinds of support.
2. **Customized.** The most effective capacity-building services are custom tailored to the type of nonprofit, its community environment, and its place in the "organizational life cycle" (young, start-up nonprofits are likely to have needs very different from more-established organizations).
3. **Competence-based.** The most effective capacity-building services are those that are (a) offered by well-trained providers (both foundation staff and expert service suppliers) *and* (b) requested by knowledgeable, sophisticated "consumers" (nonprofit managers and board members).
4. **Timely.** The most effective capacity building happens in the balanced space between action taken too slowly to be relevant (often because of funder delays in acting on grant applications) and action performed too quickly to allow the flowering of an intervention in a complex context.
5. **Peer-connected.** The most effective capacity building happens when there are opportunities for peer-to-peer networking, mentoring, and information sharing.
6. **Assessment-based.** The most effective capacity building begins with a thorough assessment of the needs and assets of the nonprofit and the community in which it operates, which in turn drives the types of capacity-building services provided.
7. **Readiness-based.** The most effective capacity building occurs when the nonprofit "client" is ready to receive this specialized kind of service (e.g., the nonprofit is not in the midst of a major crisis that would make it unable to benefit from the intervention at that time).
8. **Contextualized.** The most effective capacity building occurs in the larger context of other strengthening services a nonprofit is receiving, other activities of the sponsoring foundation, and other elements of the current community environment.

Five challenges were identified by the environmental scan. These all need to be addressed in order to increase the impact of capacity-building activities in philanthropy:

1. **Quality and evaluation.** Services offered by or through foundation capacity-building programs are of variable quality (in the view of both consumers and independent observers). There has been little rigorous evaluation of these services so that they can be improved (evaluation, in fact, may become the ninth core component of effective capacity building, to add to the list above).
2. **Nonprofit and community engagement.** Nonprofits and communities need to be more actively involved in setting the agenda for capacity building and in evaluating

its outcomes; capacity-building programs provide real opportunity for funder-nonprofit partnerships and for the sharing of power.

3. **Funder education and development.** Many foundations need education and technical assistance in order to learn state-of-the-art practices in capacity building, the advantages of involvement in such philanthropic activity, and how to appraise the payoffs achieved from what they fund.

4. **Shakeout and the second generation.** Increasing duplication of services and marginally effective providers make a "shakeout" in the capacity-building field likely, followed by a second generation of more sophisticated (evaluation-based, theory-driven) capacity-building programs.

5. **Field building.** More infrastructure is needed to support capacity building in philanthropy—to educate funders, nonprofits, and communities; to replicate proven strategies; to promote sharing of good practices; and to enhance the relationship of capacity building to overall goals of philanthropy.

Six specific recommendations for improving capacity building and the national infrastructure supporting these activities emerged from the environmental scan:

1. **Conduct a more comprehensive study of "good practices" in capacity building,** creating a database (containing brief descriptions in a standard form of at least the 200 programs that have already been identified) that can be made available to the field both in print and online formats.

2. **Conduct a meta-analysis of evaluations of capacity-building programs in philanthropy,** to synthesize common findings, refine the preliminary definition of core components presented here, and identify methodological problems with this type of evaluation (and resolutions attempted for them).

3. **Conduct a series of case studies of capacity-building programs in philanthropy,** identifying key types of philanthropic initiatives and using the case study approach to develop a deeper understanding of how these programs were created, what they did, and what impact they produced.

4. **Conduct empirical research on the effectiveness of specific capacity-building interventions,** to determine, for instance, whether peer consultation approaches may be more effective than expert interventions, at least for certain types of capacity building.

5. **Develop and pilot test an online capacity-building service** that would use the Internet to deliver information resources, assessment technologies, and online technical assistance to nonprofits and foundations.

6. **Promote cross-sector dialogue on capacity building,** to stimulate sharing of ideas among nonprofits, philanthropy, and other sectors—particularly the corporate world and government, both of which have their own distinctive interests in capacity building.

Foundation interest in and commitment to capacity building is clearly growing. Leadership in field building is being provided in philanthropy by Grantmakers for Effective Organizations (GEO) and in the nonprofit arena by the Alliance for Nonprofit Management. Philanthropic conferences and periodicals address the topic regularly. However, there is still a fieldwide consciousness problem. For example, a January 2000 University of Southern California conference, "What's New About the New Philanthropy?" covered many trends in philanthropy for a large and distinguished audience. Nothing was mentioned specifically about capacity building, however, despite the fact that related topics such as venture philanthropy were discussed at length.

The Larger Context

Recent increases in the visibility and frequency of capacity-building activities in philanthropy arise from several trends. First is the considerable attention being given to venture philanthropy, with its counterpart in the nonprofit world—social entrepreneurism. Although not inherently linked, capacity building in practice is *de rigeur* for new businesses supported by venture capitalists.

Second is the increasing commitment by foundations to evaluating funded projects and their measurable outcomes. The lack of nonprofit organizational capacity is likely to show up in evident ways when rigorous evaluation is done.

Third, there are profound changes in the nonprofit world that both promote and demand increased strength of these institutions. They include more demands for service in the face of government cutbacks, fewer resources, privatization of services (which puts fragile nonprofits more at risk because while their revenues may increase, but so does their financial risk under tightly defined service contracts offered by public agencies), increasingly professional management, and the growth of university-based, nonprofit management training programs.

Ultimately, foundation interest in capacity building comes from the desire for *leverage*—for increasing the impact of philanthropic resources invested in nonprofits. Porter and Kramer (1999) set this larger context persuasively, identifying four special assets of foundations: *financial resources, expertise, independence,* and *a long time horizon.* How can these assets be leveraged? The authors suggest four strategies:

1. Select the best grantees
2. Signal other funders about how to conduct their work more effectively
3. Improve the performance of grant recipients (capacity building)
4. Advance the overall state of knowledge and practice

With respect to the third strategy, they assert, "Foundations can create still more value if they move from the role of capital provider to the role of fully engaged partner, thereby improving the grantee's effectiveness as an organization. The value created in this way extends beyond the impact of one grant. It raises the social impact of the grantee in all that it does and, to the extent that grantees are willing to learn from one another, it can increase the effectiveness of other organizations as well."

Moreover, according to Porter and Kramer, "Affecting the overall performance of grant recipients is important because foundation giving represents only about 3 percent of the nonprofit sector's total income. By helping grantees to improve their own capabilities, foundations can affect the social productivity of more resources than just their slice of the whole." In the end, all philanthropic activity is intended to contribute in some way to nonprofit capacity building, of course, but some strategies have more leverage value in this arena than do others.

In a sense, all four strategies Porter and Kramer outline are the province of this environmental scan. Foundations with capacity-building programs will have more impact if they set up and use measures to select good capacity-building grantees (both nonprofits receiving direct support and consultants or organizations providing services). This review itself provides a "first crack" at selection measures that might be used in such a process.

Recent growth in capacity-building activities in philanthropy is the signal to other foundations about the relevance and success of this work—through presentations at conferences, articles in philanthropic journals, and informal networking. As the findings from recent evaluations of capacity-building initiatives begin to emerge, such signals are likely to proliferate.

Finally, efforts such as the present environmental scan can help to build the field of capacity building in philanthropy by synthesizing both what has been learned so far and what constitutes the field of players. Then organizations like GEO can promote wider communication of "good practices" and increase networking among the relevant players.

Kramer and Porter state, in their concluding advice to philanthropy based on business strategy, "The goal is superior performance in a chosen arena. . . . Strategy depends on choosing a unique position . . . and unique activities . . . . Every positioning requires tradeoffs." That is, focusing on one area of grantmaking or other philanthropic activity of necessity reduces the resources to concentrate on others.

Such advice has direct applications to capacity-building activities. For some foundations, a significant capacity-building initiative may be a major part of their unique position, perhaps implemented in distinctive ways with the particular environment of nonprofits and communities they deal with. However, expending resources on capacity building means that fewer grants can be made in other areas.

For instance, the Charles and Helen Schwab Foundation, whose capacity-building work is described further below, has positioned itself as a capacity-building foundation by giving more funding annually in this area than it does in program grants. It is involved in a unique partnership with the Peninsula Community Foundation and the Sobrato Foundation to support a capacity-building service program for selected nonprofits in its geographic area. How can this position be leveraged (e.g., by other partnerships with the many foundations in its area that also are involved in capacity building)? What are the trade-offs and how can these trade-offs be handled or, at least, honestly acknowledged?

This paper provides a considerable amount of raw material about capacity-building activities in philanthropy, including a roster of briefly described "good practices." To make the information useful, it must be put into the larger context of a foundation's overall grantmaking priorities and the theory of change that drives these priorities. In a previous project for Knight Foundation, *Innovation in Context*, this author (Backer 1999) provided a framework for considering any innovative practice in the larger context of philanthropic mission and activity. Similarly, in this review, interviewees stressed that capacity building is unlikely to have full impact unless it becomes an integral part of a foundation's strategic plan and overall programmatic activity. This has not yet happened in many foundations' work.

Uses of This Scan

Beyond application by individual foundations (including Knight Foundation), the outcomes of this environmental scan can be used by the field of philanthropy at several levels. The first is through dialogue and debate about the contents of this paper. As already mentioned, this environmental scan was published first as a working paper, using a strategy similar to that for *Innovation in Context* (Backer 1999). The working paper was circulated to all scan interviewees and others likely to be interested in its content, with a request for content and editorial input, and a number of modifications were made as a result. Such a review strategy also increased the initial audience for the paper.

The paper then was shared through presentation at several philanthropic conferences, such as the 2000 annual meetings of Grantmakers for Effective Organizations and the Council on Foundations, plus state and local conferences in California. Input from these presentations also helped refine the paper.

Finally, the paper was shared at the June 2000 seminar at the Urban Institute where it was reviewed along with the preceding paper in this report. The dissemination of this scan will include further philanthropic conference presentations, at which some of the follow-up recommendations made below (such as creation of an online database) can be discussed. Possible future action on these recommendations would constitute the ultimate uses of the results from this scan.

Definition of Capacity Building

As the term is used in this report, capacity building involves *strengthening nonprofits so they can better achieve their mission.* Strengths in the areas of administration, finance, human resources, and facilities are among those that may be enhanced by capacity-building activities. Grantmakers for Effective Organizations' Web site refers to its overall mission as "organizational effectiveness," which is defined as follows:

> It is evidenced by an organization that is able to connect its vision to its goals, its goals to its plans, its plans to its actions, and its actions to results. It is a dynamic, fluctuating, and fluid state, an ever-evolving mosaic of increasing self-awareness and internal development that keeps an organization moving

steadily towards its vision. It is about an organization reaping results, not about management for its own sake (a distinction between "efficiency" and "effectiveness").

Three main types of capacity-building activity, each of which may be conducted either by the sponsoring foundation itself or by a third-party provider (sometimes with assistance by the nonprofit itself), are:

1. **Assessment.** When designing and implementing a capacity-building effort, it is essential to effectively measure the nonprofit's current needs and assets as well as its readiness to undertake the internal changes required. The nonprofit management field has produced some useful tools for initial assessment, such as the Drucker Foundation's *Self-Assessment Tool for Nonprofits,* with its five questions all nonprofits should be able to answer. Major capacity-building initiatives, such as the James Irvine Foundation Youth Development Initiative, the DeWitt Wallace–Reader's Digest Fund Management Initiative, the National Arts Stabilization Fund, and the Local Initiatives Support Corporation, have created assessment procedures for use with the nonprofits they support.

   Assessment ideally occurs at two levels: *inside the nonprofit*, and outside in its *community environment*. Michael Howe of East Bay Community Foundation says that assessment of the community environment in which a nonprofit operates actually should be done first. This helps establish a context for capacity building and reinforces the importance of investing in community building as well as in activities focused on nonprofits. For many nonprofits, just undertaking such a broad-based assessment is an important type of capacity building, because they may never have done so in the past.

   Data gathered from an initial assessment will be most useful if put into a larger framework for understanding the nonprofit's needs, assets, and readiness for change. Ruth McCambridge of the Common Ground capacity-building program believes the key issue in assessment is to look at the organization as a *system*, including both internal and external issues in an overall environmental analysis.

   When an organization in crisis asks for capacity-building assistance, the first question may be whether the organization can benefit from capacity-building services at that troubled time. "Triage" strategies are part of a comprehensive capacity-building assessment, helping to conserve resources for those nonprofits most able to benefit from an intervention.

2. **Intervention.** Capacity building typically involves one of the following three types of interventions: *management consultation, training,* and/or *technical assistance*. Consultation is typically focused on process issues, such as staff-board conflict or building a good strategic plan. Training usually involves small group seminars or classes in which staff or board members learn specific skills that improve their ability to run the organization. Technical assistance (TA) is a more hands-on, site-based process in which active support to a project, program, or problem-solving process is provided to the nonprofit. TA can even be self-directed through print readings or use of Internet resources (the latter representing one of the field's cutting edges, as will be discussed further below).

Letts, Ryan, and Grossman (1998) set forth that the results of capacity building, coupled with the nonprofit's internal efforts, can be seen at three levels: (1) improvement in the capacity of the organization to do what it already does (program delivery capacity), (2) improvement in the organization's capacity to grow (program expansion capacity), and (3) improvement in the nonprofit's ability to sense needs for change and respond to them with program improvements or innovations (adaptive capacity). All three are needed to produce high-performance levels over time.

Because many capacity-building activities sponsored by philanthropy are recent, these initiatives often have created programs "on the fly" without necessarily examining the experiences of others in designing these interventions. There are some resources available to help with this design task. For instance, Wahl, Cahill, and Fruchter (1998) reviewed technical assistance strategies for building capacity, mostly based on government-sponsored work in education, but also with some attention to private funders. The Conservation Company has addressed some issues regarding TA in publications it offers for both funders and the nonprofit community.

In addition, there is literature on technical assistance in business, health, and social services that has not been systematically reviewed for its potential utility in nonprofit capacity building. Such an analysis would be useful for field building, particularly to identify critical features of effective technical assistance, as has been done in the area of continuing education training programs for the medical field.

3. **Direct financial support.** Capacity also is built for nonprofit organizations by providing them with financial support in three categories: *core operating support*, or general funding that is not earmarked for any specific purpose but simply to enable the organization to do what it does; *specific grants,* to fund equipment purchase, facilities construction, and so on; and *working capital*, often in the form of loans with favorable repayment terms to meet both short-term and long-term financial needs. As an example of the latter, nonprofits often struggle to stay afloat because the government agencies that support them do not pay promptly. Having access to very low-cost capital sometimes can make the difference in whether or not a nonprofit can continue to exist.

   Each of these approaches has its advantages and disadvantages. For instance, Susan Stevens of The Stevens Group has reservations about core operating support because it creates in nonprofits "an allowance mentality—it is like getting an allowance from your mom and dad." Good capacity building, she asserts, is about nonprofits more fully controlling their own destiny. Stevens advocates programs that provide nonprofits with more access to working capital (e.g., creating earned income that can be plowed back into the nonprofit like profits are for a business).

   Arts and culture philanthropy provide some particularly interesting examples of how direct financial assistance can build capacity. For instance, both the Pew Charitable Trusts and the James Irvine Foundation have dedicated significant grantmaking resources to arts organizations judged to be exceptionally well-managed leaders in their respective fields in order to provide them with increased financial stability and opportunities to grow further. Grantmakers in the Arts examined a number of general operating support programs for arts nonprofits in a report by Gulati and Cerveny (1999).

New Directions in Defining Capacity Building

Two current developments in the capacity-building field will drive refinement of the above definitions. One is the increasing number of capacity-building programs that are being evaluated. In some cases, as with James Irvine Foundation's Youth Development Initiative, the evaluation results include tools for evaluation that can be used by other philanthropies.

The other development is an increasing recognition that some of the most innovative capacity-building programs are theory driven. Choosing a theory of change provides a means for guiding development of the entire capacity-building strategy a foundation selects—and ideally, this selection should fit with the foundation's overall philanthropic goals.

To supplement basic activity definitions, refinements through evaluation, and the context of theory, a framework for nonprofit organizational capacity building is needed. A "first-cut" version of such a framework is presented at the end of this paper. In this framework, the areas of intervention are based on a list originally developed by ARDI International and presented in its directory of management service providers. The other elements in the framework are discussed in the remaining sections of this paper.

Finally, capacity building focused on strengthening nonprofit organizations, as the term is used throughout this report, itself fits into a larger framework. In an online white paper on capacity building, the Amherst Wilder Foundation (2000) emphasizes that there is "strong relationship between and among individual, family, group, organization and community development." Different values, assumptions, and intervention methods apply, depending on which kind of capacity building one is discussing.

As the "What This Paper Does Not Cover" section below makes clear, the definition used in this paper is limited to strengthening nonprofits. However, it may be useful to look at what is presented here in the larger frame of levels of capacity building defined by the Wilder Foundation.

The Capacity-Building Field

Interviewees for this study almost universally declared that "capacity building is not a new field." Identified capacity-building activities of foundations go back at least to the 1970s, and in truth have always been part of philanthropic efforts. For instance, the current capacity-building programs for community foundations among this report's "good practices" section were preceded by the Leadership Program for Community Foundations sponsored by Ford Foundation beginning in 1987 and reported by Mayer (1994).

There also has been some capacity-building effort made by federal and state government funders, mostly in the form of direct funding and externally provided technical assistance. For instance, the National Institutes of Health make grant funding available in their Research Infrastructure Support Program to encourage the development of facilities, staffing, and other infrastructure that will enable universities or community organizations to engage in public health research—including the winning of NIH research grant awards. Funds can be used to train junior investigators, purchase research instruments, hire research support personnel, and conduct pilot studies, among other purposes.

What is new is the current emphasis on capacity building as a philanthropic strategy, with far more foundations willing to use some of their resources for this activity than was the case 10 years ago. Coupled with more evaluation, more efforts to communicate what is being learned from foundation-sponsored programs (e.g., through publishing reports), and the birth of groups like Grantmakers for Effective Organizations, a national infrastructure for capacity building now is taking shape. Many of the newest developments are technology based, such as the emergence of Web sites like Helping.org. A more detailed history and theoretical analysis of capacity building is presented in the previous paper in this report.

In addition to types of capacity-building activities and content of services provided, the " 'First-Cut' Capacity-Building Framework" section at the end of this paper includes the following kinds of organizations:

1. **Foundations.** Hundreds of private, family, and community foundations in the United States currently offer some sort of funding support for capacity building to their grantees and often to the larger community of nonprofits as well. Some 2 percent of the total number of grants made in 1997 were for capacity building, according to The Foundation Center, and the amount probably has increased since then.

2. **Nonprofits.** Every type of nonprofit organization—large and small, old and new—is involved in the growing capacity-building movement (though, of course, many individual nonprofits are *not* involved, and may not even understand yet what the term means or how it might relate to their interests).

3. **Service providers.** A huge range of both individual consultants and organizations provide capacity-building services in the United States, including but not limited to those supported by foundations. Nonprofits often purchase these services on their own (in fact, more frequently than they are paid for by third parties such as foundations), and there is also limited government support for capacity building.

   One rough estimate of the service provider field comes from the 1998 ARDI International *Directory of Management Support Providers for Nonprofit Organizations*, which had 930 entries, including 160 organizations whose specific mission as a nonprofit is to provide management support to other nonprofits. Other estimates of these mission-dedicated, management support organizations (MSOs) places the field at about 300 groups nationwide. Of course, a variety of nonprofit and for-profit consulting firms, United Ways, and other groups also are involved in providing management support. Examples of these MSOs include:

   - CompassPoint (formerly called the Support Center for Nonprofit Management) in San Francisco—probably the largest and best-known MSO in the country—which has an extensive Web site and offers publications, courses,

and a wide range of consulting services to nonprofits in the Bay area and nationwide.
- Center for Excellence in Nonprofits in San Jose, which also offers a wide range of publications, learning programs, and consulting services.
- Support Center of Washington, D.C., which has a range of services and is one of the survivors of a now-defunct national association of MSOs called Support Centers of America.

In some cases, MSOs are banding together to support each other. For instance, in 1997, 13 MSOs in California (including CompassPoint) formed the California Management Assistance Partnership (C-MAP). C-MAP is a collaborative that essentially provides capacity-building support to these MSOs, strengthening their ability to work with nonprofits in their geographic area. C-MAP's activities are funded by several California foundations.

Another type of organization providing capacity-building services is the nonprofit incubator, represented by such entities as Community Partners in Los Angeles and the Tides Center in San Francisco. Both of these nonprofits are funded largely by foundations (the Tides Center was spun off from a grantmaker, the Tides Foundation). They each provide integrated support and developmental services to about 200 young nonprofit organizations, helping them to create the infrastructure that will make independence possible later.

Then there are a number of nonprofit management training programs and academic centers for nonprofits and philanthropy in American universities, which provide academically based training for nonprofit managers and sometimes TA-oriented services as well. In all, 86 graduate programs in nonprofit management currently are offered by major American universities, according to an academically based center, the Nonprofit Sector Resource Institute of New Jersey at Seton Hall University (The Seton Hall Institute also publishes *Nonprofit CONNECTION: Bridging Research and Practice,* a newsletter devoted to capacity building).

The Packard and Kellogg Foundations support several of these university-based programs through both operating and program grants. For instance, Kellogg's Philanthropy and Volunteerism in Higher Education Initiative—Building Bridges between Practice and Knowledge in Nonprofit Management Education—funds programs in 18 universities.

Examples of academic centers include Seton Hall, the Indiana University Center on Philanthropy, the Hauser Center for Nonprofit Organizations at Harvard University, the Lincoln Filene Center for Citizenship and Public Affairs at Tufts University, and the Institute for Nonprofit Organization Management at the University of San Francisco. Some of these academic centers—Harvard and Seton Hall among them—also offer capacity-building services to the local nonprofit community through either faculty or students. Such programs not only transfer academic knowledge into practice, but also acquaint students with the "real world" of nonprofit operations.

The University of Missouri–Kansas City's Midwest Center for Nonprofit Leadership has created a partnership with a Kansas City MSO. They provide separate but coordinated programs to the nonprofit community on leadership development. Sharing experiences and information will help improve both programs and determine how academic and community-based programs can best partner in the future. Also, the Midwest Center is working with nonprofit and foundation leadership in Kansas City to create a more unified infrastructure for capacity building in Kansas City—an effort that is needed in all American cities and in rural regions as well, according to those interviewed for this study.

Consultants and consulting firms working in this field come from many and varied backgrounds. For instance, some are retired nonprofit agency executives, while others are business consultants doing at least some work in the nonprofit arena. A few are graduates of university-based programs in nonprofit management, most of which are fairly new.

Baumann and associates have laid out the challenges of the "nonprofit consulting industry" in a recent study (1999). This study acknowledges that both resources and opportunities for nonprofit consulting are increasing sharply, and many consultants are moving into a field that has few entry barriers. Since more nonprofit leaders today are professionally trained managers themselves, there is less resistance to the use of consultants in the nonprofit sphere, thus increasing opportunities for consultants.

However, there are important challenges. The mission-driven nature of nonprofits makes performance measurement difficult. Poor or incomplete information databases about nonprofits, limited training opportunities, and infrequent sharing of best practices all mean that the "skill base" is underdeveloped on both the supply and demand sides (consultants are inexperienced, and nonprofit leaders are inexperienced consumers of consultation). Smaller nonprofits are particularly challenged because their resources to either hire consultants or make the changes these consultants suggest are limited.

Knowledge building, so important to success in management consulting, is difficult in the nonprofit sector because there are no large for-profit firms to support the cost of computer-based, best practice systems and other knowledge-building mechanisms. All of this means that the knowledge infrastructure supporting nonprofit capacity-building consultation is limited.

In Los Angeles in January 2000, this author addressed an informal association of business and nonprofit consultants (including the head of the Los Angeles office of the world's largest firm of consulting psychologists to management—RHR International) about the challenges of consulting on nonprofit capacity building. This "senior consultants group" in turn suggested using professional organizations, such as the Division of Consulting Psychology of the American Psychological Association and the OD Network, to provide training for nonprofit consultants on capacity building and to create more courses for nonprofit managers on how to use a consultant. It was also suggested that the Internet and high-technology distance learning systems could be used to train consultants. The same technology can increase awareness about availability of capacity-building consultation services, especially among nonprofits in rural areas. The key challenge, these senior consultants emphasized, is to provide opportunities for mentorship, which is, they agreed, how one learns to be a good consultant. Training on cultural and ideological factors in the nonprofit world is especially important for consultants new to this environment.

At least one foundation also is looking at the issues of consultants in capacity building. The David and Lucile Packard Foundation published a manual for nonprofits, *Succeeding with Consultants,* and funds the Initiative on Effective Use of Consultants. In addition, the Packard Organizational Effectiveness Program states that enhancing nonprofits' ability to benefit from consulting is a key objective of the entire program (this program is described in further detail below).

Providers also include a host of technology projects specifically aimed at building the nonprofit's capacity to use technology wisely. For instance, the Rockefeller Technology Project works with nonprofit organizations to help their leaders understand how advanced communication technologies can be integrated into their work and helps foundations review technology proposals. Since 1987, CompuMentor has provided low-cost, volunteer-based computer technology assistance (consulting services, mentoring, and software distribution) to schools and nonprofits. The Philanthropy News Network publishes a newsletter, *Nonprofits and Technology,* and the Center for Excellence in Nonprofits (1999) published *Wired for Good: Technology Survey Final Report.* In addition, HandsNet is an Internet-based service provider that offers technology information (e.g., through its WebClipper news service) and training/technical assistance to nonprofits across the country. The Nonprofit Technology Enterprise Network (N-TEN), also Internet based, offers a coordinating vision for the dissemination and use of technology for nonprofits.

Finally, there is a growing array of Internet-based providers available for use by nonprofits, consultants, and funders. Some examples include the Internet Nonprofit Center and Innonet, which both offer search services to nonprofits (Innonet's includes its own database on best practices in areas like evaluation and fundraising). Another is the Nonprofit Pathfinder, operated by Independent Sector and the University of Maryland, which is a Web site offering innovations, methodologies, research resources, and bibliographies. In a recent paper (Backer 2000b), this author surveys Internet resources, listing several dozen representative Web sites for capacity building. One developing Internet service that may eventually dwarf all the others is Helping.org, which features a section entitled "Resources for Nonprofits Partnership" (cosponsored by the Benton Foundation and the AOL Foundation).

4. **Intermediary organizations.** Foundation-funded intermediaries such as the Local Initiatives Support Corporation and the Corporation for Supportive Housing are described below in the "Good Practices" section. These entities provide funding as well as technical assistance. A recent study (Backer and Norman 1998) looked at 33 multicultural community coalitions in California. The study determined that these long-standing institutions may also have intermediary roles to play in nonprofit capacity building, especially in communities of color.

5. **Associations.** Two professional associations address capacity building. Grantmakers for Effective Organizations (GEO) is an affinity group dedicated to promoting learning and encouraging dialogue among funders involved in capacity building (or organizational effectiveness). GEO's second annual conference, held in March 2000 in Kansas City, offered opportunities for funders to explore emerging issues in the field, such as the evaluation of capacity-building programs. The Alliance for Nonprofit Management is a membership organization of nonprofits concerned with capacity building and holds conferences that bring together nonprofits, service providers, and researchers.

Research Supporting Capacity Building

Evaluation research to determine the effectiveness of capacity-building interventions has seldom been undertaken. Recently, however, several foundation-funded initiatives have been evaluated, and results from this research are starting to emerge. Several of these evaluations are mentioned in the "Good Practices" section of this paper.

Two other kinds of research are also relevant to this review. First are community assessment studies—research to help determine what a community's nonprofits need and how to create a capacity-building program to meet these needs. Four examples of such assessment studies follow:

- The David and Lucile Packard Foundation funded a study, ***Too Many Alligators*** (Thomas 1997), that examined organizational challenges faced by Packard Foundation grantees across the country. Results indicate that external communications, resource development, technology, and governance are the four most important areas in which nonprofits need capacity-building assistance.
- The E. M. Kauffman Foundation conducted a study, ***Key Attributes of Effective Nonprofits*** (Lee 1999), that concentrated on nonprofits serving children, youth, and families in Kansas City's (Missouri) urban core. The study obtained input from the agencies and funders, as well as the literature and selected experts. Six "key attributes" now form the judging criteria for an awards program, launched in Spring 2000, which recognizes highly effective Kansas City nonprofits. It is hoped that this awards program will encourage other nonprofits in the Kansas City area both to appraise themselves against these six attributes and to undertake activities that may enhance their capacities in each area—some of which may be supported by the Foundation.
- The Community Foundation Silicon Valley commissioned ***The Nonprofit Benchmark Study 1999: Santa Clara County*** (Becker 1999). Comparing figures with those found in a 1995 study, the survey provides a comprehensive review of county nonprofits, the communities they serve, and their organizational characteristics. Needs for future capacity building can be deduced from these study results.

- Knight Foundation has undertaken an ongoing ***Community Indicators Project***, which provides a comparable database of the needs, assets, opportunities, and outcomes for the 26 American communities to which its gives. These community indicators can be used to support grantmaking decisions, evaluations of funded projects, and capacity building.

A related study by this author (Backer 2000a) (commissioned by Knight Foundation), ***Capacity Building Activities in Four Knight Foundation Communities***, presents results from a preliminary assessment of capacity-building resources (MSOs, university-based training programs, etc.) in 4 of Knight's 26 communities. The data-gathering methods used may be applied to additional Knight communities in the future in order to determine what kinds of local resources are available to support nonprofit capacity building.

All of these assessments involve measuring community assets (as in John McKnight's work) as well as needs—a very different approach from traditional needs assessments, which focused largely on deficits. The studies also examine community infrastructure, including the measuring systems that are in place to gather and present data about characteristics of and outcomes achieved by local nonprofit service agencies. All of this input can be used to shape capacity-building activities.

The second group of studies center more explicitly on how to create a capacity-building program for a particular foundation or community:

- ***Fazzi Associates*** (1999) conducted a five-phase study for the Irene E. and George A. Davis Foundation. Activities included setting up an organizational effectiveness task force (whose members came from local service agencies and funders), conducting local focus groups, conducting a national study of foundation capacity-building activities and also a study of local nonprofits, and providing a final report with recommendations about capacity-building efforts the Davis Foundation might wish to undertake.
- ***Edna McConnell Clark Foundation*** prepared two discussion papers, *Finishing the Job* and *Capacity-Building in Practice*, to guide creation of an enhanced capacity-building initiative for the Foundation. The papers explore foundation motivations for engaging in capacity building (e.g., to help grantees replicate a successful program and to have an "exit" strategy, leaving a field of work or a group of nonprofits stronger than when the Foundation began its activity). The utility of capacity building in several programs the Foundation knows well, such as Big Brothers/Big Sisters and the Corporation for Supportive Housing, was explored in depth.
- ***Illinois Facilities Fund and Donors Forum of Chicago*** (1998) commissioned a study by the Stevens Group of the financial health of the nonprofit sector in Illinois, focusing on current practice. The study report discusses four key findings: (1) the fragile financial cycle of Illinois nonprofits, (2) changing sources of support for them, (3) pressure for facilities development, and (4) efforts nonprofits need to make in bracing for the future. Each findings section ends with a capacity-building plan to address the study's results.

- ***New York Community Trust*** commissioned the Conservation Company (1998) to conduct a study of challenges facing New York City's nonprofit sector—increased demand for services, reduced resources, and the resulting threat to ongoing infrastructure—and how capacity-building activities could help meet these challenges. The resulting report, *Strengthening New York City Nonprofit Organizations*, concluded that both TA and general operating support are needed by nonprofits. The study report outlines ways in which philanthropic leadership can respond to this challenge—not only though grantmaking, but also though leadership and positioning in the community. Such activities can help to leverage existing and in-kind resources for activities that will help to improve the capacity of nonprofit organizations. The report also describes a number of capacity-building programs operated by foundations in New York City and throughout the country.

Although the focus of this environmental scan is on American programs, it should be noted that some parallel studies are being conducted in other countries. For instance, the Foundation for Charitable Excellence published *The Study for Charitable Excellence* (Culver and Pathy 2000), which addresses capacity-building needs and opportunities in Montreal and other areas of Canada. The study also explores American capacity-building efforts, including some described in this report.

Two additional studies of capacity building in particular subject fields were in process when the research for this paper was conducted:

- ***PolicyLink/Urban Strategies Council*** is finishing a study of 12 national organizations that all work to support community-building practitioners. A draft report includes the observation that community-building intermediaries spend most of their energy on documentation, analysis, and knowledge dissemination to provide information that community-building organizations can use. Intermediaries also provide direct technical assistance, but this service receives much less of the intermediary's attention. TA is expensive and funds to support it are often not available, according to the study's findings. In addition, the 12 organizations interviewed for this study expressed a strong desire to develop and refine methods they use for capacity building. A completed final report is due soon from this study. A concept paper about capacity-building approaches for community-building intermediaries and support organizations (like the Urban Strategies Council itself, the United Way National Community Building Center, and the Chapin Hall Center for Children) also emerged from this study.
- ***Environmental Support Center (ESC)*** is funding a capacity-building, best practices study to provide input to ESC's board of directors about "best practice" options for enhancing the organization's capacity-building services to regional, state, and local nonprofit organizations working in the environmental field. When the study is complete, the results will also be published for the benefit of other nonprofits.

What This Paper Does Not Cover

Capacity building is a very broad topic and has been defined in many different ways. It has already been said several times that this is an exploratory review, and its small scale has been directed to yield a preliminary set of findings that will stimulate further thinking and debate. In order to do this usefully, however, this environmental scan does not attempt to address certain issues:

1. It is not a history or theoretical analysis of capacity building; as mentioned, the preceding paper in this report provides this background.
2. It does not present a *comprehensive* database of capacity-building "good practices" or related information. This very small project did not have the resources either to retrieve complete information on the more than 200 programs identified or to undertake a systematic analysis of each. The 40 programs described below are "good practices" only in the limited sense set forth below. Creation and analysis of a more comprehensive database would benefit the field and would allow some preliminary assessment of the *quality* of the "good practices." Many of these innovations have never been evaluated and some are so recently implemented that they are hardly beyond the conceptual stage—they represent good ideas whose ultimate impact has yet to be determined.
3. It does not focus on capacity building that is self-funded and directed by nonprofits themselves, although this historically has been a main type of activity in this arena. The emphasis here is on programs funded or operated by foundations.
4. It is not about community building, which is concerned with strengthening entire communities, though the two activities are related (the PolicyLink/Urban Strategies Council study described above centers on this topic). Examples of major foundation initiatives concerned with community capacity include the Colorado Trust Colorado Healthy Families Initiative and the Annie E. Casey Foundation's Rebuilding Communities Initiative.
5. It is not primarily about capacity-building services for individuals, though, again, the two are related. For instance, leadership development training for nonprofit executive directors is part of organizational capacity building as defined here, but is a service offered to these personnel in their capacities as nonprofit, not individual, professionals (e.g., as continuing education might).
6. It is not about government-supported capacity building, though the principles and practices of such services are similar. Wahl et al. (1998) provide some tie-in to the public sector knowledge base on this topic.
7. It is not international in scope, though it seems quite likely that there are major innovations in other countries that would be relevant to capacity-building improvement in the United States. For instance, NUA Ireland (www.nua.ie), an Irish Internet consultancy, encourages community groups to collaborate through creating local Internet sites—with content provided by the community and owned by each content publisher. NUA Ireland has developed proprietary local community builder software for eventual use in some 2,000 geographic localities in Ireland. The resulting "Local Ireland" system opens many possibilities for capacity-building services to nonprofits in these communities.

   An environmental scan study on capacity building in Montreal was mentioned above. In addition, the Vancouver and McConnell Family Foundations have worked together with Community Foundations of Canada to provide capacity-building services for funders and nonprofits with regard to disseminating the results of funded projects in Canada. In the late 1990s, the Human Interaction Research Institute led a series of technical assistance workshops on this topic in the eastern, western, and central sections of Canada. The Vancouver and McConnell Family Foundations then each released a publication that laid out dissemination strategies for nonprofits, as well as a philosophy about dissemination that has helped guide funder actions.

8. It is not primarily about venture philanthropy or social entrepreneurship strategies. Emerging groups such as SeaChange (supported by the W. K. Kellogg Foundation and other funders) and the work of Christine Letts and colleagues at Harvard University have helped to define and promote the venture approach, which in turn has stimulated more awareness about capacity building.
9. As mentioned, the study does not cover direct financial assistance as a capacity-building strategy. Reviews now are emerging on this topic for use by funders. For instance, as noted above, Grantmakers in the Arts recently released an intriguing book on this subject (Gulati and Cerveny 1999), which presents nine case studies about general operating support for arts organizations.

Foundation Capacity-Building "Good Practices"

This project concentrates on capacity-building activities initiated or operated by foundations. To increase understanding about these activities, the environmental scan concentrated on identifying specific programs, many with distinctive features that are not common practice. Based on information obtained from telephone interviews and analysis of documents supplied by interviewees, a total of 40 programs are presented here in capsule summary form as "good practices."

This term is used instead of the more conventional "best practices" for several reasons. First, no rigorous evaluation process was used to determine either the quality or innovativeness of these programs, though many of them probably are at the cutting edge of practice in this field. Second, the capacity-building field itself is growing and changing rapidly, so that the main value of these capsule summaries is to stimulate further thinking and dialogue.

Five different types of capacity-building "good practices" are briefly synopsized below; an alphabetical list is presented at the end of this paper:

Capacity-Building Grantmaking Initiatives. Two types of funding initiatives are described here: categorical initiatives, which address a particular population or subject focus; and general initiatives, which offer capacity building to any of the foundation's grantees (or to other nonprofits in the funder's geographical area of interest).

Capacity-Building Programs and Services. Capacity-building efforts of community foundations, private and family foundations, and intermediary organizations are summarized in these sections.

These “good practices” are drawn from a database of more than 200 programs identified by the environmental scan. Some possible further uses for this database of “good practices” are given in the recommendations section of this paper.

Categorical Capacity-Building Grantmaking Initiatives

Boston Foundation—Common Ground takes a “whole systems” approach to nonprofit capacity-building services offered to a group of 17 multiservice human service agencies in Boston. United Way and the Boston Department of Public Health partner with the Foundation on this project. It involves helping these nonprofits design integrated service systems around their intentions, addressing problems such as alienation from their constituencies, and bureaucratic organizations whose operating units do not communicate well with each other internally. The capacity building began with bringing the 17 centers together for three days in order to develop trust, share information, and network on common problems.

For example, one problem that emerged was the difficulties these agencies had in dealing with two of the initiative’s funding partners. Improving these funder relationships was set as an initial capacity-building objective. The overall capacity-building process starts with a systematic assessment that looks at the organization as a system—what phase of development it is in, how it is affected by the culture of the field it works in, how funders view the organization, and so on.

The California Endowment—Population-Based Funds Program seeks to create partnerships with 11 national, state, and community funds, addressing specific populations (ethnic minorities, women, and gays and lesbians) in order to help them better meet their philanthropic goals. The Endowment’s assistance will help them, through re-granting, to address community health projects, but also will provide capacity-building services related to board development, evaluation, convening of functions, donor base expansion, and so on. A multicultural, multidisciplinary team of consultants provides these services.

Each fund’s capacity-building work began with a three-month planning grant and an initial assessment conducted by one of the consultants. Long-term implementation grants now are being considered, and a second assessment will be conducted after two years to determine what progress has been made.

The California Endowment/Tides Foundation—Community Clinics Program is aimed at strengthening the information systems of community clinics throughout California. Grants have been made to support increased operating efficiency and marketplace competitiveness for a broad array of community clinics, school-based clinics, and regional consortia. Approximately $2.8 million was granted to 16 clinic consortia and 46 clinic corporations to deal with Y2K problems. Grants also will be provided to clinics for strategic planning, technical assistance, and technology/systems enhancements to meet long-term goals (e.g., more integrated financial, medical, and patient information streams).

The California Wellness Foundation—Urban Clinics Initiative began with the Foundation’s observation that managed care would create massive upheavals in health services for the poor. County-based, urban associations of public health care clinics were selected as a vehicle for helping communities deal with these changes. These associations were funded to offer capacity-building technical assistance to local clinics, many of which were “in denial” about the shortcomings of their management structures.

Six urban clinic associations and two other organizations supporting community clinics in seven counties were funded (a total of $12 million to date), partly to support direct service, but primarily to help the associations and their member community health clinics develop the infrastructure necessary to operate in a managed-care environment. According to an independent evaluation, the clinics and associations have made significant strides in building infrastructure to support their ongoing role as safety net providers for the poor, and two new associations also were established in communities that did not previously have them.

Community Foundation Silicon Valley—ArtsBuild Communities Conference and Grant Program Through Arts Council Silicon Valley, a local association of nonprofit arts agencies, the Community Foundation hosts an annual one-day conference that is tied to a “quick turn-around” grantmaking function. Nonprofits can translate what they learn at the conference into new projects with the resulting grants.

Participating nonprofit arts agency leaders are encouraged to write up ideas for small projects at the end of the conference day. Most of them focus on building capacity to address issues of cultural participation, either for individual agencies or in partnerships (most of which are identified through the conference). Grants are limited to $5,000 for individual agencies and $10,000 for partnerships. The November 2000 conference focused on arts marketing capacity building, to align with a proposed arts marketing cooperative being feasibility tested for Silicon Valley.

Community Foundation Silicon Valley—Mentorship Project involves identifying small arts nonprofits in three communities and linking them with large organizations that agree to serve in a mentoring role. The mentors are given some general operating support for a year, in return for which they provide capacity-building consultation on issues like board development, marketing, artistic decisionmaking, and undertaking joint programs. The small agencies also receive some general operating support. Critical to the success of this program is the close involvement of the funder in building the mentoring relationships.

Flintridge Foundation—Nonprofit Leadership Program is a multitiered, interactive program that offers management resources to nonprofits serving children and youth. Designed and administered by Lee Draper Consulting, a firm specializing in nonprofit management assistance, this program was completed by six southern California nonprofits in its pilot year (1998); eight organizations began a new cycle in April 2000.

The Nonprofit Leadership Program is offered to eligible organizations for a nominal registration fee, and includes (a) six educational workshops on topics such as strategic planning, fundraising, and communications planning; (b) a special workshop on self-assessment to identify organizational needs; (c) funds to conduct a special project with individualized technical assistance consultation provided (each agency selects a consultant from a team roster); and (d) a board retreat for each agency, facilitated by the program's consultant. One example of a special project was the design and implementation of a fundraising auxiliary group to increase community involvement and support for the organization's work; another involved comprehensive board development.

James Irvine Foundation—Central Valley Partnership provides capacity-building services to a group of community-based organizations working with immigrant communities in the Central Valley of California, helping people learn English and building their civic participation. The Foundation works strategically with each organization, connecting them with management consultants to promote strategic planning and financial strength; provides core operating support; and links agencies with public policy experts to help provide this region with a better voice in state policy development.

Of particular interest is the learning community that has developed. Partnership agencies meet quarterly and have together created the Central Valley Forum to bridge the gap between grassroots organizing and state policy development. The Partnership also created the Small Grants Program to support grassroots organizations in very rural areas. A faculty member from a local university serves as the group's "learning coach."

James Irvine Foundation—Community Foundations Initiative is a partnership between Irvine and seven California community foundations aimed at capacity building to improve the ability of these foundations to serve as catalysts for positive change in their communities. A planning phase provided each community foundation with resources to gather community data and solicit input for development of a community project, and funds for short-term infrastructure needs.

The five-year implementation phase includes an internal capacity-building component with technical assistance consultation and a peer-learning community, along with implementation of the community project for each foundation. Both site and initiative-wide evaluations are being conducted.

James Irvine Foundation—Youth Development Initiative (YDI) is a recently completed five-year, $4.3 million grantmaking program. YDI's mission was to increase the management and organizational capacities of youth-serving nonprofit agencies so that they can better meet expanding demand for services in their communities. Twenty youth-serving organizations in Fresno and Los Angeles participated in YDI, including both mature (well established) and maturing (young and small) nonprofits.

There are many ways to go about capacity building. YDI's strategy was to help youth-serving agencies through direct grantmaking and by providing technical assistance consultation, coordinated through intermediary organizations in each of the two California communities (Community Partners in Los Angeles and Fresno Regional Foundation in Fresno). The mission was to strengthen these nonprofit agencies and to create lasting capacity-building resources for the field.

Both local and cross-site evaluations of YDI were conducted over the last several years, identifying accomplishments, strengths, and challenges of the capacity-building initiative. The Foundation is now working to disseminate the lessons learned from YDI, one of the first major capacity-building programs in philanthropy to have an extensive outside evaluation.

James Irvine Foundation/The California Endowment—Growing Community Foundations Program is a special project of the League of California Community Foundations, aimed at achieving statewide geographic coverage of community foundations in California. The Program has ten participants—four from rural areas, where a board is organizing a community foundation, and six others at even earlier stages of development.

Capacity-building services include (1) an information clearinghouse, providing such things as mission statements from other League members (established community foundations in the state), and a resource directory with such listings as consultants who work with community foundations; (2) connections with veterans in the field to promote peer learning; (3) site visits to established community foundations; (4) teleconference meetings on various topics such as board development; (5) one-day training institutes; and (6) a "help desk" staffed by experienced consultants. The Program's key consultant also visited the sites of all ten emerging community foundations to conduct a needs assessment and develop relationships.

Many of these emerging foundations also have support from a Packard Foundation community philanthropy initiative. Efforts will be made in the coming year to blend the Program's work with other available capacity-building services and to involve the 10 foundations more actively in developing the training agenda.

W. K. Kellogg Foundation—AHEC Community Partners is a pioneering program in Massachusetts that provides technical assistance both to Kellogg grantees and to the field at large on some of the complex issues of collaboration. Findings from conferences, surveys, and other research are disseminated through the AHEC Community Partners newsletter, other publications, and a Web site. A number of brief, targeted publications are intended to summarize practical advice about such topics as starting up a community coalition and serve as a "print" capacity-building service.

Los Angeles Urban Funders (LAUF) is a coalition of 21 foundations supporting comprehensive community building in three Los Angeles communities, operating under the umbrella of the Southern California Association for Philanthropy, the Regional Association of Grantmakers for Los Angeles. LAUF starts with large-scale efforts to organize residents around issues that concern them, taps into neighborhood associations, and then convenes the nonprofits and moves into management assistance and planning activities.

The four goals of LAUF are to (1) encourage funders to gain an in-depth knowledge of three Los Angeles neighborhoods, coordinate their grantmaking within these communities, and work collaboratively; (2) strengthen the capacity of leaders and organizations to work together on collaborative research, asset mapping, strategic planning, and decisionmaking; (3) create healthier neighborhoods through comprehensive strategies that integrate human services, economic development, and community organizing; and (4) share lessons learned with other grantmakers, neighborhood leaders, and policymakers. Most of the capacity building is contracted out to local management service providers. A qualitative evaluation is documenting the process of the program and some of its accomplishments.

Panasonic Foundation—Partnership Program promotes capacity building in local education by partnering with school districts rather than individual schools. The mission of the Partnership Program is to develop districts' capacity to create and implement reform, and to restructure the district as a whole. To guide this process, capacity building is organized around the "Panasonic Foundation Framework for Successful School Systems," a 10-component model. Services are delivered by consultants who conduct workshops and seminars and provide troubleshooting assistance.

Panasonic has had two dozen partners since 1987, with typical partnerships lasting 5 to 10 years. It also conducts the Leadership Associates Program, which provides training for staff of partner districts to address the "bigger picture" of education reform. While evaluation of this program has been difficult, results appear to indicate success in influencing the reform process in a positive way.

David and Lucile Packard Foundation/James Irvine Foundation/Flora and William Hewlett Foundation—Strategic Solutions is a three-year initiative conducted by LaPiana Associates to impact the nonprofit sector's perception, understanding, and use of strategic restructuring as part of organizational improvement. Highlighting collaboration and other types of restructuring, the project includes technical assistance, training, and partnerships with both community foundations and intermediary organizations.

A five-stage model for strategic restructuring guides the process of working with participating nonprofits, helping them learn what type of restructuring might work best for them in achieving certain organizational goals. The initiative includes a Web site that provides both information about this process and links to the project's other resources.

Peninsula Community Foundation/Charles and Helen Schwab Family Foundation/Sobrato Foundation—Organizational Capacity Grant Initiative (OCGI) focuses on capacity building for 16 nonprofit social service agencies in San Mateo County, using an investment model that springs from venture philanthropy approaches. About $100,000 is given to each organization over three years to support technical assistance on strategic planning and seven other areas of organizational effectiveness. All 16 agencies will eventually participate in a core seminar on capacity building and share their experiences with this initiative.

An independent evaluation of OCGI is being conducted by BTW Consultants. The goal of the evaluation is to assess the Initiative's overall impact, rather than the impact of grants on individual agencies. The individual nonprofits are responsible for gathering data on impact within their own organizations. This overarching evaluation asks, What value was added by having funders collaborate and by having agencies define funding priorities and participate in a cohort learning community? A report on the first year of evaluation data was published in October 1999.

The Schwab Foundation alone also made a significant commitment to capacity-building grantmaking, with $1.7 million for such grants in 1998–99, as compared with $1.1 million in program grants.

Pew Charitable Trusts—Nonprofit Strategic Alliances Project provided capacity-building information packages and training to help nonprofits explore how strategic alliances might help them meet the challenges of reduced government support, increased competition for clients and funding, changing third-party reimbursement environments, increased for-profit competition, and increasingly complex client needs. A 1998 grant to the Philadelphia Health Management Corporation enabled (1) research on nonprofit strategic alliances, (2) input from an advisory council of local experts, (3) convening of focus groups with local nonprofit executives, (4) interviews with key informants who have experience with strategic alliances, and (5) preparation of case studies about successful alliances. These developmental activities were then used to create a notebook on nonprofit strategic alliances disseminated to Philadelphia nonprofits, and a series of breakfast training programs.

Pew Fund—Programs to Serve Elderly People and Programs to Serve Children, Youth, and Their Families are two funding and capacity-building initiatives of the Pew Fund, the Pew Charitable Trusts' primary vehicle for supporting health and social service organizations in the Philadelphia area. Capacity-building services were added recently, which also allows nonprofits in Philadelphia to apply for capacity-building grants. Intermediary organizations have been selected (the Institute on Aging at the University of Pennsylvania and the Philadelphia Health Management Corporation, with a third to be selected shortly to address services for vulnerable adults) to provide educational and other capacity-building services. Pew also supports the "Programs Adjusting to a Changing Environment" (PACE) program of lectures dealing with such issues as competition from for-profits in the nonprofit world.

Stuart Foundation—Matrix Program is a comprehensive management-assistance program that has enabled three communities to identify a desired community outcome and provide capacity-building support for a group of local nonprofit agencies that will work together to achieve this outcome. A range of capacity-building services are provided to these agencies. The program is operated by Community Impact Consulting, Inc. (headed by a former Stuart Foundation program officer).

A total of 34 nonprofits now participate in the program (two in California communities, one in Washington State). Agencies must agree to (a) conduct a comprehensive organizational assessment, (b) send their executive director and board chair to a monthly training meeting, and (c) meet individually with the site coordinator, who coaches the agency. They also identify local consultants who can offer both pro bono and paid assistance.

Outcomes at both the agency and community levels (including client outcomes) are measured as part of the process. School success, a workforce initiative, and a reduction in family violence are the three topics identified for the three communities in which this program is now operating. Community-wide results include formation of a five-agency association to share administrative functions and development of a countywide case management system for children and families.

DeWitt Wallace–Reader's Digest Fund—Management Initiative was a five-year project in which the staff of the Fund for the City of New York and a team of consultants worked with hundreds of youth-serving nonprofits to increase their capacity to serve children and youth. Twenty agencies were part of a demonstration project that provided comprehensive, in-depth sustained management and administrative assistance in seven areas. An expanded services component offered hundreds of youth-serving nonprofits more targeted help in meeting administrative needs.

Robert Quinn's "Competing Values Framework" was used as a theory of change to guide this work, and an organizational assessment began the process of intensive capacity building. "Tip sheets" in each of the management areas synthesized important lessons that framed the TA provided. *Managing the Future: A Leader's Guide* (Fund for the City of New York n.d.) offers an overview of the capacity-building model and lessons learned. Another publication, *Groundwork: Building Support for Excellence* (Fund for the City of New York 1994), offered an early evaluation of the setup and operation of this program.

General Capacity-Building Grantmaking Initiatives

Mary Reynolds Babcock Foundation—Organizational Development Program aims to build the infrastructure of nonprofits and their capacity to align with its mission work. As of June 1999, 102 nonprofits from throughout the Southeast received grants under this program, with each supporting a three-year organizational development (OD) work plan. Outcomes of these plans include increased clarity of mission, improved human and management capacity, greater financial stability, and more skill at evaluation and accountability.

Now the Foundation is moving in a new direction—to infuse OD funding into all of its grants (beginning in 1999) by encouraging applicants to analyze their OD needs and apply for funding in conjunction with program grants. The Foundation also plans to invest in capacity-building infrastructure in the Southeast, such as funding a Mid-South collaborative of nonprofit resource centers and state community-building associations and supporting an informal group of OD program participants who are exploring ways to provide peer assistance on organizational development throughout the region.

Bruner Foundation/Rochester Grantmakers Forum—Rochester Effectiveness Partnership brings together funders, evaluators (with consultation led by national evaluation expert Anita Baker), and nonprofit service organizations to design, implement, and refine evaluation practice related to philanthropic grantmaking in the Rochester area. The first step was to convene a funders' summit and a nonprofit summit to identify the evaluation issues these two groups think are most important. The Bruner Foundation, the major funder of this collaboration, already had conducted a project that searched nationally for innovations in evaluation practice to serve as a resource for this effort.

Out of these preliminary steps came the definition of a "Rochester Logic Model" for evaluation, which has been incorporated into a unified grant application form and process now used by local funders and nonprofits. The approach used is highly participatory, which increases both the involvement and the comfort level of nonprofit applicants and grantees.

Significant resources also have been invested in evaluation capacity building for Rochester nonprofits through training conferences and workshops conducted by nationally known experts in evaluation. This has helped nonprofits acquire both specific evaluation skills and a better conceptual understanding of how the participatory process and logic model fit into their overall resource acquisition and operational strategies. Parallel capacity-building activities for funders have helped foundations in the area understand how they can best use evaluation results to sharpen grantmaking.

Meadows Foundation funded 14 affiliated nonprofit management service organizations in Texas, with the aim of providing capacity-building consultation within 100 miles of home for any nonprofit in the state. The total investment of about $3 million included strengthening existing MSOs, starting up new ones in several locations, and funding the formation of the Texas Nonprofit Management Assistance Network to facilitate communications and resources among the centers. An independent evaluation of the centers and the Network showed that, in 1997, the centers served over 4,000 organizational clients and generated $2.275 million in non-Meadows fees and gifts to support their activities. In a survey of center users, most services received 90 percent or higher quality ratings.

Eugene and Agnes Meyer Foundation Management Assistance Program helps build the management capacity of small-to-moderate-sized nonprofits in the Washington, D.C., area. Grant funds have been used to hire financial, board, and other management consultants. These outcome-oriented grants have been especially useful for nonprofits in the midst of major transitions, such as the departure of a founder. The Foundation also has a cash flow loan program that makes quick-turnaround loans to nonprofits waiting for payments from government or foundations.

Mitsubishi Electric of America Foundation is a small corporate foundation that has a capacity-building program centering on increasing grantees' ability to undertake evaluation and dissemination for their projects. The Foundation created a "soup-to-nuts" program, including (a) information for applicants and grantees in its *Road Map* publication on evaluation/dissemination, (b) requirement for evaluation and dissemination plans as part of all grant applications, (c) board review of all applications specific to both topics, and (d) supplemental grant funding on dissemination available for selected grantees. In 1998, the Foundation created a learning community, bringing together all grantees from its first few years of grantmaking to discuss how to improve dissemination and evaluation efforts.

David and Lucille Packard Foundation—Organizational Effectiveness and Philanthropy Program has since 1983 been giving grants to strengthen Packard grantees in such areas as evaluation, marketing, strategic planning, fundraising, and board development. It is now the largest capacity-building support program in organized philanthropy, with $12.3 million in 1999 grants. The program includes four major grantmaking initiatives:

1. *Enhancing the Effectiveness of Grantees* provides capacity-building support for current Packard Foundation grantees, ranging from about $20,000 to $70,000 each. Each grantee interacts with Foundation staff to discuss needs, conducts an assessment if required, and then secures consulting assistance as needed to complete the capacity-building work.

2. *Building the Field of Nonprofit Management* provides support for MSOs that, in turn, offer capacity building to Packard Foundation grantees and other nonprofits; this initiative also funds academic programs in nonprofit management education and training.

3. *Community Foundation Initiative on Management Assistance* provides a small number of northern California community foundations with funds to address the management needs of nonprofit organizations in their local communities. This capacity-building support has been used by the eight participating community foundations to develop resource centers and libraries, offer training and consulting services, and create partnerships with local organizations to provide other capacity-building services.

   A 1999 independent evaluation report by Renee Berger of Teamworks highlights the value these projects have had in increasing community foundation credibility and connection to local nonprofits, as well as providing useful services. It also identified a number of challenges, such as limited planning for sustainability of these capacity-building programs after the Foundation's funding ends.

4. *Initiative on Effective Use of Consultants* supports projects that provide networking and professional development opportunities for consultants who work with nonprofits or who would like to work with them in the future. Six grantees were funded initially, and an independent evaluation report by Jim Thomas (1999) shows that the consultant training offered so far has been eagerly accepted by the consulting community and that learning communities for nonprofit consultants also are developing.

Roberts Foundation acts as a venture capitalist for grantees with revenue-generating businesses. Its capacity building follows a venture philanthropy model in which it hires consultants directly to help the nonprofits succeed with these businesses and maintains close relationships with the consultants as well as with the grantees. For this purpose, the Foundation relies heavily on Keystone Community Ventures, a management consulting group specializing in nonprofit revenue-generating businesses.

Robin Hood Foundation—Management Assistance Initiative offers the Foundation's grant recipients legal and accounting assistance with real estate projects, program evaluation services, board recruiting and development, and general strategic and operations consulting. Over time, the intent of this program is to become a "one-stop shop" for all of the management, administrative, and technical needs of grant recipients. The Foundation runs the entire capacity-building program internally with its own team of management consultants, led by codirectors who both come from top for-profit consulting firms. To supplement in-house staff, the Foundation partners with for-profit consulting firms to provide a variety of pro bono services.

General management assistance focuses on overall organizational issues like strategic planning and requires a longer time frame (three to six months or more). Legal work, accounting assistance, space renovation, program evaluation, and other types of more specific, time-limited assistance are usually handled through volunteer technical experts.

In addition, Robin Hood Foundation periodically conducts surveys of grant recipients on administrative and infrastructure issues. These surveys serve both to uncover grantees' problems and disseminate information on best practices with regard to salary and benefit levels and legal and accounting issues.

Social Venture Partners is a funding group based on a venture capital model, with 130 individual donors in the Seattle area. Using the skills that served them in business, the donors research which groups should receive grants, then work directly with the recipients. Donors provide capacity-building technical assistance in marketing, law, and other areas. Long-term commitments of at least five years are made to the nonprofits selected in the fields of education and children's services.

Community Foundation Capacity-Building Programs and Services

East Bay Community Foundation—Management Assistance Partnership Project (MAPP) is an infrastructure and resource development partnership. The project supports the development of healthy and sustainable East Bay communities through management and technical assistance partnerships. It offers free assistance to local nonprofits with assessing management and TA needs, referrals, identification of learning opportunities, networking with peers, and ongoing dialogues about the needs of the local nonprofit community.

There are four local partners that carry out MAPP's activities at the local level in two counties. In addition, a Web site recently has been created to facilitate MAPP's operations. MAPP offers small grants for capacity building, networking conferences, training programs for nonprofit managers, and publications such as *Supporting East Bay Collaboratives: Building Stronger Communities*. This report surveyed community collaboratives in the East Bay area in order to document their capacity-building needs.

Humboldt Area Foundation has a capacity-building grantmaking program that offers support to nonprofits in its rural northern California region. The Foundation also has started construction on the 6,000-square-foot Humboldt Community Resource Center, which it will operate as a "one-stop shopping center" for training and technical assistance. The new Center was conceived after the Foundation surveyed several hundred people from the local nonprofit community about their capacity-building needs. Based on survey results and other input, it was decided that group training programs could serve as a "catch basin" for promoting individualized technical assistance consultation, where the most impact is likely. Capacity building will be provided in traditional management areas and on issues of policy involvement for nonprofits (which is not a traditional topic for capacity building, but is an important priority for the Humboldt Area Foundation).

Capacity building now is "50 percent of the reason we're here as a community foundation," Executive Director Peter Pennekamp says. The Foundation's board has voted capacity building as co-equal with programmatic grantmaking and has stated that these two activities together constitute community building. While the challenges of building appropriate "fire walls" between grantmaking and capacity building are important for a community foundation, this issue can be managed effectively and should not constitute a roadblock to heavy involvement in capacity building.

Southeastern Council of Foundations—Community Foundation Initiative is an initiative to strengthen community foundations in a 12-state region of the South. Multi-year funding supports training, technical assistance, and marketing activities. Specific goals include conducting asset development workshops, convening leadership development workshops for rural county leaders on creation of philanthropy for rural areas, and providing on-site TA to community foundations establishing affiliate funds.

Private and Family Foundation Capacity-Building Programs and Services

El Pomar Foundation Education Initiative highlights the Foundation's convening power, offered in the setting of a conference and education center it dedicated in 1992. At this conference center, El Pomar offers leadership training and other professional development programs for nonprofit executives in Colorado, leveraging the Foundation's other grantmaking by investing in the human assets of the nonprofits it funds. An annual conference of nonprofit executives helps to give Colorado nonprofits a comprehensive view of national trends in the nonprofit sector.

Luella Hannan Memorial Foundation operates Hannan House, a 50,000-square-foot office building in which a number of nonprofits occupy subsidized office space. Because of the House's central location and free conference facilities, it also serves as a gathering place for the Detroit nonprofit community. The Foundation created an intranet for all of Hannan House's tenants, with a shared calendar and other collaborative tools. The system now is being expanded to include other organizations in the Detroit area. An education and training program provides line and executive staff and board members with various capacity-building courses.

Jacobs Family Foundation operates the Jacobs Center for Nonprofit Innovation, a private operating foundation that provides capacity-building support for nonprofits and the San Diego community, following venture capital practices. Funding partnerships, long-term team support on strategic planning and other management issues, and short-term training and problem solving are part of this Center's operations.

Intermediary Organization Capacity-Building Programs and Services

Bay Area Independent Elders Program established a separate 501(c)(3) technical assistance support organization for a major funding initiative by a group of foundations to support independent living services for older people in the San Francisco Bay area. The Public Interest Center on Long-Term Care then provided capacity-building technical assistance to 13 grassroots coalitions that were also created as part of the funding initiative. One of the strong measures of the success of this Center is that the federal government provided support to continue its capacity-building operations after the foundation funding for the program had concluded.

Corporation for Supportive Housing (CSH) was created in 1991, with support from three national foundations, to serve as an intermediary organization for local programs to offer affordable housing to vulnerable populations. The New York Capacity Building Program was begun in 1994. It provides targeted, multiyear funding and intensive technical assistance for organizational development to a set of supportive housing providers.

By developing the management and financial infrastructure of these nonprofits, CSH intends to create more effective and lasting institutions serving the housing needs of CSH's target populations. CSH has conducted an evaluation of the outcomes of this capacity-building program, which has provided assessment, implementation, and training grant funds (in 1997, $2 million was given to 10 organizations in New York City).

Foundation Consortium for School-Linked Services, a partnership of more than 20 foundations in California, created an intermediary organization to fund and develop school-linked services throughout the state. In addition to providing this funding support, the consortium also has created a "learning community" for the programs and funders involved in this capacity-building operation—one that ties evaluation back to the basic objectives of the program. As one interviewee, a cofounder of the group, put it: "They are better at capacity development because they have taken evaluation seriously." The learning community also includes a Web site that lists best practices that have come out of the consortium.

Local Initiative Support Corporation (LISC) is an intermediary that assists community development corporations (CDCs) in their efforts to transform distressed neighborhoods into healthy communities. In addition to providing funding and networking support, LISC operates the Organizational Development Initiative. It has an in-house consulting team that helps CDCs operate more effectively at both the fiscal and administrative levels. LISC was started by the Ford Foundation and six Fortune 500 companies, and continues to receive major funding support from foundations.

National Arts Stabilization (NAS) helps reinvigorate local arts organizations. To do so, NAS (which is funded by a number of foundations and corporations) assembles a team of financial, management, and arts professionals to collaborate with a local committee to form a "stabilization project." NAS provides capacity building at several levels—TA to the overall stabilization effort (currently in six locations nationwide), arts agency executive training on "Strategic Leadership in a Changing Environment," and strategic assessments to identify needed interventions.

Core Components of Effective Capacity Building

Based on the interviews, literature review, and other sources for this environmental scan study, eight potential core components of capacity building were identified. Because this is a small exploratory study of a young and rapidly growing field, this synthesis is intended to stimulate discussion and set the stage for more comprehensive research on capacity building. The set of core components certainly are likely elements of success for many capacity-building programs or activities, but this preliminary analysis is far from comprising a prescriptive "model" for capacity building, much less a set of limits for what such efforts should include.

Given these strong caveats, this environmental scan suggests that an effective capacity-building program or project initiated or operated by a foundation is:

1. **Comprehensive.** While narrowly defined interventions can work, foundations' most effective capacity-building activities offer some degree of "one-stop shopping" in which grantees can access a range of assessment services, technical assistance, financial aid, and other kinds of support.

   Because the resource net supporting most nonprofits is so thin and access to resources for strengthening tends to be limited, typically nonprofits have not just one but a number of needs—to improve fund-raising, strengthen the board, build appropriate information technology, and so on. This is especially true for younger, smaller nonprofits.

   Often assessment will reveal these needs to be interrelated, which is one argument for a comprehensive program. Another argument is that building a technical assistance relationship itself takes time and energy, so that nonprofits are likely to be drawn to "one-stop shopping centers," especially if these provider organizations allow nonprofits to choose among workshops or other educational formats as well as more targeted TA consultation (e.g., services in which the nonprofit can select a suitable consultant from a roster of candidates).

   While many communities have multiple sources of capacity-building services today, these providers typically are not well coordinated, according to the study interviewees. Thus, creating a central source for all services can have value. However, this does not mean that a given foundation must fund or directly provide all the needed services. Instead, it should offer the linkages to whatever the nonprofit needs from the foundation itself, an MSO or other provider it supports, or other entities in the community with which it is allied in either a formal or informal fashion.

2. **Customized.** The most effective capacity-building services are custom-tailored to the type of nonprofit, its community environment, and its place in the "organizational life cycle" (young, start-up nonprofits are likely to have needs very different from more-established organizations).

   Capacity-building strategies typically do not work well if they come from the "one-size-fits-all" realm. Consultants with prepackaged formats, for example, are seldom as effective as those who begin by trying to understand the unique needs, history, and circumstances of the given nonprofit, and then try to creatively design an intervention based on this understanding. This diagnosis needs to include other capacity-building services to which the nonprofit has access.

   "Triage" strategies, by which nonprofit organizations are selected to receive capacity-building grants or participate in service activities, may also be part of customization. Not every organization is ready to receive capacity-building services and benefit from them. Particularly when resources are scarce, as is usually the case, decisions need to be made about which organizations receive priority funding support for capacity building. For instance, decision points early in an assessment process may eliminate nonprofits that are in crisis or that lack the infrastructure to benefit from a particular set of services—perhaps encouraging them to reapply at a later time, or directing them to other resources more suitable to their most urgent needs.

3. **Competence-Based.** The most effective capacity-building services are those that are (a) offered by well-trained providers (both foundation staff and expert service suppliers), and (b) requested by knowledgeable, sophisticated "consumers" (nonprofit managers and board members).

   One of the most consistent shortcomings study interviewees identified in the capacity-building field was the lack of competent providers, especially in terms of their specialized knowledge of the nonprofit community. Poor quality assessment and TA was too often the result, they said, and this not only limits impact but also limits the enthusiasm of nonprofits to participate in capacity building in the future—especially, said several interviewees, because most nonprofits have had previous negative experiences with consultants.

   At the same time, there was a consistent comment about the need for competence on the "consumer's" end as well. Too many nonprofit managers and boards have had little experience with consultants, with technical assistance, or with capacity building in particular. They don't know how to ask for such help, don't know when they really need it, don't prepare for it well, don't know how to apply for funding to support what they want to do, and don't know how to use the input when it is provided. For example, in the Fazzi Associates study (1999), 82 percent of responding nonprofits said that organizations with greatest capacity-building needs are either unaware of that need or lack the capacity to write a successful proposal so they can meet the need identified. The Harvard Business School study (Baumann et al. 1999) of consultants in the nonprofit realm also came to the same conclusion—well-educated, sophisticated consumers of these services are imperative to success.

4. **Timely.** The most effective capacity building happens in the balanced space between action taken too slowly to be relevant (often because of funder delays in acting on grant applications) and action performed too quickly to allow the flowering of an intervention in a complex context.

   "Just-in-time" funding for capacity building was mentioned by many interviewees as imperative for success. Often a delay in granting funds means losing focus, missing opportunities for interventions that would have been especially helpful, or even the nonprofit's leadership moving on to other issues. At the same time, capacity building needs to be carried out on an "organic" basis. For the greatest chances of success, it must develop in a long enough time frame that the right "chemical reactions" occur—it cannot be guided, but can be supported.

   Timing also applies to the duration of capacity-building support. Michael Howe of East Bay Community Foundation suggests that the typical one-to-three-year time frame is unreasonable, if not naive. Effective capacity building for nonprofits requires in many instances a long-range commitment of resources, with progress checks along the way.

   At the least, foundations need to consider "exit strategies" quite strategically. If a funder plans a time-limited commitment, what other grantmakers may be able to take up the slack, and how can nonprofits be connected with them so that the transition from one funder to another is as smooth as possible?

5. **Peer-Connected.** The most effective capacity building happens when there are opportunities for peer-to-peer networking, mentoring, and information sharing.

   Some of the most successful capacity-building programs, as reported by both outside observers and participants, were those that began with services offered by a professional provider but then moved quickly to the establishment of a peer network. Ongoing peer mentorship programs have been experimented with by a few foundations (e.g., Community Foundation Silicon Valley).

   David (1999) has analyzed The California Wellness Foundation's commitment to initiative grantmaking. The ability to provide capacity-building technical assistance to grantees is one advantage of these initiatives. Gathering an initiative's grantees together on a regular basis, at least annually, and encouraging them to share experiences and engage in problem solving creates peer learning networks. The Wellness Foundation also has found it useful to fund an intermediary organization to provide additional TA and to coordinate the convening and learning community functions.

   The Hitachi Foundation has had similar experiences with two of its grantmaking initiatives. According to Barbara Dyer of Hitachi, creating a grantee learning network can both help individual grantees and strengthen the field. However, doing so requires careful planning of grantee convenings, and a number of activities (site visits, regular conference calls, etc.) that take place between the convenings.

   Also, as Michael Moore of the Wallace–Reader's Digest Funds points out, setting up peer groups must begin with a thoughtful consideration of who, in fact, is a peer. Nonprofits that seem to be in the same area of work often turn out to have little in common. Additional principles for aggregating membership in a peer network may need to be teased out of interviews and field observations. A funder's most important role may be in providing the platform on which true peers can identify each other and then decide to interact on an ongoing basis.

6. **Assessment-Based.** The most effective capacity building begins with a thorough assessment of the needs and assets of the nonprofit and the community in which it operates, which in turn drives the types of capacity-building services offered.

   As mentioned, several foundation capacity-building initiatives have included the creation of a "technology" for assessment, including both procedures and data-gathering forms. Such standard procedures allow efficiency and comparison of results across a large number of recipient nonprofits. Some of these technologies are now available for possible adaptation by others.

   Knight Foundation and other foundations are also now creating community indicator systems that provide benchmarks to measure the status of overall community health and the life of the nonprofit sector. These systems could be used to help interpret the results of organization-specific assessments by putting them into the larger context of the community that the nonprofit serves.

7. **Readiness-Based.** The most effective capacity building occurs when the nonprofit "client" is ready to receive this specialized kind of service (e.g., the nonprofit is not in the midst of a major crisis that would make it unable to benefit from the intervention at that time).

   Readiness assessment, using strategies that have been well developed in the social sciences, can help determine that the commitment to change—which any successful capacity building is going to require—is there both for the nonprofit and for the community, not just for the funder. Sometimes the need for capacity building can be great, but the readiness for it is low because the nonprofit's leaders are preoccupied with other crises (e.g., an executive director is about to depart, etc.). In low-readiness situations, a decision can be made either to defer the capacity building or to attempt an intervention to deal with the issues that have surfaced.

8. **Contextualized.** The most effective capacity building occurs in the larger context of other strengthening services a nonprofit is receiving, other activities of the sponsoring foundation, and other elements of the current community environment.

   The growth of the capacity-building field means that, particularly in major urban areas, there are multiple resources available to nonprofits. In a related study for Knight Foundation, this author (Backer 2000a) identified more than 20 capacity-building service providers for nonprofits in the Philadelphia area alone, and this list is certainly not comprehensive. In San Francisco and other urban areas, interviewees mentioned that duplication of service and lost opportunities for synergy were increasing as more funding has become available to support these activities.

   This suggests that part of an initial assessment could be identifying (a) what other capacity-building services a nonprofit currently is receiving—so that positive synergies can be heightened and duplication or conflict minimized—and (b) what other services might be made available in the future—to increase the impact of what is provided by a particular foundation-funded program. One of the clearest signs that a nonprofit's leadership is inexpert in handling capacity building is the revelation that several interventions are happening in the organization simultaneously, but nothing has been done to coordinate them.

Challenges

Five challenges to further growth of the capacity-building field are:

1. **Quality and Evaluation.** Services offered by or through many foundation capacity-building programs are of variable quality (in the view of both consumers and independent observers). There has been little rigorous evaluation of these services so that they can be improved (evaluation, in fact, may become the ninth core component of effective capacity building, to add to the list above).

   The quality issue already has been discussed in this report. One of the underlying causes of poor quality is that capacity-building service providers are themselves often fragile organizations, in need of services very much like the ones they provide to other nonprofits. Consultants and consulting firms come and go and sometimes lack the infrastructure to respond to the degree of demand for their services that may emerge in a nonprofit community. This is particularly likely in a growing market area, such as capacity building in a major urban area.

Poor quality, in fact, is common in the management consulting and technical assistance business. For instance, a recent *Business Week* story detailed the management and financial woes of Franklin-Covey, an organization formed from the merger of two leading management seminar providers (one of them is the firm of Stephen Covey, author of *Seven Habits of Highly Effective People*). The management gurus did not practice what they preached, and the merged organization almost went out of business as a result, losing large sums of money until the founders were removed from their original leadership roles.

Moreover, the capacity-building management ideas often provided by MSOs and consultants not only may be inappropriate for the nonprofit world, but also may be out-of-date. In his latest book, Drucker (1999) says that most commonly accepted management ideas are inadequate for the changes sweeping the world. Good capacity building needs to draw from current management approaches, and it needs to reflect the changing nature of both the nonprofit world and the environment at large.

Finally, there are major trends in the delivery system for capacity building, especially in management training and development, which do not seem to have been incorporated fully from the world of business. For instance, the "executive coaching" movement, whether delivered by outside professionals or peers, seems to have some excellent potential for application to capacity building. Coaching requires problem-specific, highly interventionist and hands-on, individually focused, time-limited, results-oriented, and participatory strategies. Such strategies and infrastructure from the coaching movement could be adapted readily to the world of nonprofit capacity building.

Evaluation of procedures and outcomes is urgently needed. Very little research has been done in this field, even for simple process and outcomes evaluation. The Charles and Helen Schwab Foundation capacity-building initiative and the James Irvine Foundation Youth Development Initiatives are among the first whose outcomes have been evaluated independently. Some models that may be useful for practice could come out of a synthesis of these and other evaluations.

2. **Nonprofit and Community Engagement.** Nonprofits and communities need to be more actively involved in setting the agenda for capacity building and in evaluating its outcomes; capacity-building programs provide real opportunity for funder-nonprofit partnerships, and for the sharing of power.

   As foundations in the 21st century look at various ways in which they might share power with the communities their resources are intended to serve, capacity-building programs offer an excellent vehicle, particularly for programs actually operated by foundations. Community advisory boards, mutually defined programs, and grantmaking requirements (e.g., the small grant program defined by the grassroots organizations participating in Irvine Foundation's Central Valley Partnership) can all help a foundation to engage the community more directly in shaping philanthropy.

This is not a matter of political correctness so much as it is a need for input both about content and format of capacity-building services. Funders and even providers to some extent may have staffs with backgrounds very different from grassroots, community-based nonprofits. Cultural and language differences may exacerbate the potential for miscommunications and inappropriate service offerings. Beyond these practical matters, philanthropies interested in more generally reshaping their power relationships with nonprofits and communities may find capacity building a good place to start, according to several of the interviewees from this review.

3. **Funder Education and Development.** Many foundations need education and technical assistance in order to learn state-of-the-art practices in capacity building, the advantages of involvement in such philanthropic activity, and how to appraise the payoffs achieved from what they fund.

   Grantmakers for Effective Organizations has convened two national conferences and has undertaken a number of other events and several publications in order to help foundations learn about capacity building. A number of individual foundations and other affinity groups also have offered educational and networking events on this subject. However, for this effort to be more successful, greater infrastructure is needed to get the message out—especially to deliver it to smaller, more rural foundations and to bring together funders and other "players" in the capacity-development movement. One organization doing this is Burness Communications, which publishes an electronic newsletter (supported by the John D. and Catherine T. MacArthur Foundation) that is e-mailed to a national list of funders. The newsletter presents new developments in philanthropy and, like other philanthropic periodicals and Internet services, could carry information regularly on new developments in the capacity-building field.

   Another Burness Communications project provides a model for how more specific skill building might be provided. This project, conducted in collaboration with the Urban Institute and the national Regional Association of Grantmakers affinity group, is aimed at strengthening foundations' roles as news sources through providing a variety of information and technical assistance resources to them.

   In fact, existing infrastructures such as the Regional Associations of Grantmakers and the several national associations of community foundations can play a central role in promoting the wider spread of knowledge about capacity building to their constituencies. This is already happening through various conference programs, newsletters, and so on. As the field grows, more strategic planning for these communication efforts will be helpful simply because the volume of information will keep growing.

4. **Shakeout and the Second Generation.** Increasing duplication of services and marginally effective providers make a "shakeout" in the capacity-building field likely, followed by a second generation of more sophisticated (evaluation-based, theory-driven) capacity-building programs.

   According to Ben Shute at the Rockefeller Brothers Fund, awareness is building in American philanthropy that, especially in urban areas, there are now enough foundations and enough organizations receiving capacity-building funding that some duplication of services is almost inevitable. A number of other interviewees for this scan gave specific examples of potential or actual overlap. As yet, there are only a few elements of infrastructure set in place to promote the national or regional coordination of capacity building, so that whatever duplication of services already exists is hard to track, much less to change.

Problems in the quality of capacity-building services have already been discussed. A larger view is needed, however, to determine underlying causes for these problems. For instance, in many communities, the current vibrant health of the economy means that nonprofits (including MSOs and other capacity-building service providers) simply cannot compete in offering salaries that will attract the best people. This situation, combined with the lack of training opportunities for those who want to become management consultants in the nonprofit sector, may produce the service quality problems noted in this paper.

There also is potential for overlap and duplication of learning, which will be increasingly likely as the number of studies in this field proliferates. Bernholz (2000) has called for the creation of a registry of studies about philanthropy, which, if it included capacity-building studies, would help to reduce the potential for duplication. In all, evaluation studies, commissioned consulting projects, feasibility studies, and so on would all be part of such a registry. Most of these now lead, at best, to "gray literature" that is seldom distributed beyond the commissioning foundation's doors. Of course, there may also be synergies or learning opportunities resulting from overlapping projects, not just simple duplication.

The work of the Center for Nonprofit Leadership at the University of Missouri–Kansas City in developing a citywide infrastructure for nonprofit capacity building is an example of how communities can work to create more synergy and productive coordination in this realm. The Bruner Foundation's Rochester Effectiveness Partnership is another example of a community-wide effort to promote capacity building (focused in this case on program evaluation capacity for funders and nonprofits). Lessons from these pioneer efforts may help other communities to build their own infrastructures for community-wide capacity building—for instance, as ventures such as the Humboldt Area Foundation Community Resource Center begin to operate.

5. **Field Building.** More infrastructure is needed to support capacity building in philanthropy—to educate funders, nonprofits, and communities; to replicate proven strategies; to promote sharing of good practices; and to enhance the relationship of capacity building to the overall goals of philanthropy.

The "field" of capacity building is now growing not only because of increased activity over the last few years, but also because people have begun to think about things that are not new (such as providing technical assistance to nonprofits to strengthen their operations) as belonging under this conceptual umbrella. In addition, an infrastructure—consisting of national conferences and associations, published literature, regional groups such as the California Management Assistance Partnership, and so on—is starting to grow as well. Future field building will require more attention to educational activities (through conferences, academically based coursework, and print or electronic literature), and to more systematic efforts to "raise the bar" on capacity-building practice by sharing innovations and setting standards that integrate these activities with philanthropy and nonprofit management.

Such infrastructure will allow wrestling with larger issues such as the ethics of capacity building, moving from output to outcome orientation in evaluating capacity building, dealing with issues of race in capacity building, dealing with role conflicts in capacity-building activities, and promoting collaboration between government and philanthropy. These issues were discussed in the first two GEO conferences in 1998 and 2000 and again in the June 2000 Urban Institute conference described earlier in this paper.

Ethics of capacity building revolve in large part around the inherent imbalances of power between foundations and nonprofits. These power balance concerns manifest themselves in many technical ways; for instance, community foundations that also operate management assistance programs must be careful to build appropriate "firewalls" between their grantmaking and capacity-building functions, according to Jesse Arreguin of the Fresno Regional Foundation. Otherwise, there may be not only ethical problems but also a practical reluctance among nonprofits to use the foundation's capacity-building service, which typically requires them to be candid about their operating problems and organizational shortcomings.

This leads to an ethical issue aptly described by a phrase from medicine: "First, do no harm." Mary Ann Holohean of the Meyer Foundation asserts that there is more potential for harm to nonprofits in capacity building than in any other type of intervention conducted by foundations. Participating in capacity building requires a nonprofit to give information about its weakest, most vulnerable elements and, in particular, to share that information with one or more of its funders. Such vulnerability requires devoting considerable energy to oversight though, as Michael Howe of East Bay Community Foundation puts it, there is also a downside possibility that too much hesitance to take risks can lead to "the assurance of a mediocre approach." What is important is that the risks of capacity building be managed thoughtfully.

Moving from output to outcome orientation in evaluating capacity building actually represents a general concern for the entire field of nonprofit management, not just for capacity building. However, this issue has particular relevance to capacity-building programs because it is so easy to focus attention on the process of capacity building or even on its output in terms of smoother-running organizations. One can lose sight of the fundamental question: Does this investment result in better services to clients or better programs for the community?

Dealing with issues of race in capacity building means looking squarely at multicultural concerns in the capacity-building process itself. For instance, is there an effective match between the cultural backgrounds of the nonprofit's leadership and the consultants or technical assistance providers who will be working with them? Have definitions of what capacity building is supposed to achieve been tested in the multicultural communities where the relevant nonprofits are based? In efforts to share power and decisionmaking related to a foundation's capacity-building programs, have the right individuals and groups from the multicultural community been included in the process?

Dealing with role conflicts in capacity-building activities refers to the unique three-way relationship that exists among foundations as funders of capacity building, nonprofits and their communities, and providers or intermediary organizations. There are bound to be some tensions, especially as capacity-building programs grow in scope. These can best be handled if roles are defined clearly from the outset and simple structures by which role conflicts can be discussed and resolved are provided.

Promoting collaboration between government and philanthropy on capacity-building programs is increasingly likely to have value, especially as government funders of nonprofits at all levels come to realize the value that support for capacity building can have. For example, the East Bay Community Foundation's capacity-building programs have always included government as a partner, which Foundation staff members believe helps to promote understanding of these processes in the government sector.

The 1998 GEO conference group raised provocative questions about how capacity-building programs can best work with consultants, whether TA offered to grantees should be mandatory or voluntary, and whether foundations should provide TA with their own staff or outsource this activity. These and many other issues addressed (directly or indirectly) in the set of challenges presented here are among the complex matters funders, nonprofits, and providers will need to consider together in the future.

Recommendations

Following are recommendations synthesized from the interviews and other sources for this environmental scan about next steps that might be taken to "grow the field" of capacity building. These suggestions reflect the many activities already under way (professional conferences, research studies, significant foundation grantmaking initiatives, etc.). These field-building recommendations are concerned with (a) enhancing particular elements of the knowledge infrastructure for capacity building (a database of "good practices," a meta-analysis of evaluations, case studies of capacity-building programs, empirical research on capacity-building strategies that are widely used), (b) pilot testing a technology-based approach to capacity building, and (c) broadening the field by inviting a "collision of ideas" with other areas.

1. Conduct a more comprehensive study of "good practices" in capacity building, creating a database containing brief descriptions in a standard form of at least the 200 programs that have already been identified. This database can be made available to the field both in print and online formats.

Interviewees consistently expressed frustration at not knowing what is going on in other geographical or topical areas, especially because of the recent proliferation of capacity-building efforts and the number of "below the radar screen" efforts that are not documented or communicated. Based on input from the experts consulted for this scan, the 200 programs identified (of which only 40 were summarized in this paper's "Good Practices" section) are just a segment of the total field in American philanthropy.

While not aiming for an exhaustive inventory, a relatively modest new study could retrieve information at least on these 200 programs and put data into a standard format. Two other categories of interest to this study's interviewees could be included:

- Information on "good practices" in certain emerging categories, such as peer learning networks, community foundation programs, programs that blend capacity building and program grantmaking, and so on. This study would begin by reviewing the data from the present environmental scan to create a list of these emerging categories and the programs that fit into these categories.
- Information on proof-of-concept projects evaluating capacity-building strategies that have been funded by foundations in the last few years. For example, under funding support from the W. K. Kellogg Foundation, this author conducted a proof-of-concept study deploying both individualized and group/workshop technical assistance interventions to help Los Angeles nonprofits develop capacity to create and sustain partnerships. Intermediary organizations (the nonprofit incubator Community Partners and the Long Beach Public Corporation for the Arts) were used to assemble the workshop participants and coordinate these interventions. Evaluation of the capacity-building effort indicated that these modest interventions helped the participating nonprofits succeed in acquiring foundation funding for a community-wide initiative in arts and culture marketing.

The standard form used for the proposed study could itself be the subject of discussion and debate among capacity-building experts, convened at the beginning of such a project. Each database entry might contain information on such topics as:

- capsule description—overview of the "good practice," including contact information
- innovation analysis—what activities or methods (e.g., an assessment tool that could be used by others) were distinctive about the "good practice," and/or what evaluation results were obtained
- environmental analysis—how the "good practice" fits with other programs in its geographical or subject area
- topical analysis—classification of the database entries for easy retrieval, using a coding system that might build on the " 'First-Cut' Framework" presented later in this paper

A print version of this database then could be disseminated to interested parties, and an online version made available in searchable format, perhaps through a major Web site such as Helping.org. In addition, an annual report on advances in capacity building and philanthropy might be prepared and issued through an appropriate academic center.

Innovations also could be included that set capacity building into a larger context. For instance, Knight Foundation for the past seven years has been supporting the development of community-wide arts marketing collaboratives, whose purpose is primarily capacity building for nonprofit arts. These collaboratives encourage a community's nonprofit arts agencies to pool their resources for marketing, enhancing both the creative talent and the technology at their disposal for audience development. Eight cities are now at various stages of developing a collaborative (two are up and running, and several more in the active planning stages) (John S. and James L. Knight Foundation 1999).

The larger context for these collaboratives is the growing national movement for increasing cultural participation, spearheaded by foundations such as the Wallace–Reader's Digest Funds. To understand these individual capacity-building innovations, it is necessary to set them in this larger frame of research (Wallace has sponsored a major research study on behavioral approaches to cultural participation, conducted by The RAND Corporation), conceptual discussion (Wallace is convening two large national conferences for this purpose), and other grantmaking initiatives.

2. Conduct a meta-analysis of evaluations of capacity-building programs in philanthropy to synthesize common findings, refine the preliminary definition of core components presented here, and identify methodological problems with this type of evaluation (and resolutions attempted for them).

A small but growing number of capacity-building programs are being evaluated, either informally by foundation program staff or formally through commissioned independent evaluations. As more published findings from these evaluations emerge over the next year, it will be possible to synthesize their results in useful ways and to address issues of capacity building and the technical aspects of evaluating these interventions. In addition, it would be useful to conduct case studies of some of the more notable failures in capacity building, including management providers that have ceased operation or grant programs that have been suspended.

Such an activity might be coordinated through joint efforts of Grantmakers for Effective Organizations and the Grantmakers Evaluation Network, an affinity group of foundation staff interested in evaluation issues. Results could be disseminated to the field through the database project described above.

3. Conduct a series of case studies of capacity-building programs in philanthropy, identifying key types of philanthropic initiatives and using the case study approach to develop a deeper understanding of how these programs were created, what they did, and what impact they produced.

The case method, used by Harvard Business School and many other academic programs in management science, is ideally suited to measuring and understanding the complex, sometimes difficult-to-trace development of capacity-building projects and services. From these case studies can be derived a better understanding of how these programs are created by foundations, how they relate to other aspects of philanthropic practice, and how these complexities relate to "good practices" and the core components of capacity building.

Topics for the case studies could be selected using the resources of this scan, or more ideally, those of the database project proposed above. For instance, one case study could focus on a successful peer-learning network and another on a foundation funding program that blends capacity building and program grantmaking.

4. Conduct empirical research on the effectiveness of specific capacity-building interventions to determine, for instance, whether peer consultation approaches may be more effective than expert interventions, at least for certain types of capacity building.

Peer consultation for capacity building was widely cited as desirable by interviewees in this environmental scan. However, there is at present little solid empirical evidence to support the superiority of this method or to determine what specific steps work best to facilitate it. Especially as evaluation studies provide more general evidence about capacity building, and as funders begin to pinpoint more clearly what are the relative costs of different strategies, research to determine relative effectiveness of peer consultation and other highly praised approaches will become more essential.

Research also should concentrate on what strategies for nonprofit capacity building work best in organizations of different sizes, in different subject fields (for instance, there have been an unusually large number of direct financial assistance programs created in nonprofit arts), and in different stages of the organizational life cycle. The work of the Irvine Foundation's Youth Development Initiative and a recent study of Community Partners nonprofit organizations (Bess 1998) show that capacity-building needs of young nonprofits are very different from those of more mature organizations.

Ideally, research studies of this sort could be coordinated among funders interested in capacity building. A conference of such funders, along with knowledgeable providers and nonprofit leaders, convened to define a research agenda might advance the field. Existing nonprofit research entities, such as the Nonprofit Sector and Philanthropy Program at the Aspen Institute and the Association for Research on Nonprofit Organizations and Voluntary Action (ARNOVA), can play a role in the unfolding of such a field-building research campaign.

Individual foundations such as the John S. and James L. Knight Foundation, which have funding programs in a number of communities, could also provide some rough experimental tests of capacity-building strategies by implementing different approaches in one or several communities and then comparing their impact. Using such naturally occurring opportunities for evaluation can add significantly to our understanding of how these various approaches work.

5. Develop and pilot test an online capacity-building service that would use the Internet to deliver information resources, assessment technologies, and online technical assistance for both nonprofits and foundations.

A number of Internet resources for capacity building already exist, as described above. Investments in developing additional Internet capabilities are now being made by major providers, such as CompassPoint. A recent study by Reis and Clohesy (2000) provides an estimate of the number of related Internet enterprises, such as those concerned with e-philanthropy, and this author's report, *Strengthening Your Nonprofit* (2000b), identifies dozens of Internet capacity-building resources nonprofits can use.

What has not happened yet is the development and pilot testing of an innovative, online capacity-building service that would provide—from a single site—a wide range of information, computer-guided tutorials and diagnostics, direct e-mail access to consultants, and other real-time electronic services for capacity building. Such a pilot test could be conceptualized by building on the creativity of the Internet resources already in existence, such as those already described in this report.

In addition, experiments in distance learning technology might be reviewed for potential contributions to the design of this pilot. For instance, the University of North Carolina is developing the Civic Entrepreneurship Distance Learning Program, which could provide some useful input.

6. Promote cross-sector dialogue on capacity building to stimulate sharing of ideas among nonprofits, philanthropy, and other sectors—particularly the corporate world and government, both of which have their own distinctive interests in capacity building.

Convening thought leaders from philanthropy, nonprofits, government, management science, and the business sector could be useful in addressing some cutting-edge issues that have been raised by interviewees for this environmental scan. In addition to national or regional convenings called specifically for this purpose, such dialogues also could occur through the established annual meetings of the Council on Foundations and its various affinity groups. Input specially tailored for those just entering the field of philanthropy could be provided through training programs for new grantmakers offered by the Council. Among the issues that could be considered are:

- How to encourage wider adoption of capacity-building interventions by foundations, especially if research (such as what is recommended above) demonstrates that these methods add true value to grantmaking. For instance, creating such larger-scale systems change in philanthropy is likely to require changes in both foundation policy and staff reward systems, since these currently emphasize program grantmaking.
- How to integrate capacity-building methods with innovative strategies for providing direct financial assistance. Unless core operating support and other financial assistance becomes part of the mix of solutions offered to strengthen nonprofits, said a number of interviewees, some nonprofits will have difficulty surviving and thriving, no matter how well other capacities are enhanced. Grossman (2000) puts this discussion into a larger systems framework by talking about the need to develop capital markets for nonprofits in order to relieve the chronic underfunding of this increasingly important sector of the American economy.

- How to better integrate the faith community in nonprofit capacity-building activities. Faith-based local and national organizations are already involved in offering capacity building to their own service organizations, but these activities are seldom coordinated with those of nonreligious organizations in the same communities. Particularly as faith-based community coalitions and human service organizations are becoming more prominent players, this coordination is urgently needed. This environmental scan identified a few crosscutting programs (e.g., the Korett Foundation funds technical assistance for lay synagogue personnel), and wider sharing of such efforts could help to stimulate further integration.

- How to build in flexibility for future changes that will inevitably occur within the infrastructure for capacity building, both for the field as a whole and for the work of individual foundations. For instance, what can be done now to prepare capacity-building programs in philanthropy for the advent of Internet-based interventions? As an analogy, 30 years ago Dr. Jonas Salk designed the buildings of the Salk Institute in La Jolla, California, with attention to flexibility (space left for the addition of new electrical lines, etc.). As a result, the Salk labs are a world model for their ability to stay relevant (without costly retrofittings) as laboratory science has changed dramatically over the last 25 years.

- How to deal with human issues of change related to introducing capacity building more widely into the work of foundations and the nonprofits they support. This includes anticipating the fears and anxieties that generate psychological resistance to change, as well as building a sense of reward and participation in the change effort.

  Realizing the full potential of capacity building will require changes both by funders and by nonprofits and the communities they live in. Strategies for handling change are well described in the behavioral and management science literature, as summarized by this author in *Dissemination and Utilization Strategies for Foundations: Adding Value to Grantmaking* (Backer 1995).

- How to appraise both the evident and hidden costs of engaging in capacity building. These exist for both nonprofits and foundations. For example, nonprofit organizations may receive a capacity-building grant that enables them to train middle managers in the use of technology—after which some staff may use their training to leverage higher-paying jobs in the private sector.

  Moreover, it is difficult for communities to resist applying for capacity-building funding, even though they may be ill-equipped to engage in the changes the funded project will require. For instance, a nonprofit may be overwhelmed with change that is occurring in the community, or even from other funded change initiatives they are already involved with. In the latter situation, "hyperinnovation" can result, to use a term from Madeline Landau at the University of California, Berkeley. Finite energies of nonprofits and community leaders can be dissipated if spread too thinly over too many initiatives. In this way, capacity building can become a part of the problem instead of part of the solution.

- How to ask the difficult question raised by several interviewees: "When is capacity building not appropriate?" The Humboldt Area Foundation's Peter Pennekamp gives the example of some nonprofit organizations that run entirely on passion. Such groups may not be well managed in the strict sense, but they provide a service of value to their communities. They frequently resist participating in capacity building because they correctly recognize that their lack of formal organization is part of what makes them work.

  Paying attention to the dangers of "one size fits all" includes looking at situations where capacity building simply is not appropriate—when readiness is low, when too much other change is going on, or when the organization's deeply held values and operating style are incompatible. It might be helpful to provide, perhaps in a magazine article targeted to the philanthropic and nonprofit worlds, "Ten Reasons Not to Do Capacity Building." Such a list could spark debate and dialogue about how to best implement capacity-building methods in strengthening nonprofit organizations and communities, and how to refine and improve the philanthropic grantmaking supporting these endeavors.

Final Thoughts

As the enthusiasm of interviewees and hopeful reports from the field gathered for this environmental scan make clear, capacity-building activities are changing the way foundation grantmaking is done in this country, and some positive results for the performance of nonprofits are evident. This environmental scan is just one small step in the process of reviewing and synthesizing what has been learned so far about how to create good programs in philanthropy for strengthening nonprofits and how these relate to other activities in the nonprofit sector—from community building to university-based training for future nonprofit leaders.

This scan has identified some concepts that may help to shape a more refined definition of capacity building and its core components, some "good practices" that may help to shape how the work is actually funded and carried out, and a number of needs for research, development, and dialogue. As with most exploratory studies, far more questions have been raised than have been answered. Nevertheless, the reason for continuing to pay attention to capacity building is the same as for continuing to pay attention to city streets or other physical infrastructure. Without maintenance, they crumble. As Marilyn Graves (president of the Crippled Children's Society of Southern California) put it in a 1998 *Foundation News and Commentary* article:

> There is a lot more need out there than any one agency can handle. So to me, it is a question of how we can serve as many people as possible. After all, capacity means how much you can handle. I'm one of those folks who can never say no, so capacity building is important to us.

Resources

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Grantmakers for Effective Organizations: Geofunders.org
Alliance for Nonprofit Management: Allianceonline.org
Helping.org

"First-Cut" Capacity-Building Framework

Capacity-Building Organizations

Foundations
Nonprofits
Service Providers
Intermediary Organizations
Associations

Service Providers

- Management Support Organizations
- Nonprofit Incubators
- Nonprofit Management Training Programs
- Academic Centers for Nonprofit Management
- Consultants and Consulting Firms
- Technology Projects
- Internet-Based Providers

Intermediary Organizations

- Regranting Intermediaries
- Direct Service Intermediaries

Associations

- Grantmakers for Effective Organizations (GEO)
- Alliance for Nonprofit Management

Capacity-Building Activities

Assessment

- Community Environment
- Nonprofit

Intervention

- Management Consultation
- Training
- Technical Assistance

Direct Financial Support

- Core Operating Support
- Specific Grants
- Working Capital

Core Components of Effective Capacity Building

Comprehensive
Customized
Competence-Based
Timely
Peer-Connected
Assessment-Based
Readiness-Based
Contextualized

Capacity-Building Service Areas

Advocacy
Ethics
Evaluation
Financial Management
General Leadership
General Management
Governance
Human Resource Management
Information Systems
Legal
Marketing
Operational Management
Organization, Design, and Structure
Planning
Resource Development

Roster of Capacity-Building "Good Practices"

Categorical Capacity-Building Grantmaking Initiatives

Boston Foundation—Common Ground
The California Endowment—Population-Based Funds Program
The California Endowment/Tides Foundation—Community Clinics Initiative
The California Wellness Foundation—Urban Clinics Initiative
Community Foundation Silicon Valley—ArtsBuild Communities Conference and Grant Program
Community Foundation Silicon Valley—Mentorship Project
Flintridge Foundation—Nonprofit Leadership Program
James Irvine Foundation—Central Valley Partnership
James Irvine Foundation—Community Foundations Initiative
James Irvine Foundation—Youth Development Initiative
James Irvine Foundation/The California Endowment—Growing Community Foundations Program
W. K. Kellogg Foundation—AHEC Community Partners
Los Angeles Urban Funders
David and Lucile Packard Foundation/James Irvine Foundation/Flora and William Hewlett Foundation—Strategic Solutions
Panasonic Foundation—Partnership Program
Peninsula Community Foundation/Charles and Helen Schwab Foundation/Sobrato Foundation—Organizational Capacity Grants Initiative
Pew Charitable Trusts—Nonprofit Strategic Alliances Project
Pew Fund—Programs to Serve Elderly People and Programs to Serve Children, Youth, and Their Families
Stuart Foundation—Matrix Program
DeWitt Wallace–Reader's Digest Fund—Management Initiative

Generic Capacity-Building Grantmaking Initiatives

Mary Reynolds Babcock Foundation—Organizational Development Program
Bruner Foundation/Rochester Grantmakers Forum—Rochester Effectiveness Partnership
Flintridge Foundation—Nonprofit Leadership Program
Meadows Foundation—Texas Initiative Program
Eugene and Agnes Meyer Foundation—Management Assistance Program
Mitsubishi Electric of America Foundation
David and Lucile Packard Foundation—Organizational Effectiveness and Philanthropy Program
Roberts Foundation
Robin Hood Foundation—Management Assistance Initiative
Social Venture Partners

Community Foundation Capacity-Building Programs/Services

East Bay Community Foundation—Management Assistance Partnership Project
Humboldt Area Foundation
Southeastern Council of Foundations—Community Foundation Initiative

Private and Family Foundation Capacity-Building Programs/Services

El Pomar Foundation—Education Initiative
Luella Hannan Memorial Foundation
Jacobs Family Foundation

Intermediary Organization Capacity-Building Programs/Services

Bay Area Independent Elders Program
Corporation for Supportive Housing
Foundation Consortium for School-Linked Services
Local Initiative Support Corporation
National Arts Stabilization

Interviewees and Organizations Contributing to the Study

Foundation Staff Interviewed

Anne Allen—Gwendolyn and Morris Cafritz Foundation
Jesse Arreguin—Fresno Regional Foundation
Rayna Aylward—Mitsubishi Electric of America Foundation
Beth Bruner—Bruner Foundation
Martha Campbell—James Irvine Foundation
Winnie Chu—Community Foundation Silicon Valley
Tom David—The California Wellness Foundation
Barbara Dyer—Hitachi Foundation
Anne Green—Benton Foundation
Richard Green—David and Lucile Packard Foundation
Peter Hero—Community Foundation Silicon Valley
Mary Ann Holohean—Eugene and Agnes Meyer Foundation
Michael Howe—East Bay Community Foundation
Frank Karel—Robert Wood Johnson Foundation
Frasierita Klasen—The Pew Fund
Alicia Lara—The California Endowment
Janine Lee—Ewing M. Kauffman Foundation
Julie Meenan—Josephine Gumbiner Foundation
Karen Menichelli—Benton Foundation
Jack Meyers—The J. Paul Getty Trust
Ann Monroe—The California Healthcare Foundation
Michael Moore—Wallace–Reader's Digest Funds
Peter Pennekamp—Humboldt Area Foundation
Nancy Ragey—Community Foundation Silicon Valley
Josephine Ramirez—The J. Paul Getty Trust
Sophie Sa—Panasonic Foundation
Monica Steigerwaltz—The Pew Fund
Tom Reis—W. K. Kellogg Foundation
Jack Shakely—California Community Foundation
Ben Shute—Rockefeller Brothers Fund
Lisa Smith—Robin Hood Foundation
Eugene Wilson—Ewing M. Kauffman Foundation

Foundations Submitting Materials

Mary Reynolds Babcock Foundation
Annie E. Casey Foundation
Edna McConnell Clark Foundation
Cleveland Foundation
Peter F. Drucker Foundation
Flintridge Foundation
Meadows Foundation
New York Community Trust
Pew Charitable Trusts
Roberts Foundation
Rockefeller Foundation
Charles and Helen Schwab Foundation
Social Venture Partners
DeWitt Wallace–Reader's Digest Fund
Lila Wallace–Reader's Digest Fund
Amherst H. Wilder Foundation

Philanthropic, Nonprofit, and Academic Organization Staff Interviewed

Alan Abramson—Aspen Institute Nonprofit Sector Research Fund
Greg Barnard—Council on Foundations
Lucy Bernholz—Blueprint R&D
Gary Bess—consultant
Elizabeth Boris—The Urban Institute
Joe Brooks—PolicyLink
Andy Burness—Burness Communications
Lon Burns—Burns and Associates
Lee Draper—Lee Draper Consulting
Julie Drezner—consultant
Sharon Edwards—Cornerstone
Barbara Finberg—MEM Associates
Beth Fox—Arts, Inc.
Allen Grossman—Harvard University

Elwood Hopkins—Los Angeles Urban Funders
Amelia Kohm—Chapin Hall Center for Children, University of Chicago
Judith Kroll—Council on Foundations
Alan Kumamoto—Kumamoto Associates
David LaPiana—LaPiana Associates
Bill Martinez—Eureka Communities
Jan Masoaka—Support Center for Nonprofit Management
Ruth McCambridge—Common Ground
Rudeen Monte—Community Impact Consulting
Miyoko Oshimi—Southern California Association for Philanthropy
David Pankratz—Arts, Inc.
Alan Pardini—California League of Community Foundations
Susan Philliber—Philliber Research Associates
Clifford Pearlman—The Conservation Company
David Renz—Midwestern Center for Nonprofit Management
Henry Ramos—Mauer Kunst Consulting
William Ryan—consultant
Susan Stevens—The Stevens Group
Oliver Tessier—Support Center of Washington, D.C.
Paul Vandeventer—Community Partners
Gayle Wilson—Center for Youth Policy Development
Naomi Wish—Seton Hall University
Tom Wolff—AHEC Community Partners

Philanthropic, Nonprofit, and Academic Organizations Submitting Materials

Bay Area Independent Elders Program
Corporation for Supportive Housing
Environmental Support Center
Foundation Consortium for School-Linked Services
Local Initiative Support Corporation
National Arts Stabilization

4 Next Steps for Building Capacity in Nonprofit Organizations

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Capacity building for nonprofit organizations is finally drawing the attention it deserves. As this report illustrates, ad hoc lessons culled from personal experience are giving way to more systematic approaches. The challenge faced by researchers is to sift through the growing body of experience on capacity building to identify the enduring lessons, link them to theory, and make this knowledge accessible and useful to practitioners and funders. Nonprofits must be willing to experiment, provide feedback, and embrace change when appropriate. Funders will be called upon to facilitate these efforts if we are to develop a coherent body of useful, verified knowledge and use it well.

In this report, we provide a roadmap for the work that must be accomplished. On one hand, we review a broad array of recent experiences and, on the other, develop a model linking relevant theory, research, and practice. Our goal is to chart a course for capacity building that recognizes and respects the unique and multifaceted roles played by nonprofits in society.

Theory suggests, and research demonstrates, the importance of nonprofits as vital means by which people connect and interact with each other to build the trust, relationships, and social capital that enable communities to function well at all levels. By bringing people together, nonprofit organizations mobilize individuals for collective action and a voice in public affairs (Backman and Smith 2000; Putnam 2000). Building capacity in nonprofit organizations has the potential to strengthen not only individual organizations, but the community as well.

Central to this analysis is the interdependence of nonprofits with other institutions and their communities. Nonprofits' value to society is not based solely on their products and services. Responding to the needs of the community and fulfilling their mission are also priorities. Perhaps equally important is the ability of nonprofits to engage people—board members, volunteers, staff, members, and residents—in activities that are vital to the common good.

Nonprofits have long been viewed as catalysts for change and a mechanism for serving societal needs. Repeatedly and increasingly, public policymakers are turning to nonprofits to find local solutions for community problems. Yet, as Light (2000, 1) notes, "(t)he nonprofit sector has never been under greater pressure to improve." Public trust in the nonprofit sector was shaken in the 1990s by several well-publicized scandals that raised questions about performance and ethical conduct. Competition with for-profit businesses has increased the pressure on nonprofits to perform well, and funders (both government and private philanthropists) are demanding improved efficiency and measurable outcomes. Foundations, in particular, have an interest in seeing a return on their grantmaking investment.

This pressure to "improve" nonprofits and give them greater responsibilities raises the stakes for capacity-building efforts. A concerted effort is clearly required to harness the best of research and practice. Toward this end, collaboration among all the players—nonprofit practitioners, foundations, and researchers—is essential.

Nonprofit Practitioners

In the day-to-day press of activity, nonprofit practitioners typically focus on the well-being of their own organizations, particularly their financial resource base. They often concentrate on survival rather than on meeting the needs of the community. Nonprofit managers can lose sight of the bigger picture, becoming myopic in their vision of what can be.

While organizational survival is important, building nonprofit capacity should go beyond simply finding ways to increase an organization's resource base. As De Vita et al. point out earlier in this report, the heart of nonprofit capacity involves critical thinking about how the organization can best address the needs of its community or its interest area. For example, what kinds of projects should a community development corporation undertake to achieve the greatest impact in an underserved neighborhood? How can an international environmental organization effectively promote its agenda to national governments?

The challenge before nonprofit practitioners is to develop a broad vision of their community—whether a geographical locale or an interest area—and understand how the organization's actions can serve the community's broader needs. Listening to clients, seeking input from volunteers, or providing a forum for members are important ways in which nonprofits can learn more about and understand better their community's needs. Nonprofit practitioners must take this information and shape it in a way that not only better serves their own organizational interests but also the community as a whole.

In this process, nonprofit leaders must be willing to ask tough questions and not rely on the status quo or traditional ways of operating. Expanding capacity may demand examining the organization's board of trustees and governing structure. Are the current board members serving the organization effectively and providing a tangible benefit? Does the board represent the community or only a narrow segment of interests?

Listening to clients or members of the organization can help the nonprofit ensure that it truly represents the needs of its community or issue area.

Actions that increase capacity can take many forms. In a constantly changing environment, nonprofit organizations need to be flexible and innovative. Some organizations may find conferring with mentors useful, others may need consultants to coach them, and still others may find classroom training beneficial. Improving the organization's capacity may mean incorporating new systems or technology into daily operations. The structure of the organization may be adapted or staff responsibilities shifted based on skill sets. Not all efforts to build capacity will necessarily be easy or popular. However, new ways of thinking about both problems and solutions are necessary in designing a capacity-building effort.

Formal and informal connections made within communities should not be overlooked. They can enhance the organization's work and expand its capacity. Strong communities contain an extensive web of relationships, and nonprofit organizations can capitalize on these relationships. These connections have the potential to bring in new financial contributions, help identify potential board members or volunteers, improve operations, or meet a variety of other needs within the organization.

As Backer illustrates earlier in this report, some nonprofit groups are developing these strong relationships. For example, the Nonprofit Strategic Alliances Project, supported by the Pew Charitable Trusts, provides information packages and training to help nonprofits explore strategic alliances that can help them operate during an era of reduced government support and increased competition for funding. In addition to maximizing available resources, participation in a collaboration exposes nonprofit staff to new ideas and new ways of thinking. Peer-to-peer learning opportunities abound in the social networks of a community and offer important opportunities to help find solutions to the tough challenges that nonprofits face.

Access to and use of technology also must be a part of nonprofit capacity building. Organizations must be open to the changes technology brings. It provides a low-cost way to reach out across town and around the globe. Strategic use of technology can enable nonprofits to communicate their mission and values to a larger public; it can also provide feedback from the organization's stakeholders. Collaborations of all kinds are facilitated by the quick communications available over the Internet. Advocacy is simplified and the ability to mobilize individuals and coordinate coalitions can be more easily achieved through the Web.

Technology is also essential for organizational management. Financial tracking and the use of research and information for planning are enhanced by computer and communications technology. Technology is also a powerful tool for accountability and holds promise as we develop measures to track progress and performance.

Providing the equipment, training, and necessary infrastructure to maintain the technology, however, is a challenge for the sector. The digital divide is a particularly serious capacity issue, especially for many smaller organizations and those working in disadvantaged communities.

Finally, nonprofits need to recognize the role and importance of performance measurement and accountability. While the nonprofit sector has traditionally resisted performance standards because of the difficulties in measuring certain types of outcomes, the pressures for improvement are unlikely to go away. Nonprofits that engage in the development and formation of new methods for measuring performance will add to the overall strength of their organizations by dipping into their own pools of innovation and creativity.

Foundations

Foundations have a vested interest in supporting efforts to improve the capacity of nonprofit organizations. If nonprofits function effectively, grantmaking dollars can be leveraged beyond the impact of any one grant. Investing in capacity building can help ensure longer-term community effects by enabling a nonprofit organization to make a greater social impact (Porter and Kramer 1999). Such investment not only contributes to the sustainability of the organization—that is, its ability to operate once the grant dollars are no longer available—but also enables the nonprofit to serve the community more effectively. Despite these advantages, however, less than 1 percent of all grantmaking funds are targeted toward capacity-building efforts (Draper 2000).

A first step in creating a capacity-building strategy is to identify and define the needs of both the organization and the community. This should be a joint process in which the foundation and the grantee consider a full range of actions that might be undertaken and then select the most pressing or appropriate ones. Grantmakers can bring a community-wide perspective to the discussion through their support of environmental scans, community indicators projects, or needs assessment studies. Local nonprofit groups, on the other hand, can bring a practical perspective on internal and external factors that might provide opportunities or constraints to a capacity-building effort.

Grantmakers can engage in capacity-building efforts in a variety of ways. Some foundations will be distant participants, essentially providing financial support but letting grantees shape and implement the plans. Other foundations will prefer a hands-on partnership with the grantee. No matter what type of relationship is established, a foundation must be aware of the enormous power imbalance that exists between the funder and the nonprofit grantee. A funder must guard against reflexively prescribing popular or trendy cure-all efforts for an organization's woes. Instead, it should strive for a plan that will address both organizational and community-wide capacity. In the long run, the organization's stakeholders—staff, board members, and volunteers—must believe that capacity building will produce tangible benefits for the organization and the community. Without a vested interest in the initiative, the stakeholders have no real reason to follow through, and ultimately it will fail.

Foundations can provide more than monetary support for programs and services. Support for technology, research, and the development of information systems and databases, as well as general operations, can contribute to improving the capacity of nonprofit organizations. Foundations can also play an important role as conveners and facilitators, as Backer illustrated in the case study on the Organizational Capacity Grants Initiative earlier in this report. The Initiative, sponsored by several foundations in southern California, brought together 16 social service providers in San Mateo County, California, to address both internal organizational issues (such as management information systems, marketing and outreach, and staff retention) and external efficiency issues (such as duplication of services). Through the interactions of these agencies, three groups determined that they could operate more efficiently if they merged. The Initiative then worked closely with the agencies to complete the merger. Other scenarios might have accomplished much of the same work for the individual nonprofits, but by bringing all the organizations together to work on these issues, the Initiative achieved a far greater impact for the organizations and for the community.

Research

The contribution that research makes to capacity-building efforts is sometimes overlooked in developing capacity-building initiatives. In the rush to "do something" to improve nonprofits and communities, foundations often fail to recognize the long-term value of research and, therefore, do not specifically fund it. Furthermore, nonprofit practitioners typically say that research studies are not very accessible or useful.

The dearth of information on what constitutes good organizational management and effectiveness in the nonprofit sector impedes building capacity. While prescriptive literature and anecdotal evidence on nonprofit management practices abound, there is little research that actually documents which techniques work for what types of organizations or activities and under what circumstances. Generally left unanswered is the question of whether the results of a successful capacity-building effort can be replicated elsewhere. Few foundations fund evaluations, and most nonprofit organizations fear or cannot afford them.

Without a well-articulated and established body of knowledge from which to draw lessons, nonprofit organizations are often forced into a haphazard approach to capacity building. Given that time, money, and human resources are usually limited, such an approach appears fundamentally flawed. By facilitating a flow of information in a systematic fashion, the research community can create a resource base that will serve as an important educational tool for both nonprofit practitioners and grantmakers, saving time and money in the design of capacity-building efforts.

The Center on Nonprofits and Philanthropy (CNP) at the Urban Institute, as well as other research centers around the country, are beginning to fill this gap in knowledge. Researchers contribute to capacity-building efforts by bringing analytic skills and objectivity to an initiative. They can assess the resources, assets, and local needs of a community and can place these findings in a relative perspective by comparing one community with another or by analyzing trends over time. They also can help formulate creative ways to measure and track outputs and outcomes and to evaluate program and organizational strengths and weaknesses. This work requires a data infrastructure that will serve the information needs of the sector. Through its National Center for Charitable Statistics, CNP is building this capacity.

Examples of research applications to the capacity-building process are beginning to emerge. Because nonprofit organizations are being viewed increasingly as a part of a community's assets, CNP has used geographical information systems (GIS) to map available resources against community needs in the District of Columbia. We have helped Knight Foundation build a database of nonprofit organizations in local communities and linked this information to community indicators. We also are working with five Regional Associations of Grantmakers (RAGs) to measure and track outputs and outcomes for a project that is building the capacity of foundations to work with their local media. Using surveys and telephone interviews, we developed a baseline for each RAG to measure the frequency and effectiveness of their media contacts, and we will monitor and assess these efforts over a four-year period. Through such efforts, research can help practitioners and foundations better target their time and resources to strengthen the capacity of the nonprofit sector and the communities they serve.

Although the research community has much to contribute, it also must convey its information in ways that are useful and timely. Busy nonprofit practitioners and foundation officers will ignore a 20-page research paper filled with technical jargon. However, concise and easy-to-read materials that bridge the gap between research and practice can be valuable tools for advancing capacity-building efforts.

A Final Thought

Nonprofit organizations face many challenges in providing services and programs to their communities, members, and beneficiaries. Building their capacity to respond in an effective manner requires an investment of not only money, but also time and effort. It also calls for the active participation of many players to address the specific needs of the organizations.

Building the capacity of nonprofit organizations and the sector as a whole requires creativity and new ways of thinking about doing the job at hand. In many ways, it calls for a fundamental transformation in how we approach the issue. There is no easy prescription or simple formula for building capacity in nonprofit organizations or in the larger nonprofit sector. As Kaplan (1999) observes, organizations are always in the process of becoming more capable. Because no one indicator shows when absolute capacity has been achieved, we must look for signposts that tell us the direction in which we are moving and the distance we have traveled.

Ultimately, too, we must recognize that there is a life cycle for nonprofit organizations. Capacity-building efforts should not be about saving a dying organization; rather they should focus on evaluating community needs in relation to nonprofit organization needs. If there are not strong, effective organizations within a community or particular niche, what options are available to provide these community services? Fostering an environment where new organizations can be created and given space to serve new missions will lead to healthy and vital communities.

Efforts to build capacity in nonprofits are primarily about performance, change, and innovation. Performance, however, needs to be broadly measured and considered in terms of social capital, cultural bonds, networks, and other factors that add value to a community. Nonprofits that engage in prevention, advocacy, or other difficult-to-measure activities serve important and needed functions. These factors all contribute to the well-being of the community as much as the more traditional services and programs of the nonprofit sector. We also need to better understand and articulate the key differences between nonprofits and businesses and explore how these two sectors together can work toward strengthening community life.

By taking a broad and integrated approach to nonprofit capacity building, a more coordinated and effective response can be developed. Fortunately, the nonprofit sector is well suited for the task at hand. Innovation is one of its key strengths. Because many nonprofits work to address social concerns that have resisted traditional interventions, they bring a stockpile of creative ideas to the table (Kardamaki 1999). These qualities will enable nonprofit organizations to absorb and benefit from capacity-building efforts and create greater value for the communities they serve.

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Appendix

List of Seminar Attendees

Thomas E. Backer
Human Interaction Research Institute

John Bare
John S. and James L. Knight Foundation

Elizabeth Boris
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The Urban Institute

Dwight Burlingame
Indiana University Center on Philanthropy

Megan Chernly
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Cory Fleming
Center on Nonprofits and Philanthropy
The Urban Institute

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Fannie Mae Foundation

Anne Green
Benton Foundation

Maria Gutierrez
Local Initiatives Support Corporation

Mark Hager
Americans for the Arts

MaryAnn Holohean
Eugene and Agnes E. Meyer Foundation

Michael Howe
East Bay Community Foundation

James H. Johnson
Urban Investment Strategies Center
The Kenan Center
University of North Carolina–Chapel Hill

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Janine Lee
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Carol Lukas
Amherst H. Wilder Foundation

Carlos Manjarrez
Center on Nonprofits and Philanthropy
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Ruth McCambridge
Third Sector New England

Penelope McPhee
John S. and James L. Knight Foundation

Thomas Miller
National Research Center

Ricardo Millett
W. K. Kellogg Foundation

Michael Moore
Wallace–Reader's Digest Funds

Mariam C. Noland
Community Foundation for Southeastern Michigan

Peter Pennekamp
Humboldt Area Foundation

Suzette Prude
John S. and James L. Knight Foundation

Linda Raybin
John S. and James L. Knight Foundation

Stephanie Redman
National Main Street Center
National Trust for Historic Preservation

Benjamin Shute, Jr.
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Eric Twombly
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Linda Urda
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Julia Van
John S. and James L. Knight Foundation

Lisa Williams
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Naomi Wish
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About the Authors

Thomas E. Backer is president of the Human Interaction Research Institute, an organization that conducts research and provides technical assistance to funders and nonprofits on behavioral science approaches to meeting the challenges of innovation and change. A psychologist, Dr. Backer consults widely in philanthropy and government, with an emphasis on public health and arts and culture organizations. He also is associate clinical professor of medical psychology at the UCLA School of Medicine.

John Bare joined the John S. and James L. Knight Foundation in 1997 as the Foundation's first director of planning and evaluation. In that position, he supervises research, planning, and evaluation efforts for the Foundation's grantmaking programs. In 1998, Dr. Bare launched the Foundation's Community Indicators Project, which was designed to create and track quality-of-life indicators in the 26 communities that Knight Foundation seeks to affect through its local grantmaking. Prior to 1997, Dr. Bare worked as a media research consultant, a writer/researcher for the Education Statistics Services Institute, and a columnist for the *Chapel Hill (N.C.) Herald*.

Elizabeth T. Boris is the first director of the Urban Institute's Center on Nonprofits and Philanthropy and was founding director of the Aspen Institute's Nonprofit Sector Research Fund, where she worked from 1991 to 1996. Prior to 1991, she was vice president for research at the Council on Foundations, where she developed and directed the research program for 12 years. Dr. Boris was a cofounder of the National Center for Charitable Statistics and served as chair of the Classification Committee. The author of many research publications on philanthropy and the nonprofit sector, including *Philanthropic Foundations in the United States: An Introduction,* she is also coeditor with Eugene Steuerle of *Nonprofits and Government: Collaboration and Conflict* (Urban Institute Press, 1999). Dr. Boris is also active as an advisor and board member for a variety of organizations in the nonprofit sector.

Carol J. De Vita, a senior research associate at the Urban Institute's Center on Nonprofits and Philanthropy, is studying the role, capacity, and networks of nonprofit organizations in local communities. The work includes spatial analyses of local needs and community-based resources, as well as an in-depth look at low-income neighborhoods. Dr. De Vita also oversees two other studies: one on faith-based organizations and their ability to provide services in an era of welfare reform, and another on the role of child advocacy organizations in addressing public policy issues on behalf of children. Prior to joining the Urban Institute, Dr. De Vita was a senior demographer at the Population Reference Bureau.

Cory Fleming is the center administrator at the Urban Institute's Center on Nonprofits and Philanthropy. Ms. Fleming spent nearly a decade in the community development field prior to her position at the Urban Institute, working primarily with nonprofit organizations in small towns and rural areas. She is particularly interested in the ties among sustainable development, social capital, and civil society and in how nonprofit organizations can foster these concepts within communities.

Penelope McPhee joined the John S. and James L. Knight Foundation in 1990 as its first arts and culture program director and was promoted to vice president and chief program officer in 1996. Ms. McPhee currently directs the planning, development, and implementation of the Foundation's grantmaking in its two program areas. She is a former independent television producer, an author, and the winner of five Emmys and other awards from the Chicago Film Festival, the Corporation for Public Broadcasting, and the National Association of Television Program Executives. As the former executive producer of cultural programming for Miami's public broadcasting station, she launched its cultural affairs department. Ms. McPhee is the author of *Martin Luther King Jr.: A Documentary, Montgomery to Memphis*, which was recognized as one of the "Best Books of the Decade" by the American Library Association.

Eric C. Twombly is a research associate at the Urban Institute's Center on Nonprofits and Philanthropy, where he studies the roles of nonprofit organizations in the delivery of health and human services. His current research involves the development of new methodological approaches that relate the implementation of welfare reform to the formation and termination of human service nonprofits. His work also involves exploring methods for building the capacity of nonprofit organizations to improve community conditions.

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