

An Assessment of Capacity Building in Washington State

Prepared by –

The Giving Practice, a consultancy of Philanthropy Northwest

for

Bill & Melinda Gates Foundation

The Campion Foundation

Medina Foundation

M.J. Murdock Charitable Trust

The Seattle Foundation

Sherwood Trust

Social Venture Partners Seattle

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1 Executive Summary

Fundamentally, this study is premised on the belief that a healthy nonprofit sector is vital to the quality of life in a democratic society. Nonprofits are a cornerstone for a vibrant “third sector,” where people can come together to address basic needs and problems, to bring new ideas to life, and to engage in meaningful leadership and service. Organized philanthropy is another cornerstone of the sector, with a critical role to play in supporting not only individual organizations and causes, but also the vibrancy of the sector as a whole, and the passionate, engaged civic leadership that animates it.

Members of Washington State’s philanthropic community convened in the spring of 2009 to discuss support of the nonprofit sector during the severe economic downturn, and concluded that an important step would be to assess the landscape of nonprofit capacity-building in Washington State. This study was therefore based on the premise that a better understanding of the capacity-building resources and gaps in the state would enable funders to make strategic decisions about supporting the nonprofit sector. The study defined capacity building as “*Any service that enhances the organization’s internal effectiveness at achieving its mission sustainably - in other words, services which strengthen the foundation or “engine” of the organization, not its specific programs.*”

A steering committee of sponsoring funders collectively retained The Giving Practice for this study: Bill and Melinda Gates Foundation, the Campion Foundation, Medina Foundation, Social Venture Partners Seattle, M.J. Murdock Charitable Trust, The Seattle Foundation, and Sherwood Trust. The methodology for this study includes a literature review; interviews with community leaders from 14 geographic “hubs” around the state; donor forums; and compilation of capacity-builders working in the state. We want to express our deep gratitude to the local nonprofit leaders who gave their time and insights to this process.

Our detailed, though not exhaustive, scan of reports and articles on the topic of capacity building found a continuum in terms of focal point: from case studies and assessment tools for looking at the capacity of an individual nonprofit, all the way up to studies of the entire capacity-building field or nonprofit sector. In between is research focused on cohorts of nonprofit organizations, capacity-building institutions themselves, and state or local nonprofit sectors. Many useful lessons, tools and conceptual frameworks can be found in each of these areas of focus, and we attempt to distill and summarize those. Some of the common findings include: the need for more general operating and capacity-building funding; the importance of approaching capacity-building in a long-term, flexible and holistic manner; barriers to capacity-building that include money, time, lack of appropriate providers, and lack of awareness; the particular challenges experienced by rural communities; and lack of evaluation and applied research in the field of capacity-building.

In our review of the literature, we did not find a strong framework or vocabulary for thinking *systematically* about capacity-building investments at a state or community level. We felt that such a framework would be important – in particular, one which acknowledges and honors the immense diversity that we saw across the communities we visited, and also ties that diversity together with common threads that allow for strategies and investments to be developed at the state as well as the local level.

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We found a helpful mental model to be that of an *ecosystem*. Biological systems – such as a pond – have multiple, interrelated parts working together towards a common purpose. The nonprofits in a local community form an ecosystem of institutions whose underlying purpose is to sustain and improve the health of the broader community. Individual nonprofits (like fish in a pond) will also be more effective if the nonprofit ecosystem in their community is healthy and resilient. A nonprofit ecosystem is inherently local, particularly in a state such as Washington where distance and geography loom large.

Just as a pond requires essential elements like air, water and nutrients to keep the system healthy, so too the local nonprofit ecosystem requires a set of essential elements – the basic conditions that need to exist in an ongoing way in order for nonprofits as a whole to survive and thrive. From the literature review and our interviews, we propose eight essential elements of a resilient nonprofit ecosystem.

1. *An ongoing source of nonprofit board and management basics or “Nonprofit 101,”* including basic roles and responsibilities of boards, and nonprofit management topics such as finance, grant writing, legal/compliance issues, etc.
2. *The availability of in-depth organizational assistance,* when organizations need it.
3. *Ongoing ways to surface, educate and sustain leadership* at both board and executive levels.
4. *Trusted information and referral resources* for “just-in-time” needs, including information and professional advice in key operational areas as well as a trusted referral system.
5. *A community infrastructure that supports volunteerism,* including skilled volunteerism for board leadership and capacity-building.
6. *The capacity to use technology in pursuit of mission,* including technology planning, ongoing IT support, and the ability to use data to inform needs and decisions
7. *Organizing and advocacy capacity* that allows nonprofits to positively influence their community and public policy context.
8. *A healthy funding and fundraising climate* that includes successful local fundraising practices, and a diversity of fundraising sources that includes local support.

All eight are essential for the sector to be healthy. These essential elements are brought to life by:

- critical areas of *knowledge* that must be found in individual leaders, organizations, and the community as a whole – governance, finance, human resource, volunteer management, etc.
- *institutions* which do the work of capacity-building – management support organizations, consultants, universities or community colleges, etc.
- *delivery mechanisms* used by these institutions to bring capacity-building services to nonprofits – training, distance learning, coaching, etc.

Using this framework, we used our interviews and donor forums to compile individual profiles of each of the 14 community hubs, as well as an assessment of the landscape statewide. Some of the key findings:

- Each community has a distinct nonprofit ecosystem, with unique assets and gaps. In our assessment, none of the communities we visited has all eight of the essential elements; but *every* community has strong examples of the essential elements in action.
- Nonprofits have insufficient funding for general operating and capacity building.

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- Larger nonprofits have more resources, including access to state and national associations, while small- and mid-sized organizations are more squeezed by lean staffing and program-restricted funding streams.
- Rural communities have common challenges, including isolation, reliance on all-volunteer organizations, and an absence of locally based capacity-builders.
- Improving board governance was the most commonly cited issue statewide. Knowledge gaps were also frequently cited in the areas of finance, fundraising, strategic planning, and leadership development.
- There is a wide diversity of capacity-building institutions in the 14 hubs, including 241 specific capacity-builders. Of these, 41% were located in King County; 66% were primarily local in their geographic focus; and about half were for-profit consultants. The most common service focus was strategic planning, followed roughly equally by board development, organizational development, and fund development.

We identified several promising avenues for capacity-building investment, each focusing on a different leverage point in the system. Depending on their goals and geographic interests, funders may choose to work individually, in cooperative alignment with one another, or in formal collaboration. All of these approaches could be at work within a commonly understood framework, particularly if there is a commitment to transparency and shared learning.

1. Invest in capacity-building at the *individual nonprofit level* – grants directly to nonprofits, or through local intermediaries with particular emphasis on small- and mid-sized organizations.
2. Invest in strengthening the nonprofit ecosystems of *specific local communities* - through grants to local capacity-building institutions, or by convening local partners to identify/prioritize weak or missing elements in the ecosystem.
3. Invest in *specific essential elements* across ecosystems statewide – for example, making Nonprofit 101 help reliably available everywhere, or building a common referral system for capacity building assistance.
4. Invest in *rural solutions* that address the specific challenges of rural Washington.
5. Invest in filling gaps for *specific knowledge and service delivery tools* – ways to effectively deliver knowledge about board governance, fundraising, financial management, strategic planning; or broadening the availability of service delivery tools such as distance learning or executive coaching.

Looking at capacity building from a strategic, statewide perspective is complex. There are many dimensions to capacity building, which are further complicated by the variations of geography. Funders themselves contribute to this complexity, creating a patchwork of funding and approaches based on their particular interests, geographies and philosophies. We have approached this report very mindful of that complexity. We also understand that the quality of capacity building services varies and that ultimately the success of investment in capacity building may not be readily apparent. Both funders and the nonprofit community will benefit from transparent and honest dialogue as they move forward with this important work. In this report, we offer a framework that we hope will provide a shared mental model for understanding it, and footholds for action in pursuit of a vibrant, resilient third sector at work in all communities in our state.