Nonprofit Capacity Building: Fortify the Core

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EXECUTIVE SUMMARY

As we increasingly count on innovative nonprofits to improve our quality of life, we fall short in providing the support needed to extend their reach and impact.

Efforts to develop core organizational capacity – knowledge, skills, abilities, systems, and processes – are systematically underfunded and too often ineptly designed. I explored the current state of ‘capacity building’ with scores of nonprofit leaders, funders, service providers, and advisors, looking for approaches that were more effective, systemic, and sustainable. Their collective wisdom squares with insights from my three decades spent improving organizational effectiveness in the nonprofit, government, and business sectors. Our thoughts are distilled in the following analysis and summarized below.

**Fund the Core** Underfunding leads to poorly designed organizational development efforts that don’t produce desired results and deflate organizational resilience. Organizations with high potential to solve long-standing challenges stagnate.
- End the starvation cycle by shifting more funding to capacity building: increasing general operating support, providing higher overhead rates, and supporting revenue generating activities and small endowments that enable organizations to more sustainably finance institutional investments.

**Create Strong Frames** Capacity-building efforts are more likely to succeed when they are framed in ways that incorporate change management expertise and have sufficient duration and scope.
- Provide support for effective front-end framing.
- Apply a start-from-the end mindset to organizational improvement. Let desired outcomes drive design rather than budgets or logistical ease.
- Design capacity building that is thoughtfully sequenced and sufficiently comprehensive based on the multidimensional, multiyear requirements of improving organizational performance.

**Enhance Access** Capacity-building efforts stumble without ready access to the right external resources (experts, systems, tools) at the right time.
- Support the development of intermediaries that have sustainable institutional expertise in connecting nonprofits to the right capacity-building resources.
- Catalyze peer-to-peer networks where colleagues become consultants and knowhow flows organically.

**Match Learning Modes** Incorporate learning experiences into capacity-building programs based on a clear understanding of what is needed to deliver an organizational outcome.
- Use cohort training when appropriate but don’t over-rely on it. When using it, include follow-on activities that translate learning into action and foster peer-to-peer capacity-building connections that will live after cohort training.
Diversify the Leadership Pipeline The existing pool of consultants is an insufficient source of diverse candidates to serve as nonprofit leaders, foundation officers, or board members.
- Support the development of peer-to-peer consulting when more cost-effective than outside experts and when helpful in creating a diverse leadership pipeline.

Balance Collective and Direct There may be a pendulum swing underway as capacity-building resources flow to collective action initiatives, away from individual nonprofits.
- Ensure that sufficient support flows to organizations that create the examples that should guide policy and funding.

Widen the Support Circle We need more comprehensive and balanced support in capacity-building areas that get less attention but are as equally vital to success.
- Widen the range of capacity-building support beyond the most frequently targeted areas such as leadership development, governance, strategic planning, and fundraising.

These reflections will be circulated among the capacity builders who were kind enough to share their stories. I look forward to feedback and discussions that may follow. A program to address some of the challenges identified here is forthcoming.
Section I: Backdrop

INTRODUCTION Nonprofits play a critical role in solving societal challenges. Nonprofit leaders, funders, service providers, and advisors work together to help develop the knowledge, skills, abilities, systems and processes organizations need to advance their missions. This work is often called capacity building[1]. While capacity-building efforts in the US are sometimes innovative, they are generally insufficient. Some difficulties can be tied to the perennial issue of underfunding the core capacity. Others are more rooted in the design of capacity-building activities and the failure to invest in capacity-building solutions that are more sustainable, comprehensive, and widely available. Without better capacity-building supports, we will not realize the full potential contribution of our nonprofit sector.

The reflections[2] in this landscape analysis distill collective wisdom shared in the stories of capacity builders (nonprofit leaders, foundation executives and staff, representatives of intermediary organizations, service providers, and academics) and insights from my career improving organizational effectiveness in the nonprofit, government, and business sectors. They are relevant for implementing organizations, funders, and intermediaries that support capacity building. If leveraged, they can yield more effective design, development, and delivery of capacity-building efforts and fuel improvements that are more systemic and sustainable. This in turn should fortify the contribution made by nonprofits.

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[1] ‘Capacity building’ is used to describe various activities in the nonprofit arena. Broadly writ, it refers to developing the knowledge, skills and abilities needed to advance the mission of the organization. Capacity building sometimes is used to convey the outside-in process of tapping external resources (experts, systems, tools) to help develop internal capabilities. It may be used to refer only to operational areas such as finance, HR, technology, fundraising, marketing and research. This paper uses the broader framework: developing capacity when it relies both on internal and external resources, and covering both operational and programmatic areas. Some describe this work as organizational effectiveness, organizational development, or organizational strengthening. I actually prefer the latter, but use ‘capacity building’ since it is most common.

[2] The perspective is more practitioner than academic. To respect confidentiality, many stories are shared without attribution to a specific organization or individual. Experienced readers, however, likely will see analogues in their own experience.
BIG PICTURE  There is a common dynamic in efforts to address chronic societal issues – figure out what works and make it more widely available. Change leaders across government, business, and nonprofit sectors are increasingly applying an outcome orientation to their efforts. They are rethinking programs across many areas – health, education, social services, the environment, and the arts – focusing on multi-sectoral solutions that deliver sustainable results. In the nonprofit sector, program designs more frequently embrace efficacy, scale, cross-sectorial collaboration, and sustainability.

Top programs that produce differential outcomes worthy of scale play a key role. They not only produce empirically better results, but also serve to inform policy shifts and budgetary choices that drive system level change. They provide laboratories for testing new approaches. They provide insights that can be harnessed by other programs targeting similar outcomes. Staff members develop a deep understanding of on-the-ground realities that can guide multi-organization collaborations that are attempting to solve complex challenges.

Notwithstanding growing support for such programs, however, much remains to be done to ensure that more participants benefit from what works best. Additional funding is a necessary but not sufficient condition. We need advances across the ecosystem of capacity-building supports that enable promising programs to extend their reach and impact.

PERSONAL JOURNEY  In a career stream winding through the nonprofit, business, government, and academic sectors, I have learned what enables organizations to flourish and what gets in the way. Years ago, the thriving Thailand-based development program I led faced headwinds as we sought to increase the contribution of our innovative efforts. The program was demonstrating progress in addressing major challenges to economic and environmental viability in rural Thailand. Yet when trying to share our experience with organizations in Thailand and beyond, we encountered resistance. Our funders and home office told us we could not promote our top field person to a new position to host visiting agencies because it added overhead. We were directed to focus on reaching more villagers locally rather than on creating materials and programs to make our experience more accessible to other organizations.

After a year of pitching the opportunity to reach hundreds of thousands of beneficiaries beyond the 35,000 villagers in our ‘impact area’, we finally got support for outreach. Four years later we had hosted implementing organizations from 22 countries, several international aid organizations, other funders, and numerous nonprofits around Thailand. Finding a way through initial
“There is nothing wrong with America that cannot be cured by what is right with America.”

barriers, we leveraged our experience to serve on a much broader scale. Through the next stages of my career – in the White House, in large and medium size companies, and in founding an educational technology company – I built high-performance teams and organizations, led programs that improved organizational effectiveness through rapid growth, and helped catalyze change on a system level. At the White House, I worked on President Clinton’s What is Right with America campaign. As he traveled the country, the President spotlighted innovative programs that could be emulated elsewhere with his mantra that “there is nothing wrong with America that cannot be cured by what is right with America.” It was eye opening to see the myriad obstacles preventing better diffusion of the best ideas. Those working to leverage the best approaches through venture philanthropy, supporting early-stage social entrepreneurs, and scaling proven programs share President Clinton’s theory of change: find ideas and evidence-based programs that produce the best outcomes and provide support required to multiply their impact.

While serving on nonprofit boards, I encountered ecosystem barriers that prevented further impact similar to those I faced in Thailand – insufficient funding for organizational development and inadequate supports for building capacity. After selling the educational technology company, I decided to pursue long-maringating ideas to address those constraints in a more systemic way. The ideas blend insights from on-the-ground nonprofit experience with experience facilitating organizational and system effectiveness in the corporate world. As a Visiting Fellow at The Lilly Family School of Philanthropy, I have been generously welcomed into a rich circle of faculty, students, alumni, and affiliates, providing a home as I research the current state of nonprofit capacity building in the US and test ideas to improve it. Having seen too many well-intentioned efforts falter when they fail to consider lessons already learned, the opportunity to consider the lay of the land has been invaluable.

Section II that follows provides insights in seven areas that influence the efficacy of capacity-building efforts. Section III offers recommendations and indicates next steps.
Section II: Fortify the Core

The following reflections are meant to spark reflections. Findings are grouped into seven areas: Fund the Core ● Create Strong Frames ● Expand Access ● Match Learning Modes Diversify the Leadership Pipeline ● Balance Collective and Direct ● Widen the Support Circle

FUND THE CORE Many have decried the shortage of funding for capacity building. At this writing, Dan Pallotta’s seminal TED Talk on how we think about charity has been viewed over four million times. Writers coined the term overhead myth to define and elevate a perennial challenge. Others have decried the nonprofit starvation cycle. In recognition of a historical funding imbalance, Darren Walker at the Ford Foundation famously doubled the overhead rate Ford pays grantees and redirected a large chunk of grant funding to increase investment in capabilities required to run strong, sustainable organizations. Some funders have made long term commitments to general operating support that give organizations more latitude to make institutional investments in vital supporting operations in finance, technology, human resources, fundraising, marketing, and research. Yet despite increased awareness and bold leadership, the prevailing modality is a starvation diet for organizational development.

Ratings agencies that use overhead rates to rank nonprofits haven’t helped. Prospective funders certainly value information that allows them to cull out nonprofits with poor fiscal stewardship or abusive spending practices. Obsession with easier to measure overhead, however, diverts attention from the more relevant measure of efficacy. If two organizations focus on reading by third grade, and one has a better overhead rate but shows lesser improvement in reading rates per dollar deployed, wise funders would choose the organization with higher overhead but better outcomes. As a nonprofit leader, if I invest in better accounting to forestall losing a donor who loves our works but is at wits end with our reporting, should I get dinged for higher overhead? How about if I increase overhead in the current year by investing in marketing that doubles the next year’s budget? Ranking nonprofits on impact is difficult. But an excessive focus on overhead has skewed allocation of resources in a way that has little to do with increasing impact.

Nonprofit leaders who are hard-wired to steer incremental resources to areas that immediately touch beneficiaries contribute to the ethos. As do those who shy away from critical investment, fearing a less favorable overhead utilization rating. Less common are leaders who understand that it is a worthy tradeoff to take a short-term hit on the overhead ratio to upgrade development capacity that can yield a 5X increase in annual revenue. Or leaders who divert current year program resources to improve volunteer management software that translates into more beneficiaries and better results for years to come.

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than operational, complex and nuanced requirements of organizational development can be overlooked in program design. Even when funders provide more resources for capacity building, they are often deployed in ways that don't meet the mark — e.g. data gathering that does not help inform program improvements. Without planning for a multi-year, multidimensional path to sustained organizational strengthening, funding pools run out without producing results.

Nonprofits that have internal resources to supplement piecemeal restricted funding (e.g. revenue generation, membership, unrestricted funds, or endowments) can better sustain change efforts of sufficient scope and duration. But the number of organizations in this happy circumstance is limited. Resourceful nonprofit leaders scramble to leverage low-cost resources when funding is tight. Sometimes, a volunteer, board member, or student team bring sufficient wherewithal to get the job done. Perhaps a creative tweak to the spreadsheet can meet a new reporting requirement without upgrading financial management capacity through using QuickBooks. Frequently, however, not being able to fund higher quality external resources translates into improvement initiatives that don't meet the mark (see below in Expand Access for more on this topic).

Aspirations to scale successful programs will falter without more investment in organizational strengthening. When organizational improvement efforts are poorly designed and ineffectively deployed due to systematic underinvestment in capacity building, precious time is wasted, and scant resources are depleted. Sound ideas are abandoned due to flaws in execution rather than conception. Perhaps more insidiously, failure can deflate organizational resilience, making it harder to muster the next try. Organizations with high potential to solve longstanding challenges at larger scale can stagnate.

**CREATE STRONG FRAMES** Capacity-building efforts fail when insufficiently framed. The term ‘framing’ refers to design, planning, and execution principles critical to success. Although some funders provide financial support for planning that creates better framing, such support is more rare than not. The following examples of key framing questions are familiar to experts in human-centered design, project management, change management, and organizational effectiveness:

- Do we have agreement about what problem(s) are we trying to solve?
- Do we have a clear definition for success?
- Have we tapped existing wisdom from others who have successfully addressed similar challenges?
- How might we energize participation and buy-in from key stakeholders?

“Without planning for a multi-year, multidimensional path to sustained organizational strengthening, funding pools run out without producing results.”
● What staffing (internal and external; project team and post-project) is needed both for execution and sustainability?
● How will we measure progress and make course corrections as needed?
● How might we best set terms with vendors and suppliers?
● How will we provide oversight?
● Are roles and responsibilities defined?
● What is our communications plan?
● Are project steps properly sequenced?
● Are we designing for sustainability?[3]

Breakdowns happen when such questions are not addressed. Mistakes are made because no time is allocated to learning from others. Key resources don’t show up when needed because resource holders are not included in planning. Results are not sustained because internal staff capacity is not developed to carry on work done by consultants. Action stalls without an agile oversight process to approve course corrections. Vendor contracts without clear terms of engagement lead to conflicts. Simply put, when framing of capacity-building initiatives is missing or ineffective, initiatives are less likely to deliver intended improvements. Better framing raises the likelihood of success. The following sections elaborate on key areas of framing.

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Theory of Change Capacity building that works has an underlying theory of change. A fully articulated theory of change posits a number of interrelated efforts over time to reach a desired outcome. As an example, I have seen a number of funders that are working with implementing organizations to develop a practice and culture of continuous improvement. The theory of change is well formulated – nonprofits that cost-effectively use data to drive course corrections can deliver and sustain programs with greater impact. Funders are more likely to continue to support organizations that demonstrate superior results. Funders operating with this theory support an initial ‘proof of impact’ phase that aims to produce evidence-based outcomes that attract longer term funding by government for broader scale implementation.

This theory of change requires multiple supports sequenced over an extended period – e.g. training to build awareness and skills, technology to enable data collection and analysis, staffing to add new skill sets to the mix, and follow-on coaching to develop ability to use data to inform subsequent planning and implementation cycles. Combining these elements helps create the desired change: capacity to drive continuous improvement. Supporting only one of these elements wouldn’t get it done.

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[3] In this context, sustainability means having the ability to continue over time given projected resources.
Conversely, capacity building in leadership fails when it lacks a similarly cogent theory of change. Vague notions about teaching skills to CEOs can lead to one-off training sessions that produce good ratings but no demonstrable results (see Cohort Training below). Generic financial management training won’t suffice for an organization that needs to upgrade its grants management capacity. Support beyond initial training might require follow-up training, software purchase, implementation support, process redesign, and funding for a staff position.

Capacity building activity should fit the desired outcome. When a capacity-building plan is grounded in a theory of change, it is more likely to be customized, designed to build foundational capacity required for later stage progress, and resourced to fund the full series not just the episode.

Sequencing Prioritizing organizational needs and tackling them in the optimal sequence makes a difference. I encountered a number of capacity-building efforts that founered because they did not consider proper sequencing. One nonprofit leader who had secured a step-level increase in funding to replicate a successful program in new cities was required by his lead funder to immediately undertake a strategic planning activity with a top-drawer consulting firm. While the CEO acknowledged the caliber of the exercise and consultants who facilitated it, he felt it added little value to the well-baked strategic plan they had developed to obtain funding.

The most urgent challenge was staffing new programs in multiple cities. They needed to quickly upgrade capacity for talent acquisition, onboarding, and management training. All things considered, the CEO would have preferred to immediately recruit a Chief Talent Officer rather than squander staff time in a duplicative, six-month strategic planning process. Ironically, years later when the strategic plan badly needed a refresh, there was no budget to work with the outside firm. There was nothing wrong with the idea in principle – start with a comprehensive planning process facilitated by experts. Unless of course the organization already has a well formulated plan and would be better served by immediately tackling the major barrier to delivering targeted results.

Another nonprofit leader approached me for help developing management training. Her new CEO from the private sector insisted that management skills be immediately upgraded in a ‘boot camp’ format. As we discussed framing questions required to carry out the CEO’s intent – strategic priorities, current shortcomings, key issues that training was thought to resolve, resources available to support training – I discovered that the CEO had secured a pro bono engagement with a strategic planning firm that would wrap up in two months. My colleague and I suggested to the CEO that we were more likely to design a successful long-term management development program once strategic and budget priorities were articulated. With his agreement, we re-sequenced our attention to acute management challenges that could be addressed with non-‘boot camp’ approaches. The boot camp was later formulated to support specific priorities emanating from the strategic plan.

Without sufficient thought to sequencing, even high-end capacity-building activities can divert, retard, or undercut priority efforts. Progress in organizational effectiveness in one area can often only be achieved after foundational capabilities are in place.
Duration and Scope  Many nonprofit leaders expressed frustration with capacity building support that comes in short bursts and does not take into account the building block nature of many organizational improvements. Examples included a one-time grant that covers software purchase but not staff training, skill building for an individual not a team, and a short-term leadership development activity without follow-on coaching. Given that capacity develops over time, with progress in one area creating potential for progress in others, capacity-building efforts need to be resourced from start to finish and across all required dimensions. This pertains to resources that come from outside or from within.

*Results are predictable when funding parameters and/or plan design are of a duration and scope that don’t match the needs.*

EXPAND ACCESS  Nonprofit leaders share common tales about struggling to find the right external resource at the right time. I call this the ‘Ghostbuster’ question – when faced with an organizational need beyond current internal capacity, ‘who you gonna call?’ Nonprofit leaders are often required to take on challenges they have never faced before – building a strategic board, overseeing the doubling of a back-office operation, implementing a data and research capability, or creating a multifaceted development function. Facing time and resource constraints, resourceful leaders reach out to board members, program officers, or others in their immediate orbit that may or may not fit the need.

One leader told me about tapping a staffer’s uncle who worked in IT at a local company to help with a Salesforce implementation. Although expert in Oracle’s enterprise resource software, the uncle had never worked with Salesforce. His willingness to pitch in for an organization doing good work in the community was admirable. He certainly brought more IT knowhow to the task than current staff. Willingness to work pro bono to support a relative, however, did not qualify the uncle as the right resource for the job. Software was purchased but anticipated improvements were not realized.

Another leader sought assistance from a volunteer team of MBA students. Though bright, eager, and pro bono, the MBAs lacked the nonprofit context and real world experience to support appropriate solutions. Three months of staff time working with the MBA students came to naught.

Another newly installed nonprofit leader wanted to upgrade his organization’s performance management capability: articulating clear goals and objectives at the organization-wide level, translating those into plans for teams and individuals, and providing regular feedback loops to support

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[4] External resources are tapped by those without the requisite internal expertise, software, and other tools needed to advance organizational development goals. Sometimes they need one or the other, sometimes all three. ‘External resources’ is an umbrella term for such non-cash resources.
individual performance and development. The leader tapped a board member whose company had just implemented an enterprise software program for performance management that she liked. The leader purchased and deployed the software in his organization with violent backlash from management and staff. Receiving no supporting rationale, they resented requirements of the software and process changes it forced. An advisor with deeper experience might have suggested starting with an exploration of the core dynamics and skills that support effective performance management. This might be followed by a phase where the leader modeled and refined a new approach with direct reports, followed by an agile iteration and extension of the new process throughout the organization. Acquiring software to support a new process would have been a derivative rather than a leading activity.

A number of the nonprofit leaders described a related challenge. Despite having the skills and experience needed to wade into a new area – doing research with other organizations who had solved similar problems, running an RFP for vendors, orchestrating an internal change process, etc. – they simply did not have the time.

*Without bandwidth to orchestrate a more considered approach, they took the available one. Suboptimal results sparked frustration and diminished confidence in subsequent efforts.*

**Program Officers as Ghostbusters** Some leaders praised their funding agency program officers as their first call when trying to access outside resources. Perched to see similar work across numerous organizations, they could offer a curated list of recommended resources. But some described limitations. While the program officer might be able to supply useful links to external resources to help with governance or fundraising, they were less likely to know where to go for that Salesforce implementation. Or an external resource that was well suited to a prior grantee may not be the right fit for the next one. Or they might not know that the subject matter expert at a highly rated consulting firm is no longer there. When the Program Officer moves on without good data repositories in place, institutional knowledge about external resources departs as well.

**Institutional Knowledge** In my conversations with funding and intermediary agencies, very few had made significant attempts to systematically capture and make available information about high-quality external resources. Some had databases but were constrained by rules that did not allow them to rate resources. Some felt bound to catalogue the universe of available resources rather than focus on providing more in-depth information about highly rated ones. Others developed repositories but did not put processes in place to keep them current. Others were crippled by weak technology.

Some explored ways to “Yelpify” resources for capacity building. They quickly learned that effective links between supply and demand require more nuance than available in a crowd-sourced rating engine. In a related experience in higher education, computerized lists of curricular materials compiled without a “science of context” (understanding of environment, resources, actors, belief systems, attention generators, symbols, language, etc. **“In my conversations with funding and intermediary agencies, very few had made significant attempts to systematically capture and make available information about high-quality external resources.”**
that determine suitability) frustrated educators who were searching for materials appropriate to their particular circumstances. The Yelp approach for course materials didn’t work either. For most funders, the ability to link grantees with appropriate external resources is thus too often an ad hoc process. The upshot for grantees is twofold: 1) improvement efforts lag due to protracted searches for appropriate resources; and 2) resources that don’t fit the bill can cause projects to fail, wasting limited time, energy, and scarce funds. Without a more systematic way of curating sufficiently detailed rosters of high quality external resources across a range of organizational needs and keeping those lists evergreen, funding agencies can only offer best efforts that may fall short. Providing better access to the right resources at the right time would shorten time required to launch improvement efforts and improve their rate of success.

Ecosystem of Supports[5] The ecosystem of support for nonprofits is fairly robust. While deepening the pool of experts, systems, and tools can help, the bigger challenge appears to be in connecting demand and supply. Services in the home improvement industry like Thumbtack and Home Advisor have dramatically improved the market-making dynamics that enable homeowners to secure quality services (a big improvement over the Yellow Pages or word of mouth). Travelers can pull up Yelp or Trip Advisor to immediately find ratings and menus for restaurants in any locale. Crowd evaluation on Amazon provides user feedback across ranges of consumer products. These market-making services have two relevant benefits: they make it both faster and easier to select an appropriate product or service and generate higher user satisfaction.

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Foundations have mixed views of intermediaries. Many choose not to hire staff to do capacity building, either outsourcing or simply assuming that grantees can manage (outsourcing can work when the availability of external resources is robust; leaving it to grantees can work when the grantee either does not need external resources or has ready access to them.) Some think that capacity building is more tactical than strategic and therefore should not be a core function of the foundation. And yet, I hear much frustration with the success rate of improvement initiatives in organizations they fund. Projects fall behind agreed timetables. They do not achieve intended results. Poor implementation sours right-minded intentions. Momentum stalls. Energy for successive improvement efforts wanes.

[5] The term ‘supports’ is used to connote the ecosystem of services, financial resources, and educational channels that enable the work of nonprofits.
The ecosystem of supports in the for-profit world is much more evolved. Entrepreneurial companies seek investors who cannot only write a check and opine on strategy, but can also provide a range of vital supports. To enable entrepreneurs to focus on growing sales, driving technology development, and building their team, top venture and private equity firms such as Andreessen Horowitz or Scale Venture Partners provide supports in core functions such as Finance, IT and HR. They have recommended software for ERP, CRM, and HR, and vetted providers to help implement and manage those systems. Fundamental organizational needs are met more quickly with high-quality solutions. This market-making function, connecting portfolio companies with resources needed to build foundational organizational capacity, raises the prospects for success.

When I ask foundation staffers why we have not seen more systemic investment in ways to link grantees to critical external resources, I hear several impediments: reticence to grow foundation staffing, reluctance to fund an intermediary, or a predisposition to programmatic funding. One told me that resourceful nonprofit leaders should be able to figure it out. Another pointed to networking events they sponsored to encourage peer-to-peer learning. Several described funding frameworks that require measurable outcomes within a year. “We don’t make ecosystem investments; we fund direct implementation.”

Even in large national organizations that have capacity-building resources to support local programs, capacity-building support can be uneven or limited. One local program leader reported ready support from headquarters for recruiting but no help in choosing an HR Information System. Another reported being left to their own devices to develop technology to coordinate volunteer efforts despite this being a shared need for sister programs around the country.

Incubators and shared services organizations like the Tides Foundation do offer a range of supports for their clients. Some umbrella agencies like certain local United Ways help grantees gain better access critical external resources.

*I have yet to find, however, an ecosystem of supports model that is both comprehensive and sustainable and could effectively address endemic capacity-building impediments.*

**MATCH LEARNING MODES** This section addresses two kinds of learning experience leveraged in capacity-building efforts. One is the more formal approach of cohort training. The other is a more informal process that harnesses the power of peer-to-peer learning. They work best when matching the mode to the desired outcome.

**Cohort-Based Training** I have participated in cohort trainings, both as an attendee and orchestrator. As an attendee, I learned useful things, built relationships with experts and peers, and found inspiration for new courses of action. As an orchestrator, I valued a cost-effective mode for reaching as many learners as possible on a limited budget. Some types of training such as diversity awareness lend themselves reasonably well to cohort training, especially when inclusive of management teams that commit to making changes based on what they learn. Good cohort trainings don't stop at introducing new concepts. They articulate commitments to use the learning when back on the job. They leverage new relationships for future interchanges.
Yet cohort training has limitations. Participants value the experience but find it hard to incorporate learning once back in the high demands of their jobs. One-size-fits-all programs may be more relevant or timely for some but not others. An absence of follow-on training and post-training accountability measures makes it less likely that learning translates into acquired skills and real change. Training offered for leaders as opposed to leadership teams makes it harder to spread learning throughout the organization. Without activities to sustain ongoing peer-to-peer interchanges, promising relationships wither.

As the Chief Human Resources Officer at Emmis Communications, I worked with our Director of Learning to create company-wide management trainings. We learned that management training was best done with teams charged with leading change post-training. High ratings on classroom cohort activities were not enough. Classroom learning took root when applied to immediate organizational needs such as infusing data into management decisions, building a culture of retention to prevent debilitating turnover, reengineering a process that was becoming a competitive anchor, or establishing a new modus operandi based on inclusion. It was most effective when some measure of accountability was in place: a sponsor expecting that the training would enable a demonstrable improvement.

We switched from a one-time cohort mindset to a longitudinal approach where a series of learning activities was attached to a specific improvement plan owned by a specific team. This better harnessed insights from training to make tangible progress. The most useful learning experiences often turned out to be iterative and tied to an immediate requirement, with time for trial and error to build skills and where initial lessons created opportunities to layer on additional learning. Just-in-time, experiential learning tended to stick better than generic classroom topics offered in cohort training. The experiential dimension, building on the mostly theoretical learning in cohort training, solidified both the skills and commitment required to sustain fresh approaches. Better results tied to training also increased support for future training.

In my discussions with foundation leaders, I learned that cohort training was a very commonly used approach. The general rationale was that it was the best way to reach as many participants as possible within budget constraints. All found the networking to be useful. Many noted that the cohort approach enabled them to bring top-notch trainers to organizations that may not have been able to afford such access.

Some designed for the limitations of the cohort format. For example, the PropelNext program provided coaches to work with participants post-training to help leverage learning into action (PropelNext). The Haas Foundation developed an innovative ‘plan consultant’ program where experienced outside advisors work with leadership teams to articulate priorities and develop well-formulated approaches to solve key challenges. Some included multiple members of a leadership team to raise the likelihood that learning would be leveraged post-training.

Cohort training, however, must be positioned as only one part of the puzzle. It may be a good idea to bring financial managers together to work through new tax policies, techniques for planning, forecasting and reporting, or general project management skills
to lead improvement initiatives. But to help an organization improve its performance management, capacity-building resources may be better deployed otherwise – visiting peer organizations to learn best practices, purchasing new software, retaining an external service provider, or providing a series of trainings for internal staff.

Cost and convenience advantages often make cohort training the answer. At times though, there is the proverbial risk of being a hammer looking for a nail.

Peer-to-Peer Learning I have seen a number of capacity-building efforts that aim to unleash the power of peer-to-peer interchanges. We need more.

At one company, I encountered great dissatisfaction with annual company meetings. Top leaders gave one-way presentations of information that could have been shared beforehand, leaving little time to take advantage of having people in the same place (connect, engage, debate, problem-solve, share, plan). In subsequent company meetings in following years, we brought together counterparts doing similar work around the country (general managers, finance leaders, HR leaders, technology leaders, etc.). Each participant:

1. Shared one practice or approach yielding better results that might benefit others.
2. Requested input on a new challenge that may have been already solved by others.

These sessions quickly become the most highly rated. Not only was relevant and immediately useful information exchanged, but collaborative relationships were formed that enabled more rapid and comprehensive interchanges around best practice long after the annual meeting was over. Peer interchanges enabled the organization to keep up with the pace of external change much better than centralized learning programs.

Learning systems work best when the flow of expertise is less hierarchical and more organic. The hub and spokes model where innovation in one location is communicated to someone up the chain to share across multiple sites can be slow and incomplete. When peers are connected, the interchange is more likely to happen and more likely to be faster, more transparent, more textured, and more credible. Cultures that catalyze and nurture relationships between peers attain a vastly more vibrant flow of learning and innovation.

“Cultures that catalyze and nurture relationships between peers attain a vastly more vibrant flow of learning and innovation.”

Way too much capacity building in the nonprofit sector still follows a vertical model where a board or funder initiates a plan and provides technical guidance with limited learning from other organizations that have solved a similar challenge. When peers are connected in a more web-like fashion, they can more readily incorporate the experience of others into their planning. Counterparts become the consultants. Geographically focused associations often create foundational relationships that spawn more effective peer-to-peer interchanges. As do cohort programs where such connections are formed and sustained. More states, regions, and localities could benefit from activities that support better flow of expertise between nonprofits.
Cohort training would be more likely to have lasting impact when making peer-to-peer connections a design priority. Do sessions focus on sage-on-the-stage presentations from experts? Or is sufficient time planned to enable participants to deepen relationships with fellow attendees and to identify areas where they can exchange expertise? When consultants are no longer funded, what plans are formulated to enable training participants to tap peer expertise? Cultivating the connections that facilitate peer-to-peer dynamics can greatly enhance the learning needed to build capacity.

**Diversify the Leadership Pipeline**

A peer-to-peer mindset can also be applied to diversifying the leadership ranks in the philanthropic sector. I have spoken with several foundation leaders who are concerned about the lack of diversity in service providers. This is perceived to be both a sourcing challenge and a shortcoming in what could be a valuable pipeline of diverse candidates to serve in nonprofit leadership roles, on boards, and as officers in funding organizations. Years ago, we developed a model at Save the Children that might help.

Save the Children hired a team of consultants based in headquarters to support programs around the world. Of the crop, however, the Country Directors in the Asia Pacific Region considered only one a ‘keeper.’ The others had knowledge that was less region-specific, or more theoretical than grounded. Flying them around the world was costly. As were the salaries required at headquarters in Westport, Connecticut.

**“A peer-to-peer mindset can also be applied to diversifying the leadership ranks in the philanthropic sector.”**

With growing frustration, we turned to our field experts in the region. We created what we called the 50/50 program to free up time of those running the best programs to support similar programs in other countries. In Thailand, the leader of our Agro- and Community Forestry program became a resource to other country programs wanting to emulate the approach. Regional colleagues came to observe the Thailand program. The Program Leader then visited their home country and worked up plans with the country team to adapt cornerstone elements of the Thailand program to local needs. He helped with grant proposals and funding connections. After laying a foundation of local knowledge and relationships, the Program Leader was able to provide ongoing support remotely. To free up 50% of his time to take on this regional role, we hired a local Deputy Program Leader.

Running what was perceived to be the best program in the region, the Thailand Program Leader had instant credibility with fellow implementers. Because he retained his responsibility to oversee the maturing Thailand program, his insights never grew stale or became too theoretical. The Deputy we hired learned at the hip of the Program Leader, developing the skills required to eventually lead the program. The cost of access to outside expertise was much less than the headquarters model, involving regional rather than global travel.

**“So what if foundations looked less to outside consultants and more to the best local practitioners as outside experts?”**
a shared contribution to the incremental salary of the Deputy, and a modest salary increase for the Thailand program leader to step up to a 50% regional role. As an added benefit, this provided a career development opportunity for the Thailand Program Leader, expanding his bona fides as a consultant. It likely also helped us retain his services longer. When he left the local Deputy was ready to step up.

So what if foundations looked less to outside consultants and more to the best local practitioners as outside experts? What if the finance leader most expert in grants management could be available to help peer organizations? Instead of funding outside consultants, why not provide funding to the home organization to add a staffer to free up the time of the in-house expert? Perhaps some training would be needed to help the top-notch implementer develop consulting skills, but it would help make available credible, pertinent expertise. This model might help the home organization retain for a few more years someone they may have lost to a larger organization, not to mention creating a more orderly succession plan.

Creating new career development opportunities with this peer-to-peer approach could help create a more diverse pipeline of future consultants, leaders, and board members.

If the answer is always to tap the existing pool, we will make slow progress on diversity goals. By creating pathways for emerging talent, we will not only diversify the ranks, but also provide better technical assistance at lower cost. This kind of innovation is possible with a peer-to-peer approach.

**BALANCE COLLECTIVE AND DIRECT** As someone hard-wired with a systems change perspective, I have found it heartening to see growing capacity-building support for collective action. Sustainable solutions to complex issues often require collective participation from the nonprofit, corporate, and government sectors. When problems are bigger than a single organization, collaborative efforts that incorporate a mix of implementing, intermediary, support, policy, academic, and funding organizations can make a larger, more long lasting dent. Capacity building around collective action is maturing beyond encouragement (that we should be doing it) to funding systems entrepreneurs and teaching the mindsets and skill sets that catalyze effective system change (how to do it.)

At the same time, I worry about too dramatic a pendulum swing. Representatives of large funders and associations say they are completely shifting capacity-building resources from individual nonprofits to system-level collaborations. It is well to keep in mind how vibrant implementing organizations contribute to system change. They create innovative programs that can guide policy and funding measures. They develop staffers that inject into collective efforts a visceral understanding of on-the-ground complexities. And they provide the laboratories to test and refine programs and generate efficacy data. I’m all for building the capacity of nonprofit leaders to contribute at the collective level.

*If leadership development efforts migrate uniquely towards network leadership and skimp on skill building for implementation excellence, however, the pendulum will have swung too far. Support for both are needed and should be thoughtfully allocated between the two.*
**WIDEN THE SUPPORT CIRCLE**  The distribution of capacity-building resources is lumpy. A large share focuses on leadership development, strategic planning, governance, fundraising and financial management. This is as it should be. Without strength in these areas performance will be anything but high. Resources to support capacity building in these areas are robust and more easily identifiable. The landscape review, however, points to areas in which this is less the case. I have cited an oft-mentioned struggle of nonprofits that have tried to implement Salesforce with mixed results. Other examples where tapping external resources have been reportedly difficult include:

- Building a low-cost employee development program to fortify needed capabilities and strengthen retention
- Developing better staffing practices to reduce crippling overtime expenditures
- Improving volunteer management practices
- Finding the right coach to help with a particular dynamic

In some cases making progress may require tapping outside expertise, acquiring new systems, reimagining existing processes, training, staff changes, or all of the above. They may draw on subject matter depth in areas as diverse as HR, Technology, Finance, Data Management, and Marketing. External resources exist to support such efforts, but the stories chronicle difficulties in finding the right resources at the right time.

*We need more comprehensive and balanced support in capacity-building areas that get less attention but are no less vital to success.*
Section III: Recommendations and Next Steps

The following pages offer recommendations for capacity builders who seek better results, as well as future plans for the findings of the research.
RECOMMENDATIONS

Capacity builders who want better results should:

1. Apply a start-from-the end mindset to organizational improvement. Let desired outcomes and a theory of change drive design rather than budgets or logistical ease.

2. Design capacity building that is thoughtfully sequenced and sufficiently comprehensive based on the multidimensional, multiyear requirements of improving organizational performance.

3. End the starvation cycle by shifting more funding to core capacity building: increasing general operating support, providing higher overhead rates, and supporting revenue generating activities and small endowments that enable organizations to more sustainably finance institutional investments.

4. As the pendulum swings towards funding collective action, ensure that sufficient support flows to organizations that create the examples that should guide policy and funding.

5. Use cohort training when appropriate but don’t over-rely on it. When using it, include follow-on activities that translate learning into action and elements that foster peer-to-peer capacity-building connections that will live long after the cohort training.

6. Support the development of peer-to-peer consulting when more cost-effective than outside experts and when helpful in creating a diverse pipeline of future consultants, nonprofit leaders, and board members.

7. Widen the range of capacity-building support to organizational strengthening needs beyond the most frequently targeted areas such as leadership development, governance, strategic planning, and fundraising.

8. Support the development of intermediaries that have sustainable institutional expertise in connecting nonprofits to the right capacity-building resources at the right time.

9. Provide support for effective front-end framing to increase the likelihood that capacity-building activities achieve desired results.
**NEXT STEPS**  These reflections will be circulated among the scores of nonprofits leaders, foundation officials, service providers, representatives from intermediary organizations, and academic colleagues who have been kind enough to share their capacity-building stories. I look forward to feedback and discussions that may follow.

Coming next is a program to address some challenges identified here. Leveraging a concept tested with experts and through a pilot program, the program creates an element of what Joel Fleishman calls ‘Philanthropy Improving Infrastructure.’ It aims to buttress underdeveloped parts of the support ecosystem needed to extend the reach and impact of successful programs. One component addresses the shortfall in sustainable financing for institutional investment. The second component offers a connective capacity-building service that supports effective framing of organizational improvement initiatives and enables timely access to the right external resources. Each component can function as a standalone. Together they address the most fundamental barriers that prevent high potential nonprofits from reaching their fullest potential.

> “Coming next is a program to address some challenges identified here, leveraging a concept tested with experts and initiated through a pilot program.”

Experienced capacity builders decry the often ad hoc market dynamics connecting supply and demand for external resources. Several have independently noted that a connective service that improves the success rate of organizational development initiatives has been a kind of Holy Grail for capacity builders. The aspired contribution of such a service is straightforward:

- Effectively frame organizational development initiatives and connect with vetted external resources
- Reduce cycle time
- Leverage prior experience of relevant organizations
- Do it in a way that is comprehensive, evergreen, sustainable, and gets better and better over time

**HOLY GRAIL?**  With all due respect to colleagues who have toiled for years in the absence of such supports, I prefer less grandiose claims. There is little doubt, however, that such a service can help populate the ecosystem with a growing number of organizations that develop the financial and adaptive capacity to deliver programs that produce better results for participants. Such programs show the way for policymakers and funders looking to apply the best approaches at scale.