

Capacity Building *and the* National Infrastructure *to* Support It

by Paul C. Light

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These are times that try nonprofit souls. Charitable contributions are down, while operating deficits are up; board vacancies are rising, while executive tenure is falling; media coverage remains unrelentingly negative, the sector is split by the controversy over foundation pay-out requirements, and the labor market is tightening as the baby boomers begin their long-awaited retirements.

This is a perfect time to build the capacity of nonprofit organizations. After all, that is precisely what private firms do in lean times. Some companies reconnect with their customers, imagine new markets or identify new strategic partners; others rethink their strategies or modernize production lines. But whether they add or subtract, successful firms use economic crisis as an opportunity for organizational change.

In fact, according to Bain & Company, a private-sector consulting firm, corporate capacity building soared 60 percent over the past two years, rising from 10 activities per company per year in 2000 to 16 in 2002. Last year alone, 89 percent of the Bain respondents engaged in strategic planning, 84 percent conducted benchmarking, 84 percent addressed their mission and vision statements, 79 percent segmented their customer base, 78 percent outsourced some function, and 78 percent surveyed their customers.

But private companies do not just strengthen their own organizations during down times. They also pour resources into areas such as the following: trade associations that lobby government on behalf of specific industries such as air-

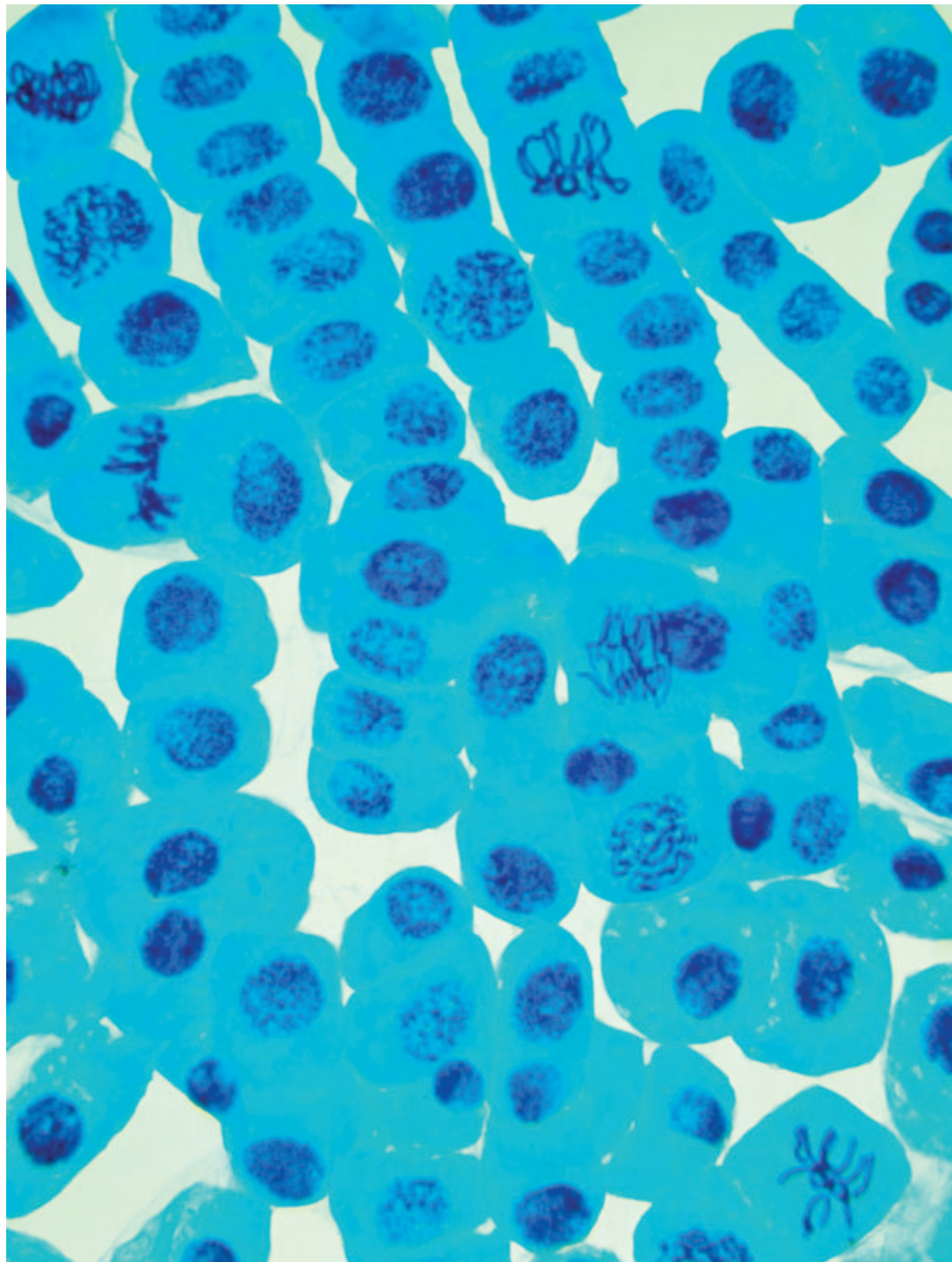
lines or big steel; promotional campaigns that shape public opinion; publications that disseminate best practices for capacity building; “good business” groups that promote self-regulation as an alternative to government prosecution; and finally, networks of educational institutions that define the master of business administration (MBA) as the degree of choice for talented young people. Unfortunately, many nonprofits and their funders take a different, and I would argue, a less productive approach, starving and weakening the positions of many worthwhile organizations in already resource-scarce situations. This is foolhardy.

All funders should be investing in the nonprofit infrastructure. There is not only good evidence (presented below) that capacity building makes a significant difference in nonprofit program outcomes at a relatively low cost, but also that capacity building is, overall, far more effective when delivered by or informed by infrastructure organizations.

The Case for Capacity Building

My case for nonprofit capacity building, and the national infrastructure to support it, is based on three simple conclusions:

- capacity building makes sense because organizational strength contributes to program effectiveness;
- capacity building makes sense because it produces stronger organizations, thereby helping individual nonprofits and the sector as a whole deploy scarce resources more effectively;



Capacity building can have a significant impact on program performance, particularly through the greater efficiency and productivity that flow from increased morale, staff delegation, better leadership, and strategic focus.

- the national infrastructure that supports nonprofits makes sense because it improves the odds that capacity-building efforts will succeed.

Organization Matters

Not everyone believes that organization matters. Some nonprofits and funders think of organizations as “black boxes” through which program inputs and activities pass, mostly undisturbed, en route to their final impact. The relationship between organization and program impact is not at all absolute, but is more closely associated with issues of sustainability and improvement of results. According to two-thirds of the 250 scholars, grantmakers, and technical assistance providers interviewed by the Center for Public Service in 2001, an organization could be very effective in achieving its program goals, but not be well-managed; while three-quarters of the group said an organization could be very well-managed and still not achieve its program goals.

However, capacity builders would never argue against the idea that poorly run organizations cannot succeed for long. Many organizations can produce program success for a short period. All they need are extraordinary employees who are ready to work long hours, tolerate stress, and persevere despite organizational barriers. This is the picture of the small early-stage nonprofit—closely connected to its constituency and attractive to others as a result of its passion and accuracy of approach.

The real trick for organizations is to sustain, improve, and build on this strength, producing progressively improving results over time. This is good management.

Capacity Building Matters

Can capacity building produce measurable gains in performance? I would answer “yes.” Some of the gains are becoming clear in my Center’s recent study of capacity building among a random sample of nonprofits with annual budgets of more than \$250,000. Funded by the David and Lucile Packard and Annie E. Casey foundations, the study is designed to ask whether capacity building works, and why. Its first finding determined that nonprofits use almost as many capacity-building tools as private firms do. The nonprofits in the sample used 11 tools over the past few years, com-

pared to 16 among Bain’s 2002 sample. If the nonprofit sample is generally representative of the sector as a whole, there is a great deal of capacity building going on among nonprofits.

- 87 percent of the first 320 respondents interviewed said their organizations had sought to improve external relationships through collaboration, mergers, strategic planning, fundraising, and/or public relations.

- 85 percent said their organizations had sought to strengthen their internal management systems through new information technology, budget and accounting systems, human resources management, evaluation, training, and/or organizational assessment.

- 85 percent said their organizations had worked to improve their internal structure through reorganization, team building, additional staff, diversity, and/or creating a reserve fund.

- 75 percent said their organizations had made an effort or efforts to strengthen their leadership through board and/or executive development, succession planning, greater delegation of responsibility to staff, or a change in leadership.

The second finding from this ongoing study revealed that capacity building appears to have a significant impact on a variety of organizational outcomes. Asked to identify, and then describe a single capacity-building effort from the past few years, 63 percent of the respondents said the effort had been completely or mostly successful in improving their organization’s management; 65 percent said it had been completely or mostly successful in improving their organization’s program impact; and 74 percent said it had been completely or mostly successful in improving their organization’s overall performance. The third finding from the study disclosed that capacity building begets more capacity building. Given a list of secondary effects of the effort they had identified, 55 percent of the respondents strongly agreed that the work they did “has led to long-lasting improvements in the organization;” 49 percent said the work “gave us a clearer sense of direction and priorities than we had before;” and 47 percent strongly agreed that the work “showed us the areas we needed to improve and the areas where we’re doing well.”

All in all, the capacity-building survey offers considerable support for the notion that capacity building *can* have a significant impact on

program performance, particularly through the greater efficiency and productivity that flow from increased morale, staff delegation, better leadership, and strategic focus.

The emphasis must be on the word “can,” however, for there is also ample evidence that organizational change often fails. It took decades, for example, for the quality movement to take hold in the private sector, and it still has a long way to go in healthcare, education, and government. To the extent that quality improvement has succeeded, it is the direct result of a national capacity-building infrastructure that helped develop strategies, study implementation, disseminate best practices, raise standards, celebrate success, and promote perseverance. Without this national infrastructure, quality improvement would be another in a long list of fads that came and went with little impact.

National Infrastructure Matters

It is difficult to assign a rate-of-return to a national infrastructure. What is the value of the *Harvard Business Review* and other learning platforms in giving firms a sense of what works? How important are federal tax breaks and business loans to organizational modernization? How do trade associations, awards programs, and business schools contribute to organizational improvement and sector-wide identity?

The best, and almost only research on these questions comes from the quality movement. According to Robert Cole, a professor emeritus at the University of California’s Berkeley Haas School of Business, the development of a quality infrastructure created the tipping point needed for adoption. “Many factors operated to delay recognition of quality as a competitive factor,” he writes of the early years of the quality movement. Not only were managers hamstrung by incomplete information, but they were also in prisons of existing values, norms, and practices.

The U.S. quality movement began to take hold through what Cole calls an “innovation and diffusion community”—otherwise known as infrastructure: “They created standards, identified bottlenecks, introduced new methodologies, publicized success stories, focused efforts, evolved forums for networking, and provided overall infrastructural support to users.”

A national nonprofit infrastructure does more than simply promote specific improve-

ments. It also helps to create a positive climate for the sector as a whole. It convenes much of the political, intellectual, human, and financial capital needed to implement successful change, and it strengthens the civil society in which nonprofits operate. Translated into outcomes, the national infrastructure builds identity, increases learning, creates incentives for improvement, and winnows ideas.

Stronger Identity

Organization improvement does not take place in a vacuum. As noted above, the external climate has a significant impact on the things that matter to capacity building, not the least of which is public respect for what individual nonprofits do.

There is good evidence that just being nonprofit adds value, some of which comes from employees who come to work for the love of the job and a desire to help people. When asked why they come to work each day, for example, only 16 percent of the nonprofit employees interviewed in 2001 focused on the compensation, compared to 41 percent of federal employees and 47 percent of business employees. This is an extraordinary resource that can and should be built upon.

Individual nonprofits are free to tell this story themselves, of course, but it might be much more credible coming from national associations. The national infrastructure can wrap the workforce story into a much broader portrait of why the nonprofit sector is the place for talented young people to go, where innovation, creativity, and stewardship abides. It can also help build recruitment strategies and feeder systems that highlight the nonprofit workplace as a destination, and it can help groups of nonprofits devise human resource systems that honor those characteristics. This can create a climate in which individual nonprofits will have a broader pool of applicants from which to choose.

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In theory, a strong national infrastructure could lower the costs of learning by improving the quality of advice through publications, train-the-trainer efforts, and better materials. At the same time it could provide greater access to the most helpful sources of advice.

The story might also help bolster the image of the sector overall. The recent public opinion data prove the need for such a case. According to a summer 2002 survey on behalf of my Center, Americans are generally unimpressed with the performance of all three sectors. Asked about their opinion of each sector, only 14 percent of Americans had a favorable opinion of government, 17 percent had a favorable opinion of business, and 24 percent had a favorable opinion of charitable organizations.

Better Learning

Respondents to my survey report mid-level usage of infrastructure-based staff support resources such as training, Web-based materials, and management support centers. Sixty-two percent said they had drawn on advice from professional colleagues in their capacity-building effort. Fifty-one percent used training workshops; 50 percent used books, manuals, or other written materials; and 41 percent used consultants. Only 25 percent said they had used Web-based resources, 14 percent had used a management support center, and 14 percent had gone it alone.

In theory, a strong national infrastructure could lower the costs of learning by improving the quality of advice through publications, train-the-trainer efforts, and better materials. At the same time it could provide greater access to the most helpful sources of advice. Note, for example, that management support centers were well-rated, but underused. The infrastructure could also create common learning space where nonprofits could draw upon each other's expertise more efficiently. By lowering the cost of learning, the infrastructure raises the odds that individual capacity-building efforts will succeed, thereby lowering the aggregate cost of building capacity throughout the sector.

Organizational Improvement

A strong national infrastructure can create greater incentives for capacity building through a variety of efforts.

For one, infrastructure organizations could highlight success stories by building the sector's knowledge base, which is meager at best. It is no surprise, for example, that it is nigh impossible to calculate rates of return on capacity-building investments. Unlike the pri-

vate sector, which produces mountains of data on itself, not to mention the statistics it gets from government agencies such as the Bureau of Labor Statistics and Bureau of Economic Analysis, the nonprofit sector knows little about its own workforce, and even less about its impact on the national, state, and local economies.

Part of increasing the incentives for improvement could also involve voluntary compliance with the kind of standards that have been developed from within the sector by the Maryland Association of Nonprofit Organizations and the Minnesota Council of Nonprofits. In doing so, the national infrastructure could help translate best practices from other sectors into a uniquely "nonprofit-like" approach. Such an effort could also address the new "golden rule" for nonprofits: "Do unto yourself before Congress and state attorneys general do unto you."

Winnowing

Finally, a strong national infrastructure could substantially reduce wasted motion across the sector. The nonprofit sector is drowning in reform ideas, many of which are contradictory.

Those who look to the private sector for insight on resolving the contradiction will be frustrated. Confusion rises with each new business best seller. Referring to the broad spectrum of reform ideas now coursing through the private sector, Bain & Company partner Darrell Rigby states, "Many of these tools offer conflicting advice. One may call for keeping all your customers, while another advises you to focus only on the most profitable. But all of these tools have one thing in common: they promise to make their users more successful. Today, beleaguered managers—struggling to demonstrate that they can adapt to rapid change in an increasingly challenging world—are turning to management tools in unprecedented numbers."

According to my ongoing survey, capacity building does not appear to be a particularly expensive endeavor. Fully half of the efforts in the survey cost less than \$25,000, while only 15 percent cost more than \$50,000. However, roughly two-thirds took a year or more of time, while almost three-quarters took a "great deal" or "fair amount" of planning, much of it by board members and executive directors. If the

sector is going to invest in in-kind resources in capacity building, the efforts should be more than successful in some objective sense—they should also be the right thing to do.

The national infrastructure can winnow out capacity-building ideas that don't work, thereby reducing waste and frustration.

Conclusion

Building the national infrastructure is clearly more than a financial imperative for the sector. Even as it lowers the cost of capacity building, a vibrant national infrastructure may make an equal, if not greater contribution by strengthening the backbone of the sector.

The sector might not need a "chamber of nonprofits" in every major city, for example, but it might want an association of nonprofits in every state. It might not need dozens of magazines, fancy Web sites, and thousands of networked consulting firms, but it might want a few national standard-setting journals and other elements of a learning structure that is not always scrambling to meet payroll. It might not need hundreds upon hundreds of national

organizations to make the case for civil society, but it might want to assure that its national organizations have more than enough muscle to sway the policy-making process when push comes to shove. Finally, it might not need dozens of government agencies to promote its cause through awards, research, tax breaks, and funding, but it might want at least one!

Strengthening the national infrastructure will not come cheap—though it may be less expensive than most might imagine. Although the financial rates of return are surely great, the most important impact will be in program results, and the employees who carry out these programs. If current trends continue, and the 2001 federal tax cuts virtually guarantee that they will, the nonprofit sector will need productivity and efficiency increases that far exceed past experience to keep up.

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