PRACTICE MATTERS THE IMPROVING PHILANTHROPY PROJECT

The Capacity Building Challenge

PART I: A Research Perspective

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Executive Summary

Introduction

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

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

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

Toward a Theoretical Framework

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

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

A Scan of the Field

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

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

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

1. Desired Outcomes

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

2. Change Strategies

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

3. Champions

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

4. Resources

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

Toward an Evaluation Strategy

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

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

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

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

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

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

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

Conclusion

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

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