

A Handbook for Next-Generation
GRANTMAKERS and GRANTEES

INTEGRATING

Capacity
AND
STRATEGY

C. R. HIBBS

Integrating Capacity and Strategy

A Handbook for Next-Generation Grantmakers and Grantees

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The Stanford Center on Philanthropy and Civil Society ([Stanford PACS](#)) is a research center for students, scholars, and practitioners to explore and share ideas that create social change. Its primary participants are Stanford faculty, visiting scholars, postdoctoral scholars, graduate and undergraduate students, and nonprofit and foundation practitioners. As publisher of the Stanford Social Innovation Review, Stanford PACS informs policy and social innovation, philanthropic investment, and nonprofit practice.

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Integrating Capacity and Strategy: A Handbook for Next Generation Grantmakers and Grantees

Parts of this handbook were first published online as a Stanford PACS working paper, "[The Platform for Performance: Integrating Organization into Strategy for Next Generation Grantmaking](#)," by C.R. Hibbs and Brook Manville, 2011.



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Brook Manville co-authored the original paper that was adapted into this handbook, and he provided intellectual heft, practical experience, and “tough love” advice along with detailed feedback. He is simply the best philanthropy consultant I know. Cristina Galindez Hernandez has been a great friend and project partner—she helped refine the handbook concepts and worked with me as we beta tested the handbook tools with several different grantmakers and grantee organizations. Cristina also led the work to develop the online assessment surveys and is the principal author of the Organizational Capacity Reference Guide. My former Hewlett Foundation colleagues Smita Singh, Jen Ratay, Lawrence Mendenhall, Joe Ryan, Tamara Fox, Kristy Kimball, Jacob Harold, Karen Lindblom, Ame Sagiv, Jean McCall, June Wang, and Eric Brown all read drafts and gave helpful feedback, as did current Hewlett Program Officers, Kelly Born and Lori Grange. Thanks also to former colleagues at the Hewlett Foundation Mexico City Office, whose experience and insight about grant making practice critically shaped the themes of this work: Libby Haight, Guadalupe Mendoza, and Erika Ramos. The beta testers for this project—who by agreement will remain anonymous—had a radically positive impact on the tools in the handbook. Other grantmakers and practitioners in the philanthropic sector also graciously shared ideas and perspectives based on their own domestic and international practices, particularly Kathy Reich at the Packard Foundation, Adriana Craciun at the Oak Foundation, Adrian Fernandez and Jorge Villareal of the Latin American Regional Climate Initiative, Martha Farmelo, and the terrific team at Grantmakers for Effective Organizations (GEO). L.C. Scott at eFrog Press is a joy to work with on editing and design. Finally, a grateful shout-out to my aunt and uncle, Dick and Anne Gould, for cheering me on and providing a home away from home whenever I am in Palo Alto.

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FOREWORD

Nicole M. Ardoin

As our world faces increasingly complex, multifaceted issues, the necessity for strategic, effective philanthropy continues to grow. The social sector, represented by heroic efforts of nonprofits, often addresses “wicked” problems—those that are dynamic, difficult to define, and require collaboration among different organizations or sectors to solve. From environmental degradation to poverty alleviation to issues of global peace and security, the philanthropic sector works alongside nonprofits to address the most pressing issues of our day. Private, community, and corporate foundations, as well as individual donors, have made major donations in the social sector in recognition of these burgeoning needs: In fact, despite the economic downturn, the past decade has seen impressive increases in terms of philanthropic support offered both at the individual as well as foundation levels, with giving increasing every year since 2010.¹

Yet research and practice suggest that effective, targeted philanthropy can be challenging to achieve. In a 2011 study conducted by the Center for Effective Philanthropy,² foundation CEOs expressed concern over the progress made toward addressing issues of concern, citing external factors—such as the economy and government policies—as primarily responsible for hampering success. But also noted were specific challenges such as those related to gathering evidence-based practices and building grantees’ capacity to document progress. In this study, foundation leaders allude to the dual nature of these issues: foundations require more evidence-based information for assessing overall progress toward achieving foundation-wide goals, while grantees grapple with how best to evaluate and document progress on their specific initiatives and projects. Thus, building the capacity of grantee organizations in the areas of measurement and evaluation is essential should foundations wish to augment their evidence-based portfolio of successful strategies. On a broader level, building organizational capacity³ in various dimensions—including, but not limited to, staff and budgetary management, infrastructure, planning, and development, among other areas—is key to organizational effectiveness.⁴

Similarly, grantees also report valuing the expertise of program officers, who are often—and increasingly—highly skilled in program design and implementation, particularly from a content

perspective.⁵ In addition to the content knowledge, the breadth of experience gained by program officers from looking across multiple organizations and communicating with fellow funders and experts in the field can be invaluable to grantees. This wide-angle view allows program officers to develop a keen understanding of the fields and communities in which their grantees work and the challenges they face. It also enables them to bring grantees together with similar organizations to build knowledge and work more effectively toward their goals of social change.⁶

Foundation staff often describe the importance of their relationships with grantees as critical in facilitating the ability to adjust, adapt, and shift grantmaking strategies in response to changing conditions.

Because of this connection between organizational capacity and successful implementation of grants, the philanthropic sector has increasingly recognized the importance of working closely with grantees to enhance overall organizational effectiveness.⁷ Various

organizations and initiatives have arisen over the past decade to support foundations in efforts to work with grantees in this regard, often considering the relationship between program officers and grantees to form the foundation of a strategic investment.⁸ Yet an annual survey conducted by the Center for Effective Philanthropy finds that few foundation staff members feel that they have the tools available to build or support this kind of capacity among grantees. Many foundation staff replying to questions about grant implementation and grantee capacity indicate that the overall effectiveness of their work could be improved by having adequate monetary and nonmonetary resources to assess and build capacity of grantee organizations.⁹ In particular, foundation staff often describe the importance of their relationships with grantees as critical in facilitating the ability to adjust, adapt, and shift grantmaking strategies in response to changing conditions.

Also missing from this equation are key considerations of organizational capacity from the grantee side—the ability for nonprofits to absorb and make use of grant dollars, channeling them into projects as described, and achieving results with deliberate impact. As program officers are increasingly focused on content and grantees are eager to compete for scarce dollars to address critical social and environmental issues, rarely are vital questions about organizational capacity, and its relationship with organizational effectiveness, addressed up front. Yet research consistently suggests that—even with alignment of mission, excellent planning and implementation, and clear program objectives—an organization must have the institutional

capacity and healthy infrastructure to support the proposed initiative.¹⁰ Both grantmakers and grantees describe a desire to work in partnership to ensure that their organizations are strong, healthy, and capable;¹¹ however, documented giving trends indicate hesitancy on the part of foundations to provide funds to support these kinds of activities. Programming dollars are consistently favored over operational support, and multiyear support is increasingly challenging to attain.¹² Thus, options for lower-cost training and support for program officers and grantees around organizational effectiveness, capacity building of both foundation professionals and grantees, and internally viable, easily accessible tools are clearly needed.

This handbook derives from those needs: it is designed to be a user-friendly guide to organizational capacity that empowers program officers to work directly with grantees on self-assessing the strengths and weaknesses of an organization. Through this collaborative process, the intention is to deepen the grantee-grantor relationships and build trust, which numerous

A user-friendly guide to organizational capacity that empowers program officers to work directly with grantees on self-assessing the strengths and weaknesses of an organization.

studies suggest is a cornerstone in successful grantmaking.¹³ The handbook also encourages grantmakers to undertake this process early and often, with an adaptive management mindset, so

that the process is not static but rather is flexible—understanding that organizations necessarily grow and change over time.¹⁴ In this way, the processes outlined here become scaffolding for dynamic, generative relationships between grantees and grantmakers, leading to more innovative and interesting solutions to pervasive societal challenges and opportunities.

INTRODUCTION

Who is this Handbook For?

If you care about the performance of nonprofit organizations and their ability to deliver on their goals over time, this handbook is for you. Whether you are a grantmaking professional, a private philanthropist, or a grant seeker who works at a nonprofit organization, the goal is to help you think about organizational capacity (OC) in a new and helpful way: as *part* of organizational (and grantmaking) strategy, *not* as an afterthought that somehow happens, more often than not, haphazardly. In addition to laying out a new way of conceptualizing OC, the handbook includes a set of simple, practical tools and reference materials to apply the idea of “strategic organizational capacity” to your own work assessing, investing in, and strengthening nonprofit capacity to make a positive difference in the world.

Some of the tools you will find in this handbook are designed for grantmakers, while others are meant to be used by people working as nonprofit staff members. The goal of *all* the tools in the handbook is ultimately to help improve organizational performance by strengthening the *relationships* between capacity and strategy, and between grantmaker and grantee. And research and experience show that stronger, better performing organizations have a much greater chance of achieving desired programmatic outcomes—whatever those may be.

If you care about the performance of non-profit organizations and their ability to deliver on their goals over time, this handbook is for you.

Background and Problem

It was, in fact, my experience as a program officer at the William and Flora Hewlett Foundation that inspired me to develop this project, which I have done in close collaboration with Cristina Galíndez and Brook Manville, both talented independent philanthropy and nonprofit consultants.

During my last year at the Hewlett Foundation, I reflected back on my decade-long experience as a program officer and what I had learned from grantmaking successes and failures. I was struck by the fact that my own failed grants were overwhelmingly the result of organizational capacity problems—not strategy per se, not bad ideas, not insufficient funding or failed logic

models. And when I asked my grantmaking peers at Hewlett and at other major foundations I found the same thing with the majority of my colleagues' failed grants: grant and grantee failure were overwhelmingly the result of organizational capacity failure.

This was a revelation because in my experience “grantee capacity” had taken a backseat to issues like strategy (of the grantee, of the portfolio, of the foundation program); monitoring and evaluation (M&E); legal compliance; or even grantmaker training and professional development. Yet the result of so many failed grants is that millions of dollars essentially go down the drain, and worse, that the philanthropic community isn't reaching the environmental and social goals those failed grants aimed to achieve.

Grant and grantee failure were overwhelmingly the result of organizational capacity failure.

But most grantmakers and senior nonprofit leaders are hired for their substantive expertise and passion, not necessarily their experience assessing and addressing organizational capacity or effectiveness. The fact is, grantmakers don't always have the capacity themselves to work with grantees on organizational issues. In addition, built-in tensions and power imbalances may make the capacity discussion between grantor and grantee uncomfortable, awkward, or even taboo. As a result, capacity issues are often back-burnered until there is a crisis and they can no longer be ignored, and by that point they are harder to address. Rarely are capacity issues integrated from the beginning of a relationship as part of the overall grant discussion. This handbook will help grantmakers and grantees think about organizational capacity as part of overall grantmaking strategy and investment, and as a necessary ingredient for achieving desired outcomes.

The tools in this handbook are not *necessarily* designed for the many talented organizational effectiveness (OE) gurus of the world, though we believe the handbook will be a positive contribution to the existing OE toolbox. They are friendly, fast, inexpensive, and targeted tools to help anybody—regardless of previous OE expertise—*start* the capacity conversation, download and organize valuable information that already exists, initiate basic capacity assessments and planning, and pinpoint key strategic capacity and effectiveness issues and trends within a nonprofit organization.

If you are a grantmaker, the handbook will:

- Boost your capacity-building competencies by explaining and clearly defining different organizational capacity elements (and what it means to be good versus great);
- Explain which specific capacity elements are linked to different types of organizations and strategies;
- Help you develop shared capacity-building language to use with internal foundation colleagues, external peers, and grantees;
- Help you quickly download and organize valuable information already in your head and at your fingertips;
- Frame capacity-building conversations with grantees, and integrate those conversations as part of your regular grantmaking practice;
- Focus capacity-building on investments that affect a grantee's ability to execute on strategy and achieve impact;
- Help create economies of scale and ways to support collective grantee capacity-building; and
- Provide quick and easy tools for reference and strategic capacity assessment.

If you are a grantee, the handbook will:

- Help you, your team, and your donors develop a shared understanding and language for integrating your organizational capacity as part of your strategy;
- Help your team quickly and inexpensively diagnose your organization's current capacity and where to focus capacity investments and energy going forward;
- Help identify the most important elements of capacity for your particular type of organization and strategy; and
- Help focus capacity-building discussions with your donors on the drivers of your programs and strategies.

What Does “Organizational Capacity Building” Mean?

Despite increased attention in the nonprofit sector to the importance of organizational capacity building, the common words to describe it—“development,” “capacity” and “effectiveness”—tend to be bandied about interchangeably. There is no field-wide consensus on the definition of these terms, and this can lead to some confusion. For purposes of this handbook, organizational capacity building is defined as *any activity or investment that promotes, sustains, and/or enables the ability of an organization to produce desired outcomes*¹⁵. In short, organizations need to develop the capacity for sustained effectiveness—and great grantmakers help them do this.

How to Use This Handbook

The handbook is designed to spark your imagination and inspire ideas and conversations among you and your colleagues, partners, grantees, and grantmakers. The aim is to promote a mindset that integrates capacity as part of strategy and incorporates implementation capacity as part of every-day grantmaking practice.

Foundation program officers and nonprofit staff are extremely busy, so the tools in the handbook

Organizational capacity building is defined as any activity or investment that promotes, sustains, and/or enables the ability of an organization to produce desired outcomes.

are designed to be flexible. They can be used together as part of an engaged process, or readers can pick and choose the tools that suit their particular needs at any given time, with quick links in the document that take

you right to the tool you need.

Reference

In practical terms, the handbook has handy reference material that will help you identify, at a glance, the different elements of capacity, basic information on best and worst practices, questions for gauging and engaging on capacity issues, further references in case you want to do a deep dive on a specific issue, and what to keep in mind if you are working outside the United States (where nonprofit organizational laws, regulations, and incentives are often very different).

At the back of this handbook you will find the Organizational Capacity Reference Guide. Think of it as an at-a-glance guide that provides definitions for each element and sample questions to gauge the level of sophistication for each element listed. The Reference Guide provides tips for quickly identifying signs of capacity excellence (or red flags of warning), indicators of basic

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health, and special considerations when working outside the U.S. where laws and regulations governing civil society organizations vary by country and can have significant implications for organizational structures and capacity. The OC Reference Guide was developed by my friend, colleague, and nonprofit and evaluation expert, Cristina Galíndez Hernández. Here is a quick link to the guide: [Organizational Capacity Reference Guide](#).

Workflow

The handbook will encourage you to incorporate capacity building into your regular professional practice and as part of your regular grantmaking workflow, and it will provide tips for creating economies of scale by imagining capacity-building opportunities not just with individual grantees, but also at the portfolio level or in collaboration with peers or partners.

Tools

The handbook tools are designed to help busy program officers and grantees engage more easily and productively in targeted organizational capacity discussions, conduct basic strategic capacity assessments, and jointly construct plans for investing in capacity to improve organizational capacity and performance down the line.

The tools can be used as a suite, as part of a full, sequential process that grantmaker and grantees use collaboratively. Alternatively, each of the handbook tools can be used in a standalone, customized fashion.

For quick access to these tools, click on the following links:

[Basic Performance Capacity Definitions](#)

[Basic Principles for Grantmakers](#)

[Organizational Capacity Conversation Tool](#)

[Basic and Higher-Level Performance Capacity Definitions](#)

[Organizational Capacity Typology Tool](#)

[Organizational Capacity Investment Triage Tool](#)

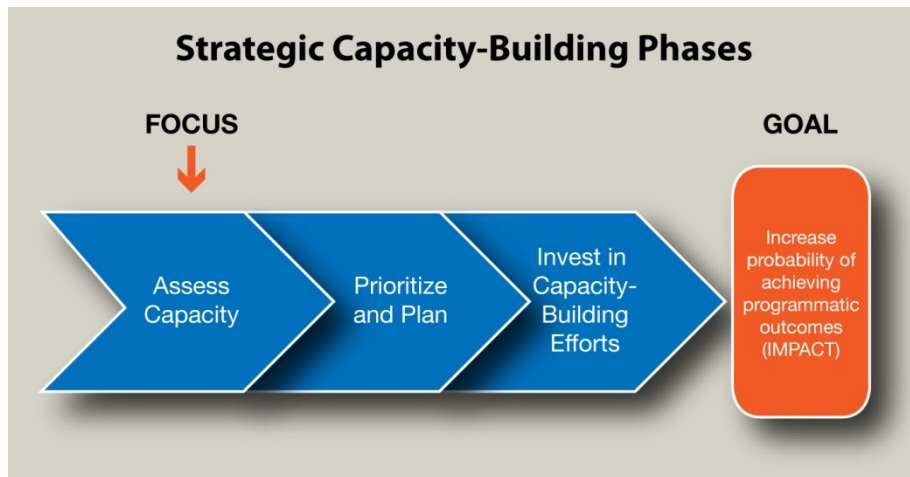
[Grantee Assessment Survey \(for Grantmakers\)](#)

[Grantee Self-Assessment Survey](#)

[Organizational Capacity Reference Guide](#)

The Goal

To be clear from the outset, building and maintaining strategic organizational capacity is a *process*, and this handbook offers ideas and tools for where and how to start the process. It sits in the first phase of the logic model: Strategic Capacity-Building Phases.



As you can see on the right-hand side of the graphic, the ultimate goal of this work is to *increase the probability of achieving desired program outcomes by building more effective grantee organizations*. Although this handbook is not a magic bullet, it is a helpful starting point in a longer process of organizational development and capacity building, and for the professional development of program officers who sometimes feel—as I did when I was a program officer—that their own skills for working with grantees on capacity issues are lacking.

So, What Is Different About This Handbook?

This handbook is different from other tools in the nonprofit capacity-building toolbox because it is geared for grantmakers (and grantees) who aren't looking for a one-size-fits-all capacity checklist or a super detailed and daunting assessment tool they don't have time for (and which doesn't quite fit their needs). They do want to boost their own capacity-building basics, they do want to link their strategies with the organizational capacity to carry out those strategies and measure their effectiveness, and they do

The ultimate goal of this work is to increase the probability of achieving desired program outcomes by building more effective grantee organizations.

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want to build a relationship with their grantees where talking about capacity issues is integrated into the conversation in a healthy and productive way.

My hypothesis is that by strengthening grantmaker skills to work with their grantees to build more effective organizations, those grantees will have greater capacity for sustained performance. And over time, this will translate into grantees AND grantmakers increasing the probability of achieving their goals and having the positive social impact they desire.



A shift in the sector

Integrating Organizational Capacity and Strategy

Toward the end of my tenure as a grantmaker at the Hewlett Foundation, my collaborator (and seasoned philanthropy consultant) Brook Manville and I were discussing grantmaking approaches with a program officer of another major foundation working in international development. She recounted how members of her division had recently gathered to review an analysis of the hundred-plus largest grants made over the previous year. The analysis was commissioned to help guide a top-to-bottom revision of the division’s operating plan, and specifically to examine why failed grants had missed their objectives. Much to the staff’s surprise, the top two reasons for failure were directly related to grantees’ organizational capacity. The program officer told us, “My colleagues were stunned. People looked at each other and said, ‘What, how could that be? How could it not be about the strategies?’”

Interestingly enough, when we conducted our own review of closed grants with colleagues at the Hewlett Foundation, we discovered similar results. Again and again, an investment’s failure was primarily due not to the idea behind the grant—or, as we thought of it at the time, “strategy”—but rather to the organization’s inability to implement the goals and plans spelled out in the grant agreement. In many cases, grantmaking errors on our part had also contributed to these disappointing outcomes. We simply didn’t have the capacity ourselves to adequately assess and address our grantees’ organizational and operational issues.

These are familiar stories in today’s philanthropic community. Successful grantmaking is not just about setting clear goals, developing sound theories of change, and choosing the right measurement indicators. It is also about grantees’ ability to deliver results over time.

In order to reach and sustain social impact, philanthropists need to assign greater value to grantees’ capacity to implement programs; encourage ongoing learning and adaptation as work unfolds; and support a foundation of organizational and operational structures, processes, and capabilities that ultimately turn vision into change on the ground.¹⁶ This shift in perspective—an expansion of the concept of “strategy” to *include* organizational capacity—will have significant consequences for the practice of grantmaking and the professional development of grantmakers.

To be clear, I am not recommending that donors micromanage the internal workings of grantee organizational and operational capacity. In fact, the stronger and more healthy a grantee’s organization is, the more readily a donor can—and should—“let go” so that the grantee can best shape its own strategies and programs in pursuit of the broader goals it shares with the donor.¹⁷

The Underappreciated Factor: Organizational Capacity

Scholars and analysts have been arguing for some time that nonprofits must build capacity in order to create sustainable change. In 2004, Paul C. Light predicted a pending crisis in the nonprofit sector based on lack of investment in capacity. Endemic to the problem, he noted, was the tendency of boards and donors that were funding programs to underestimate the dollars needed to deliver results.¹⁸ At about the same time, McKinsey & Company published a landmark article in the *Harvard Business Review* arguing that nonprofits could realize an estimated “\$100 billion opportunity” in increased cost effectiveness and impact if they had more capacity to better manage their organizations and resources.¹⁹ But despite these and other efforts to increase awareness, grantmaking strategy—and grantmaker training—have largely ignored the value of organizational capacity.

An expansion of the concept of “strategy” to include organizational capacity will have significant consequences for the practice of grantmaking and the professional development of grantmakers.

Why is the value of organizational capacity so often ignored? First, many grantmakers have little direct experience in nonprofit operations or management, so there is some element of “not knowing what we don’t know” (or worse, an outright arrogant approach of “thinking we know (what we really don’t).” Indeed, foundation program officers are largely hired for their deep content expertise, not managerial skills.²⁰ This experience gap is often even wider in the more technical, complicated world of international grantmaking, where capacity-building grants can be limited by laws or regulations.²¹

Second, philanthropic discussions in recent years elevated strategy (as defined by “goal setting,” “theories of change,” and “measuring quantifiable impact”) to a higher plane of interest. Over time, this intellectually exciting topic began to be perceived as something conceptually separate from—and more important than—“back-office” topics that actually drive implementation, like

If an internal crisis or implementation failure prompts an organizational effectiveness discussion, it is likely too late for effective intervention—and a much harder conversation is the result.

financial management, staff capacity, or communications ability. This trend also influenced philanthropic literature and grantmaker training. When we reviewed frequently cited handbooks, guides, and books for grantmakers, we often found that organizational capacity was included—but

not as *part* of strategy. Many resources reflected the thinking found in one of the standard how-to manuals, first published a decade ago, which treated organizational capacity as an afterthought. It stated that although capacity “is the final test every [grant] proposal must pass . . . unfortunately the only way to know is to fund the idea [behind the proposal] and find out.”²² Not surprisingly, these publications provide little practical information on what organizational capacity is, how to assess and measure it, or how grantmakers can constructively engage grantees on these sensitive issues without counterproductive micromanaging.²³

Third, grant-seeking nonprofit organizations have few incentives to open up to their donors about their organizational and operational capacity and health. Thus, these factors are likely to remain hidden unless the funder initiates such discussions with the grantee from the start as part of their regular conversations. Unfortunately, if an internal crisis or implementation failure prompts an organizational effectiveness discussion, it is likely too late for effective intervention—and a much harder conversation is the result.

Finally, many foundation program staff and grantees are understandably wary about entering into this terrain with each other, especially given the money-power dynamic inherent in funder-grantee relationships. There also is a fine line between funders' providing constructive, appropriate capacity support and their inappropriately meddling with a grantee organization—and inadvertently doing more harm than good in the process.

Signs of a New Trend in the Sector

There is a shift emerging across the philanthropic community to integrate organizational capacity with the more established elements of grantmaking “strategy.” This shift is in line with several major trends that have driven change in the field over the last several years:

Higher Expectations for Results and Sustained Performance

One obvious driver is the now common expectation among donors and other stakeholders that nonprofit organizations must account for their results and impact. A close cousin of this demand for results is the demand for ongoing, sustained grantee performance. Increasingly, donors, grantmakers, and other stakeholders are looking not just for an organization's impressive innovation or a celebrated two-year program—but also for a measure of impact over years.

Growing Risk of Public Scrutiny and Shame

Another related trend is the technology- and media-fueled scrutiny of nonprofit operations. Scandals—or simple incompetence—are ever more visible, and the resulting damage to reputations and finances affects not only perpetrating nonprofit organizations but also those funding them.²⁴

Changes in the Concept of Strategy

Perhaps the most important trend is the changing nature of strategy itself as a discipline. Although the for-profit and nonprofit sectors admittedly differ, there is a steady shift in commercial organizations away from purely analytical, top-down strategies toward ones that emphasize capabilities, dynamic leverage of assets, and flexibility to respond when market conditions change.²⁵

Several large funders are now starting to move in this direction, focusing more on grantees' organizational capacity issues.²⁶ Candy Marshall, who led the Global Health Operations at the Bill & Melinda Gates Foundation when Brook Manville and I spoke with her for this project,

recounted her organization's realizations about the importance of grantee capacity over the last several years:

We have always recognized that the foundation cannot achieve impact in the world without vital, healthy strategic partnerships. Early in our grantmaking, we naively assumed that our key grantees would have both the organizational capacity and capability to partner with us in achieving the outcomes we had defined. After some setbacks, we have realized that we have a responsibility to work with and support our key grantees as they build the needed organizational capacity and capabilities. We are now working with a number of grantees to do this.

At the Open Society Foundation (OSF), the Latin America team has shifted its approach to focus more on building the capacity of key grantee partners as part of its overall strategy for the region. In early 2010, it launched a region-wide initiative that includes peer learning to strengthen the capacity of grantees. OSF grantees, such as Miguel Pulido, executive director of a research and advocacy organization in Mexico, are endorsing the initiative. Pulido said the process helped his organization, Fundar, focus attention on the internal issues they most needed to address in order to support their goals:

Our internal culture, IT [information technologies] infrastructure, and human capital are core to our success as an organization—and at the heart of our ability to act as an effective public watchdog. The OSF process has led to improvements in our morale, peer-learning, and ability to meet commitments. Our goals are more focused and our staffing is better aligned with the priorities laid out in our strategic plan.

Some grantmakers arrived at a more integrated approach to combining strategy with capacity earlier on. The Edna McConnell Clark Foundation only funds organizations with proven implementation track records and the potential for growth based on their capacity, and the New York-based Wallace Foundation has for a few years now strongly emphasized building organizational capacity, especially in its large and multiyear grants. Ed Pauly, their director of evaluation, explained their experience as follows:

All of our major grants...ask two things of the grantee: how will you innovate, and how will you raise your performance, that is, go beyond your normal operating procedures. ...We build essentially a performance contract with the grantee, which we regularly review with them, to assess their progress and understand the capacity they need to succeed. We first learned how to do this in some of our original after-school program work, and saw the importance of—and positive results from—investing with them in much stronger financial systems and record-keeping to better manage their costs and service delivery.

Interestingly enough, research conducted by the Center for Effective Philanthropy (CEP) confirms the rising awareness of the necessity of grantee capacity for achieving impact. As CEP's Kevin Bolduc explained:

We're in the midst of a long-term trend of greater appreciation about the attention that needs to be paid to funders' implementation strategies and to both funder and grantee capacity. Our research suggests that much of foundation grantmaking is still not very strategic. As funders push themselves to have more strategy, there needs to be a focus on the subsequent process of implementation and what that takes.

These are all healthy examples of the longer-term evolution of grantmaking practice and strategy, and they point not only to a more integrated view of strategy and implementing capacity, but also to a trend away from top-down, donor-driven approaches to more co-created approaches with grantee partners—and not just individual grantees, but portfolios of grantees as well as grantee and field networks. In Chapter 5 we address building portfolio-level collective capacity among grantees.

Linking Strategy and Capacity to Sustainable Performance and Impact

A trend away from top-down, donor-driven approaches to more co-created approaches with grantee partners

For many grantmakers, traditional assessments of organizational capacity or effectiveness amount to a standard list of items to check off before awarding a grant: *Governance? Executive leadership? Staff capacity? Check the appropriate box (poor, good, excellent)*. This effort is better than nothing, but does not explicitly link organization and operations to strategy or goals. Such

checklists rarely address all of the essential elements that make for a robust and competent organization or the relative strength of individual elements. Each is presented with the same level of importance and with the presumption that all organizations should equally strive for some vague measure of excellence across the board. Traditional organizational effectiveness assessments, checklists, or plans for grantee capacity largely ignore how each element might actually impact strategy and help improve performance.

Understanding how capacity is linked to performance allows grantmakers—and grantees—to focus together on the mission-critical elements that are truly strategic. This understanding will differ depending on the shape and maturity of the field, the grantee itself, and often the broader role the grantee is expected to play in advancing change. Both grantmakers and grantees increase the chances of meeting their shared goals if they selectively and powerfully focus their time and resources on strengthening the right elements.

The process for building strategic organizational capacity includes: (1) understanding the distinctive elements of capacity comprehensively; (2) differentiating between *basic capacity* and a higher level of *sustainable performance capacity*; and (3) appropriately focusing and prioritizing capability building to directly align with the goals, theory of change, and broader context in which a grantee operates—in other words, explicitly linking and emphasizing capacity as part of the overall mission and strategy. When grantmakers reorient their thinking and approach capacity in this way, they can partner with grantees not just to satisfy a checklist but rather to achieve impact.

Integrating Capacity and Strategy



A more integrated approach to building organizational capacity as *part of* strategy begins with an overall framing of strategy *per se* (See Strategy graphic). As important as strategic organizational capacity (blue arrow) is for sustainable performance, it is not the totality of strategy. In fact, it gives life to strategy only in the context of two other critical dimensions: (1) the cluster of conceptual elements that focus and measure progress—the goals,

Integrating Capacity and Strategy

theory of change, indicators, and feedback loops (red arrow) and (2) the projects and programs the organization develops and implements to pursue the social change to which it aspires (yellow arrow).

When well designed and constructed, these two dimensions work in harmony with the organizational and operational skills, knowledge, and infrastructure (blue arrow) that enable implementation and sustained delivery of performance. The three interrelated and mutually reinforcing dimensions make up the overall strategy model for both the grantee and grantmaker seeking to align aspirations and plans with the philanthropic investment and achieve the desired impact.

Though all three dimensions are vital to successful, impact-sustaining strategy, this handbook focuses attention on the organizational capacity link, because while others have written extensively about theories of change, evaluation, and program design, organizational capacity has been undervalued in philanthropic practice and literature.

The next chapter focuses on applying this thinking to real grantmaking and to real nonprofit organizations. The specific elements of organizational capacity will be explained and defined in more detail including how to identify them, and how to discuss them—all within a “culture of engagement” with grantees and peers.

Basic organizational capacity

Making the Case for “Good Enough” and Fostering a Culture of Engagement

What, specifically, are the basic elements of capacity that all organizations need? How can we recognize what it means for an organization to have, or not have, sufficient capability in any particular element?

There are different ways to list and label organizational capacity, but we use fourteen separate capacity elements:

- Strategic Ability and Adaptability
- Leadership (this includes the entire senior team, not just the executive director)
- Financial Health and Management
- Purpose and Mission
- Governance
- Organizational Culture
- Staff Capacity and Expertise
- Human Resources and Staff Development
- Communications
- Monitoring and Evaluation
- Legal Compliance
- IT Operations and Infrastructure
- Security and Facilities
- Partnerships and Alliances

Integrating Capacity and Strategy

The first three; *Strategic Ability and Adaptability, Leadership, and Financial Health and Management*; are bolded above because they act as drivers of excellence for many of the other capacities and for the overall success of the enterprise. As a result, the basic capacity for these “big three”²⁷ capacity elements is higher than for the other elements. Organizations (and their funders) need to invest extra attention, energy, and resources to make sure these big three elements are strong and high functioning as “these vital capabilities are typically the foundation on which overall grantee capacity is built” (Ratay, 2012).

The big three will be discussed in detail below but first, let’s be clear on a simple rule:

All organizations need to be “good enough” in all fourteen areas of capacity.

Any organization needs *all* fourteen elements to function in a basic, credible manner to keep the lights on, operate legally, and make ongoing progress.

The level of operation we call “basic capacity” consists of core fundamentals, to which at least minimal attention is paid. The Basic Performance Capacity Definitions chart defines basic capacity for each element.



Basic Performance Capacity Definitions

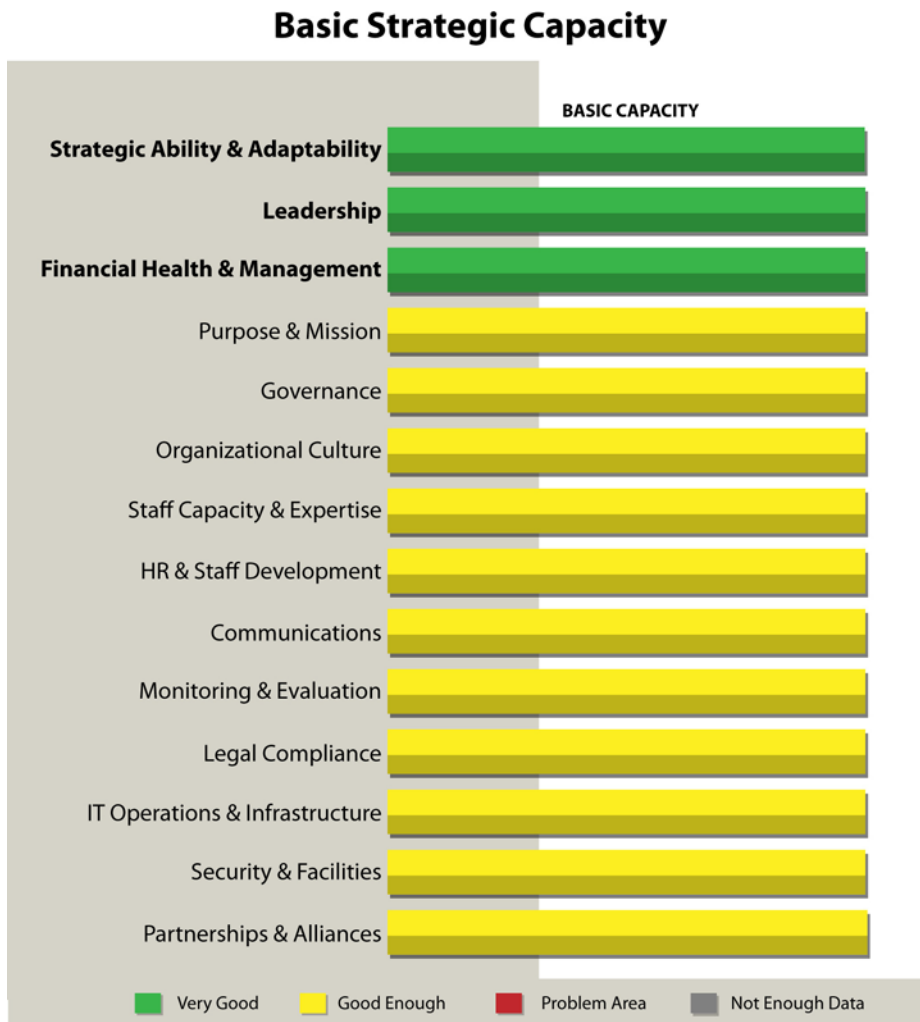
Capacity Element	Basic Capacity Definition
Strategic Ability and Adaptability	A framework for setting annual goals and basic measures of success, communicating them, and allocating and aligning resources to achieve objectives.
Leadership	Competent executives across all functional areas, with integrity, no conflicts of interest, and a functioning, independent board.
Financial Health and Management	Sufficient resources and income to cover operating expenses and occasional shortfalls or unexpected expenses; basic financial and reporting systems, with production of basic financial statements. Diversified sources of funding.
Purpose and Mission	A clear statement, which all staff can easily view and describe, of why the organization exists and its overall rationale and hope for a better world.
Governance	An independent board that meets regularly and has succession plans and policies; discharges minimal, but normal, fiduciary responsibilities; holds executives accountable for meeting strategic and operational objectives; and collaborates in fund-raising activities.
Organizational Culture	A climate in the organization that reflects basic values required by its mission such as integrity, merit, and collaboration. A shared acceptance of “the way we do things around here.”

Staff Capacity and Expertise	People who bring professional experience, know-how, and added value to the programs and operations of the organization.
Human Resources and Staff Development	A staff development plan and sound human resource policies and management processes.
Communications	Identification of audiences and segmentation of communication strategies. Consistency of information provided through different outlets. Long-term, productive relationships with the media. Functional internal communications.
Monitoring and Evaluation	Monitoring and evaluation systems; activities and strategies linked to targets and indicators; and regular reports on performance information.
Legal Compliance	Nonprofit status and compliance with the legal and fiscal framework.
IT Operations and Infrastructure	Updated hardware and software. Safe storage and sharing of information. Adequate staff-hardware ratio.
Security and Facilities	Adequate, secure physical space and working conditions.
Partnerships and Alliances	Existence of partnerships and alliances required to participate in the field or sector ecosystem, and networks; alignment of partnerships and alliances with program goals. The organization largely chooses and negotiates the partnerships on an organization-to-organization basis.

The graph below shows each of the fourteen basic-level capacity elements with a corresponding bar of color. Throughout this handbook, we will be using variations of this graphic to illustrate levels of excellence for each of the capacity elements. We employ a color system to “score” the

competency of organizational capacity. Red = problem area (must address!); yellow = good enough; green = very good; gray = don't know or not enough information to score.

In this first bar graphic, we show all of the elements at a basic level. The “big three,” as we have argued, are shown in green (very good), while the other eleven capacity elements have corresponding (good enough) yellow bars.



Integrating Organizational Capacity as Everyday Grantmaking Practice

Simple definitions of basic capacity for each distinct element are helpful and especially important for developing shared understanding and language about what the elements of capacity are, but they are not necessarily sufficient for gauging whether or not an organization actually *has* basic

capacity. Nor are definitions sufficient for engaging in conversations about the organizational capacity of a nonprofit that you, as a grantmaker, may just be getting to know.

To help integrate capacity issues into your conversations from the beginning of the grantor-grantee relationship and to help you apply the definitions of basic capacity, a conversation tool is included at the end of Chapter 2. The conversation tool is designed to help grantmakers and grantees address capacity issues as an integral part of their strategy and regular professional interaction.

Fostering a Culture of Engagement

Before entering into conversations with grantees about their internal capacity, it is important to emphasize a positive, productive “culture of engagement” for what can be sensitive terrain for grantees and donors. Addressing issues of organizational health and capacity is not always easy for grantmakers or grantees, and often comes too late in the grantmaking process for optimal effectiveness or intervention. For example, capacity issues commonly arise for the first time when there are obvious problems with project implementation due to organizational weaknesses or natural growing pains (e.g., leadership transition, staff capacity problems, financial management issues). If organizational crisis is what finally prompts the conversation between an organization and its donors, the conversation can be awkward at best, and by then the problems are usually more difficult and expensive to address. Further, many grantmakers do not feel expert enough in basic capacity elements to productively engage grantees on these topics, so they tend to focus on substantive areas of mutual interest and do not make the strategic link between substantive focus and operational capacity to deliver.

By integrating questions about organizational capacity into the regular, ongoing grantor-grantee conversation *from the very beginning of the relationship*, talking about grantee organizational capacity becomes much easier and tends to lower the stakes for everyone involved. In other words, the “capacity conversation” isn’t prompted by a perceived problem, but rather as part of building a relationship from the get-go. This conversation also helps both parties to be realistic about what it will take to implement shared goals.

Addressing issues of organizational health and capacity is not always easy for grantmakers or grantees, and often comes too late in the grantmaking process for optimal effectiveness or intervention.

When grantmakers understand the link between capacity and strategy, they can focus the conversation on the elements of strategy the organization needs most to carry out its strategy and achieve impact. For the grantee, a donor’s interest in their organizational capacity can serve to balance expectations about performance, the resources required to carry out the work, and how to structure the grant to best support the needs of the organization. When organizational capacity is added to the regular agenda, the conversation often broadens to include staff members beyond the senior leadership of the organization, which is generally an added bonus for both grantmaker and grantees as they expand their ties, professional networks, mutual understanding, and comfort levels.

It is worth keeping in mind that a grantmaker’s job includes making sure that supported organizations have the capacity to carry out whatever it is the grant money is supporting them to do—that they have the right organizational and operational capacity to achieve success. As we argue throughout this handbook, sufficient capacity enables implementation and performance

The bottom line is that strong grantmaker-grantee relationships contribute to longer-term support for grantees, and that support is more likely to include operating and capacity-building funding.

over time toward the goals grantmakers share with their grantees. At the same time, a grantee’s job includes convincing the program officer to channel foundation resources to their

organization. These two goals—that of grantmaker and of grantee—may at best be complementary, but they don’t always create incentives for sufficient transparency about organizational capacity from the outset of the grantmaker/grantee relationship.

As a result, it is often over time—as a grantmaker develops more insight about the organization, its work, and its capacity, and hopefully the grantee becomes more comfortable sharing the good news *and* bad news, the successes *and* failures—that grantmakers have tended to engage more in supporting organizational capacity and effectiveness investments. Many times, making OC support recommendations is a strategy to work with grantees to problem-solve a capacity issues and bring in technical expertise to help grantees address specific issues that program officers may not have the time or skill-base to engage in directly. The bottom line is that strong grantmaker-grantee relationships contribute to longer-term support for grantees, and that support is more likely to include operating and capacity-building funding (CEP 2010, GEO 2011).

Principles for Talking with Grantees about Organizational Capacity

Great grantmaking is a craft, which benefits from best practice and excellence through learning, but it is also an art. There is no single blueprint for action, and every grant and grantee organization is unique. That said, we know that success of organization-strengthening investments depends on the grantee's readiness and *willingness* to implement targeted improvements, and on the funder's sound judgment and good listening skills.

With this in mind, here are twelve basic principles for grantmakers as they work with grantees to develop stronger organizational capacity without counterproductive micromanaging.²⁸ These principles are based on the idea that achieving philanthropic impact largely depends on alignment of grantmaker and grantee goals, well-focused "theories of change," plus healthy, effective organizations to deliver results.

Following these principles, grantmakers can build greater trust and achieve greater transparency with their grantees, establishing a more productive culture of engagement, and a better position for fostering collaboration among organizations.

Basic Principles for Grantmakers

Do no harm. Like a doctor following the Hippocratic oath, the grantmaker must avoid the temptation to meddle. A strong partnership between grantor and grantee should reflect common goals and objectives to achieve impact, inevitably including some organizational capacity strengthening. However, grantmakers must beware of crossing the line into a grantee's own operations.

Over time, all grantees will experience organizational change and challenges. Attention to organizational capacity should not be reserved for problems or crises. At times, organizational challenges are part of normal, healthy organizational life cycles (e.g., growth, leadership transitions, new partnerships, and shifting donor priorities).²⁹

Organizational capacity building is best done as part of an overall, ongoing relationship between grantmaker and grantee. The days of addressing capacity needs—whether of individuals or

organizations—by simply intervening once or parachuting in a consultant are long gone.

Capacity is best built through training, negotiation, experiential learning, executive coaching, peer-to-peer exchange, simple tools and checklists, or, best of all, by all of the above. The most effective approaches target and reinforce key learning needs with multiple strategies.

Better performance should be the arbiter of intervention. A grantee’s internal capacity strategy should deliver not only desired results but sustained performance over time. This should be the guide for making choices, setting priorities, and designing interventions related to capacity. Grantmaker and grantee should understand and agree on which capacity elements require only basic capacity and which require a higher level of performance.

Interventions should follow a clear process for course correction and ongoing improvements.

Strengthening the organizational capacity should begin with an assessment of the current situation (strengths and gaps) followed by approaches to build on the good and address the weak; measure progress; and make ongoing improvement based on feedback, learning, and results. This process avoids classic mistakes like trying to fix problems not yet understood or addressing problems out of sequence, which can lead to unintended negative consequences.

Grantee willingness and readiness are keys to the success of any capacity strengthening

endeavor. Research and experience have shown that for an intervention to “stick,” a grantee organization must be convinced that change is needed and that the agreed-upon solution is appropriate and achievable. Organizational development cannot be imposed from without, nor should it proceed without the active engagement, and even shared leadership, of grantee executives.

Organizational capacity is context- and situation-specific. Different types of organizations, in communities and countries around the world, have different organizational and operational structures depending on their mission, goals, resources, and local fiscal and legal enabling

environments.³⁰

Grantmakers must have credible knowledge about organizational structures and capacity. Most grantmakers could benefit from more knowledge and better skills related to organizational capacity elements, how these elements relate to performance, organizational best practices for the social sector (domestic and international), and where to find specialized information and resources. Bottom line: for grantees to improve, grantmakers need to improve.

The appropriate role of grantmaker is facilitator and listener, not micromanager. Grantmakers should not build or strengthen grantee capacity per se. Rather, they should advise, influence, and support the hiring of needed technical experts: consultants, financial specialists, technology integrators, or professional executive coaches. The funder may also facilitate the experts' involvement with the grantee and help create a smooth, aligned, appropriate engagement.

Grantmakers should leverage opportunities to build collective capacity among grantees. Peer learning, “communities of practice,” networks, or a collective impact approach can facilitate grantees' ability to address common capacity challenges. In some cases, multiple grantees can co-invest in, and develop together, certain kinds of shared capacity (e.g., pooling their efforts to build a common research capability; conducting training exercises in communications or security operations; leveraging common infrastructure for technology or financial management).

Donors cannot (and should not) invest in building the organizational capacity of all grantees. The extent and intensity of a donor's investment in any one grantee will depend on its significance to the overall grantmaking strategy. For many donors, this means focusing capacity investments on core or “anchor” grantees. That said, capacity building among clusters of grantees can create effective economies of scale.

Building capacity for performance should be the goal of all social sector organizations—grantmakers and grantees. Implicit in the idea of strategically aligning capacity with strategy is the understanding that in order to sustain effectiveness and impact over time—and ultimately achieve the ambitious goals they share with grantees—grantmakers must also have strong, integrated organizational capacity.

Once you have a basic understanding of the different organizational capacity elements, and are in tune with the basic principles for productively engaging with grantees about ongoing internal capacity issues, you will be ready to start the conversation.

But how to begin? What kinds of questions will help you gauge the current state of a grantee's (or your organization's) organizational capacity? To help kickstart the discussion, we have developed an [Organizational Capacity Conversation Tool](#). The tool is generic and covers the basic capacity elements we defined earlier in this section. That said, the organizations with which donors work are diverse and unique, and this tool should be modified to appropriately fit each organization and its particular circumstances. The sample questions that make up the tool should be viewed as a loose conversation guide rather than a verbatim set of interview questions. And in most cases, the elements the tool addresses are best covered over the course of several conversations with grantee organizations and as part of the regular ongoing professional relationship between grantmakers and grantee organizations.

As you incorporate topics related to organizational capacity needs and realities into grantor/grantee conversations, you signal the importance of those issues in the context of achieving shared goals. Capacity becomes integrated as part of overall strategy, and both grantmaker and grantee are in respectively better positions to assess, invest selectively, and improve the organizational capacity needed for better performance and social impact.



Organizational Capacity Conversation Tool

Strategic Ability and Adaptability

What are we trying to gauge?

Clarity of strategy, priorities; readiness and ability to pursue them in the next couple of years. Understanding the context and the challenges and opportunities the organization faces. Ability to pivot or retool in response to changing external circumstances or opportunities. Strategic orientation integrated with capacity elements. Flexibility and adaptability of organization. Capacity for crisis management.

Sample questions:

- What specifically is your organization trying to accomplish?
- How will you know if you are on the right track to reach your organizational goals?
- Does your organization work with an explicit theory of change (TOC)?
- Do you have a current strategic plan? What was the process? How is it going? How does your substantive strategic planning connect with your organizational plans?
- What does success look like for your organization?
- What are you trying to accomplish in the next couple of years? What are your top priorities? What are the big opportunities and the real barriers?
- How well are you setup to do this? Where do you need help and/or extra capacity?
- Describe a crisis your organization has gone through. How was it managed?

Leadership

What are we trying to gauge?

Whether the organization is led by individual(s) who inspire and effectively manage staff to achieve high performance against mission. Whether the organization is overly dependent on a single individual. The organization's ability to address substantive issues and organizational capacity in an integrated way. The depth of leadership and the tenure and future of current leaders. Whether the organization is overly dependent on a single individual.

Sample questions:

- Does the organization have other leaders?
- Does it have a management team and how do they work together and with the executive director?
- Has the organization ever had a leadership transition?
- Is a succession plan in place?
- Is there a conflict of interest policy?
- How does the organization ensure its operations align with its substantive goals?

Financial Health and Management

What are we trying to gauge?

Sufficient resources and income to cover operating expenses and occasional shortfalls or unexpected expenses; professionalism of financial management; basic financial and reporting systems with production of basic financial statements.

Sample questions:

- How does the organization manage its financials?
- What is organization's budget and control processes?
- What kind of financial management systems are uses?
- Does the organization produce annual financial reports?
- Has the organization ever had an external audit?

Purpose and Mission

What are we trying to gauge?

Clarity, focus, and fit with programs and strategies. Ability of staff and board to describe purpose and mission consistently. Stability of purpose and mission.

Sample questions:

- Briefly describe the purpose and mission of your organization and how you explain it to key audiences (e.g., to a new board member, a new potential donor, a new senior hire)
- What is your organization's particular niche in the field?
- Has your purpose or mission changed over time?

Governance

What are we trying to gauge?

Institutionalized accountability and stewardship with attention to mission, strategy, and capacity. Check and balance with staff. Board meets regularly and does not have conflicts of interest with respect to the organization; carries out basic fiduciary responsibility; holds executives accountable for meeting strategic and operational objectives; collaborates in fund-raising activities.

Sample questions:

- Do you have a board of directors? How engaged are they? Who are they? What is their relationship with the staff and each other? How do you recruit and work with them?
- Is there a conflict of interest policy?
- How does decision-making function in your organization?
- Does your board support your fund-raising efforts?

Organizational Culture

What are we trying to gauge?

A climate in the organization that reflects the basic values required by its mission. A shared understanding and acceptance of “the way we do things around here.”

Sample questions:

- How would you describe your organizational culture? Do you believe others in the organization would agree with your description?
- How do your goals/practices support and shape your organizational culture?
- Is there anything you are working to change about your organizational culture?

Staff Capacity and Expertise

What are we trying to gauge?

Organization is staffed with people who bring professional experience, know-how, and added value to the programs and operations of the organization. Appropriate size, quality, recruitment, retention; and management of staff to address mission and drive performance.

Sample questions:

- Who will actually carry out the work? What is their background? How long have they been with your organization? Do you contract out for your work or do everything in-house?
- What are the professional development opportunities for your staff?
- Does every staff position have a job description?
- Do you have open search processes?
- Do you ever recruit from within?

Human Resources and Staff Development

What are we trying to gauge?

Sound human resources policies and management processes; staff development plans and opportunities; employee orientation and dispute procedures.

Sample questions:

- Does staff have professional development opportunities?
- How do you integrate new staff and board members?
- How would you manage staff conflict?

Communications

What are we trying to gauge?

Awareness of external audiences and ability to reach and influence them in line with mission. Consistency of messaging. Level of professional communication of internal and external information. Functional internal communications.

Sample questions:

- Who is the audience for your work?
- How do you reach them?
- Do you do communications planning?
- Who handles communications in your organization?

Monitoring and Evaluation

What are we trying to gauge?

Whether or not the organization employs regular use of performance indicators, feedback loops and learning, and impact measurement tools. M&E results used to inform program planning, budget allocations, and staff performance evaluations.

Sample questions:

- How do you measure and track your progress?
- How do you manage and encourage internal learning and course corrections?
- What sorts of indicators do you use?
- Do you work with external evaluators or is your M&E done in-house?
- Is staff performance linked to program performance?

Legal Compliance

What are we trying to gauge?

Nonprofit status; compliance with legal and fiscal framework(s) in countries they operate.

Sample questions:

- What kind of tax status does your organization have (e.g, 501c3)?
- (For international organizations): Have you ever managed an expenditure responsibility grant?
- How is your organization registered in your country?
- Do you produce annual reports?
- Do you have legal support when you need it?

IT Operations and Infrastructure

What are we trying to gauge?

Updated hardware and software. Safe storage and sharing of electronic information. Adequate staff-hardware ratio. IT support available when needed.

Sample questions:

- Is there an adequate staff-hardware ratio?
- Do you have the software you need to do your work?
- What kind of IT support do you have?
- Do you have safe information backup and secure communications?

Security and Facilities

What are we trying to gauge?

Adequacy of physical work space; management of risk of personal security, information and other assets.

Sample questions:

- Does the physical space of your facilities meet your current needs? What are your plans for the next five years?
- Is your work physically risky for you or your partners?
- If so, how do you manage that risk? Are security protocols in place?

Partnerships and Alliances

What are we trying to gauge?

Capacity and reputation for creating value with others. Connection and use of broader networks. Independence, ability and willingness to collaborate, partisanship, historical baggage, reputation. Alignment of partnerships and alliances with program goals.

Sample questions:

- What networks do you consider yourselves to be a part of?
- What other organizations do you collaborate with? With whom have you collaborated in the past?
- Who are your partners?
- Whose work do you leverage or depend on to carry out your own work?
- Do others leverage your work for their own?

Higher-level performance

Where Capacity Meets Strategy

3

A significant part of Chapter 2 was identification of the organizational capacity elements that all nonprofit organizations need to be *good enough* at so that they, at a minimum, function and keep the lights on. Additionally, specific definitions of what it means to have basic competency in each capacity element were presented, along with a tool for beginning the capacity conversation with grantees (or by a team within an organization). The content of Chapter 3 examines when basic capacity *isn't* good enough, and when, and how, an organization should selectively strive for higher-level performance capacity

Unlike a standard checklist approach to organizational capacity, the idea of *strategic performance capacity* includes articulating a higher level of capacity that an organization can understand and strive for in connection to *its particular purpose, goals, and context*.

In the figure below, to each basic capacity element from Chapter 2 we have added a column of definitions for the next level of performance—higher-level performance capacity. Another way to think about the distinction is simply: basic capacity (all organizations need it in every element) versus higher-level capacity (those elements directly related to each organization's specific goals, strategy, and context are more developed, nuanced, sophisticated, and fine-tuned).



Basic and Higher-Level Capacity Definitions

Capacity Element	Basic Capacity	Higher Level Capacity
Strategic Ability and Adaptability	A framework for setting annual goals and basic measures of success, communicating them, and allocating and aligning resources to achieve objectives.	Sharp understanding of and strong capabilities to develop strategic plans that allocate resources and programs to achieve clearly prioritized goals, with mechanisms for ongoing reevaluation, learning, and course correction; strong connections and feedback loops with the other capacity elements.
Leadership	Competent executives across all functional areas, with integrity, no conflicts of interest, and a functioning, independent board.	Some leaders with distinctive skills and reputations, a collaborative and well-functioning executive team that deeply understands strategy and a board of directors that provides stewardship well aligned with goals and objectives. Ability to smoothly weather leadership transition.
Financial Health and Management	Sufficient resources and income to cover operating expenses and occasional shortfalls or unexpected expenses; basic financial and reporting systems with production of basic financial statements. Diversified sources of funding.	Investment choices based on program results and evaluation. Development of fund-raising skills and effective fund-raising strategy. Program-specific resource strategies. Financial systems tuned to allow for dynamic decision making about resource allocation.
Purpose and Mission	A clear statement, which all staff can easily view and describe, of why the organization exists and its overall rationale and hope for a better world.	Processes and metrics that tightly align strategy and programs with purpose and mission, with staff clearly prioritizing and pursuing their work toward these ends.

Governance	An independent board that meets regularly and has succession plans and policies; discharges minimal but normal fiduciary responsibilities; holds executives accountable for meeting strategic and operational objectives; and collaborates in fund-raising activities.	An actively engaged board that raises the organization’s performance and furthers its mission; uses its relationships and expertise to support staff; fully understands and fulfills its fiduciary duties; actively defines performance targets and holds the ED fully accountable; and is empowered to hire or fire the ED if necessary.
Organizational Culture	A climate in the organization that reflects basic values required by its mission—such as integrity, merit, and collaboration. A shared acceptance of “the way we do things around here.”	Energy and excitement among staff, board, and all partners to achieve mission success, and constant reinforcement of that culture through practices, incentives, rituals, and leadership motivation. Culture supports adaptive management and strategic agility.
Staff Capacity and Expertise	People who bring professional experience, know-how, and added value to the programs and operations of the organization.	Staff members are truly high performers in their areas of responsibility, and consistently deliver results. When necessary, academic credentials, certified professional competencies, highly specialized technical ability. Recognized experts in their professional field.
Human Resources and Staff Development	A staff development plan and sound human resources policies and management processes.	Structuring, professional development, and allocation of people and skills with an eye to program priorities and high-performance execution.
Communications	Identification of audiences and segmentation communication strategies. Consistency of information provided through different outlets. Long-term, productive relationships with the media. Functional internal communications.	Intensive use of different communication outlets, particularly social networks, to create critical mass behind messaging. Outstanding capacity to react to events and project a message. Acknowledged authority regarding issues or problems related to mission. Evaluation of communication strategy’s impact. Internal communications are fluid, functional and institutional. They reinforce the culture and lubricate the workflow, while serving to address issues before they escalate into bigger problems or conflicts.

Monitoring and Evaluation	Monitoring and evaluation systems; activities and strategies linked to targets and indicators; and regular reports on performance information.	Systematic practice of making adjustments and improvements on basis of evaluations. High-level decision-making that is evidence-based. Organization-wide performance management system.
Legal Compliance	Nonprofit status and compliance with the legal and fiscal framework.	Ability to take advantage of fiscal status in order to maximize resources. Ability to leverage integrity and bulletproof legal status to promote brand, raise funds, and attract talent.
IT Operations and Infrastructure	Updated hardware and software. Safe storage and sharing of information. Adequate staff-hardware ratio.	Increase in collaborative work beyond functions and organizational units due to communication and information technologies. Advance-knowledge management systems. Information systems tailored to organizational needs. Skilled at knowing what to do in-house and what to outsource. Successful management of trade-offs between security and open communication.
Security and Facilities	Adequate, secure physical space and working conditions.	Ownership or lease of physical space that meets the current and planned needs of the organization; location supports needs of staff and population served. Space is safe, secure, and well-maintained. Security protocols in place and implemented.
Partnerships and Alliances	Existence of partnerships and alliances required to participate in the field or sector ecosystem and networks; alignment of partnerships and alliances with program goals. The organization largely chooses and negotiates the partnerships on an organization-to-organization basis.	Deep understanding of how partnerships, alliances, and networks can improve effectiveness, learning and achievement of goals/impact; relationship planning and management is valued and integrated as part of the work of the organization; proactive sharing of information and contacts; leadership role in convening and network learning, planning, and action. At least part of the organization's strategy is co-created and managed collaboratively with partners.

The Link to Impact: Prioritizing Sustainable Capacity Elements

Higher-level, sustainable performance capacity is specialized and varies from organization to organization. When an organization understands which capacity elements are most important for carrying out its mission, it can focus energy and resources on those relatively few elements of capacity that are the strongest drivers of performance. It can strive to be “good enough” in the areas where the organization requires basic capacity and excellent in the particular areas that require higher capacity.

For any organization, it is important to understand what the different capacity elements are, which ones need to be at the level of basic capacity, which need to be higher capacity, and the current state of affairs for each element. This usually requires a diagnostic process to determine two things:

- What is the current state of organizational capacity for each capacity element?
- Which capacities need to be at a basic level and which should the organization strive for higher-level capacity?

Once there is a diagnosis, which the tools in this handbook will help you determine, identifying performance targets for each element of organizational capacity helps both grantmaker and grantee set strategic priorities to maximize the impact of the funder’s investment and the grantee’s time and resources.

Increasing organizational capacity in all elements isn’t a bad approach. But in the real world, investment is inevitably limited: there’s only so much management attention that can—and should—be given to building up a grantee’s organizational capacity. This more strategic

A major funder was working with a thinly **staffed** organization with a mission to discover and spread social innovation in agricultural development. The organization’s management and operational structures were competent (it produced regular budgets; knew how to comply with tax and legal requirements in the several countries around the world in which it operated; had an independent, responsible board), but no one would have characterized the enterprise as having state-of-the-art operations. Once the funder was confident about the grantee’s basic operational capability, it did not insist on significant upgrades—with one major exception. Because the heart of the grantee’s value proposition and mission was the spread of innovation by practitioners in the field, the grantmaker engaged the organization’s leaders to develop a sophisticated social media and knowledge-sharing IT infrastructure. The new application, now funded, has dramatically increased the

approach to capacity identifies the elements that can acceptably be built or maintained at the basic capacity level, while also targeting the handful of elements that may contribute to sustainable performance and impact for greater capacity building.³¹

Determining an Organization's Higher-Level Capacity Needs

The premise behind this handbook is that all organizations need all fourteen elements of organizational capacity to function at a basic level. But how do you know which capacity elements only need to be at a basic level, and which are the higher-level elements any individual organization should strive to support? In other words, how do you know which capacity elements most support the strategies and goals of the organization?

Determining Higher Level by Type of Organization

First, what is the TYPE of organization? Is it an advocacy organization? If so, you know right away that to be successful it probably needs higher level

communications capacity, *strategic ability and adaptability*, and strong *partnerships and alliances*. What about a service delivery organization? Great *monitoring and evaluation* to track the quantity and quality of its services and beneficiaries is at the core of its model and therefore a higher-level capacity requirement. Is it a research organization or think tank? Critical to such work is higher-level *staff capacity and expertise*, and *communications*. Staff at this type of organization

Poor alignment of capacity with organizational type or strategy undermines sustained organizational performance.

normally includes people with PhD-level training and communications specialists who make sure the organization's research and analysis reach target audiences in usable ways. A regranting organization needs stronger *legal compliance* capacity and robust *financial management* structures in order to receive money and regrant it to smaller organizations, often with different kinds of legal and fiscal compliance considerations. And a human rights organization working in a dangerous part of the world would almost certainly need to make *security* a high-level capacity priority.

A provincial NGO in India, working to ensure public health services for the poor, uncovered corruption and found itself coming up against vested local interests. Because of the organization's focus and its operation in a challenging, risk-filled environment, its top capacity investment concerned security and safety—for its staff, premises and equipment, and communications. Accounting systems and IT were less important, requiring investment and maintenance only at the level of basic capacity.

Conversely, and as might be expected, poor alignment of capacity with organizational type or strategy undermines sustained organizational performance. A leading U.S. organization in the field of education had a strategy that depended largely upon the personal advocacy and leadership of its executive director. Yet the organization failed to put in place the operational support systems that would have allowed the executive director to conduct this high-value external work, the strategic planning to focus his efforts, or the investment in professional development to build staff capacity. The absence of basic human resources policies, for example, meant the executive director's time was frequently needed to handle low-level personnel issues. Because of these failures, he fell hopelessly behind on commitments to funders and other partners, missed major opportunities to increase impact, scale advocacy, retain talented junior staff, and reach fundraising goals. This organization was undermined by eroding basic capacity in all areas and, ultimately, by governance failure: its inactive board entrusted the executive director with every aspect of running the ailing organization.

An advocacy grantee whose strategy focuses on public budget monitoring, research, and analysis, needs basic capacity elements to operate and maintain its activities. It has to have basic financial capacity of its own, but nothing state of the art. However, it does need higher-level capacity to conduct technical tasks involved in accessing and analyzing government budget data. Sophisticated IT infrastructure, superior software, and specialized staff skills are necessary core capacity elements to reach their goals. In addition, this organization's theory of change requires advocacy based on the evidence they generate, so strong external communications is another core, high-level capacity it must focus on—and invest in—for sustained performance and success.

Another example of misaligned capacity with strategy highlights the importance of understanding the field context and local laws and regulations when working with grantees outside the United States. In 2001, the Hewlett Foundation made several large grants to newly established community foundations on the Mexican side of the border. The organization's aim was to direct these funds to small, environmental NGOs that were critically important to the long-term environmental health of the border region but too small to absorb funding directly from the foundation. In

addition to regranting funds, the community foundations received capacity-building support for staff and board development, communications strategies, and grantee selection. However, when it came time to distribute the money, the community foundations (and the Hewlett Foundation) were shocked to learn that there was no way for them to legally act as pass-through funders for

the NGOs in Mexico. Strategic planners had failed to consider tax implications as part of implementation and assumed that U.S. rules about tax-deductible status also applied in Mexico.³² In addition, capacity-building investments had been off-target. Early investment in basic legal advice could have saved millions of dollars and caused everyone involved to rethink the basic grantmaking strategy and theory of change.

The chart below maps *organizational types* to the higher-level capacity they likely need to focus on to successfully deliver on their mission and organizational model.

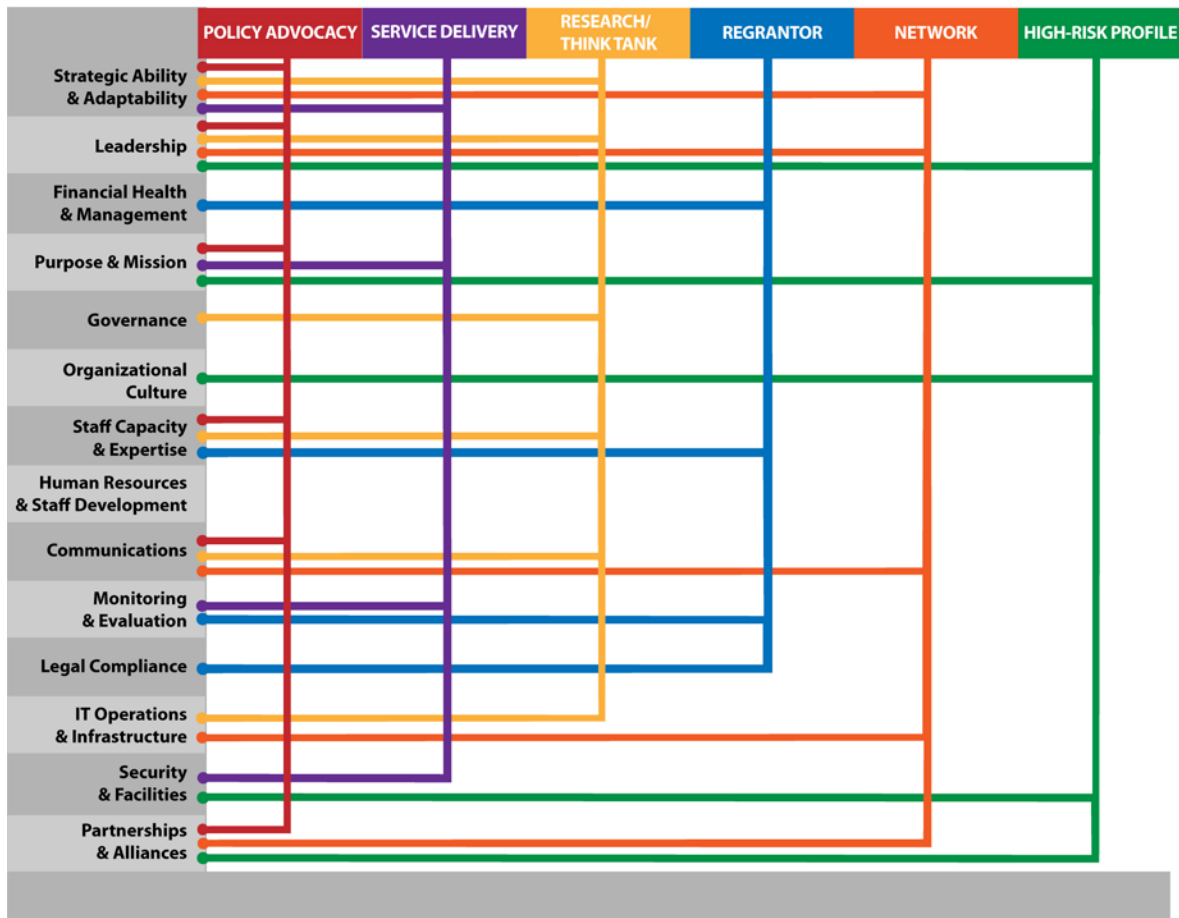
Understanding from the get-go that different types of organizations require different types of specialized capacity (and knowing what those are) helps grantmakers (and organizational leaders) focus more quickly and effectively on the organization's higher-level capacity needs.

Organizational Capacity Typology Chart

The chart below maps out common types of organizations (policy advocacy; service delivery; research/think tank; regranter; network; and high risk profile, such as human rights organizations), and identifies the capacity elements these types of organizations *generally* need to have at a higher level of performance capacity. Keep in mind that the chart is generic and therefore cannot account for all organization types and their individual characteristics, or identify with certainty what each organization needs. It is meant to stimulate thinking and conversation, and should be modified by grantmakers and grantees according to their experiences and the specific characteristics and contexts of the organizations with which they work.

Different types of organizations require different types of specialized capacity.

Organizational Capacity Typology Tool



Framing the Organizational Capacity Typology Tool

Consider this example of how to use the organizational capacity typology tool. In the generic capacity typology model, for example, the most important higher-level capacity needed by a policy advocacy group is *purpose and mission* (to keep them focused on whatever it is they advocate for); *strategic ability and adaptability* (policy environments can change quickly and a successful advocacy organization needs to be smart about strategy and nimble in the face of external variability); *communications* excellence (to know their audiences and be able to reach them); *staff capacity* (people with knowledge of the policy process, actors, and experience with previous advocacy campaigns); *legal compliance* (so they are compliant with IRS rules governing advocacy and lobbying); and *partnerships and alliances* (advocacy almost always requires many organizations working toward similar goals).

Putting It All Together to Create Strategic Capacity Snapshots

Using the same bar graph that was introduced in Chapter 2, the following graphics provide generic “strategic capacity snapshots” for different organization types. The graphs use the same color values as the initial example. Red = problem area (must address!); yellow = good enough; green = very good; gray = not enough information to score. And remember, *strategic ability and adaptability, leadership, and financial health and management* (the “big three”) should always be green.

Now, instead of just short horizontal bars which indicate basic capacity, we include long bars to indicate where higher capacity is needed by the organization. The long bars correspond to the capacity connections in the [typology chart](#), and also to the [definitions of higher capacity](#) that can be found on page 43.

Let’s illustrate the long bars with some examples. The ideal strategic capacity snapshot for a policy advocacy organization looks like the following graph:



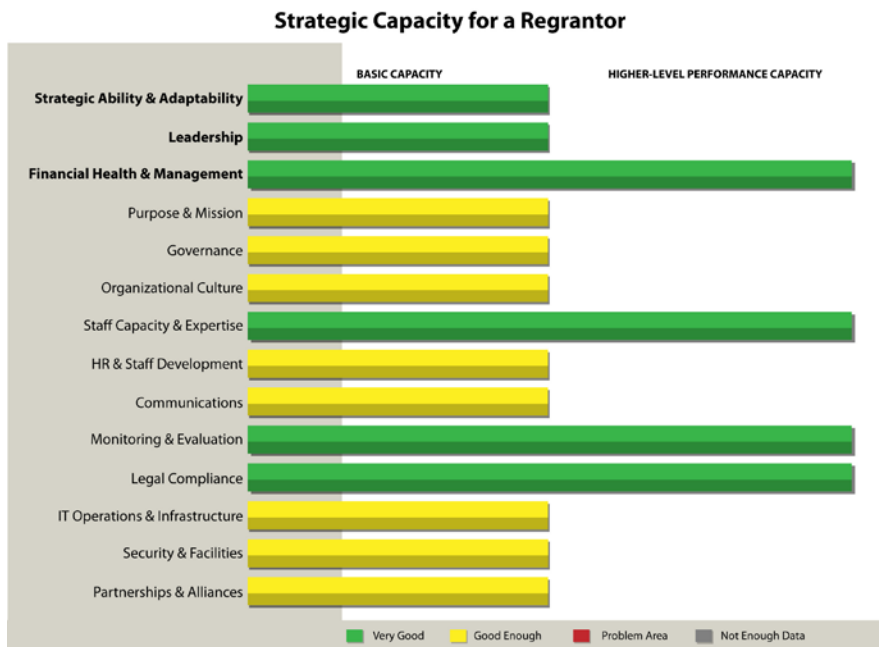
A service delivery organization needs higher level capacity focused on *purpose and mission* (Who do they serve? Children? The sick? The hungry?); *financial health and management* (Are the resources available to support delivery of services?); and *monitoring and evaluation* (How many clients do they reach? What is the quality of their service?). The corresponding strategic organizational capacity graphic for a service delivery organization looks like this:



We also know that any nonprofit regrantor needs strong *financial health and management* capacity (to clearly account for resources in from donors and out to regrantees, to ensure resources and the ability to regrant them); *staff capacity* (ability to raise money and make sound grants); *monitoring and evaluation* (to measure the impact of regrants and regrantor's effectiveness as a go-between), and *legal compliance* (for themselves and the regrantor beneficiaries which also must meet IRS compliance standards).

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An ideal strategic capacity snapshot for a regrantor would look like this:

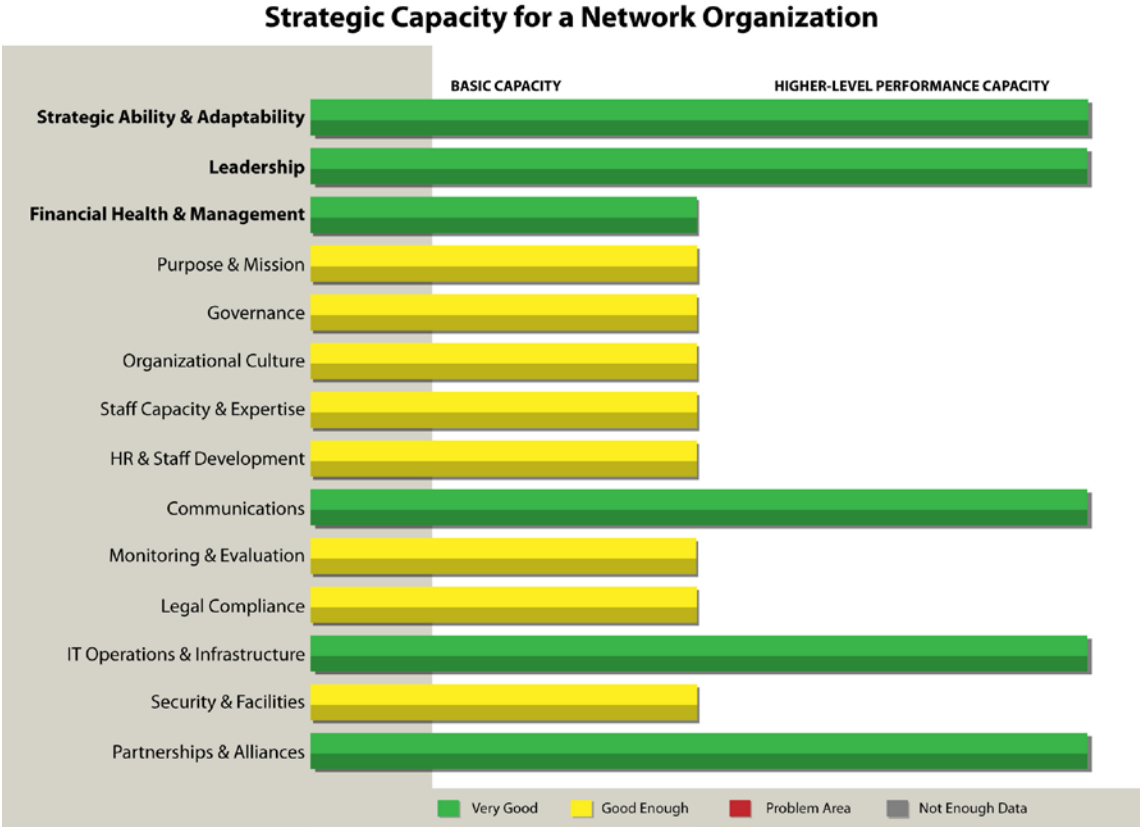


Given what a research/think tank strives to do, its ideal strategic capacity graphic emphasizes the need for higher-level capacity in strategic ability and adaptability, leadership, governance, staff capacity and expertise, communications, and IT operations and infrastructure:



A network isn't legitimate without a critical mass of partnerships and alliances, and it can't thrive without sound strategic ability, leadership, and communications capacity. IT Operations and

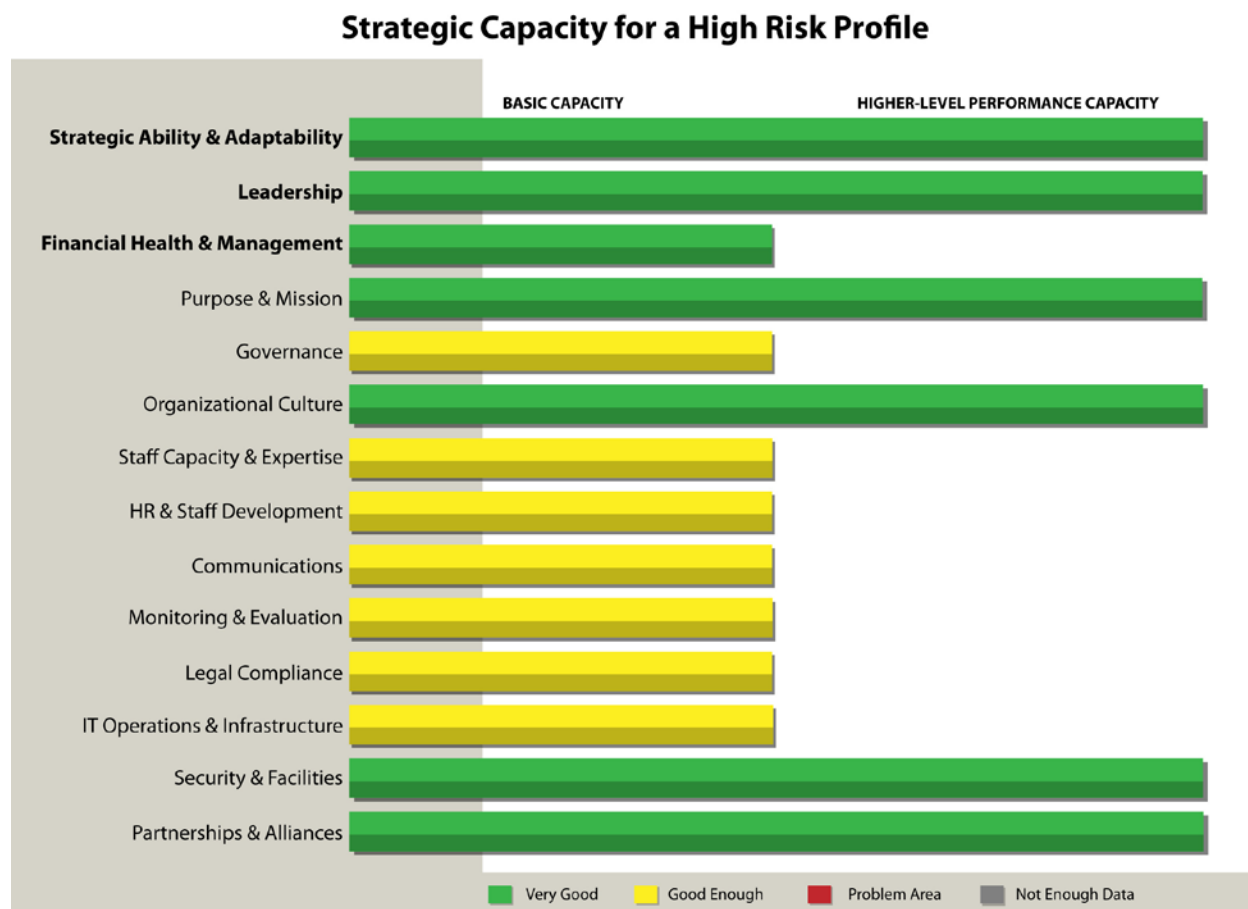
Infrastructure are likely to be critical for sharing information and providing network activity platforms. Accordingly, the ideal strategic capacity snapshot for a network organization would look something like this graph:



Finally, any organization with a high risk profile (such as a human rights organization, a shelter for battered women, or a government transparency watchdog working in a highly corrupt country) would likely have a strategic organizational capacity graphic that indicates the need for

Integrating Capacity and Strategy

Higher-level strategic performance ability and adaptability, leadership, purpose and mission, organizational culture, security and facilities, and partnerships and alliances.



Knowing which capacity elements are most important for each type of organization gives grantmakers an information edge and prepares them to talk with any organization—even organizations they may not know well.

The strategic capacity graphics presented so far represent ideal snapshots for types of nonprofit organizations. These are the strategic capacity profiles an organization might strive to reflect—higher-level performance capacity in those elements that drive program activities, and basic capacity where “good enough” works perfectly well.

But as we all know, in real life, ideal isn’t the norm, and all organizations face ongoing capacity challenges in a resource-scarce environment (particularly for capacity building funding). The point here is to help grantmakers and grantees identify which elements matter most for an

organization's work, and to help prioritize time and money to build and strengthen the capacities that matter most.

While the graphics above represent *ideal* types, the case studies highlighted next provide strategic capacity snapshots of *real* organizations. These organizations, which will remain anonymous,

Knowing which capacity elements are most important for each type of organization gives grantmakers an information edge.

served as beta testers for the tools in this handbook. Their willingness to use the tools, give feedback to improve them, and allow better understanding of the usefulness and limitations of the methodology is

appreciated. All of the beta tester organizations used the survey and conversation tools to develop their own, customized draft strategic capacity profiles, which they refined and adjusted through further discovery and conversations with staff.

Case Study 1

The subject of the first case study is an organization that operates an emergency residential shelter for women who have been victims of extreme violence. At a separate facility, it provides psychological counseling and job training services for low-income women with personal histories of family abuse and victimization. The organization is also engaged in state and federal public policy advocacy. Because it provides direct services, operates in a high security-risk context, and conducts policy advocacy, our model indicates that it needs to function at a high level of performance capacity in several areas of its internal operations.

A critical mass of the organization's staff members were beta testers for the methodology and tools in this handbook. They used the materials to diagnose their basic and higher-level organizational capacity, and they scored the current state of each element to collectively understand where they are as an organization, and where they need to be to leverage their resources and maximize their capacity in service of their goals and mission.

The long bars in its strategic capacity profile below represent the elements of high-level capacity the organization should strive for based on the types of work it does (see the [Organizational](#)

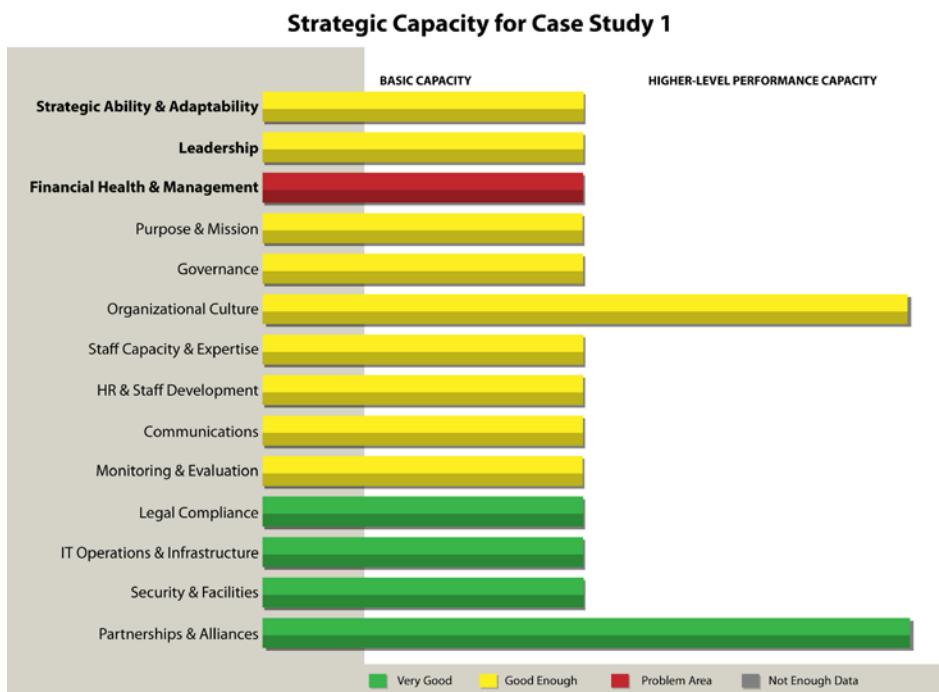
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Capacity Typology Tool). This particular organization has many higher-capacity needs (long bars) because its work includes three different types:

Policy Advocacy – *strategic ability and adaptability; leadership; purpose and mission, staff capacity and expertise; communications; partnerships and alliances*

Service Delivery – *purpose and mission; monitoring and evaluation; security and facilities*

High Risk – *strategic ability and adaptability; leadership; purpose and mission; organizational culture; security and facilities; partnerships and alliances*



Remember, the short bars represent the elements of capacity this organization needs to function at a yellow (or “good enough”) level of sophistication and operation (with the exception of the “big three” elements, which we learned in Chapter 2 should reach for green, or “very good”). On the other hand, the short red bar (financial health and management) indicates an area of crisis for this organization, an area that needs immediate attention and prioritization.

Now let’s take a closer look at the diagnosis for their higher capacity (long bars) since this is where the organization needs focus for sustainable performance over the longer term:

Strategic Capacity and Adaptability. Here we can see the organization fell short in its strategic ability, a core capacity it needed for effectiveness and impact. The organization had a weak strategic plan that sat on a shelf and wasn't being implemented because it lacked clarity, focus, and measurable goals. The leadership and staff team realized through the diagnostic process they had not clearly defined their target population (Victims of family violence? Victims of human trafficking? Adult women? Adolescents?), which undermined other areas of the organization (fundraising, staff recruitment and retention, advocacy, communications, etc.).

Leadership. This is another element where the organization used the strategic capacity diagnosis to bring to the fore a difficult reality. They had a capable, charismatic founding executive director who had publicly announced her plans to retire in the near future, but without a specific timetable, an obvious successor, or a leadership transition plan in place. That, in turn, caused a great deal of staff and donor anxiety, confusion for partner organizations, and was leading to a split between their two major areas of operation. The emergency residential shelter and the walk-in clinic were starting to operate as if they were two completely separate organizations. In this case, the strategic capacity diagnosis served as a wake-up call to the board (and the ED), which immediately set up a task force to search for new executive leadership.

The organization had a weak strategic plan that sat on a shelf and wasn't being implemented.

Purpose and Mission. As the organization conducts public policy advocacy and provides direct services, it needed a strong, clear mission to permeate its overall institutional ethos and serve as a compass for its programs and activities (higher-level capacity). But the organization's mission, prior to diagnosis, was admirable but vague and led to mission creep, including the absence of a clearly defined target population.

Governance. Interestingly, the majority of staff members who participated in the diagnostic process did not feel knowledgeable enough about their organization's board governance competency to pass a green, yellow, or red value judgment. Instead, they opted for a gray value judgment ("not enough information/I don't know"). This isn't necessarily surprising because in many organizations, professional staff (beyond senior leadership) often have little contact with the governing board. What became clear during the diagnostic process, however, was that not

only would the board and staff benefit from better communication, but many of the other institutional challenges (purpose and mission, leadership, overall strategic capacity, financial stability) could only be addressed with greater board engagement.

Organizational Culture. Organizations involved in high risk endeavors or environments have an especially important need for a strong, positive internal culture—lives can depend on it. Service delivery organizations working with vulnerable populations also benefit from a positive internal culture, which can counteract workplace stress and high staff turnover, and even facilitate quality service delivery by enhancing customer or client experience. In other words, staff members who feel supported and content are better able to generate more positive interactions for end users. Our case study organization works with vulnerable populations (victims of extreme violence) and in a high risk context (the emergency shelter), and as a result, requires higher level (long bar in chart) internal culture capacity. In general, this organization’s strategic capacity diagnostic showed a strong, supportive, imbedded culture among the staff, although there were significant differences between the culture of the shelter and the culture of the walk-in clinic. After discussion and reflection, the staff team decided there was room for improvement in fostering a less siloed, more widely shared culture for the organization as a whole. The organization is now working towards a long green bar of capacity excellence for this element of their profile.

Organizations involved in high risk endeavors or environments have an especially important need for a strong, positive internal culture.

Staff Capacity and Expertise. The diagnostic for this element showed the organization’s overdependence on volunteers for critical staff functions. It also underscored the need to better define the target population, as doing so had important implications for the professional profiles and expertise required to carry out the mission of the organization in a responsible, credible manner.

Communications. As a public policy advocacy organization, the case study institution needed to strive for higher level communications capacity. Here again, is an area in which the organization would improve its performance by clearly identifying its target audience, developing a communications plan, and expanding its public communications profile beyond the outgoing executive director.

Monitoring and Evaluation. Capacity is mission critical for service delivery organizations. In this case, the organization measured the number of women served and the quantity of its outreach services, but needed to make a serious effort to increase its capacity to measure the *quality* of outreach and service.

Security and Facilities. Given the high risk nature of the organization's work, and the need for physical space to provide shelter and services, *security and facilities* is a high-level capacity element for this case study institution. The diagnostic result (the long bar is only half filled) is explained by the fact that their walk-in clinic is well located, secure, and provides adequate space for the work they do (green = very good), while the emergency shelter facility is too small, and located in a less than desirable neighborhood.

Partnerships and Alliances. This element is the strongest capacity area for the organization. It is highly respected and visible among the network of groups operating in its social ecosystem, and it engages in joint planning, fundraising, and learning with several other organizations working towards shared advocacy goals.

The diagnostic process for this beta tester organization was the start of a longer, ongoing process to build the specific institutional capacity needed for a more stable, effective nonprofit. And in many ways, the *conversation* prompted by the diagnostic process was the most valuable by-product of the exercise. It helped the staff develop a shared language to discuss organizational capacity (internally, with their funders, and with their governing board) and a shared

The conversation prompted by the diagnostic process was the most valuable by-product of the exercise.

understanding of weaknesses to address and strengths to leverage. They have since used their customized diagnostic profile to prioritize their institutional capacity-building projects, and allocate resources in a more targeted way. It has also helped them understand which capacity strengthening priorities they can address internally, and which improvement targets need specialized support from external consultants.

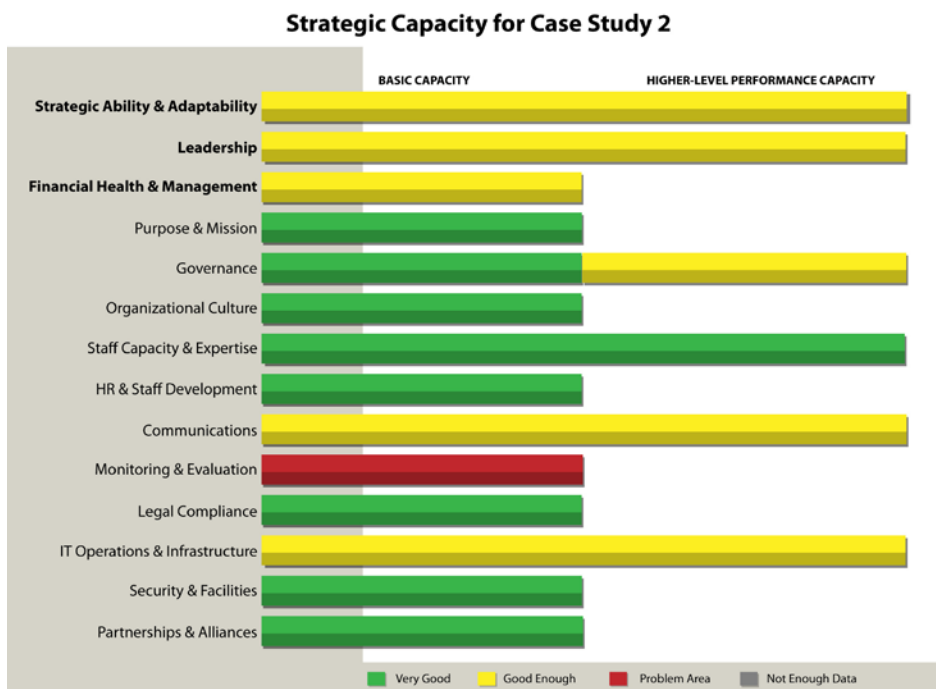
Case Study 2

The second case study profiles the strategic capacity diagnosis of a research think tank. This organization conducts policy research and analysis on a range of issues related to economic development. At the time the organization participated as a diagnostic beta tester for this project,

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it had recently undergone an executive leadership transition, and was still striving to consolidate its new team, build on the success of its previous director (a dynamic founder), and retain talented staff who had received other opportunities to work elsewhere during the leadership transition period. The diagnostic process revealed a core set of themes the organization needed to address, but just as important, the process itself created a space, a framework, and language for the new leadership team to air their individual views about the state of their organizational capacity, understand the views of others, and develop consensus on how to prioritize strategically oriented capacity building going forward.

Remember, because it is a think tank, the higher-level organizational capacities it most needs include: *strategic ability and aptability, leadership, governance, staff capacity and expertise, communications, IT operations and infrastructure*. Plus, as we have learned, it needs better than “good enough” *financial health and management*. So what did the diagnostic process reveal?



Here again, the focus is on how this organization scored on its higher capacity needs, with additional attention to the elements that should be “good enough” (short bars), yet are currently insufficient for credible, sustained performance and therefore need to be addressed sooner rather than later.

Strategic Ability and Adaptability. To the outside observer, this organization appeared to have strong strategic ability and adaptability. It focuses on topics of interest to policymakers and donors, and as a relatively young institution, and it successfully positioned itself as an important actor in its operating space. But digging deeper, it became apparent the organization's programs and alliances were largely driven in an *ad hoc*, seat-of-the-pants manner by its whip-smart staff, and not by any sort of planned strategic framework that included articulating annual goals, monitoring of progress, alignment of resources with priorities, or perhaps most important, protection against mission drift. Individual staff members were surprised (and relieved) to learn their peers uniformly agreed that institutional and programmatic priorities were unclear and they urgently needed to engage in strategic planning, both yearly and longer term. In addition, the absence of a formal strategic plan, or a process to develop and implement such a plan, was causing negative side effects on other capacity areas, especially financial health and communications.

Leadership. The organization successfully transitioned from its founding executive director to a new, well-regarded executive director, and it enjoyed a deep bench of young, highly qualified senior team members, including a strong associate director. The staff had a good relationship with its board, and was viewed by partners, donors, and audiences as highly competent. The long bar, however, was yellow when it should be green ("very good") because leadership is a higher-level capacity requirement for this organization as a think tank. In this case, the handbook tools highlighted the need for greater leadership to drive strategy development, develop monitoring and evaluation capacity, and improve internal communications.

Financial Health and Management. This handbook supports the argument that all organizations should have strong (green) basic financial health and management capacity and the second case study organization was no exception. It didn't need higher level financial capacity (such as an in-house investment team or finance department), but it did need to be on solid financial footing to carry out its work and achieve its goals. The organization enjoyed several years of general support from a large funder, but that resource was coming to its scheduled end date and the organization needed to develop a new financial model and plan to avoid dependence on short-term project funding, or on any single revenue source. Like all nonprofit organizations, it wanted to attract new general support funding, but without a compelling strategic plan,³³ clear

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priorities, and decent monitoring and evaluation of its work, such flexible funding goals would be difficult to achieve.

Governance. The governing board of the organization was independent, met regularly, conducted meetings, and carried out policies and fiduciary duties all in a professional manner. Board members participated in fundraising (direct or indirect), leveraged relationships on behalf of the organization, and used their expertise to support staff. Where the governing body primarily fell short (hence the yellow rating for higher capacity functions) was holding the ED accountable for setting and achieving performance targets via strategic planning, and insisting on monitoring and evaluation mechanisms.

Staff Capacity and Expertise. Highly specialized, dynamic staff talent was the strongest capacity element of the organization. This was core to the think tank's success and in some ways masked the need for more robust and institutionalized processes such as strategic planning and monitoring and evaluation.

Communications. The organization did a great job communicating its views and findings via a variety of outlets, including social media, traditional media, large gatherings, and targeted meetings with decision makers. It enjoyed long-term, productive relationships with the media, and it had a good understanding of its audiences. It needed to improve communications and reporting with donors, and its internal communications would benefit significantly from having institutional planning and monitoring processes, a shared understanding of programmatic priorities, and regular staff meetings.

Without strategic planning, the organization was not able to systematically analyze and adjust its IT capacity to meet the needs of its programs and serve its overall goals.

Monitoring and Evaluation (M&E). This organization, its work, and its staff were mentioned and quoted frequently in the media, and they measured their “success” almost exclusively by the number of media hits they got. The diagnostic process revealed that they urgently needed to develop ways to measure the impact of their work, determine appropriate benchmarks, and use monitoring and evaluation as a decision-making tool for raising and allocating resources, and for judging institutional and staff performance.

IT Operations and Infrastructure. The organization required higher level IT operations and infrastructure because its work required sophisticated computational analysis of large government databases. It also used technology platforms for analysis and public dissemination of its programs and projects. The organization had basic hardware, software, and back-up systems, however there was uniform agreement among the research staff that IT systems were inadequate for carrying out their work. Yet without strategic planning, the organization was not able to systematically analyze and adjust its IT capacity to meet the needs of its programs and serve its overall goals.

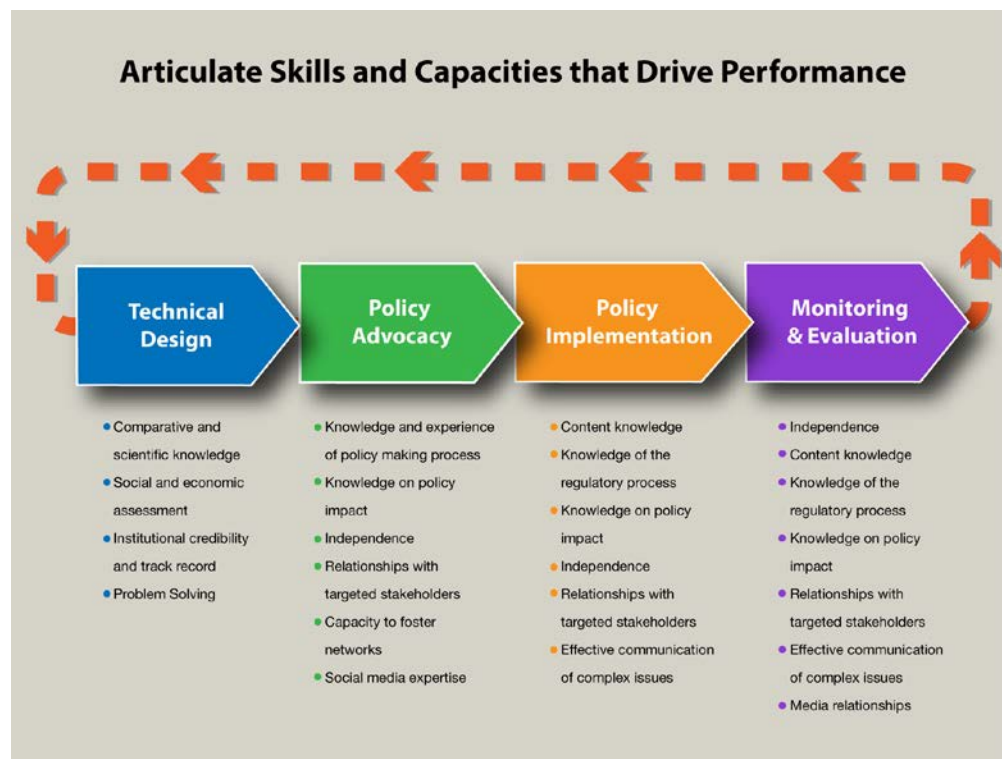
The organizations highlighted in these case studies are at the beginning of their longer-term capacity building process. They used the assessment tools in this handbook to diagnose their current capacity status, understand which capacities are most important given their organization type, and to build team language and consensus around how to prioritize capacity investments going forward. The diagnostic process also helped them understand how weak capacity in one area (e.g., strategic planning) was undermining capacity in other areas.

Determining Higher Level by Strategy

Once you have a general idea of the higher-level capacity required as a result of the *type* of organization, find additional higher-level clues by delving into to an individual organization's *strategy*. The strategy—via the *theory of change*³⁴ or the organization's *logic model*,³⁵ which articulates at a high level how the organization expects to reach its goals—helps identify which capacities an organization needs most to carry out its work and have the desired impact.

The next example is from a high-level logic model (LM) developed by the grantmaking team at Latin American Regional Climate Initiative (LARCI)³⁶. The LM, represented by the fat, multicolored arrow at the top of the chart, explains that to reach their goal of reducing air pollution this donor's grantees need to engage in certain steps (technical design, policy advocacy, policy implementation, monitoring and evaluation). The LM implies that different types of organizations need to engage at different steps along their model (i.e., some grantees will have

specialized technical expertise, others are policy advocates or implementation specialists, etc.).



The next step for determining higher-level capacity needs is to articulate the specific skill sets and capabilities required for each step of the logic model. In this example, the grantmaker determined the distinctive skill sets and capabilities that grantees would need to deliver on the work over time and across the logic model elements. In the technical design phase, for instance, grantees would need specialized and internationally comparative scientific knowledge; social, environmental, and economic assessment capacity; institutional credibility and a sound track record; and problem solving ability. Once the skill sets were identified, the grantmaker carried out a field actor mapping exercise to see which grantees were needed to carry out different parts of the strategy—and where the gaps were.

The specialized staff and organizational capacities needed to progress toward specific strategic goals translate into the necessary higher-level capacity elements on which each organization should focus.

The next step for determining higher-level capacity needs is to articulate the specific skill sets and capabilities required for each step of the logic model.

Chapter 4 will provide assessment survey tools for grantmakers and grantees to qualitatively assess the state of an organization's basic and higher-level capacity in each of the fourteen organizational capacity elements. The assessments are designed to help develop customized strategic capacity snapshot graphics for the organization.

4

Assessing individual grantee capacity

Qualitative Surveys for Grantmakers and Grantees

Prioritizing Capacity Investments

If you are a grantmaker, take time before diving into the assessment materials to think about how to prioritize organizational capacity assessments (and investments) for each organization in your portfolio. At the end of Chapter 4 are simple, qualitative tools for you to use to assess strategic organizational capacity and develop customized strategic capacity snapshots.

All grantees will experience organizational change and challenges over time. Sometimes, this is part of a normal, healthy organizational life cycle (e.g., growth, planned leadership transition, new partnerships, shifting donor priorities). At other times, institutional dysfunction, such as poor leadership and/or management, mission drift, unplanned staff changes, lack of professional development, poor communications, and even malfeasance wreak havoc on organizational health and capacity. Often, both are at work simultaneously, with healthy organizational change and dysfunctional processes occurring at the same time within complex organizations.

All grantees will experience organizational change and challenges over time.

Despite the fact that at some point all grantees will experience organizational capacity challenges, real constraints (resource, strategy, and staff time) mean that grantmakers cannot, and should not, make capacity investments in all grantees, nor should grantmakers believe that

organizational capacity investments will always be effective. Philanthropic resources are scarce—this is particularly true for capacity building support—and it simply doesn't make sense to formally assess the organizational capacity of every grantee. In this handbook you'll find that you can learn a lot about an organization's capacity to carry out their strategy by simply incorporating

It simply doesn't make sense to formally assess the organizational capacity of every grantee.

capacity issues holistically into your regular grantmaking practice.³⁷ And for many grantee organizations, this level of strategic capacity due diligence may be sufficient. But other grantees will surely benefit from a deeper dive to formally assess the current state of their strategically aligned capacity for future investment and improvement.

One useful filter to apply when making prioritization decisions is to ask the question: *Is this grantee core to my portfolio or to my foundation?* Grantmakers and grantees alike are often uncomfortable with the notion of designating “core” or “anchor” grantees, but the reality is that some grantees are probably more critical than others for carrying out strategies and achieving specific goals and those grantees should be the top candidates for more formal strategic capacity assessments and investment.

Is this grantee core to my portfolio or to my foundation?

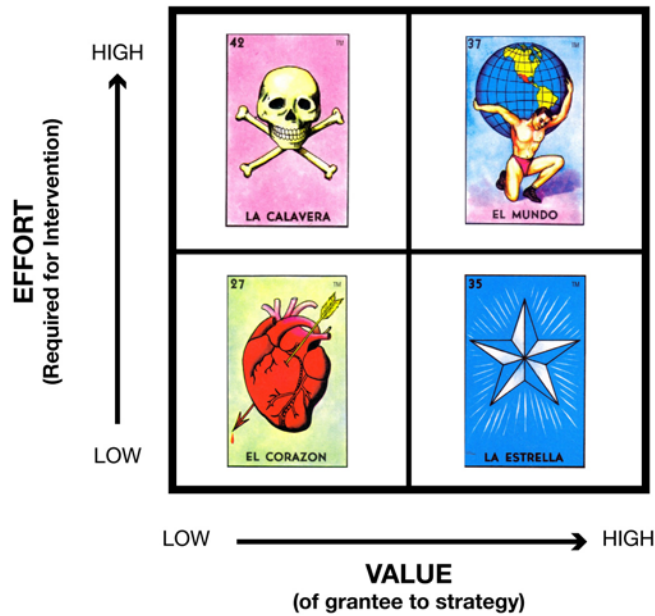
We suggest the following criteria for defining a “core” grantee (whether or not you use the label):

- The organization has a clear niche in the field ecosystem.
- There is a clear mission/vision of what the organization does and how it does it.
- The organization is very important to my foundation's strategy (there is strong fit/alignment between its goals and ours).
- The organization is very important to the strategy of other grantees (who may or may not be core).
- The organization has a positive track record of performance—they have managed to move the field, raise the bar, and/or achieve something significant to advance toward your shared goal(s).

Program officers should have a clear understanding of which grantees are the strongest drivers of their program strategies, and they should also understand the capacity those grantees have (and need to have) to perform over time.

But there are also occasions when it *doesn't* make sense to invest in a core grantee's capacity-building project. But how do you know which grantee should receive that kind of investment? When can targeted capacity support turn a grantee organization around and when is it a case of 'sending good money after bad'? What questions should you ask? How do you know when to triage? To help answer these questions, we developed the simple graphic in the box below (with help from symbols used in the traditional Mexican *loteria* game).

Organizational Change Investment Triage Tool



The *x*-axis represents the relative value of the grantee. Are they high value, i.e., core to the strategy or the field? Or are they relatively low value to the strategy and/or to the field? In other words, is what they do critical for the health of the field ecosystem or for the theory of change to function, or isn't it?

The *y*-axis represents effort—on the part of a foundation's staff, external consultants, and the organization itself—and the level of investment needed to address the issue(s).

By assessing in-need grantees with this tool, you can more easily determine which capacity investments to prioritize. High value/low effort is a no brainer and definitely worth the investment; high value/high effort is probably also worth it, assuming you can marshal the necessary resources and the grantee is highly motivated. This takes more planning and involves

more people and resources to carry out. High effort/low value is also pretty straightforward—not worth the time or money. Finally, the low effort/low value heartbreaker; this is almost always not something you should invest in.

Applying the Assessment Tools

Once you, the grantmaker, decide which grantee organizations are candidates for capacity assessments (and those organizations agree), you have an opportunity to deepen the conversation and relationship with those grantees. In many ways, the by-products of learning and relationship building that come from the assessment process can be as important as the assessment results themselves.

The next section provides two separate assessment survey tools—one for grantmakers and the other for grantees. Both of these tools can be found online at <http://www.capacitystrategyhandbook.org>

It is worth repeating that these tools are designed to be a qualitative launching pad for what is generally a longer process of organizational capacity building. They are meant to help you diagnose organizational capacity in relationship to strategy and on a practical level, enable you to download, compile, organize, and share existing information, identify knowledge gaps, and align understanding and expectations between grantmaker and grantee. Once a diagnosis is agreed upon, it is easier to set priorities and develop a plan for next steps, including whether the capacity building projects can be tackled in-house or if outside consultants are needed.

The best way to use these tools is for individual team members to take the survey, and then use the results as a basis for a team conversation to discuss results, identify trends and issues, and then adjust the individualized bar graphic to reflect collective team consensus on the current state

Why Grantmakers and Grantees Should Compare Survey Results

The leadership team of a human rights organization in Mexico took the assessment survey and scored themselves as having “excellent communications capacity.” That same organization’s donor scored them very low on communications. The discrepancy prompted a conversation where both parties learned something: the grantee found out its donor was unsatisfied with the quality of their email and reporting (which the donor assumed reflected the organization’s communications capacity more generally), while the grantee had a limited view of its audiences, and believed as long as its advocacy communications were top-notch other types of communications were less important. The grantee has since improved the quality of its communications with all of its donors, and the donor was pleasantly surprised that the communications used for programmatic purposes is highly professional.

Integrating Capacity and Strategy

of organizational capacity in relationship to its type, strategy, and particular context. The graphic snapshot that emerges, and the issues it highlights, can be used to chart a focused path to a stronger, more effective organization.

Ideally, the grantmaker/grantee relationship is one of trust, where assessment survey results can be compared from each perspective to see how well the two align (or not) in their understanding of the organization's capacity and priorities for strengthening and investment.

Instructions for Completing the Survey

The two surveys that follow are similar, but they are not the same. One is customized for grantmakers while the other has been designed for and tested by grantees. Please make sure you complete the one that best fits your specific situation.

If you have completed the assessment survey online, the online address for the survey is <http://www.capacitystrategyhandbook.org>. Your customized strategic capacity graphic will be generated automatically, but if you do the survey manually, use the scoring template at the bottom of the survey below to create your customized strategic capacity snapshot. If it doesn't make sense to carry out the survey as part of a team project, individual program officers can complete the survey as part of their regular due diligence and discovery process, or nonprofit staff can use the survey to self-assess their organization or unit. Remember, this is a qualitative exercise that helps identify organizational capacity gaps, themes, and areas for further exploration.

Before getting started, print out the version of the survey that corresponds to you as a grantmaker or as a grantee organization, and print out the scoring template. The scoring template is the same for both surveys. Make sure you have different colored writing instruments on hand (e.g., colored pencils, crayons, highlighters). Then follow these steps:

- Complete the survey to the best of your ability.
- To complete the scoring template, use the [typology chart](#) to determine and highlight the long, higher level capacity bars.

- Color the short bars to correspond with the scores in the assessment tool (red, yellow, green, or black/gray). Color the long bars by referring to the [capacity definitions](#) to guide your color decisions.
- As a group, discuss individual results and adjust the results as necessary to build a consensus graphic, taking into account additional issues such as the context in which the organization is operating, where it is in its organizational life-cycle, its strategy and logic model.



Grantee Assessment Survey (for Grantmakers)

Please fill out this assessment template for your grantee to the best of your ability. If you are unsure or do not know the answer, feel free to answer, “I do not know.” This exercise is designed to be a qualitative, initial download of information already in your head or otherwise easily accessible to you (notes, files, grantee website, etc.). We estimate this will take you no more than 45 minutes to complete.

Please keep in mind:





- 1) This exercise is NOT intended to result in a detailed capacity assessment of individual organizations, but rather a general scoping FROM YOUR PERSPECTIVE of the grantee’s organizational capacity in relation to its (and your) strategy.
- 2) This is NOT a narrative version of a checklist.
- 3) The questions embedded in the template are NOT exhaustive or to be used for interviewing grantees. Rather, they are meant as types of questions to keep in mind as you do this preliminary, qualitative assessment meant for internal purposes only.

TODAY’S DATE:	
Brief Background and Mission of the Organization	
<ul style="list-style-type: none"> • [info here] 	
History of My Foundation's Support to This Organization	
<ul style="list-style-type: none"> • <i>Foundation grantee since</i> • <i>Brief history of my foundation's support to this organization...</i> • <i>Status and relevant information regarding the foundation’s relationship with this</i> <ul style="list-style-type: none"> ○ <i>grantee.....</i> • <i>Role in my foundation's strategy (is this a core grantee in our portfolio?)</i> 	
Diversity of Funding (What do we know about other funders' support and commitment? (Level; GOS or project; long-term or short-term; public or private?); How dependent is the organization on my foundation’s support?)	
<ul style="list-style-type: none"> • [info here] 	

<p>To the best of your knowledge, please comment on the organizational health and effectiveness of this grantee.</p>
<ul style="list-style-type: none">• Strengths?•• Weaknesses?•• How does this affect their ability to achieve impact?•
<p>How has grantee dealt with organizational capacity or development challenges?</p>
<ul style="list-style-type: none">• [info here]
<p>What must be strengthened to improve strategy execution? Why?</p>
<ul style="list-style-type: none">• [info here]
<p>How do you describe your interaction with this grantee? Is it more hands-on or arm's-length?</p>
<ul style="list-style-type: none">• [info here]
<p>What has worked/not worked in interactions with this grantee?</p>
<ul style="list-style-type: none">• What has worked: [info here]• What hasn't worked (or didn't but now is OK) [info here]





What special knowledge have I brought to bear; what skills do/did I lack?
<ul style="list-style-type: none"> • [info here]
Tips for engaging with grantee in the future?
<ul style="list-style-type: none"> • [info here]
Other thoughts? Insights?
<ul style="list-style-type: none"> • [info here]
How willing/ready is the organization to address key organizational capacity needs?
<ul style="list-style-type: none"> • Your brief assessment of the organization’s willingness and readiness to address capacity issues? • Ready? • Willing?

For the next section you will “score” the organization using your best informed judgment and the following signal indicators:

	Little to no capacity in this element; urgently needs to be addressed in order for the organization to function effectively and/or legally
	Basic capacity in this element; not state-of-the-art, but functioning and legal
	Very strong capacity in this element
	I don’t know; I don’t have enough information

Type of Organization
<p>() <i>Policy advocacy</i></p> <p>() <i>Service Delivery</i></p> <p>() <i>Research/Think Tank</i></p> <p>() <i>Regrantor</i></p> <p>() <i>Network</i></p> <p>() <i>High-Risk Profile</i></p> <p>() <i>Other (please specify)</i> _____</p>
Strategic Importance for the Foundation
<p>() High: Irreplaceable partner we must work with, and whose “failure” would set back our overall strategic ambitions significantly.</p> <p>() Medium: Important partner we would like to work with; their “failure” would moderately delay or alter our achievement of strategic goals.</p> <p>() Low: Partners we might work with, although what they can contribute is readily fungible and/or their “failure” would have relatively minimal impact on achievement of our ultimate strategic vision</p>
1. Strategic Ability and Adaptability
<p><i>What are we trying to gauge?</i> (Mark with X the appropriate color below)</p> <p>Clarity of strategy, priorities; readiness and ability to pursue them; ability to understand and adapt to changing circumstances and opportunities; understanding of the context and the challenges and opportunities the organization faces. Strategic orientation integrated with organizational infrastructure.</p> <p>Sample questions:</p> <ul style="list-style-type: none"> • Does the organization have a clear vision of success and an articulated plan to reach its goals? Does it have a strategic plan that it follows? Does it operate with an explicit theory of change? Does it have clarity about the short- and medium-term outcomes it seeks? • Does the strategic plan align with program priorities, annual work plans, and organizational development plans? Does the strategic plan inform decision-making in the organization? • Is the organization effectively able to prioritize programs and projects? Assign and manage resources in pursuit of its goals?

- Does the organization have the resources and human capacity to carry out its work?
- Does the organization have a track record of correcting course when circumstances change or new information becomes available?

 _____	 _____	 _____	 _____	<i>Comments</i>
--	--	--	--	-----------------





2. Leadership

What are we trying to gauge? (Mark with X the appropriate color below)

Is the organization led by individual(s) who inspire and effectively manage staff to achieve high performance against mission? Ability to address substantive issues and organizational capacity/health (in an integrated way). Enables organizational flexibility and adaptability. Capacity for crisis management.

Sample questions:

- Does the ED inspire the staff and board with a strong vision for the organization? Does he/she have a strong reputation in the field? Ability to lead? Ability and track record for delivering on goals?
- Able to stay focused on mission and say no to things off-mission?
- Is the senior management able to lead staff capably? Work together as a team? Manage day-to-day operations of the organization? What do turnover rates tell you?
- If need be, could at least one member of the senior team step in effectively in the absence of the ED?
- Ability for crisis management? Ability to manage crises?
- Ability to work collaboratively and effectively with others and as part of networks?
- Ability to leverage the organization’s strengths and niche in the field; proactively addresses weaknesses and learns from failure?
- Values and supports internal learning?

 _____	 _____	 _____	 _____	<i>Comments</i>
--	--	--	--	-----------------

3. Financial Health and Management

What are we trying to gauge? (Mark with X the appropriate color below)

Basic state of financial health. Professionalism of financial management. Level, stability, and diversity of organization's funding.

Sample questions:





- Do current income streams cover core operating costs?
- Does the organization have revenue stability?
- Does it practice sound budgeting and accounting practices? Are there reserves?

Is the year-to-date budgeting on track?

- Are the audited financial reports publicly available and easily accessible?
- Are investment choices based on program results and evaluation?
- Is the funding diverse? Does the organization have medium- and long-range development planning? Does it have sufficient unrestricted support?

Does it have program specific resource strategies?

- Does it have a fundraising strategy?

				<i>Comments</i>
_____	_____	_____	_____	









4. Purpose and Mission









What are we trying to gauge? (Mark with X the appropriate color below)









Clarity and focus of the organization's purpose and mission.









Sample questions:









- Is the organization able to articulate its purpose and mission succinctly, coherently, and in a compelling way (e.g., to you, a new board member, a new potential donor, a new senior hire)?
- Does the organization have a clear niche in the field?
- Are the organization's priority areas and programs focused on mission?
- Do processes and strategies align with purpose and mission?





 _____	 _____	 _____	 _____	<i>Comments</i>
5. Governance				
<p><i>What are we trying to gauge?</i> (Mark with X the appropriate color below)</p> <p>Institutionalized accountability and stewardship with attention to performance. Check and balance of board with staff.</p> <p><i>Sample questions:</i></p> <ul style="list-style-type: none"> • Is the board independent? Does it meet regularly? • How engaged are board members? What is their relationship with the staff and each other? Does the board have a range of legal, management, and financial skills? • Does the board of directors play a critical role in fiscal oversight, strategic decision-making, fund-raising, and accountability of the organization? • Is there a conflict of interest policy? Are there functioning board committees? • Is the board empowered to hire/fire the ED if necessary? 				
 _____	 _____	 _____	 _____	<i>Comments</i>

6. Organizational Culture				
<p>What are we trying to gauge? (Mark with X the appropriate color below)</p> <p>Values and behaviors that fit with mission and manifest internally and externally.</p> <p>Sample questions:</p> <ul style="list-style-type: none"> • Has the organization articulated its values and fostered a culture that supports them? • Is there a shared acceptance among staff about “the way we do things around here”? • Are people in the organization comfortable talking about (and learning from) failure? • Are positive elements of organizational culture reinforced through practices, incentives, and rituals? 				
 _____	 _____	 _____	 _____	<p><i>Comments</i></p>
7. Staff Capacity and Expertise				
<p>What are we trying to gauge? (Mark with X the appropriate color below)</p> <p>Appropriate staff size, quality, and skill sets to address mission and drive performance.</p> <p>Sample questions:</p> <ul style="list-style-type: none"> • Does the organization have sufficient, qualified staff to carry out the work of the organization? • Are program staff recognized and valued in the field? • Is there relatively little staff turnover? • Do program staff have adequate administrative support? 				
 _____	 _____	 _____	 _____	<p><i>Comments</i></p>

8. Human Resources and Staff Development				
<p>What are we trying to gauge? (Mark with X the appropriate color below)</p> <p>Appropriate recruitment, retention, and management to address mission and drive performance.</p> <p>Sample questions:</p> <ul style="list-style-type: none"> • Ability to attract and retain professional talent? Performance management systems (that tie individual performance to organizational goals)? Professional development opportunities? Accountability systems? 				
 _____	 _____	 _____	 _____	<p>Comments</p>
9. Communications				
<p>What are we trying to gauge? (Mark with X the appropriate color below)</p> <p>Clarity about audiences and ability to reach and influence them in line with mission.</p> <p>Sample questions:</p> <ul style="list-style-type: none"> • Does the organization have effective communications strategies with clear goals? Has it identified the audiences for its work and messages? Is it able to reach desired audiences with effective messaging? Diverse communications outlets and vehicles? • Does the communications plan align with the organization’s strategic plan and mission? Are the communications goals measurable, achievable, and evaluated? • Does the organization use social media in an effective way? 				
 _____	 _____	 _____	 _____	<p>Comments</p>

10. Monitoring and Evaluation				
<i>What are we trying to gauge?</i> (Mark with X the appropriate color below)				
Whether or not the organization employs regular usage of performance indicators, feedback loops and learning, and impact measurement tools.				
<i>Sample questions:</i>				
<ul style="list-style-type: none"> • Does the organization measure and track progress linked to its strategy? Manage and encourage internal learning and course corrections? Are there appropriate measurement indicators and benchmarks? • Is decision-making evidence-based? Does the organization encourage diverse sources of feedback? 				
 _____	 _____	 _____	 _____	<i>Comments</i>
11. Legal Compliance				
<i>What are we trying to gauge?</i> (Mark with X the appropriate color below)				
What is the organization’s nonprofit status, its level of professionalism, and risk profile?				
<i>Sample questions:</i>				
<ul style="list-style-type: none"> • Is there appropriate attention to nonprofit status and compliance within the legal and fiscal framework? Ability to take advantage of fiscal status to maximize resources? • Ability to draw on legal counsel? Attention to compliance issues and risk management? • If organization is based internationally, has it ever managed an ER grant? 				
 _____	 _____	 _____	 _____	<i>Comments</i>

12. IT Operations and Infrastructure				
<p>What are we trying to gauge? (Mark with X the appropriate color below)</p> <p>Level of appropriate hardware/software and tools.</p> <p>Sample questions:</p> <ul style="list-style-type: none"> • Do people in the organization have sufficient IT equipment and skills needed to do their work? • Do they count on specialized IT support? Do systems support all areas of the organization? Do systems support internal management and learning? • If the work requires specialized skills, software, or hardware, is it available? • Does the organization have policies and procedures in place for protecting confidential materials? Backup systems? Security against hacking? 				
 _____	 _____	 _____	 _____	<p><i>Comments</i></p>
13. Security and Facilities				
<p>What are we trying to gauge? (Mark with X the appropriate color below)</p> <p>Adequacy of physical work space; management of risk of personal security, information, and other assets.</p> <p>Sample questions:</p> <ul style="list-style-type: none"> • Does the physical space of the organization meet its current and projected needs? • Is the work physically risky? If so, is that risk managed appropriately? • Does the organization have security protocols in place? Are those protocols consistently implemented? Do they have cyber-security systems (e.g., cloud-based backup systems for information)? 				
 _____	 _____	 _____	 _____	<p><i>Comments</i></p>

14. Partnerships and Alliances				
<p>What are we trying to gauge? (Mark with X the appropriate color below)</p> <p>Capacity and reputation for creating value with others. Connection with and use of broader networks. Independence, ability and willingness to collaborate; partisanship, historical baggage, reputation.</p> <p>Sample questions:</p> <ul style="list-style-type: none"> • Does the organization participate actively and positively in networks and alliances? Is the organization able to share the limelight (or let others take a more public role if appropriate for the strategy)? • Does the organization nurture strategic partnerships and relationships to extend its reach and impact? • Is the organization viewed by others as “collaborative” and a trusted partner? • Does the organization share information and resources? 				
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Survey Scoring Template

	BASIC CAPACITY	HIGHER-LEVEL PERFORMANCE CAPACITY
Strategic Ability & Adaptability		
Leadership		
Financial Health & Management		
Purpose & Mission		
Governance		
Organizational Culture		
Staff Capacity & Expertise		
HR & Staff Development		
Communications		
Monitoring & Evaluation		
Legal Compliance		
IT Operations & Infrastructure		
Security & Facilities		
Partnerships & Alliances		

■ Very Good
 ■ Good Enough
 ■ Problem Area
 ■ Not Enough Data



Grantee Self-Assessment Survey

This self-administered tool is designed to help you and your professional team rapidly develop a qualitative assessment of the strategic capacity of your nonprofit organization. It is best employed as a team exercise—either by having individual members complete the assessment tool and then compare results, or alternatively by working through the tool as a team in a consensus-based process. Either approach will facilitate a shared conversation about different elements of organizational capacity and how they map to and support the strategic goals of the organization.





Please keep in mind:

- 1) This exercise is NOT intended to result in a detailed capacity assessment of your organization, but rather a general scoping of the organizational capacity in relation to the programmatic strategy.
- 2) This is NOT a narrative version of an organizational capacity checklist.
- 3) You do NOT need to address or answer every sample question in this template. Sample questions are designed to help you understand the kinds of things to think about and ask yourself as you “score” organizational capacity elements.

For each area, you will “score” the organization using your best, informed judgment, and using the signal indicators below:





ORGANIZATION NAME:	
TODAY’S DATE:	

Type of Organization
() <i>Policy advocacy</i>
() <i>Service Delivery</i>
() <i>Research/Think Tank</i>
() <i>Regrantor</i>
() <i>Network</i>
() <i>High-Risk Profile</i>
() <i>Other (please specify)</i> _____

1. Strategic Ability and Adaptability				
<i>What are we trying to gauge? (Mark with X the appropriate color below)</i>				
Clarity of strategy, priorities; readiness and ability to pursue them; ability to understand and adapt to changing circumstances and opportunities. Understanding of the context and the challenges and opportunities the organization faces. Strategic orientation integrated with organizational infrastructure.				
<i>Sample questions:</i>				
<ul style="list-style-type: none"> • Does the organization have a clear vision of success and an articulated plan to reach its goals? Does it have a strategic plan that it follows? Does it operate with an explicit theory of change? Does it have clarity about the short- and medium-term outcomes it seeks? • Does the strategic plan align with program priorities, annual work plans, and organizational development plans? Does the strategic plan inform decision-making in the organization? • Is the organization effectively able to prioritize programs and projects? Assign and manage resources in pursuit of its goals? • Does the organization have the resources and human capacity to carry out its work? • Does the organization have a track record of correcting course when circumstances change or new information becomes available? 				
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2. Leadership				
<i>What are we trying to gauge? (Mark with X the appropriate color below)</i>				
Is the organization led by individual(s) who inspire and effectively manage staff to achieve high performance against mission? Does the individual(s) show ability to address substantive issues and organizational capacity/health (in an integrated way)? Does the leadership enable organizational flexibility and adaptability? Is there capacity for crisis management?				
<i>Sample questions:</i>				
<ul style="list-style-type: none"> • Does the ED inspire the staff and board with a strong vision for the organization? Does he/she have a strong reputation in the field? Ability to lead? Ability and track record for delivering on goals? • Does the ED stay focused on mission and say no to things off-mission? • Is the senior management able to lead staff capably? Work together as a team? Manage day-to-day 				

operations of the organization? What do turnover rates tell you?

- If need be, could at least one member of the senior team step in effectively in the absence of the ED?
- Is there capacity for crisis management?
- Ability to work collaboratively and effectively with others and as part of networks?
- Ability to leverage the organization’s strengths and niche in the field; proactively addresses weaknesses and learns from failure?
- Values and supports internal learning?

				<i>Comments</i>
_____	_____	_____	_____	





3. Financial Health and Management









What are we trying to gauge? (Mark with X the appropriate color below)

Basic state of financial health. Professionalism of financial management. Level, stability, and diversity of the organization’s funding.

Sample questions:

- Do current income streams cover core operating costs?
- Does the organization have revenue stability?
- Do you practice sound budgeting and accounting practices? Are there reserves? Is your year-to-date budgeting on track?
- Are your audited financial reports publicly available and easily accessible?
- Are investment choices based on program results and evaluation?
- Is your funding diverse? Do you have medium- and long-range development planning? Do you have sufficient unrestricted support? Do you have program-specific resource strategies?
- Do you have a fund-raising strategy?

				<i>Comments</i>
_____	_____	_____	_____	

4. Purpose and Mission				
<p>What are we trying to gauge? (Mark with X the appropriate color below)</p> <p>Clarity and focus of the organization's purpose and mission.</p> <p>Sample questions:</p> <ul style="list-style-type: none"> • Is the organization able to articulate its purpose and mission succinctly, coherently, and in a compelling way (e.g., to you, a new board member, a new potential donor, a new senior hire)? • Does the organization have a clear niche in the field? • Are the organization's priority areas and programs focused on mission? • Do processes and strategies align with purpose and mission? 				
 _____	 _____	 _____	 _____	<p>Comments</p>
5. Governance				
<p>What are we trying to gauge? (Mark with X the appropriate color below)</p> <p>Institutionalized accountability and stewardship with attention to performance. Check and balance of board with staff.</p> <p>Sample questions:</p> <ul style="list-style-type: none"> • Is the board independent? Does it meet regularly? • How engaged are board members? What is their relationship with the staff and each other? Does the board have a range of legal, management, and financial skills? • Does the board of directors play a critical role in fiscal oversight, strategic decision-making, fund-raising, and accountability of the organization? • Is there a conflict of interest policy? Are there functioning board committees? • Is the board empowered to hire/fire the ED if necessary? 				
 _____	 _____	 _____	 _____	<p>Comments</p>





6. Organizational Culture

What are we trying to gauge? (Mark with X the appropriate color below)

Values and behaviors that fit with mission and manifest internally and externally.

Sample questions:

- Has the organization articulated its values and fostered a culture that supports them?
- Is there a shared acceptance among staff about “the way we do things around here”?
- Are people in the organization comfortable talking about (and learning from) failure?
- Are positive elements of organizational culture reinforced through practices, incentives, and rituals?

				<i>Comments</i>
_____	_____	_____	_____	





7. Staff Capacity and Expertise









What are we trying to gauge? (Mark with X the appropriate color below)









Appropriate staff size, quality, and skill sets to address mission and drive performance.









Sample questions:





- Does the organization have sufficient, qualified staff to carry out the work of the organization?
- Are program staff recognized and valued in the field?
- Is there relatively little staff turnover?
- Do program staff have adequate administrative support?

				<i>Comments</i>
_____	_____	_____	_____	

8. Human Resources and Staff Development				
<p>What are we trying to gauge? (Mark with X the appropriate color below)</p> <p>Appropriate recruitment, retention, and management to address mission and drive performance.</p> <p>Sample questions:</p> <ul style="list-style-type: none"> • Ability to attract and retain professional talent? Performance management systems (that tie individual performance to organizational goals)? Professional development opportunities? Accountability systems? 				
 _____	 _____	 _____	 _____	<p>Comments</p>
9. Communications				
<p>What are we trying to gauge? (Mark with X the appropriate color below)</p> <p>Clarity about audiences and ability to reach and influence them in line with mission.</p> <p>Sample questions:</p> <ul style="list-style-type: none"> • Do you have effective communications strategies with clear goals? Have you identified the audiences for your work and messages? Are you able to reach desired audiences with effective messaging? Diverse communications outlets and vehicles? • Does the communications plan align with the strategic plan and mission of the organization? Are the communications goals measurable, achievable, and evaluated? • Do you use social media in an effective way? 				
 _____	 _____	 _____	 _____	<p>Comments</p>

10. Monitoring and Evaluation				
<p><i>What are we trying to gauge? (Mark with X the appropriate color below)</i></p> <p>Whether or not the organization employs regular usage of performance indicators, feedback loops and learning, and impact measurement tools.</p> <p>Sample questions:</p> <ul style="list-style-type: none"> • Does the organization measure and track progress linked to its strategy? Manage and encourage internal learning and course corrections? Are there appropriate measurement indicators and benchmarks? • Is decision-making evidence-based? Does the organization encourage diverse sources of feedback? 				
 <hr style="width: 50%; margin: 0 auto;"/>	 <hr style="width: 50%; margin: 0 auto;"/>	 <hr style="width: 50%; margin: 0 auto;"/>	 <hr style="width: 50%; margin: 0 auto;"/>	<i>Comments</i>
11. Legal Compliance				
<p><i>What are we trying to gauge? (Mark with X the appropriate color below)</i></p> <p>Level of professionalism and risk profile.</p> <p>Sample questions:</p> <ul style="list-style-type: none"> • Appropriate attention to nonprofit status and compliance within the legal and fiscal framework? Ability to take advantage of fiscal status to maximize resources? • Ability to draw on legal counsel? Attentive to compliance issues and risk management? • Have you ever managed an ER grant? 				
 <hr style="width: 50%; margin: 0 auto;"/>	 <hr style="width: 50%; margin: 0 auto;"/>	 <hr style="width: 50%; margin: 0 auto;"/>	 <hr style="width: 50%; margin: 0 auto;"/>	<i>Comments</i>

12. IT Operations and Infrastructure				
<p>What are we trying to gauge? (Mark with X the appropriate color below)</p> <p>Level of appropriate hardware/software and tools.</p> <p>Sample questions:</p> <ul style="list-style-type: none"> • Do people in the organization have sufficient IT equipment and skills needed to do their work? • Do you count on specialized IT support? Do systems support all areas of the organization? Do systems support internal management and learning? • If the work requires specialized skills, software, or hardware, is it available? • Does the organization have policies and procedures in place for protecting confidential materials? Backup systems? Security against hacking? 				
 _____	 _____	 _____	 _____	<p>Comments</p>
13. Security and Facilities				
<p>What are we trying to gauge? (Mark with X the appropriate color below)</p> <p>Adequacy of physical work space; management of risk of personal security, information, and other assets.</p> <p>Sample questions:</p> <ul style="list-style-type: none"> • Does the physical space of the organization meet its current and projected needs? • Is the work physically risky? If so, is that risk managed appropriately? • Does the organization have security protocols in place? Does it have cyber-security systems (e.g., cloud-based backup systems for information)? 				
 _____	 _____	 _____	 _____	<p>Comments</p>

14. Partnerships and Alliances				
<p><i>What are we trying to gauge? (Mark with X the appropriate color below)</i></p> <p>Capacity and reputation for creating value with others. Connection and use of broader networks. Independence, ability and willingness to collaborate; partisanship, historical baggage, reputation.</p> <p>Sample questions:</p> <ul style="list-style-type: none"> • Does the organization participate actively and positively in networks and alliances? Is the organization able to share the limelight (or let others take a more public role if appropriate for the strategy)? • Does the organization nurture strategic partnerships and relationships to extend its reach and impact? • Is the organization viewed by others as “collaborative” and a trusted partner? • Does the organization share information and resources? 				
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How willing/ready is the organization to address key organizational capacity needs?				
<p>Your brief assessment of the organization’s willingness and readiness to address capacity issues.</p> <p><i>Ready?</i></p> <p><i>Willing?</i></p>				

Survey Scoring Template

	BASIC CAPACITY	HIGHER-LEVEL PERFORMANCE CAPACITY
Strategic Ability & Adaptability		
Leadership		
Financial Health & Management		
Purpose & Mission		
Governance		
Organizational Culture		
Staff Capacity & Expertise		
HR & Staff Development		
Communications		
Monitoring & Evaluation		
Legal Compliance		
IT Operations & Infrastructure		
Security & Facilities		
Partnerships & Alliances		

■ Very Good
 ■ Good Enough
 ■ Problem Area
 ■ Not Enough Data

A grantmaker's portfolio-level view

LEVERAGING COLLECTIVE GRANTEE CAPACITY



Despite extraordinary efforts and billions of philanthropic dollars, many people working in the social sector have become frustrated with the slow pace of change and the elusiveness of large-scale impact related to social and environmental problems in our local communities and around the globe. Many in the field suspect practices focusing on individual organizations are at least in part to blame, given the enormity and complexity of the challenges. No organization, no matter how powerful and effective, can possibly resolve these problems by going it alone. In fact, a “collective impact” movement has emerged to encourage diverse, cross-sectoral actors to collectively define a problem and create a common agenda with shared measurement to address it.³⁸

Even if your work as a grantmaker doesn't lend itself to a collective impact approach there are many benefits to moving away from a focus on individual grantees as isolated actors and towards a portfolio-level mindset that encourages greater collaboration among grantees when possible. In the words of Kathleen Enright, President and CEO of Grantmakers for Effective Organizations, “Not only is collaboration the key to our individual successes; it's critical to the success of our sector.”³⁹ It's also the next wave of philanthropy—away from top-down donor-driven approaches and towards collaborative, networked, co-created efforts among donors, practitioners, academic researchers, and the public and private sectors.

As a grantmaker your convening power and ability to deploy resources position you to foster relationships among grantees and other actors, leverage collective grantee capacity, and support

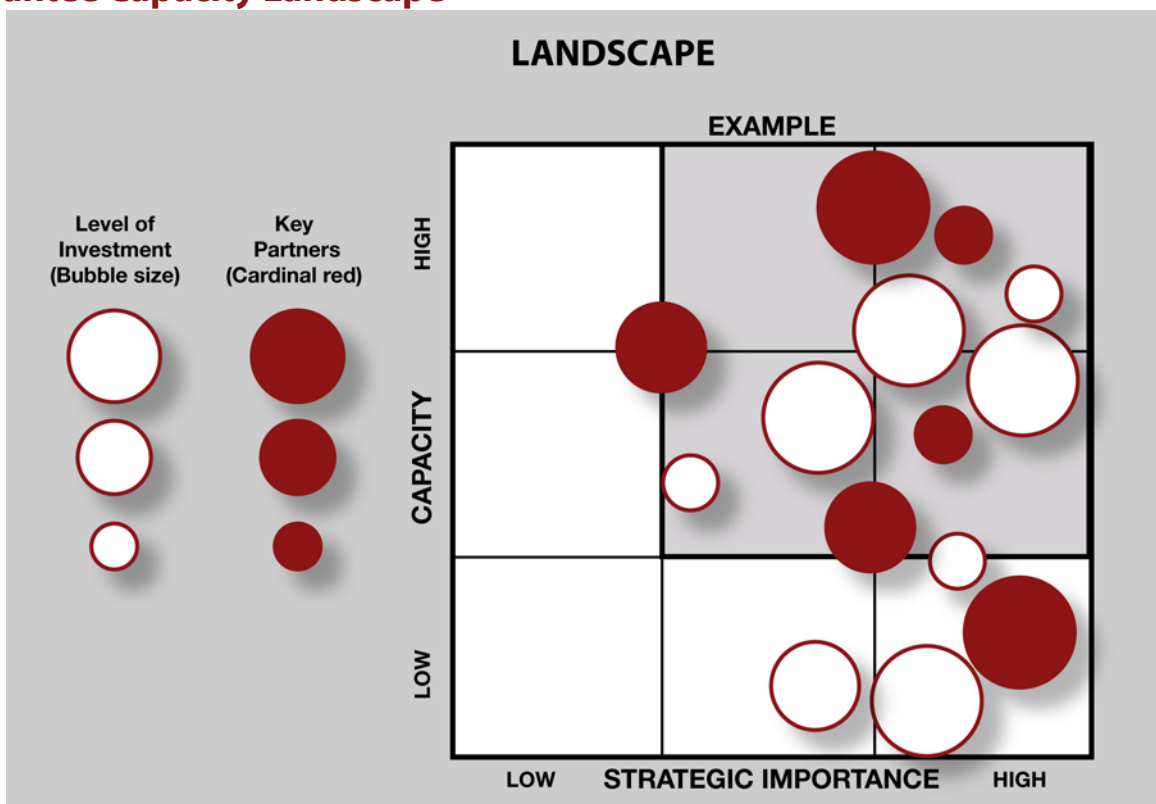
Integrating Capacity and Strategy

the development and strengthening of the fields and sectors in which you work. You can do this by supporting networks, collective impact initiatives, peer learning and other forms of cross-fertilization. But it starts with developing a mindset that goes beyond individual, siloed grantees and focuses more at the grant portfolio⁴⁰ and field ecosystem levels, not just for working on the issue area of interest, but also for understanding and boosting the collective capacity required to implement change.

Understanding the Strategic Capacity of Your Portfolio

The chart below provides a landscape view of the organizational capacity of the grantees in one program officer's portfolio. This aggregate perspective helps the grantmaker explain overall goals and needs of the portfolio to colleagues, benchmark current grantee capacity, prioritize future investment, and measure progress over time to bolster the strength of the portfolio in relationship to the goals for the work.

Grantee Capacity Landscape



The circles in the chart represent individual grantees. The size of the circle indicates the level of investment and solid circles represent core grantees. The circles are plotted on the chart according to each organization's overall strategic importance (x -axis) to the funder and each one's current capacity (y -axis). The shaded part of the graph (upper right corner) is the goal for this particular program officer. She is working with all of the organizations in her portfolio, particularly core grantees, to ensure that they have sufficient capacity and strategic fit to fall within the shaded section of the chart.

In this case, in the lower right section of the graph, there is one core grantee with low capacity sitting outside the shaded area. This grantee is now prioritized to receive extra support from the funder to build out the capacity it needs to fulfill its role in the overall strategy.

Grantmakers can use the grantee landscape framework (or a customized version of it) to develop a portfolio-level capacity snapshot. It will show the overall strengths and weaknesses of grantees, and help grantmakers prioritize investments and measure progress over time.

Connecting Grantees and Building Collective Capacity

While the chart above provides a collective snapshot of individual grantee capacity, it doesn't show the existence or strength of connections *among* grantees. In addition to the obvious financial support and incentives donors can provide, grantmakers can facilitate professional connections for grantees, and use their convening power to bring people together—ideally on a sustained basis where, over time, relationships and mutual understanding and interests can develop into collective learning, identification of shared goals, action and impact. The connecting and convening role of grantmaker cannot be overstated. By creating a collaborative atmosphere and incentives for grantees to work collectively in the service of impact towards shared goals, grantmakers can make the case that funding resources are more likely to grow than under a zero-sum scenario where grantees are competing against each other for the same limited grant dollars.

Grantee convenings can be used for collective capacity building in ways that create economies of scale and allow grantmakers to extend opportunities to organizations they may not be able to support otherwise. For example, if a grantmaker sponsors a legal compliance or communications training, why not open it up to several grantees and even their partners? If a funder contracts legislative or media monitoring for its program staff, why not extend the information to grantees and others in the field who would like to receive it? It's worth thinking creatively about how to extend benefits beyond the grant dollar to grantees and the broader community of actors working in the ecosystem or field.

Building Collective Capacity in Mexico

Since 2004 the Hewlett Foundation (and more recently, in collaboration with the Omidyar Network) has supported a community of practitioners focused on improving government transparency and accountability in Mexico. The donors provide the venue, facilitation, and "backbone" infrastructure, while the grantees shape and populate the agenda. The group meets 3-4 times a year, and consists of grantees, foundation representatives, a communications consultant, and special guests (depending on the topic of the day). The sessions are *by invitation, off-the-record, and have served to develop a strong network of national and local civil society actors who share a mutual understanding of each group's goals and roles (including that of the funders). Though diverse and not always in agreement, the community has identified shared goals, developed coordinated strategies and projects, and has had a significant impact on transparency and accountability reforms in the country. For a short video about this work, click on this link:*

<http://www.hewlett.org/newsroom/news/video-fostering-collective-impact>

Strategic organizational capacity

LOOKING BACK AND LOOKING AHEAD



In the first few years of my professional life, just out of graduate school and before I was a grantmaker, I was a grantee. To be honest, I was intimidated by my funders. In the organization where I worked, any minor email to our major donor was vetted and fretted over, while communications from our program officers were dissected and analyzed for possible between-the-lines clues to their thinking and intentions. Completing proposals and reports took up enormous amounts of staff time and generated immeasurable stress. Preparing for the annual site visit from our program officer felt like orchestrating a royal visit. From my perspective as a grantee, the donor's internal processes, strategy, and decision making were shrouded behind a powerful mystery curtain.

When I became a foundation program officer myself, that previous experience had a profound influence on my professional approach with current and potential grantees. I made it a priority to be as accessible, responsive, and transparent as possible. My hope is this handbook, in addition to making the case and providing practical tools for integrating capacity and strategy, will contribute to a broader practice of trust, collaboration, and transparency between grantmakers and grantees. And if it helps grant-seeking organizations pull back the mystery curtain on funder practice that would be great, too.

Beyond offering concepts and tools for individual grantmakers and their grantees to discuss, assess, and strengthen organizational capacity as part of overall strategy (and work together in a

co-created approach), how can the wider philanthropic community put these lessons to good use and make “strategic organizational capacity thinking” general practice?

Every grantmaking organization will have its own approaches and ways of working, but three principles can guide any funder to achieve longer-term, sustainable impact with their investments:

1. **Pursue capacity assessment and development in parallel with—and at the outset of—grant planning, focusing on key elements that will drive performance, not a one-size-fits-all approach.** Too often, capacity building (if it is considered and funded at all) is imposed after grants start to go wrong. Considering it from the start is much more likely to lead to positive outcomes, making conversations with grantees easier, and clarifying expectations of both parties. It further establishes a vehicle for ongoing course correction and mutual learning—as opposed to emergency response—as the grant progresses. Perhaps most importantly, it allows for capacity building to be aligned, prioritized, and resourced as an integrated part of strategy, yielding better long-term results.
2. **Approach capacity development in true partnership with grantees, embracing an appropriate “culture of engagement.”** Evidence shows that the success of organizational-strengthening investments depends on whether a grantee is ready and willing to implement targeted improvements. Grantmakers must foster this genuine willingness through the professional way they engage with grantees on capacity issues. The last thing a grantmaker should do—or appear to do—is micromanage an organization’s behind-the-scenes operations. But by elevating organizational capacity to the level of strategy, and when both grantmaker and grantee honestly embrace achieving mission impact together, capacity issues can become part of regular grant discussions.

Approach capacity development in true partnership with grantees, embracing an appropriate “culture of engagement.”

Too many well-intentioned grantmakers alienate grantees by meddling at a level of organizational detail that the grantee better understands. The goal of a strong, appropriate “culture of engagement” between grantmaker and grantee is to build trust and

find a middle ground approach between dangerous *laissez-faire* and heavy-handed micromanagement.

3. **In building strategic capacity for nonprofit performance, share the responsibility; don't shift the burden to grantees and consultants.** Sometimes grantmakers who appreciate the importance of organizational capacity cause other problems by handing necessary fixes over to others too quickly. If there is a true partnership between grantmaker and grantee, both must own the challenge of strengthening the organizational capacity. Similarly, though it is unrealistic to expect any grantmaker to have expertise in all dimensions of an organizational and operational capacity, unguided outsourcing of assessment and development to consultants will often cause its own problems. Consultants who lack the appropriate context and strategy of the grant may pursue a costly and undifferentiated focus; they may also lack sensitivity to key risks—and also opportunities—that are illuminated by the deeper relationship between grantmaker and grantee.

The Future of Strategic Organizational Capacity Thinking

There is a paradigm shift among leading grantmakers across the philanthropic community which

In building strategic capacity for nonprofit performance, share the responsibility; don't shift the burden to grantees and consultants.

will further evolve the way strategic organizational capacity is considered. That said, if grantmaking strategy comes to equally comprise theories of change, goals, and indicators as well as concern for organizational capacity, there will be

interesting changes for all grantmaking organizations:

In this emerging new world, grantmakers and grantees will develop strategies together that combine traditional elements of planning with focused investment in organizational capacity. In so doing, they will build trust and collaborate across some acknowledged boundaries: the line between basic and higher performance for selected strategic elements, and the line between external assessment and internal proprietary operations. Great grantmaking will entail partnering with a grantee to cross the boundary to higher performance while still respecting the boundary within which the grantee manages its own business. Strategy in the future will increasingly include building the elements of organizational capacity and also a culture of engagement to sustain them.

The skills and profiles of future grantmaking professionals will change, with implications for their recruiting, training, and professional development. Not all grantmakers must become

organizational effectiveness gurus. However, they do increasingly need greater appreciation of management and operational topics, combined with an improved ability to work on such issues with suitable consulting resources. The growth of strategic organizational capacity thinking is thus likely to engender deeper and different training for grantmakers, including training from organizational practitioners to help grantmakers integrate these perspectives into their work. The greater importance of organizational effectiveness skill and knowledge will also reshape the career paths of grantmakers. If they are increasingly held responsible for, and evaluated on the basis of, grantee impact, their advancement will depend on having the necessary organizational effectiveness competencies beyond substantive sector or field knowledge.

Grantmakers will increasingly use peer-to-peer learning, in addition to consultant-led capacity building, to improve grantees' organizational capabilities. At the Hewlett Foundation (and among

other funders such as the Bill & Melinda Gates, Open Society, Rockefeller, and Edna McConnell foundations), there are great opportunities for bringing grantees together to learn from one another and build capacity. This peer-to-peer approach, in which the funder acts as the convener and broker of best practices, rather than the mandator of change, is a less threatening, more effective way to raise awareness and build skills related to different dimensions of capacity. Research on achieving collective impact among multiple grantees further suggests the power of a collective capacity in terms of shared indicators of progress and collaborative strategic planning.⁴¹

Strategic organizational capacity thinking will reshape the capacities of grantmaking organizations themselves. Finally, grantmakers will have to explore ways to bring organizational capacity

thinking into their own organizational and operational capacity: guiding the work of program staff; creating an overall approach to developing talent and knowledge; recruiting future grantmakers with an eye to this more holistic approach to strategy; and giving them the training, tools, influence, skills, and peer-to-peer learning to allow them to be successful within this new paradigm. In the end, grantmaking organizations will have to develop—and evolve—their own strategic organizational capacity, integrating their theories of change, programs, and organization to achieve more measurable and sustained performance for their own missions and goals.

The nonprofit world today is facing its own revolution. Its organizations must perform in an increasingly complex, volatile world, where it is very difficult to predict which strategies will ultimately succeed.⁴² Just as for-profit organizations are building strategic organizational capability to help them become flexible, dynamic competitors for opportunities, so will nonprofit organizations have greater success if they can innovate flexibly and quickly in emergent situations. If it is an overstatement to say “strategy is now equal to organization” (as some, in fact, do), it is valid to suggest that organization must become an integral part of strategy, particularly as performance itself becomes ever more ephemeral and difficult to sustain for any organization.

It is valid to suggest that organization must become an integral part of strategy.



Organizational Capacity Reference Guide

Cristina Galíndez Hernández

Strategic Ability and Adaptability

What are you trying to gauge?

Clarity of strategy, priorities; readiness and ability to pursue them in the next couple of years. Understanding the context and opportunities the organization faces; its ability to adjust quickly to changing external circumstances.

Sample questions:

What, specifically, is your organization trying to accomplish?

How will you know if you are on the right track to reach your organization's goals?

Does your organization work with an explicit theory of change (TOC)?

Do you have a current strategic plan? What was the process? How is it going? How does your substantive strategic planning connect with your organizational plans?

What does success look like for your organization?

What are you trying to accomplish in the next couple of years? What are your top priorities? What are the big opportunities and the real barriers?

How well are you set up to do this? Where do you need help and/or extra capacity?



The Gold Standard of Performance

The organization focuses its work where it can achieve the greatest impact. Goals are consistently used to direct actions and set priorities.

Organization continually scans its environment and takes action to manage threats and take advantage of opportunities.



Red Flags of Warning

- *No clear understanding of the context or the problem the organization is trying to tackle.*
- *Inconsistent and imprecise goals.*
- *Programs seem scattered and largely unrelated to each other.*
- *No strategic plan.*
- *Lack of information about the main trends and external factors that affect the organization's performance.*
- *Lack of alignment between stated strategies, budgets, staff expertise, and programs.*

Questions to Ask Yourself

- Do their priorities reflect a clear understanding of the context?
- Are their goals clear and realistic?
- Does the organization usually meet its stated goals?
- Are the goals clearly linked to mission and purpose?
- Is there some mechanism to adapt the goals to the changes/demands of the context?
- Are programs clearly linked to mission and purpose?
- Does the organization compile information about its environment?
- Does the organization identify key stakeholders?
- Does the organization involve key stakeholders in its planning processes?
- Is the organizational structure aligned to the strategies adopted?
- Do the budgets align to the strategies adopted?
- Does the top management recognize its responsibilities regarding strategic management?
- Is the strategy well communicated and understood organization-wide?

Indicators of Basic Health

- Concrete set of goals in place.
- Goals are related to some unit of measurement.
- There is an up-to-date strategic plan in place.
- The board discusses strategy regularly.
- There is coherence of programs aligned to mission, purpose, and goals.
- Periodic review of goals' relevance.

Special Considerations for International Organizations

- Political context can affect/delay the expected outcomes, open or close opportunity windows, or reveal risks for grantees.
- Availability and access to information about the social sector and peer organizations.
- Level of local donors' engagement.

Additional References and Reading

Paul Leinwand and Cesare Mainardi, "The Coherence Premium," *Harvard Business Review*, June 2010.

Jack Kotten, *Strategic Management in Public and Nonprofit Organizations*, London: Praeger, 2nd ed., 1997.

Alan Walter Steiss, *Strategic Management in Public and Nonprofit Organizations*, New York: Marcel Dekker, 2003.

Michael Allison and Jude Kaye, *Strategic Planning for Nonprofit Organizations*, New York: Wiley, 1997.

<h2>Leadership</h2>	
<p>What are you trying to gauge? Is the organization led by individual(s) who inspire and effectively manage staff to achieve high performance against mission? Ability to address substantive issues and organizational capacity/health.</p> <p>Sample questions: Has your organization ever had a leadership transition? Do you have a succession plan in place?</p>	
	<h3>The Gold Standard of Performance</h3>
<p>The organization has strong and capable leaders who are aware of organizational health issues, work well together, and whose individual strengths and weaknesses are balanced effectively.</p>	
	<h3>Red Flags of Warning</h3>
<ul style="list-style-type: none"> • <i>ED is the founder of the organization and has no plans to ever step aside.</i> • <i>Shallow depth of leadership team.</i> • <i>No succession plan in place.</i> • <i>The organization has never faced a leadership transition.</i> • <i>Frequent leadership turnover.</i> 	
<h3>Questions to Ask Yourself</h3>	
<ul style="list-style-type: none"> • Does the organization have strong leadership and experienced management? • Has the organization undergone at least one successful leadership transition? • Does the organization have a succession plan in place? • How long has the ED been at the organization? • How does the ED work with staff? • Is the ED aware of organizational health issues? 	
<h3>Indicators of Basic Health</h3>	
<ul style="list-style-type: none"> • ED has experience and good management skills. • ED is capable of engaging the board and securing funding. 	

Special Considerations for International Organizations

- In some countries, it is not common to have a succession plan in place.
- On many occasions, there are neither institutional term limits nor performance evaluations. Few organizations have job descriptions.
- Succession processes are neither transparent nor institutionalized.
- Legal framework and historical context of NGOs impact leadership transitions: usually, EDs are founders of the organization and they are also members of the board (see Governance).
- Many organizations have weak boards that rubber-stamp ED decisions, including the selection of his/her successor (see Governance).

Additional References and Reading

Ayalla Ruvio, "Entrepreneurial Leadership Vision in Nonprofit vs. For-Profit Organizations," *The Leadership Quarterly*, vol. 21, Issue 1, February 2010, pages 144–58.

Financial Health and Management

What are you trying to gauge?

Sufficient resources and income to cover operating expenses and occasional shortfalls or unexpected expenses; financial reporting systems with production of basic financial statements. Diversified sources of funding. Professionalism of financial management.

Sample questions:

Who manages your organization's finances? How are they managed? What are the budget control processes? What kind of financial management systems do you use?





The Gold Standard of Performance


Solid financial plans, budget integrated into full operations incorporates and reflects organizational needs and objectives. Performance-to-budget regularly monitored.



Red Flags of Warning

- *Limited financial plans.*
- *No annual budget.*
- *Hard to understand financials.*
- *No contingency plan.*

Questions to Ask Yourself	
<ul style="list-style-type: none"> • What role does the board or governing body play in financial oversight? • What financial statements does the organization generate? How frequently? Are they audited? If not, why not? • Who prepares the statements? • Who reviews them? 	
Indicators of Basic Health	
<ul style="list-style-type: none"> • Basic financial statements are produced. • Basic financial and reporting systems in place. 	
Special Considerations for International Organizations	
<ul style="list-style-type: none"> • In some countries, there is no in-house capacity to manage financial processes. 	
Additional References and Reading	
<p>John Cammack, <i>Building Capacity through Financial Management: A Practical Guide</i>, Oxfam, 2007.</p>	
Purpose and Mission	
<p><i>What are you trying to gauge?</i> Clarity, focus, and fit with foundation strategy and ecosystem strategy.</p> <p><i>Sample questions:</i> Describe briefly the purpose and mission of your organization and how you explain it to key audiences (a new board member, a new potential donor, a new senior hire).</p>	
	The Gold Standard of Performance
<p>Why this organization exists is clear and motivating to all stakeholders and visibly informs all the organization does.</p>	
	Red Flags of Warning

<ul style="list-style-type: none"> • Purpose and mission are unclear, fuzzy, or inconsistent among staff, leaders or other stakeholders. • Activity doesn't reflect alignment or passion among staff. 	
<h3>Questions to Ask Yourself</h3>	
<ul style="list-style-type: none"> • Are purpose and mission written and do they appear in external facing materials, website, etc.? • In conversations with staff or board members, do they easily and commonly refer to purpose and mission? • Can one visibly and naturally map programs to purpose and mission? • Are purpose and mission part of staff performance evaluations? 	
<h3>Indicators of Basic Health</h3>	
<ul style="list-style-type: none"> • Purpose and mission are written, displayed in internal and external materials, website, etc. • Staff and other stakeholders can easily describe purpose and mission. 	
<h3>Special Considerations for International Organizations</h3>	
<ul style="list-style-type: none"> • Be mindful that mission and purpose may be constrained by the legal and fiscal frameworks in some countries. • Be aware that in some countries, some purpose/mission areas of work may have special security issues. 	
<h3>Additional References and Reading</h3>	
<p>Jim Collins and Jerry Porras, <i>Built to Last: Successful Habits of Visionary Companies</i>, New York: HarperBusiness, 1999, chapter 2. For legal/fiscal framework country information, see www.icnl.org and www.usig.org/countryinfo.asp.</p>	
<h3>Governance</h3>	
<p>What are you trying to gauge? Institutionalized accountability and stewardship with attention to organizational capacity. Check and balance with staff.</p> <p>Sample questions: Do you have a board of directors? How engaged are they? What is their relationship with the staff and each other? Is there a conflict of interest policy?</p>	
	<h3>The Gold Standard of Performance</h3>

<p>Board provides strong direction, support and accountability to ED. Board has an outstanding commitment to organizational success. Board works closely with the ED.</p>	
	<h3>Red Flags of Warning</h3>
<ul style="list-style-type: none"> • <i>Board members with little or no relevant experience.</i> • <i>Low commitment to organizational success, mission, and purpose.</i> • <i>The board isn't independent.</i> • <i>Board not fully informed about major organizational matters.</i> • <i>Infrequent meetings; low attendance at board meetings.</i> 	
<h3>Questions to Ask Yourself</h3>	
<ul style="list-style-type: none"> • Does your organization have a board? • Are independent (non-staff) representatives on the board? • How long do members serve? • Is the board active and diverse? • Has the organization undergone at least one successful board succession? • How do the board or governing body and ED work together? • How are decisions made and how is information shared? • How often does the board meet? 	
<h3>Indicators of Basic Health</h3>	
<ul style="list-style-type: none"> • The organization has a board succession plan and policies in place. • The board or a subcommittee is responsible for financial oversight and collaborates with fundraising activities. 	
<h3>Special Considerations for International Organizations</h3>	
<ul style="list-style-type: none"> • In some countries, the legal framework leads the founders of the organization to become members of the board. Also, the legal framework has no provisions for board fiduciary responsibility. • Often, organizations have weak and unengaged boards that rubber-stamp ED decisions. • In some countries, there is no legal obligation to have a conflict of interest policy. 	
<h3>Additional References and Reading</h3>	
<p>The Handbook of Nonprofit Governance: (Essential Texts for Nonprofit and Public Leadership and Management), Jossey-Bass, 1st ed., 2010.</p>	

Organizational Culture

What are you trying to gauge?

Values and behaviors that fit with mission and are manifested internally and externally.

Sample questions:

How do you describe your organizational culture? How do your goals/practices support and shape your organizational culture? Is there anything you are working on to change your organizational culture?



The Gold Standard of Performance

Organizational culture is aligned with the purpose and mission of the organization.



Red Flags of Warning

- *Organizational culture does not foster internal collaboration or communication.*
- *Organizational culture does not permit good relationships with key stakeholders.*
- *Organizational culture does not promote innovation and creativity.*
- *Organizational culture does not promote context awareness.*
- *Organizational culture contributes to staff turnover or retention problems.*

Questions to Ask Yourself

- How do your goals/practices support and shape your organizational culture?
- Do deep-rooted practices limit your capacity to perform or achieve results?
- Do people relate to each other in a way that fosters good communication and collaboration?

Indicators of Basic Health

- Job satisfaction and organizational climate.

Special Considerations for International Organizations

- Can be more prone to un-institutionalized processes and relations.
- Management and institutional development activities seen as a form of bureaucratization with no added value.

Additional References and Reading

Colin Hales, *Managing Through Organization: The Management Process, Forms of Organization and the Work of Managers*, London: Business Press, 2nd ed., 2001.

William Ouchi, *Theory Z: How American Business Can Meet the Japanese Challenge*, Reading, Massachusetts: Addison-Wesley, 1981.

Charles Handy, *Understanding Organizations*, London: Penguin, 4th ed., 1993.

Staff Capacity and Expertise

What are you trying to gauge?

Appropriate size, quality, recruitment, retention, and management to address mission and drive performance; labor profile (FTE, payroll vs. independent).

Sample questions:

Who will actually carry out the work? What is their background? How long have they been with your organization? What are the professional opportunities for your staff?



The Gold Standard of Performance

Human resources plan tightly linked to strategic planning activities and systematically used to direct human resources activities.



Red Flags of Warning

- *Staff capacity and expertise aligned with programs and activities and needs of the organization.*
- *Core staff on contract basis, not FTE status.*
- *Organization uncovers/addresses staff needs or problems only when too large to ignore.*
- *Lack of human resources planning activities and expertise.*
- *Lack of human resources policies.*
- *Many positions are unfilled, inadequately filled, or experience high turnover.*

Questions to Ask Yourself

- Has there been recent high turnover in staff, and if so, why?
- Is the staff aware of basic human resources policies?
- Who is in charge of human resources in the organization?
- Does the organization have adequate human resources to pursue its mission?

Indicators of Basic Health

- Human resources policies and staff development plan in place.
- Sound human resources management processes.

Special Considerations for International Organizations

- It is common in other countries for organizations not to develop job descriptions.
- Frequently, due to cost of hiring staff, workers are contracted as consultants without benefits.
- Sometimes, it is difficult for organizations to offer career planning to the staff.
- In some countries, it is difficult to find professionalization/training resources for NGOs.
- Take into consideration that few organizations have performance evaluations.
- Often, staff is not aware of the salary and incentives structure.
- In some countries, cronyism practices prevail (see organizational culture).

Additional References and Reading

Colin Hales, *Managing Through Organization: The Management Process, Forms of Organization and the Work of Managers*, London: Business Press, 2nd ed., 2001.

Human Resources and Staff Development

What are you trying to gauge?

Sound human resources policies and management processes; staff development plans and opportunities; employee orientation and dispute procedures.

Sample questions:

Do staff have professional development opportunities? How do you integrate new staff and board members? How would you manage staff conflict?



The Gold Standard of Performance

Structuring, professional development, and allocation of people and skills with an eye to program priorities.



Red Flags of Warning

- *No staff development plan.*
- *No human resources policies or management processes.*
- *High turnover rate.*

Questions to Ask Yourself

- Do your human resources policies and management processes assure the right personnel are selected and retained?
- Does your staff feel adequately remunerated and satisfied with professional development opportunities?
- Are there adequate incentives to recognize extraordinary performance?

Indicators of Basic Health

- Reasonable turnover rate.
- Reasonable job satisfaction indexes.

Special Considerations for International Organizations

- Labor regulations differ greatly among countries, especially regarding to contracts and benefits.

Additional References and Reading

Michael Armstrong, *A Handbook of Human Resource Management Practice*, London: Kogan Page, 8th ed., 2001.
 Robert D. Herman & Associates, *The Jossey-Bass Handbook of Nonprofit Leadership and Management*, San Francisco: Jossey Bass, 2nd ed., 2005. Michael Armstrong, *A Handbook of Human Resource Management Practice*, London: Kogan Page, 8th ed., 2001.

Communications

What are you trying to gauge?

External audiences and ability to reach and influence them in line with mission.

Sample questions:

Who is the audience for your work? How do you reach them? Do you practice communications planning?
 Who handles communications in your organization?



The Gold Standard of Performance

Organization's communication strategy takes into consideration different audiences and utilizes effective dissemination outlets.



Red Flags of Warning

- *General lack of communication skills and expertise.*
- *No corporate identity.*
- *Organization has not identified its main audiences and lacks knowledge about its information and communication needs.*
- *Lack of awareness of the public agenda.*

Questions to Ask Yourself

- Does the organization produce an annual report?
- Does it maintain a website?
- Does it have a recognizable branding?
- Are the media interested in the information it produces?
- Does the organization have clarity about the message it wants to deliver, particularly regarding the "hot issues" of the day?
- Does the organization have clarity about its audiences and key stakeholders?

Indicators of Basic Health

- Organization has segmented its audiences and communication strategies.
- Consistent information is provided through different outlets.
- Organization has long-term and productive relationships with the media.

Additional References and Reading

Robert D. Herman & Associates, *The Jossey-Bass Handbook of Nonprofit Leadership and Management*, San Francisco: Jossey Bass, 2nd ed., 2005. Michael Armstrong, *A Handbook of Human Resource Management Practice*, London: Kogan Page, 8th ed., 2001.

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Heather Mansfield, *Social Media for Social Good: A How-to Guide for Nonprofits*, McGraw-Hill; 1 edition, 2011.

Kathy Bonk, Henry Griggs, Emily Tynes, *The Jossey-Bass Guide to Strategic Communications for Nonprofits: A Step-by-Step Guide to Working with the Media to Generate Publicity, Enhance Fundraising*, Jossey-Bass; 1st edition, 2007.

Monitoring and Evaluation

What are you trying to gauge?

Whether or not organization regularly uses performance indicators, feedback loops and learning, and impact measurements tools.

Sample questions:

How do you measure and track your progress? What sorts of indicators do you use? Do you work with external evaluators or is your monitoring and evaluation done in-house?




The Gold Standard of Performance


A well-developed, comprehensive, integrated system used for measuring organization's performance and progress on continual basis.





Red Flags of Warning

- *Most evaluation based on anecdotal evidence.*
- *Little to no baseline or indicator data*
- *Programs that do not consider feedback*
- *Lack of strategic planning, follow-up systems, activities and meetings*
- *Resource allocation based solely on perceived need, not on potential for impact.*

Questions to Ask Yourself	
<ul style="list-style-type: none"> • Are goals and programs linked to clear, relevant and methodologically consistent indicators? • Is performance measured regularly? • Are multiple sources of information used in assessing progress? • Is staff familiar with monitoring and evaluation methods and techniques? • Is decision-making supported by timely information? 	
Indicators of Basic Health	
<ul style="list-style-type: none"> • Monitor and evaluation systems in place. • Activities and strategies are linked to targets and indicators. • Performance information is reported regularly. 	
Special Considerations for International Organizations	
<ul style="list-style-type: none"> • In some countries, there is no evaluation culture. • In some countries, there are few evaluation professionals and resources for NGOs. 	
Additional References and Reading	
<p>James Cutt and Vic Murray, <i>Accountability and Effectiveness Evaluation in Nonprofit Organizations</i>, New York: Routledge, 2000.</p>	
Legal Compliance	
<p><i>What are you trying to gauge?</i> How can my foundation work with the organization? What is its level of professionalism? What is its risk profile?</p> <p><i>Sample questions:</i> What kind of tax status does your organization have? For international organizations: Have you ever managed an ER grant? Has a United States donor ever conducted an ED for your organization?</p>	
	The Gold Standard of Performance
<p>Organization fulfills legal and fiscal compliance requirements; it has a 501 (c)(3) status or the foreign equivalent.</p>	

	<h2>Red Flags of Warning</h2>
<ul style="list-style-type: none"> • Ignorance of the restrictions on the use of resources (especially lobbying). • Organization does not anticipate legal issues. 	
<h2>Questions to Ask Yourself</h2>	
<ul style="list-style-type: none"> • Is the organization a 501(c)(3) nonprofit organization or the foreign equivalent thereof? • Is the ED familiar with IRS guidelines/restrictions? 	
<h2>Indicators of Basic Health</h2>	
<ul style="list-style-type: none"> • The organization is established as a not-for-profit organization and complies with the legal and fiscal framework. 	
<h2>Special Considerations for International Organizations</h2>	
<ul style="list-style-type: none"> • In some countries, the fiscal and legal framework to which NGOs are subject is very complex. • In some countries, the procedure for obtaining authorization to receive tax-deductible donations is bureaucratic and expensive. • Sometimes, the fiscal framework limits organizations that can be tax-exempt. • In Mexico, the fiscal framework establishes a 5% cap on administrative expenses for tax-exempt organizations. • In some countries, few professionals are knowledgeable about the procedures required by the authorities to become a tax-exempt organization. 	
<h2>Additional References and Reading</h2>	
<p>John A. Edie, <i>Expenditure Responsibility Step by Step</i>, Third Edition, Council on Foundations. Betsy Buchalter Adler, <i>Rules of the Road: A Guide to the Law of Charities in the United States</i>, Council on Foundations. John A. Edie and Jane C. Nober, <i>Beyond Our Borders: A Guide to Making Grants Outside the U.S.</i>, Third Edition, Council on Foundations. For legal/fiscal framework country information, see www.icnl.org .</p>	

IT Operations and Infrastructure	
<p><i>What are you trying to gauge?</i> Level of professional management and communication of information.</p> <p><i>Sample questions:</i> Who handles IT in your organization? What sorts of systems do you use?</p>	
	The Gold Standard of Performance
<p>Organization has a complete integration of organizational processes and technologies. It also has a mid-term technology planning system.</p>	
	Red Flags of Warning
<ul style="list-style-type: none"> • <i>Fragmented information that is neither shared nor systematized.</i> • <i>Lack of basic skills to process and communicate information.</i> • <i>Lack of information security policies and practices.</i> • <i>Outdated hardware and software.</i> 	
Questions to Ask Yourself	
<ul style="list-style-type: none"> • Does the information system adequately support the organizational core processes? 	
Indicators of Basic Health	
<ul style="list-style-type: none"> • Updated hardware and software. • Information is stored and shared safely. • Adequate staff-hardware ratio. 	
Special Considerations for International Organizations	
<ul style="list-style-type: none"> • Some countries have compliance with copyright legislation. 	
Additional References and Reading	
<p>Holly Ross, Katrin Verclas, and Alison Levine (Eds.), <i>Managing Technology to Meet Your Mission: A Strategic Guide for Nonprofit Leaders</i>, Jossey-Bass; 1 edition, 2009</p> <p>Joni Podolsky, <i>Wired for Good: Strategic Technology Planning for Nonprofits</i>, Jossey-Bass; 1 edition, 2003.</p> <p>ICT Strategy Toolkit, available at http://web-toolkits.org.uk/2003</p>	

Security and Facilities	
<p><i>What are you trying to gauge?</i> Adequacy of physical work space; management of risk of personal security, information, and other assets.</p> <p><i>Sample questions:</i> Does the physical space of your facilities meet your needs? Is your work physically risky? If so, how do you manage that risk? Do you have security protocols in place?</p>	
	The Gold Standard of Performance
Facilities well tailored to organization's current and anticipated future needs.	
	Red Flags of Warning
<ul style="list-style-type: none"> • <i>Inadequate facilities, resulting in loss of effectiveness and efficiency.</i> • <i>Staff faces risk situations constantly, and physical and psychological harm is inflicted upon them.</i> • <i>Facilities have been attacked.</i> • <i>Information and equipment have been lost.</i> 	
Questions to Ask Yourself	
<ul style="list-style-type: none"> • Do we work within a secure environment? • Do we have security protocols in place? • How do we manage risk situations and threats? • Do we have backups of sensitive or strategic information? • Do we have security systems/insurances in place? 	
Indicators of Basic Health	
<ul style="list-style-type: none"> • Risk awareness according to organizational activities. • Risk management plans for staff, facilities, and information. 	
Special Considerations for International Organizations	
<ul style="list-style-type: none"> • Lack of awareness of security risks. • There are no security plans/protocols. 	
Additional References and Reading	
<p>Peggy M. Jackson, <i>Nonprofit Risk Management & Contingency Planning: Done in a day strategies</i>, Wiley, 2006. Nonprofit Risk Management Center's resources available at http://www.nonprofitrisk.org/</p>	

Center for Safety and Development, Open NGO Security Policy, available at http://www.centreforsafety.org/userfiles/File/customfiles/open-ngo-security-policy_20130821134654.doc
 European Interagency Security Forum, *Guidelines for Safety & Security training HQ and field staff.*

Partnerships and Alliances

What are you trying to gauge?

Capacity and reputation for creating value with others; connection and use of broader networks; independence, ability and willingness to collaborate; historical baggage, reputation.

Sample questions:

What networks do you consider yourselves to be part of? Who are your partners? Whose work do you leverage or depend on to carry out your own work? Do others leverage your work for their own?



The Gold Standard of Performance

Built, leveraged, and maintained strong, high-impact relationships with variety of relevant parties.



Red Flags of Warning

- *Limited use of partnerships and alliances.*
- *Unfavorable reputation with other actors in the ecosystem*
- *Key stakeholders are not identified.*

Questions to Ask Yourself

- Does the organization have a track record of establishing productive relationships with key stakeholders?
- Do we perform a systematic and periodic environment assessment to identify potential allies?
- Are we positioned as a relevant and reliable actor in our field?

Indicators of Basic Health

- Participation in collaborative efforts (partnerships, consortia, alliances, networks, etc.).
- Positioning of organization activities and results among key stakeholders.

Special Considerations for International Organizations

- Based on personal rather than institutional relations.

Additional References and Reading

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- Jane Arsenault, *Forging Nonprofit Alliances: A Comprehensive Guide to Enhancing Your Mission Through Joint Ventures & Partnerships*, Jossey-Bass; 1st edition, 1998
- Thomas A. McLaughlin, *Nonprofit Mergers and Alliances*, Wiley; 2 edition, 2010 National Council of Nonprofits, *Mergers, Collaborations, and Strategic Alliances*, links to resources available at <http://www.councilofnonprofits.org/knowledge-center/resources-topic/administration-and-management/partnerships-and-collaboration>.

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² Center for Effective Philanthropy, *How Far Have We Come? Foundation CEOs on Progress and Impact*, 2013. <http://www.effectivephilanthropy.org/wp-content/uploads/2014/01/HowFarHaveWeCome.pdf>.

³ While there is no standard, field-wide definition of “organizational capacity building,” our working definition for this handbook is: *Organizational capacity building is any activity or investment that promotes, sustains, and/or enables the ability of an organization to produce desired outcomes.*

⁴ Eisinger, P. 2002. Organizational Capacity and Organizational Effectiveness among Street-Level Food Assistance Programs. *Nonprofit and Volunteer Sector Quarterly* 31, 115-130; Hall, M.H., Adnrukow, A., Barr, C., Brock, K., deWit, M., Embuldeniya, D., et al., 2003. *The Capacity to Serve: A qualitative study of the challenges facing Canada's nonprofit and voluntary organizations*. Toronto, ON: Canadian Centre for Philanthropy.

⁵ Listening to Grantees: What Nonprofits Value in Their Foundation Funders, Center for Effective Philanthropy, 2004.

⁶ Center for Effective Philanthropy, Working with Grantees, 2010; Grantmakers for Effective Organizations, Is Grantmaking Getting Smarter? A National Study of Philanthropic Practice, 2011.

⁷ Organizational capacity, which is multidimensional—consisting of core competencies in staffing to funding to project planning, among others—is often conceptualized as representing the building blocks for organizational effectiveness (Eisinger 2002; Hall et al. 2003; Hou, Moynihan, & Ingraham, 2003).

⁸ Buteau, Ellie, Buchanan, Phil, & Chu, Timothy, 2010. *Working with Grantees: The keys to success and five program officers who exemplify them*. Center for Effective Philanthropy: Cambridge, MA.

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¹⁰ Robert D. Herman and David O. Renz. “Advancing Nonprofit Organizational Effectiveness Research and Theory: Nine theses”, *Nonprofit Management and Leadership*, vol. 18, no. 4, pp. 399-415, 2008; The Urban Institute, *Building Capacity in Nonprofit Organizations*, 2011.

¹¹ Center for Effective Philanthropy, Listening to Grantees: What Nonprofits Value in Their Foundation Funders, 2004; Grantmakers for Effective Organizations, Is Grantmaking Getting Smarter? A National Study of Philanthropic Practice, 2011.

¹² In Search of Impact: Practices and Perceptions in Foundations’ Provision of Program and Operating Grants to Nonprofits, Center for Effective Philanthropy, 2006; McKinsey & Company (for Venture Philanthropy Partners),

Effective Capacity Building in Nonprofit Organizations (Washington, DC: Venture Philanthropy Partners, 2001); Grantmakers for Effective Organizations, *Is Grantmaking Getting Smarter? A National Study of Philanthropic Practice*, 2011.

¹³ Kent D. Fairfield & Kennard T. Wing, “Collaboration in Foundation Grantor-Grantee Relationships,” *Nonprofit Management & Leadership*, vol. 19, no. 1, Fall 2008, pp. 27-44; Center for Effective Philanthropy, *Working with Grantees*, 2010; Center for Effective Philanthropy, *More than Money: Making a Difference with Assistance Beyond the Grant*.

¹⁴ Ronald A. Heifetz, John V. Kania, Mark R. Kramer, “Leading Boldly,” *Stanford Social Innovation Review*, Winter 2004.

¹⁵ I gratefully acknowledge Kathy Reich and Jamaica Maxwell for sharing their thoughts on defining organizational capacity. The definition used here is a variation on what they use at the David and Lucille Packard Foundation.

¹⁶ See Patricia Patrizi and Elizabeth Heid Thompson, “Beyond the Veneer of Strategic Planning,” *The Foundation Review* 2, no. 3 (2011): 52-60 which echoes some of the thinking in Chapter 1 and argues on the basis of new research that most foundations still lack the understanding and skills to link strategy to “on-the-ground” realities of implementing it. We acknowledge, before proceeding further, that we are not the first to focus on the importance of organizational effectiveness to good grantmaking. For a helpful and representative earlier work, see McKinsey & Company (for Venture Philanthropy Partners), *Effective Capacity Building in Nonprofit Organizations* (Washington, DC: Venture Philanthropy Partners, 2001). This treatise and its capacity model have been an invaluable source and starting point for much of the thinking in our work. See also articles in Lori Bartczak, *A Funder’s Guide to Organizational Assessment: Tools, Processes, and Their Use in Building Capacity*, ed. Kevin Bolduc, St. Paul, MN, Fieldstone Alliance Publishing Center, 2005. That said, however, the McKinsey & Company report, titled for nonprofit organizations, does not offer the unique perspective that a funder brings to the issues of grantmaking for performance. Other previous work has tended to see organizational effectiveness and related issues as isolated, separate endeavors, that is, as complements to, rather than integral parts of, overall strategy. Our goal is to more strongly unite concepts with practice, and planning with capability, as a new way to approach grantmaking strategy and impact.

¹⁷ We make this point with acknowledged debt to the recent article that raises, from a different angle, some of the same themes of this chapter: Kristi Kimball and Malka Kopell, “Letting Go,” *Stanford Social Innovation Review*, Spring 2011, pp. 37-41.

¹⁸ Paul C. Light, *Sustaining Nonprofit Performance: The Case for Capacity Building and the Evidence to Support It*, Washington, DC, Brookings Institution, pp. 2ff.

¹⁹ Bill Bradley, Paul Jansen, and Les Silverman, “The Nonprofit Sector’s \$100 Billion Dollar Opportunity,” *Harvard Business Review*, May 2003, pp. 94-103. This article set the stage for subsequent important work led by McKinsey to create a capacity-building framework, which has helpfully contributed to our own work here: McKinsey &

Company (for Venture Philanthropy Partners), *Effective Capacity Building in Nonprofit Organizations*. We have also benefited from articles in Bartczak's *Funder's Guide to Organizational Assessment*.

²⁰ In its 2008 field survey, Grantmakers for Effective Organizations (GEO) found that foundation staff with nonprofit work experience were twice as likely to support grantee capacity building and nearly three times more likely to directly support grantee leadership. This supports our assertion that grantmakers without such experience are much less likely to focus on organizational capacity issues: *Is Grantmaking Getting Smarter? A National Study of Philanthropic Practice*, 2008, p. 8.

²¹ U.S. donors engaged in international grantmaking must be prepared for the complexities and different legal requirements for managing expenditure responsibility grants and/or obtaining IRS equivalency determinations for their grantees. This includes additional documentation during the due diligence stage; greater substantiation of the charitable purpose; additional, often more complicated, reporting requirements; and greater oversight due to the larger number of IRS restrictions on how grant funds can be spent. In addition, funders need to be aware of, and in compliance with, local nonprofit rules and regulations.

²² Joel J. Orosz, *The Insider's Guide to Grantmaking: How Foundations Find, Fund, and Manage Effective Programs*, San Francisco, Jossey-Bass, 2000, p. 93.

²³ The Council on Foundation's *Complete Guide to Grantmaking Basics* (2008) addresses some elements of capacity and how grantmakers should interpret them (e.g., nonprofit finances and interacting with grantees' boards of directors), but does not link organizational effectiveness to strategy or implementation capacity. Orosz sums up how grantmakers should address organizational capacity, stating: "From time to time, the essence of good grantmaking lies in taking a leap of faith; funding on the potential capacity of the applicant, not on its actual track record" (pp. 94-95). *Money Well Spent: A Strategic Plan for Smart Philanthropy* by Paul Brest and Hal Harvey (New York: Bloomberg Press, 2008) argues that strategic philanthropy is about deploying resources in order to achieve goals most effectively. For Brest and Harvey, strategic philanthropy includes having well-defined goals, a sound strategic plan, and evidence-based ways to monitor progress and measure and evaluate impact—all very important elements of strategy, in our opinion—but missing organizational capacity as a component of philanthropic strategy. Peter Frumkin, in *Strategic Giving: The Art and Science of Philanthropy* (Chicago: University of Chicago Press, 2006), also omits any link between organizational effectiveness and strategic giving. A review of recent and upcoming courses for new grantmakers resulted in similar findings.

²⁴ Paul C. Light, *Sustaining Nonprofit Performance: The Case for Capacity Building and the Evidence to Support It*, Washington, DC, Brookings Institution, 2004; M. Gibelman and S. Gelman, "Very Public Scandals: An Analysis of How and Why Nongovernmental Organizations Get in Trouble" working paper, International Society for Third-Sector Research, Fourth International Conference, Dublin, Ireland, July 7, 2000.

²⁵ See recently, for example, Paul Leinwand and Cesare Mainardi, "The Coherence Premium," *Harvard Business Review*, June 2010, pp. 2-7. This article cites some of the important antecedents of this thinking in the 1990s.

²⁶ For many funders, organizational capacity has always been important, with some grantmakers simply emphasizing it more than others. For example, many foundations invest in some form of organizational effectiveness for their grantees. The Packard Foundation has long had an Organizational Effectiveness Program and led the field of organizational effectiveness grantmaking, support, and research. The Hewlett Foundation also has a separate Organizational Effectiveness program that supports grantees above and beyond the program grants provided. But this support typically involves one-off funding to introduce or build some critical elements in a grantee's capacity, such as board development or strategic planning; it has not systemically assessed and developed an overall organizational capacity, nor has it linked capacity directly to strategy.

²⁷ I gratefully acknowledge Jennifer Ratay, my former Hewlett Foundation colleague, for her work on supporting grantmaker capacity for building grantee capacity, and for coining and articulating the concept of "The Big Three."

²⁸ Largely drawn from my grantmaking experience in the Hewlett Foundation's Mexico office (2001-2011), these principles are intended to improve the quality, professionalism, and success of grantmakers anywhere.

²⁹ At other times, institutional dysfunction (including, but not limited to, poor leadership or management, mission drift, unplanned staff changes, lack of professional development, poor communications, and even malfeasance) wreaks havoc on organizational health and capacity. Grantmakers need to know the difference between (and appropriate responses for) healthy and unhealthy organizational challenges.

³⁰ For example, legal frameworks governing nonprofit boards can vary significantly by country and can impact how organizations are structured and function. In other countries, labor laws may restrict hiring practices that would be considered normal in a U.S. context, and restrictions on civil society organizations may limit the type of fund-raising activities they can engage in.

³¹ This point echoes much of the argument made for for-profit organizational strategy, as described by Leinwand and Mainardi.

³² The silver lining to this story is that as a result of this failure, the community foundations involved, led by the Tijuana Community Foundation, successfully advocated for a change in Mexico's nonprofit law. As a result, Mexican environmental organizations became eligible for tax-deductible status in 2004.

³³ Some funders accept strategic plans in lieu of a narrative proposal for general funding—a great incentive for robust strategic planning and implementation!

³⁴ A theory of change identifies the specific building blocks or sequence of events that need to happen in order to reach a specific goal or set of goals.

³⁵ A logic model is "a tactical explanation of the process of producing a given outcome. It outlines the program inputs and activities, the outputs they will produce, and the connection between those outputs and the desired outcomes." From *The Evaluation Exchange*, a Periodical on Emerging Strategies in Evaluation. Volume XI, Number 2, Summer 2005. Harvard Family Research Project; Harvard Graduate School of Education.

<http://www.hfrp.org/evaluation/the-evaluation-exchange/issue-archive/evaluation-methodology/an-introduction-to-theory-of-change>.

³⁶ LARCI is a re-granting organization that forms part of the Climateworks Foundation network.

³⁷ Some examples include: strategic planning; conversations with grantees and other partners and co-funders; analysis of goals, strategy, and capacity alignment, etc.

³⁸ See John Kania and Mark Kramer. “Collective Impact” *Stanford Social Innovation Review*. Winter 2011. See also the online *Collective Impact Forum* (<http://collectiveimpactforum.org>).

³⁹ Kathleen Enright email communication with members, “Reflections on Collaboration” December 19, 2013.

⁴⁰ In this context, “portfolio” refers to the collection of a program officer’s current or planned grants.

⁴¹ John Kania and Mark Kramer, “Collective Impact,” *Stanford Social Innovation Review* (Winter 2011): 36-41.

⁴² A central argument, in fact, of Kimball and Kopell.