

# Why Capacity Building is Needed

**Building high-performing organizations is a vitally important endeavor:**

*"As nonprofit organizations play increasingly important roles in our society, it becomes more critical for them to perform effectively. In response, nonprofit managers have demonstrated a growing interest in management practices and principles that will help them build high-performing organizations, rather than just strong programs. Traditional foundations and venture philanthropists have also professed a new commitment to investing in the organizational capacity of the nonprofits they fund."*

## [Effective Capacity Building in Nonprofit Organizations](#)

Report for Venture Philanthropy Partners by McKinsey & Company (2001)

Somewhat surprisingly, there is no clear definition of what it means to be "investing in the organizational capacity" of nonprofits, because capacity building can encompass anything from nonprofit board training, to installing a computer network. Capacity building is whatever is needed to bring a nonprofit to the next level of operational, programmatic, financial, or organizational maturity, in order to more effectively and efficiently fulfill its mission.

Today nonprofit leaders and funders agree that effectiveness and impact are what matter, not the quantity of outputs, or how replicable a program might be. Nonprofits and funders recognize that there are many ways a nonprofit can build its capacity to achieve greater impact. Capacity building can be – but is not necessarily – exciting and "innovative." And certainly it is not always about "scaling up." Even small organizations with modest budgets and very focused missions can emerge into high-performing, impactful organizations, given the will and the resources to do so.

Building the capacity of your nonprofit to move on to the next phase of its organizational development is a challenge. It can help to know what the most pressing need is for your organization.

What will give your nonprofit increased strength and effectiveness, enabling your nonprofit to survive the challenges of the current economy and sustain itself well into the future?

- Leadership, adaptability, and program capacity are the leading factors, according to a report, [The Sustainability Formula – How Nonprofit Organizations Can Survive in the Emerging Economy](#), by Peter York, TCC Group (2009).
- Even if your organization has "been around for a while" there is still room for building capacity to achieve greater impact and ensure sustainability. Read [Getting Back in Shape: Guidelines for Improving the Fitness of Established Nonprofit Organizations](#), a briefing paper from the Conservation Company (now the TCC Group) that, while published in 1999, rings true today in its observations about the life-cycle challenges of nonprofits and the vulnerabilities that can take a mature organization by surprise.

What are your nonprofit's greatest needs for capacity building?

- Nonprofits often lack the capacity to evaluate their own effectiveness or outcomes. Grantmakers for Effective Organizations offers a [white paper exploring ways to build the capacity of nonprofits to evaluate, learn, and improve](#).
- Conducting a self-assessment such as using the [organizational capacity assessment tool](#) developed by the Marguerite Casey Foundation to help nonprofits identify capacity strengths and challenges, and establish capacity building goals.
- [The Innovation Network, Inc.](#) also offers a self-assessment survey and reporting tool that provides nonprofit leaders with a snapshot of the organizational strengths and areas for improvement, among other tools offered through its "Point K" website resources. (Free registration required.)

- The TCC Group's [Core Capacity Assessment Tool](#) can suggest "where to start" by targeting where specific capacity building efforts could be most beneficial for your nonprofit.
- The Urban Institute's monograph on [Capacity Building in Nonprofit Organizations \(2001\)](#) offers a framework and an excellent overview of various ways grantmakers and policy makers might go about assessing the capacity building needs of the nonprofit sector, as well as the needs of nonprofits in a particular community or even a specific individual nonprofit.

Studies that identify and assess the capacity building needs of nonprofits in various regions include:

- California: [Fortifying LA's Nonprofit Organizations](#), capacity building needs and services in Los Angeles County (TCC Group 2010).
- Indiana: [Multi-year Nonprofit Capacity Assessment Survey](#) (the Center on Philanthropy and the School of Public and Environmental Affairs at Indiana University) and [Nonprofit Capacity Assessment: Indiana's Arts and Culture Organizations 2010](#).
- Ohio: [An Analysis of Nonprofit Capacity Building in the Mid-Ohio Valley](#)
- Washington: [An Assessment of Capacity Building in Washington State](#) (2009) prepared by The Giving Practice, a consultancy of Philanthropy Northwest. This study offers a helpful framework for examining the capacity building needs for nonprofits in an entire state (by considering eight components of a healthy nonprofit ecosystem) and includes in-depth analysis of the capacity building resources of Washington State, county by county.

## Examples of Effective Capacity Building

*This section describes specific capacity building projects and offers links to case studies in capacity building. Examples of effective capacity building also includes [capacity building for advocacy](#) and [capacity building for planning](#).*

### Is capacity building about building an organization's capacity, or building the capacity of its staff?

It may be stating the obvious, but nonprofits are comprised of people – people with skills, expertise, and experience. Capacity building activities that improve an organization's ability to achieve its mission are necessary activities that involve the staff of the organization in some way. Consequently, staff and board training to improve skills, evaluate gaps, implement needed policies and procedures, bolster efficiencies, and utilize new technologies, are all examples of capacity building activities.

- Read a report that describes the use of a "[Learning Circle](#)" approach to build the capacity of an organization's leadership. (Report prepared for the *Girls' Best Friend Foundation* by Millenia Consulting LLC, 2006)
- Capacity for specific functions, such as evaluating a nonprofit's effectiveness, may require specific types of training or tools. Read about what it takes to successfully build the capacity of a nonprofit to [measure and manage performance outcomes](#). (Bridgespan)

### Leadership as an indicator of capacity and sustainability

Leadership training for a nonprofit's staff and board leadership is a prime example of critical capacity building activities.

- First, a nonprofit must be operational and sustainable. In a 2009 report entitled, [The Sustainability Formula: How Nonprofit Organizations Can Thrive in the Emerging Economy](#) (TCC Group), the authors found that



- effective leadership is the strongest predictor of nonprofit sustainability, followed by fundraising/financial management, and program staffing and management. Other key indicators of sustainability included:
- o a clearly articulated and communicated mission and vision statement
  - o strong financial management systems
  - o active and long-term relationships with funders
  - o adaptability, a willingness to be flexible when needed
- Leadership is one of the most critical factors for a nonprofit's capacity, yet strong leadership does not always result in a well-managed nonprofit. Read this article, [\*Strongly Led, Under-Managed: How Can Visionary Nonprofits Make the Critical Transition to Stronger Management\*](#), by Daniel Stid and Jeffrey L. Bradach, Bridgespan (2008) to understand the tension between strong leadership and strong management.

## Case Studies in Capacity Building

- [\*An Analysis of Capacity Building in the Mid-Ohio Valley\*](#) McDonough Center, Marietta College (2009), an in-depth analysis of the capacity building opportunities and challenges for nonprofits in a specific region. The report reviews what the barriers to capacity building are and offers recommendations for action including funding assistance and specific trainings to help build the capacity of the nonprofits.
- [\*Capacity Building for Nonprofits: A Hartford Example\*](#) TCC Group (2008), gives excellent examples of how conducting an assessment of several groups' core capacities and investments in which their capacity was challenged resulted in transformational outcomes.
- A report prepared for the Lumpkin Family Foundation, [\*Nonprofit Capacity and Community Building in Central Illinois\*](#), (2006), describing the experience of one private foundation's capacity building programs.
- [\*Nonprofit Capacity Assessment: Indiana's Arts and Culture Organizations\*](#), asked Indiana arts and cultural groups to identify their three most significant capacity building or technical assistance needs, and the best ways to address them. (Indiana University, School of Public and Environmental Affairs, Center on Philanthropy, 2010).
- Lessons learned: [\*Funders Little Shop of Horrors - Misguided Attempts at Nonprofit Capacity Building\*](#) Foundation News and Commentary (2005).
- Capacity building can leverage other changes in an organization as described in [\*An Analysis of the Pittsburgh Region's Capacity-Building Industry: Who is Doing What for Whom and to What End\*](#), a report by the Forbes Funds (2004), identifies barriers to effective capacity building as well as factors leading to leveraging capacity building into organizational change.