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Getting the Basics Right

Grant makers seek effective ways to improve charities' operations

By Stephen G. Greene

A growing number of foundations are trying to become more effective at improving the effectiveness of nonprofit organizations. Most foundations still prefer to underwrite a charity's services or programs. But many grant makers have also been trying to ensure that the nonprofit organizations that run those programs become more stable and successful as well.

By making "capacity building" grants, foundations seek to strengthen their grantees' management and governance in prosaic but critical ways: developing the skills of board and staff members, for example, or tightening financial management, drafting strategic plans, or upgrading communications technology.

Some foundations have been making such grants for years -- long enough to have acquired some idea of what kinds of interventions are most successful. And as nonprofit groups face growing competition from businesses as well as one another, say some observers, it is more important than ever for organizations to put those lessons to use and to learn the most promising strategies for them to adopt if they are to survive and flourish in a rapidly changing world.

All the attention on capacity building has spawned a large industry of management-support organizations and consultants, eager to help nonprofit groups improve areas as varied as their fund raising, board composition, Web sites, and accounting systems. But one important lesson is that not all attempts to strengthen organizations actually do so.

"The quality of capacity building has been variable at best," says Ruth McCambridge, director of program development at Third Sector New England, a management-support organization based in Boston. "That's not to say that some stellar work isn't being done. But some of the work is pretty sloppy and hasn't produced the hoped-for results."

Also needed is better evaluation of capacity-building efforts, say some experts, who add that determining which steps are most useful at which

stages of an organization's development is critical to bringing intellectual rigor to a process that too often remains hit-or-miss.

"The nonprofit sector is awash in management fads and ideas for improvement," says Paul C. Light, who directs the Center for Public Service at the Brookings Institution, in Washington. "The problem out there for these grant makers is that we don't know much about how to make a mediocre nonprofit into a high-performing nonprofit."

Some foundations advise their grantees to adopt management standards, while others urge them to become more results-oriented, or to increase salaries, or to hold more board meetings, or to hook up to the Internet, says Mr. Light. "There are a hundred ideas," he says, "but we have very little knowledge of what actually works."

With support from several foundations, Mr. Light is engaged in trying to study excellence among nonprofit organizations to determine what factors contribute to their success. He has already surveyed 250 grant makers, scholars, and other close observers of nonprofit groups to ask what they think makes for effective organizations. He's now studying 250 groups that were identified as exemplary high-performing ones to try to figure out what makes them that way. The goal is to identify their common traits, so that other groups might become more effective by emulating them.

Most of those who responded to the survey believe that leadership is the key to upgrading organizations -- though there is no consensus on how best to cultivate effective leaders, Mr. Light says. By contrast, those polled give low marks to many of the management changes instituted in recent years, from measuring performance outcomes to giving donors greater access to organizations' financial data. And efforts that reflect grant makers' priorities rather than those of the groups they are trying to help are considered particularly unlikely to succeed.

The David and Lucile Packard Foundation, by contrast, which has been working to improve organizations' effectiveness for more than 15 years, lets its grantees decide which management issues they wish to work on.

"We'd never set the priority," says Barbara D. Kibbe, who directs the foundation's Organizational Effectiveness and Philanthropy program. "If a grantee wants to work on board development but it looks to us like they need to work on financial management, it's not about our priority, it's about theirs. In our view, the bus has a route. It doesn't matter what stop you get on; it's eventually going to hit all the stops."

Packard has awarded nearly 600 grants in the past three years to help its grantees deal with management or governance issues. Each grant averages

around \$30,000, and the annual amount the foundation spends on such grants has grown from about \$1-million in 1996 to some \$8-million today.

'Peer-Based Learning'

Other foundations are also committed to upgrading the organizational effectiveness of their grantees. The Mary Reynolds Babcock Foundation now incorporates such support into every grant it makes, and encourages applicants to consider their organizational as well as programmatic needs when seeking support.

Babcock's policy grew out of its experience with a program in which it awarded separate grants specifically intended to strengthen a network of grass-roots organizations throughout the South that are engaged in fighting poverty and racism. From 1995 to 2000, it awarded 103 capacity-building grants that averaged approximately \$100,000 over three years.

One hallmark of the Babcock program is "peer-based learning," which gives leaders of its grantee organizations the opportunity to swap ideas with one another at annual gatherings sponsored by the foundation. Some also have met in smaller clusters to discuss issues of common interest.

"To be able to meet with kindred organizations who are at the same stage in their growing pains has been very energizing and nurturing," says Michael Tierney, executive director of Step by Step, a community-leadership program in Big Ugly Creek, W.Va. A Babcock grant helped the organization's leaders step back from its day-to-day operations to reflect on the kind of group they wanted it to be.

"The board and I realized that some things we were doing were unique and we wanted to keep them as our core programs, but that other things we could pass on to other people, because if we kept doing them ourselves we'd be spread too thin," Mr. Tierney says. Rather than continue to offer a hodgepodge of short-term programs for which grant money happened to be available, he says, Step by Step decided to focus on providing a full range of learning opportunities, from grade school through youth programs and into adulthood. It also decided to remain rooted in its rural Appalachian community rather than expand into a statewide organization.

"We've shifted to a long-term vision of leadership development" that involves training local residents to take leadership roles rather than bringing in experts from outside the community, Mr. Tierney says. "Five years from now we'll have a cluster of people capable of running these sustainable programs."

That's the kind of long-range approach Babcock encourages. "We needed to build strong organizations that would be in the work for the long haul, and make them more effective and sustainable," says Sandra Mikush, the foundation's assistant director. She notes that Babcock's program grew out of the fund's own long-term planning process in 1994, in which it suspended its grant making while charting its new priorities.

Collaborative Project

A three-year experiment in Silicon Valley involving collaborative grant making and collective capacity building has yielded lessons about the benefits of regular in-depth discussions between grant makers and grantees. Sixteen prominent social-service organizations have each received \$125,000 over three years to identify and develop areas of management or governance in need of strengthening. Eleven of the 16 decided to spend at least some of the grant money on improving their technology, while others dealt with such issues as human-resources policies and marketing.

Support for the experiment, the Organizational Capacity Grant Initiative, came from three local grant makers -- the Peninsula Community Foundation, the Charles and Helen Schwab Family Foundation, and the Sobrato Family Foundation -- which invited the 16 organizations to participate. All participants met periodically to discuss their projects and to offer feedback to one another.

Grant makers agreed to pay for some things that they usually would have declined to support. For example, Poplar ReCare, a Burlingame, Calif., group that serves adults and children with disabilities, had previously applied for a Peninsula grant to upgrade its management information systems but was informed that the board preferred to support direct services, recalls Sheryl Young Hunt, Poplar ReCare's chief executive.

But the new program had no such bias. Not only did her group acquire new technology, but it also used the grant money to expand the light manufacturing operation it runs. Revenue from that operation grew by 17 percent the first year and 27 percent the second, says Ms. Hunt.

There were other benefits as well. "The surprise to me was that the kinds of things we learned in this project had a snowball effect that carried over into the total operations of the organization," Ms. Hunt says. "Because what one group was learning, they were sharing with the rest of the people in the organization, who started applying those strategies and techniques to what they were doing."

Sterling K. Speirn, president of the Peninsula Community Foundation and the main force behind the experimental program, says he's learned that "high-engagement philanthropy" takes lots of time but that the payoff is worth it. Foundation and charity leaders who went through the process now know one another much better and are quick to collaborate, he says, adding that "these organizations are on a whole different trajectory now because of their participation" in the program.

Mr. Speirn would like the program to continue with a different group of organizations, and he says he also intends to include capacity-building in his foundation's regular grant making. "I'm pretty convinced of this model," he says. "But it takes us into a whole new area beyond our episodic one-off technical-assistance grants," necessitating a long-term and more intensive relationship between foundation officers and the leaders they support.

Developmental Stages

Capacity building is most successful when organizations are at a receptive moment in their development, reports the Milton S. Eisenhower Foundation in a new publication, "Lessons from the Street," which distills its experience from the past decade. From 1990 to 2000, the operating foundation helped more than 80 grass-roots inner-city nonprofit groups build their capacity and, in some cases, spin off similar organizations.

Groups benefiting the most from the intervention were organizations between three and five years old with annual budgets between about \$150,000 and \$600,000, says Lynn A. Curtis, the foundation's president.

Organizations that were newer or smaller than that often found their day-to-day challenges too overwhelming to be able to benefit from organizational development. "You have to have some capacity in order to use technical assistance and training," Mr. Curtis says. On the other hand, he adds, "if they were too big or too old, they had become fat and sassy and set in their ways and wouldn't listen to us" unless they were facing some kind of crisis. In the middle were groups that were growing and had a sense of momentum and were eager to acquire new organizational skills, all traits that made them rewarding to work with.

Eisenhower's report also suggests that building capacity is not a short-term proposition. "Thirty-six months with a group is the threshold time period for real good outcomes to occur," Mr. Curtis says.

The foundation also is a strong believer in communications technology as a vital element in building a group's capacity. It creates an Internet site for every new grass-roots organization it works with, as a way of increasing

its public visibility while also raising money, keeping in touch with members or constituents, and advocating public policies when necessary.

Numerous Resources

Foundations interested in improving the capacities of their grantees can draw on several resources for information and support.

An active and fast-growing network, Grantmakers for Effective Organizations, promotes such activities by offering workshops around the country and through its Web site (<http://www.geofunders.org>). Its national conference last year, held jointly with the Grantmakers Evaluation Network, focused on the importance of evaluation; next year's conference, scheduled for March in Washington, will look at the entire range of interventions available to grant makers, from financing research to engaging in venture philanthropy.

The group now has more than 300 members, representing some 200 institutions -- up from about a score of people when it was formed in 1997.

The Alliance for Nonprofit Management is working to improve the performance of consultants and others who offer management training. Its latest project is the creation of the Institute Without Walls, a Web-based resource that will link people around the country in proposing and testing solutions to common organizational problems and function as a training center for effective strategies. The alliance's own Web site (<http://www.allianceonline.org>) offers success stories illustrating the potential benefits of various kinds of management assistance, as well as its survey of salaries and benefits at management-support organizations.

Nonprofit managers, trainers, consultants, scholars, and others interested in innovative management practices can turn to *The Nonprofit Quarterly*, a national magazine that aspires to be "the *Harvard Business Review* of the nonprofit sector," according to Ms. McCambridge of Third Sector New England, which publishes it.

The magazine, which initially focused on New England, was able to broaden its coverage three years ago, thanks to a \$535,000 grant from the Packard Foundation.

Price to Pay

Capacity-building support, when tailored to its subject, can help an organization immeasurably, pulling it back from the brink of demise, perhaps, or catalyzing a major improvement in some facet of its

operations, proponents say. But it comes at a cost: The assistance often requires lots of time on the part of board and staff members, and can end up exacerbating some of the tensions often found in small, harried, struggling organizations.

"You can sit around with a consultant that doesn't know your community or your issues and plan and plan and plan, and end up just shuffling paper," Mr. Tierney says. "I've been a board member of an organization that took two years to develop a three-year plan."

As boards and directors seek guidance while sorting through mountains of advice about the kinds of improvements they should institute, Mr. Light of the Brookings Institution says it is highly unlikely that a single prescription will apply to every organization.

"We'll probably find that there are many paths to creating a high-performing nonprofit organization," he observes. "Certainly nonprofits can get better by improving their accounting systems, doing strategic planning, or doing more training of their staff. But anyone telling you that any one intervention is the answer is just plain wrong."

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