# Capacity Building for Nonprofits:

#### by Anne Sherman, TCC Group

### Hartford Example

Photograph: Getty Images

onprofits are like for-profits in this regard: To ensure effectiveness and meet the challenges that come with growth and change, they need to build strong organizations that will support an excellent product. For the private company, the bottom line is profit; for the nonprofit, the bottom line is achieving mission. Either way, the need for a strong infrastructure is the same.

#### Accountability

For better or worse, nonprofit leaders live and work in an era marked by a growing emphasis on results. The public is increasingly demanding that nonprofits demonstrate their effectiveness and account for the funds they spend.

There is nothing inherently wrong with accountability. However, because funders have historically supported program development and innovation rather than strong organizations to sustain programs and to create meaningful accountability mechanisms, many nonprofits are challenged to meet the rising expectations. By and large, donors' prevailing attitude has been "every extra dollar should go back into programs." Without strong organizational capacity, nonprofits have found it difficult to consistently develop and implement high-quality, high-impact programs. Put another way, most organizations do not have the systems (the management, technology, board governance, planning, evaluation, professional development, and so on) to help programs grow, thrive, and have long-term impact.

In response to this vacuum, an entire field—commonly called capacity building has sprung up over the past two decades. With support for the concept growing, nonprofit organizations and their funders have encountered new questions: How does one define capacity for a nonprofit? Where to begin building capacity?

As the field has matured, definitions of nonprofit capacity and ideas about how to measure it have proliferated. One model of organizational effectiveness, developed by the New York-based firm TCC Group, emphasizes four critical areas:

1. Leadership Capacity: the ability of all organizational leaders to create and sustain the vision, inspire, model, prioritize, make decisions, provide direction, and innovate, all in an effort to achieve the organizational mission.

- Adaptive Capacity: the ability of a nonprofit organization to monitor, assess, and respond to internal and external changes.<sup>1</sup>
- Management Capacity: the ability of a nonprofit organization to ensure the effective and efficient use of organizational resources.
- Technical Capacity: the ability of a nonprofit organization to implement all the key organizational and programmatic functions.

Organizational culture can be considered a fifth component of the model since it has a significant impact on each of the core capacities. Organizational culture is an amalgam of the nonprofit's history, language, structure, and values. It provides the context for defining, assessing, and improving effectiveness. Finally, the model recognizes that the operating environment and the available resources are also important in determining effectiveness.

The leadership capacity and the adaptive capacity are the two most important. Without them, it is nearly impossible for an organization to be effective over time. It

#### A Hartford Nonprofit Grows

When Our Piece of the Pie CEO Bob Rath came on board 12 years ago, the organization was called Southend Community Services (SCS) and was providing neighborhood residents with an array of services that included child care, home care for the elderly, and employment and training programs for youth. With years of experience managing both for-profit and nonprofit organizations, Rath recognized that the organization lacked the focus and vision it would need to distinguish itself as a high-impact program making a tangible difference in the lives of the people it served.

Though clearly an important source of support to many Hartford residents in need, SCS lacked the kind of infrastructure that makes for efficient and effective operations. Furthermore, it lacked a way to document the quality and outcomes of its programs in a systematic, sustainable way that would also allow for accountability to key stakeholders—staff, board, clients, and funders. Like many nonprofits, the agency literally did not have the technological or human resources to efficiently collect and report data on programmatic outcomes.

In 2000, SCS was selected to participate in a special initiative of the Hartford Foundation for Public Giving that paid for local multiservice agencies to contract Group. As a result of the assessment, the SCS staff and board agreed to embark on the agency's first strategic plan, develop its external communications function, and invest in its IT and data-collection systems.

As valuable as all those enhancements were, says Rath, the assessment's greatest benefits may have been the questions it raised. "The assessment started prodding me to think about, Where are we going to go, what are we going to be good at?" It was the first step in a long journey that forced staff and board members—spurred on by Rath—to think carefully about what effectiveness meant for SCS and to make deliberate, sometimes difficult, decisions.

Both literally and figuratively, SCS no longer exists. Its leaders made a strategic decision to build on a core competency youth development. The transformation was so significant that SCS eventually adopted the name of its signature program, Our Piece of the Pie. Today, OPP's comprehensive program model, which has garnered national attention, includes education, employment readiness, and small business development. Stronger than ever, the organization is poised for continued growth.

#### Leadership and Adaptability

OPP's success is a direct result of Rath's strong leadership. Six years ago, when SCS

## Accountability = Achieving a Mission

might be *efficient*, but continued effectiveness will be elusive.

One group that demonstrates the power of the leadership and adaptive capacities is Our Piece of the Pie in Hartford. with consultants to conduct organizational assessments. Based on the assessment, participating agencies would design and implement a multiyear capacity-building plan to address their most pressing needs.

Rath chose consulting firm TCC

was at a crossroads, he presented a risky vision and worked to earn the support of senior managers and board members.

Rath recalls that the team had big decisions to make: "I could see that we couldn't be accountable for anything if we stayed all over the place. ... People realized that there would be a real advantage in focusing."

Developing a strong vision was critical. So was a commitment to building the adaptive capacity that would allow OPP to measure its progress toward goals and respond. The strategic plan was an integral part of that process—as was a business-planning process (funded by the Edna McConnell Clark Foundation) that forced staff and board to be explicit about their revenue and expense assumptions.

OPP also took steps to become a learning organization, prioritizing the development of an outcomes-based data-collection system. Today all staff members are expected to use the system so that the group can assess what is working and where improvement is needed. For example, an important goal is working with high school dropouts and getting them to re-enroll. Some stay in school, some graduate, and others drop out again. The new data-collection system allows OPP staff to track the status of each student and link the benchmarks to the student's interactions with staff, level of program participation, and personal barriers. In this way, managers can see what is happening and intervene if needed.

After one year, Rath estimates that 90 percent of the staff are committed to using the system. He anticipates that in the coming year, there will be more consistent use of data to understand how OPP programs are working and what constitutes quality. He credits two basic guidelines for the successful implementation: use data to learn and to grow, not to punish; and show staff clearly how the data can lead to higher-quality programs and better results. In the coming years, OPP expects to have rich program data that can help it learn and adapt—and attract new funding.

Our Piece of the Pie continues to build its leadership capacities, knowing that leadership goes beyond the CEO. The agency hired its first chief operating officer—Delia Bello-Davila, a seasoned professional with skills that complement Rath's—and it made board development a high priority.

For other nonprofits trying to increase effectiveness, Rath suggests seeking out foundations that do not limit their support to projects and programs but that understand the value of capacity building. He himself has learned a lot. "People who are leaders need to remember that they can't do it all themselves," he notes. "You had to push me to hire a deputy. I was very resistant. I've come to see that building capacity is really all about getting additional talent in place. ... I decided to hire someone that could be me, or better, from day one. And having someone of her caliber is going to pay for itself tenfold."

Anne Sherman is a senior consultant with TCC Group, a management consulting firm that provides capacity-building services to nonprofit organizations and philanthropies. She is based in New York City.

#### Endnote

<sup>1</sup>Christine Letts, William Ryan, and Allen Grossman introduced the concept of adaptive capacity in *High Performance Nonprofit Organizations: Managing Upstream for Greater Impact* (New York: John Wiley and Sons, 1999). Carl Sussman built on this work in a November 24, 2003, working paper, *Making Change: The Role of Adaptive Capacity in Organizational Effectiveness*, which he developed in partnership with Management Consulting Services in Boston, with support from the Barr Foundation.

