Effective Capacity Building in Nonprofit Organizations

Prepared for Venture Philanthropy Partners
by McKinsey & Company

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PREFACE

"While much of the focus on venture philanthropy is on 'capacity building,' this term has not been defined by either the new venture philanthropists or the nonprofits who represent the potential investment recipients, and may well mean something different to each of them" says our published report, *2001 Venture Philanthropy: The Changing Landscape.* Since capacity building is embraced and practiced by most people involved in venture philanthropy and many in traditional philanthropy as well, a broader understanding of the concept is warranted.

Investing in the people and systems that make products and services better is well established in the for-profit sector. Consider the millions spent on staff and warehouse facilities before Amazon.com ever went on line. Similarly, the three business leaders who founded Venture Philanthropy Partners with 27 other investors have been involved in substantial capacity building investments in the business world for years. They asked why organizations created to eradicate poverty and solve the complex social problems of our society are often not financed in a way that allows them to develop or maintain their infrastructure. Those investors created VPP to speak to that disparity. They decided to pool their resources to make some substantial capacity building investments in programs serving children from low-income families and use the knowledge gained from those investments to encourage others to do the same. Their purpose was not to impose their personal agendas, but rather to bring funds and expertise to strengthen nonprofits with demonstrated success so those organizations could do even more to improve the lives and opportunities of children.

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— 2001 Venture Philanthropy: The Changing Landscape

As VPP began planning its fund, it seemed clear that we needed to better understand how to make successful investments in organizational capacity. Several foundations, support organizations and think tanks have begun to explore capacity building. As Elizabeth T. Boris, director of the Center on Nonprofits and Philanthropy at The Urban Institute, noted in their recent report, "Capacity building for nonprofit organizations is finally drawing the attention it deserves ...ad hoc lessons culled from personal experience are giving way to more systematic approaches." Our goal is to contribute to this growing body of knowledge as well as learn from it. We are fortunate to be working in the Washington, DC region where a significant amount of this work is underway.

We also realized that agreeing on a definition was not nearly as important as understanding the characteristics of successful capacity building investments. We asked McKinsey & Company, one of our strategic advisors, to identify examples of successful capacity building experiences at nonprofits across the country. We wanted to learn from those experiences in order to refine our own investment model and share those insights with others.

The findings of the McKinsey team are not altogether surprising. They confirm what many in the social sector recognized - that capacity building is both important and difficult. This report builds on that knowledge by clarifying and broadening the definition of capacity building. The findings of this report represent a collective body of information that we believe will be useful to the social, public and private sectors.

In addition to the study, McKinsey developed a capacity assessment tool for nonprofits. We believe this tool will help nonprofit leaders and staff gauge where they are in their organizational lives and identify for themselves their capacity building needs.

We hope this report will benefit several important communities. For foundations and individual investors, we hope these findings will bring greater clarity and understanding of the value of capacity building and its essential role in allowing nonprofits to achieve their mission. For organizations that want to improve the breadth and depth of their work, this report offers practical lessons from others as well as tools and guidance on self-evaluation that can help prepare them to receive capacity building support. We share the expectation with these communities that together we can help good ideas become great programs that will bring significant social gain and will improve the lives of many.

Mario Morino
Chairman of the Board

Gary F. Jonas
Managing Partner

Venture Philanthropy Partners, Inc.

ACKNOWLEDGEMENTS

EXECUTIVE SUMMARY

As nonprofit organizations play increasingly important roles in our society, it becomes even more critical for them to perform effectively. In response, nonprofit managers have demonstrated a growing interest in management practices and principles that will help them build high-performing *organizations*, rather than just strong programs. Traditional foundations and venture philanthropists have also professed a new commitment to investing in the organizational capacity of the nonprofits that they fund.

Despite this new emphasis on the importance of nonprofit "capacity building," the sector lacks a widely shared definition of the term. There is also precious little information about what works and what does not in building organizational capacity in nonprofits. This is largely due to the sector's historic inattention to capacity building, which has not been adequately supported by funders and has been of secondary importance to nonprofit managers trying to deliver programs and services to people who need them. This situation is changing, and more funders are dedicating attention and financial support to organizational capacity. A growing community of individuals nationally and in the Washington D.C. region are committed to capacity building and are engaged in an exciting dialogue around the topic.

In partnership with Venture Philanthropy Partners (VPP) and in collaboration with several other philanthropic organizations and sector experts, McKinsey & Company launched a project to contribute to this dialogue. We set out to develop a definition of nonprofit organizational "capacity" as well as an easy-to-use tool for assessing it. We also sought to capture valuable lessons from organizations that have engaged in successful capacity building.

To these ends, we conducted case studies of 13 nonprofit organizations that have engaged in capacity building efforts within the past decade. These groups span the spectrum of size and mission from The Nature Conservancy ($780 million in revenues, 3,000 employees) to the school improvement organization Powerful Schools ($700,000 budget, 14 staff). In keeping with Venture Philanthropy Partner's focus, about half of the organizations studied were involved in youth services or education.

Each organization had also completed or was in the process of completing a substantial capacity building exercise, and these exercises were driven by a range of capacity builders, from venture philanthropists to consultants to the organizations themselves. It is important to note that this group of organizations does not represent a "top 10" list of organizations, nor does the report attempt to describe the best efforts at capacity building from across the sector. Similarly, the report does not compare or evaluate different funding models or provide a step-by-step recipe for building nonprofit capacity.

The report does, however, present a clear framework for defining capacity (see exhibit on page 36) as well as a tool for measuring an organization's capacity level (see Appendix). We believe that the framework and capacity assessment grid will provide nonprofit managers with a practical and useful way to understand and track their own organization's capacity, and then develop plans to improve it.

The report also shares the lessons learned from nonprofits that have engaged in successful capacity building efforts. Finally, the report captures three general lessons about capacity building that we learned by looking across the 13 case study organizations.

The first lesson is that the act of resetting aspirations and strategy is often the first step in dramatically improving an organization's capacity. The nonprofits in this study that experienced the greatest gains in capacity were those that undertook a reassessment of their aspirations – their vision of what the organization was attempting to accomplish in the next phase of its development – and their strategy. It is important to emphasize that a new aspiration or strategy can only be transformative if it is then used to align the other aspects of organizational capacity. If done thoroughly, this alignment process provides a tight institutional focus and a road map for the organization to use with both internal and external audiences, which help keep everyone on track during the long and difficult process of building capacity.

The second lesson is the importance of good management. Nonprofits need people in senior positions who are committed to taking the initiative to make capacity building happen and are willing to "own" it and drive it down through the organization. Progress in effectively resetting aspirations and strategy, institutionalizing sound management processes, and improving systems to work at scale requires managerial ability as well as good leadership. What organizations facing these circumstances often need is a chief operating officer – a trained professional manager who can ensure that the organization functions efficiently and effectively.

The third lesson is that you must have patience. Almost everything about building capacity in nonprofits (and in for-profit companies) takes longer and is more complicated than one would expect. Building capacity can feel like a never-ending process because improvements in one area or practice have a way of placing unexpected new demands on other areas, which in turn trigger new needs. There are few quick fixes when it comes to building capacity, and both nonprofit managers and those supporting them need to acknowledge this up front and set expectations accordingly.

Where do these lessons leave us? While the benefits of capacity may be compelling, the actual effort of building capacity can seem daunting indeed. It can be hard for the nonprofit manager to fund, hard to launch, and hard to implement. It takes a long time and the need is not always apparent to staff, volunteers, board members, or donors. It is therefore critical that in our roles as nonprofit funders, board members, staff and advisors, we support nonprofit managers in their efforts to build organizational capacity. For their part, nonprofit managers need to take on the difficult and often painful task of assessing their own capacity and identifying the gaps that need to be filled. The sooner we begin to collaborate on the challenging task of capacity building, the better off nonprofits – and society as a whole – will be.
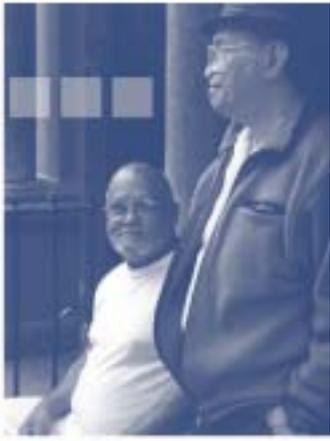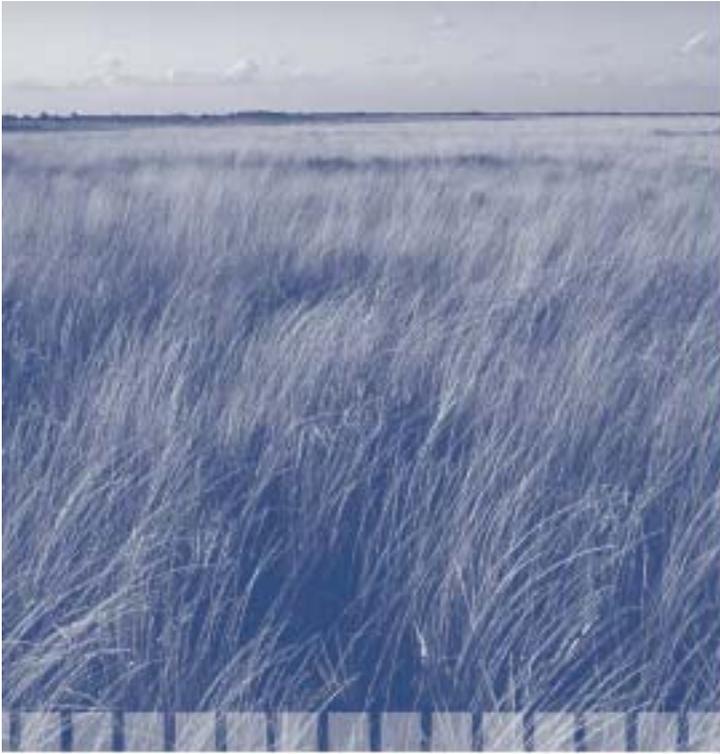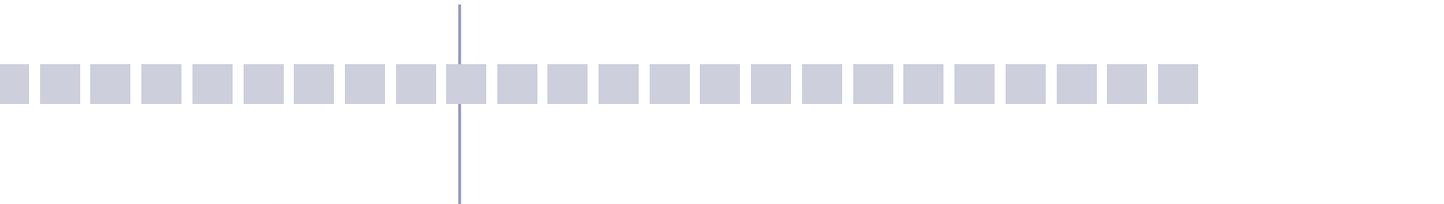
INTRODUCTION

Nonprofit organizations are justly admired for their passionate commitment to mission and their inventive approaches to addressing urgent social problems. Across the country and around the world, nonprofits are implementing programs that are improving the quality of life for tens of millions of people, and they are often doing so against heavy odds and with very limited resources.

The success that nonprofits have demonstrated in addressing social issues has generated increased demand for their services. Government is increasingly turning to nonprofits as potential service providers and partners in tackling our most pressing social issues. We now recognize that most of these issues – such as hunger, homelessness, or environmental conservation – will not be "solved" in our lifetime, and therefore will require strong organizations to continue to address them. Nonprofits have an obligation to seek new and ever more effective ways of making tangible progress toward their missions, and this requires building organizational capacity.

All too many nonprofits, however, focus on creating new programs and keeping administrative costs low instead of building the organizational capacity necessary to achieve their aspirations effectively and efficiently. This is not surprising, given that donors and funders have traditionally been more interested in supporting an exciting new idea than in building an organization that can effectively carry out that idea. This must change; both nonprofit managers and those that fund them must recognize that excellence in programmatic innovation and implementation are insufficient for nonprofits to achieve lasting results. Great programs need great organizations behind them. As the leaders of Samaritan Inns learned, the only way to build a great organization is to build capacity.
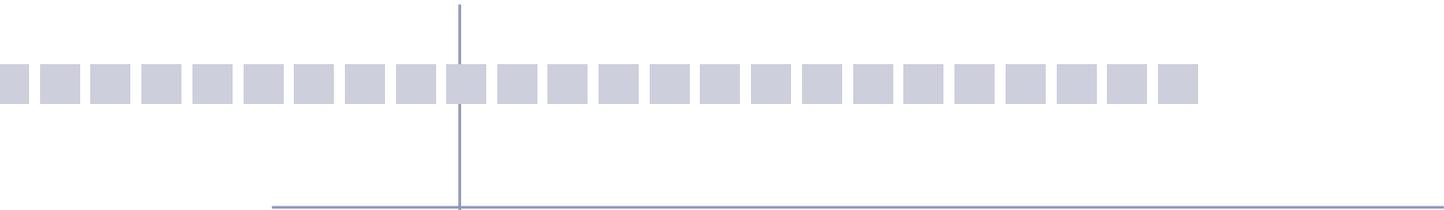
PARABLE: FROM CRISIS TO OPPORTUNITY AT SAMARITAN INNS

When the crack cocaine epidemic of the mid-1980s blazed its destructive path through the inner-city communities of Washington, D.C., the newspaper headlines focused on the sensational: Washington, murder capital of the world, Beirut on the Potomac.

Largely overlooked was the lasting damage that crack inflicted on the families in Washington's poorest neighborhoods. It was not just the murder rate that soared; equally disturbing was a concomitant explosion in the city's population of drug addicts, many of them homeless. These victims of crack, caught up in a pernicious cycle of dependency and vagrancy, faced the future with little hope either for themselves or for their communities.

Troubled by fiscal shortfalls and a complex political context, the D.C. city government responded ineffectually to this crisis. It targeted the bulk of its drug rehabilitation resources on funding 28-day treatment programs that were administered by participating local hospitals. Scant attention was paid to people once they had graduated from these treatment programs, with the all-too-predictable result that many soon slipped back into their old patterns of drug addiction and homelessness.

Where government failed, however, the nonprofit sector saw opportunity. In 1986, David Erickson, a District-area social activist, created a new nonprofit organization called Samaritan Inns, focused expressly on serving the needs of this population. The purpose of this new organization was to rebuild the lives of addicted, homeless people by providing them with structures of support and accountability.

To achieve this goal, Samaritan Inns offered temporary housing and rehabilitation services to the homeless and addicted. Samaritan Inns would pick up where the city's rehabilitation programs left off: taking in clients as they finished hospital-operated rehab programs, providing them with 6 months of assisted living, and then moving them into single room occupancy (SRO) facilities for up to another full year. During these 6-month and 1-year phases, Samaritan Inns would work with clients to maintain their commitment to stay drug-free and to provide them with skills and counseling to improve their chances of finding employment and reintegrating successfully into society.

Erickson's model worked, and Samaritan Inns grew robustly for a decade. By 1995, the 23 members of the Samaritan Inns staff were serving 280 people a year in three temporary housing facilities and two SRO facilities, with an annual budget of $750,000. To be sure, it suffered from many of the afflictions common to relatively small, locally focused nonprofits – archaic, paper-based customer tracking and reporting systems, for example, as well as an overly narrow fund-raising base. But Samaritan Inns was nonetheless widely recognized in the Washington area for the quality of its leadership and the effectiveness of its programs.

The future looked bright and stable for Samaritan Inns until a fateful decision by the District government in 1996 to discontinue funding most 28-day rehabilitation programs at city hospitals. Overnight, the organization's supply of clients evaporated. And because Samaritan Inns' business model depended on access to a steady stream of people leaving established rehabilitation programs, the entire enterprise was now at risk. What to do?

Erickson and his staff did not panic; instead they carefully explored the full variety of options to respond to the crisis. These options ranged from partnering with another organization to paying someone else to provide rehabilitation services to going into the rehabilitation business itself. In essence, this last option would mean insourcing the intensive recovery phase that had previously been administered by hospitals.

After much deliberation, Samaritan Inns settled on the latter course. Insourcing rehab programs, Erickson's team decided, would provide an "end-to-end" solution that would give Samaritan Inns control across the entire value chain, that is, the entire process by which a client receives treatment, all the way from diagnosis to rehabilitation and independent living. This would allow Samaritan Inns to influence all of the programs that affected the final outcomes for clients.

Insourcing would have two other major benefits. First, because Samaritan Inns would no longer depend on hospitals for referrals, it would ensure a consistent supply of participants for the other two phases of the program. Second, a unified, three-phase approach offered a far more coherent model for replication outside of Washington.

Having had the institutional fortitude and strategic vision to seek opportunity in crisis, Samaritan Inns still faced the enormous challenge of building its organizational capacity to meet the demands of its new strategy. It had no experience in running intensive rehabilitation programs, and needed to add staff with those skills. It did not have either the systems or the infrastructure required to manage an endeavor on the scale that Erickson now envisaged. And it needed more money – lots more money.

As a consequence, Samaritan Inns undertook a systematic capacity building effort to address each of these gaps, all under the umbrella of the "New Hope Initiative." It tackled its immediate funding needs by establishing a short-term development board to raise money within Washington business circles. These fund-raising efforts got a further boost from a pro bono consulting project that quantified the "social return on investment" of Samaritan Inns. This project provided a rigorous, quantitative, third-party endorsement of the organization's results, making the entire program more attractive to donors. And Samaritan Inns worked hard to improve its skills and systems, particularly in the area of information technology.

The results of the New Hope Initiative have been impressive. By
2001, Samaritan Inns was operating a comprehensive, three-phase
program to combat addiction and homelessness, composed of one
28-day rehabilitation facility, five temporary assisted-living
facilities, and three SRO facilities. The New Hope Initiative fund-
raising campaign raised $6.5 million to underwrite these new
facilities.

Meanwhile, the annual capacity of the program had grown to 600
individuals a year, more than double its previous amount, while the
staff had grown to 40 and the budget was close to $2 million.
Perhaps most significantly, Samaritan Inns is now poised to take its
three-phase approach to scale – to replicate its success in other
communities that face similar problems in breaking the cycle of
addiction and homelessness.
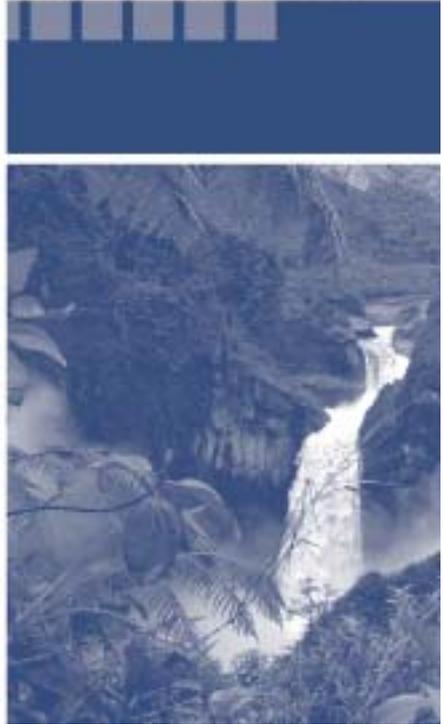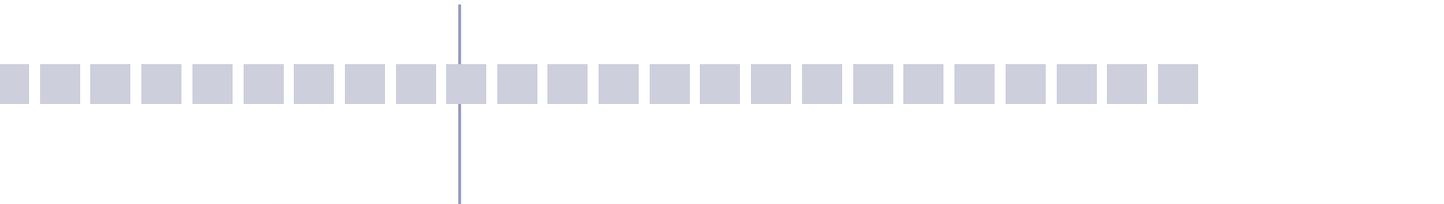
WHY CAPACITY BUILDING MATTERS – AND WHY NONPROFITS IGNORE IT

Nonprofits, just like businesses, need to focus on building the capacity of their entire organization if they want to maximize their social impact. Both board and staff need to dedicate themselves to raising capacity building to the same level of importance and attention as program development and management – to think early and often about strengthening the organization in lockstep with implementing programs. What propelled Samaritan Inns (and other leading nonprofits) to new levels of effectiveness was not any single initiative, but rather a deliberate program to enhance its capabilities at all levels, from its strategy to its systems and structure. These efforts in turn improved its ability to deliver against its aspirations.

Many organizations in the independent sector, especially smaller groups or recently founded institutions, continue to neglect building organizational capacity in favor of developing and deploying programs. Why? What barriers prevent nonprofits from embracing a more holistic view of their enterprises?

At one level, the tendency among nonprofits to favor program makes perfect sense. Most nonprofits are founded by intensely motivated individuals who are promoting a new idea: a different approach, method, or system to address some pressing social need. In the case of Samaritan Inns, for example, the programmatic innovation was the focus on providing post-rehabilitation housing and counseling for addicts. Of necessity, the start-up phase for many nonprofits revolves around testing, refining, and implementing its new idea, with the majority of the organization's resources dedicated to that task. In addition, many nonprofits aspire to achieve their missions in the not-too-distant future, so why should they invest in capacity? Finally, building capacity can be difficult, time-consuming, and expensive in the short run, and most nonprofit managers would prefer to spend their dollars on programs.

But other obstacles also face nonprofit boards or managers seeking to build capacity. For example, nonprofit culture tends to glorify program work over "back-office" functions or even higher-level institutional functions such as strategic planning. (In fact, in many for-profit and nonprofit organizations, "planning" is something of a dirty word, as it distracts from important day-to-day activities.) In addition, many nonprofit managers are generally skeptical about the relevance of business practices to nonprofit organizations.

Another important barrier impeding the ability of nonprofits to engage in capacity building is a dysfunctional funding environment. Every nonprofit manager knows that a majority of donors, both individuals and foundations, like to earmark their contributions to support particular projects or programs. The easiest dollars to raise have always been for "bricks and mortar" capital campaigns, with very tangible products, while the hardest have been for general administrative costs – including efforts to build organizational capacity. Donors fear that such contributions will serve only to hire more staff or perpetuate the institution rather than make an impact on the mission. The rise of new forms of funding, particularly venture philanthropy, has begun to lower this barrier, but given the idiosyncrasies of many major donors, it seems unlikely that this perspective will change dramatically any time soon.

Nonprofits have also been hampered in their capacity building efforts by a simple lack of knowledge. For inspiration and new ideas in an area such as fundraising, for example, nonprofits can look for guidance to a whole body of literature, the experiences of other organizations, and a robust specialty consulting market. But when it comes to nonprofit capacity building, there is no shared conceptual framework or approach that can be applied widely across the sector.

Finally – and maybe most important – establishing a direct linkage between building capacity and increased social impact has proved elusive. In a few cases, certainly, the connection is readily apparent. A food bank that improves its inventory management, for example, will deliver more food to more people more quickly. But far more often, it is difficult if not impossible to attribute increased impact to a particular capacity building effort. Take the case of Samaritan Inns, which hired an expert in 28-day rehabilitation programs as part of its overall initiative to build capacity. This individual clearly played a big role in revitalizing the institution, but how can we measure his specific contribution relative to all the other external factors – legal, economic, social – which influenced Samaritan Inns during this period?

These barriers are formidable but not insurmountable. The professionalization of nonprofit management as well as changes in the funding climate will continue to nudge nonprofit culture toward a more enlightened view of capacity building. As more organizations begin to address capacity building systematically, better information and improved measures will surface to make a more convincing connection between capacity building initiatives and social impact.

Make no mistake, although the link between increased capacity and increased impact may be hard to quantify, one does lead to the other. The executive directors of the organizations profiled in this report testify that their capacity building efforts were critical ingredients in their increased social impact, though in every case there were other contributing factors as well. For the nonprofit sector as a whole to achieve a greater social impact, more organizations must address their gaps in organizational capacity. Having honed their model or their program, they need to invest the necessary time and effort in building their organizational capacity to deliver that program more effectively and efficiently or to replicate their success in other locations. Unless they do, they will never be capable of fulfilling their promise.

Many managers and volunteers of small organizations or single-site programs take issue with this assertion. They argue that an organization created to tackle a specific problem at a specific place does not need, nor can it afford, to undertake extensive capacity building initiatives. Why would a local soup kitchen need a state-of-the-art information system or a homeless shelter a mission statement?

Although it is certainly true that the capacity needs of such operations are less than those of a large, multisite organization, any institution can benefit from a capacity building exercise. Some soup kitchens, for example, do in fact have advanced information systems, which allow them to track inventory, order efficiently from food banks, and manage food-rescue programs. The objective of any nonprofit should be to achieve the maximum social impact, not just to have some social impact.

The case studies discussed in this report validate the focus of venture philanthropists and other funders who have sought to maximize the leverage from their charitable donations by emphasizing nonprofit capacity building. Their desire to increase impact is understandable and well founded. Given the enormity and urgency of the issues that society faces, nonprofit donors can legitimately demand that organizations undertake systematic capacity building efforts to increase their effectiveness, secure in the knowledge that investments in capacity bear long-term fruit in the form of higher social impact.
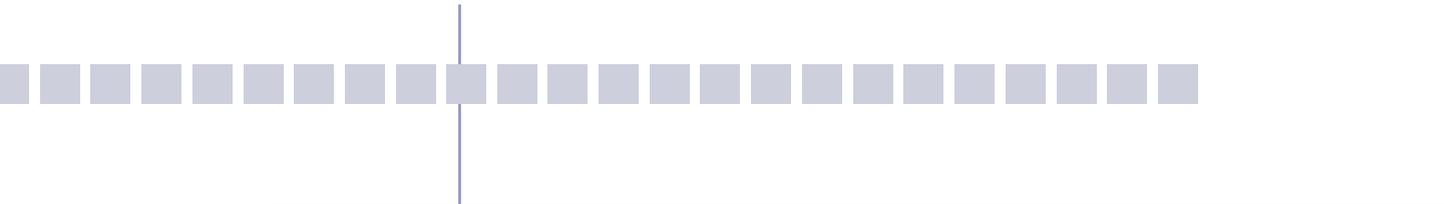
THE CAPACITY FRAMEWORK

I f building capacity is vital to the long-term health and effectiveness of nonprofit institutions, both large and small, how then can we determine the capacity gaps of a particular nonprofit? Are there common threads, common issues, a common framework for assessing capacity that cut across the full spectrum of nonprofit activity?

Capacity is one of those words that mean all things to all people, and nonprofits have approached and interpreted capacity building in many different ways. As a starting point, therefore, the team developed a "Capacity Framework" to provide a common vision and vocabulary for nonprofit capacity.

The Capacity Framework (see Exhibit on page 36), defines nonprofit capacity in a pyramid of seven essential elements: three higher-level elements – aspirations, strategy, and organizational skills – three foundational elements – systems and infrastructure, human resources, and organizational structure – and a cultural element which serves to connect all the others. The team defined these elements as follows:

- ■ *Aspirations:* An organization's mission, vision, and overarching goals, which collectively articulate its common sense of purpose and direction

- ■ *Strategy:* The coherent set of actions and programs aimed at fulfilling the organization's overarching goals

- ■ *Organizational Skills:* The sum of the organization's capabilities, including such things (among others) as performance measurement, planning, resource management, and external relationship building

- ■ *Human Resources:* The collective capabilities, experiences, potential and commitment of the organization's board, management team, staff, and volunteers

■ *Systems and Infrastructure:* The organization's planning, decision making, knowledge management, and administrative systems, as well as the physical and technological assets that support the organization

■ *Organizational Structure:* The combination of governance, organizational design, interfunctional coordination, and individual job descriptions that shapes the organization's legal and management structure

■ *Culture:* The connective tissue that binds together the organization, including shared values and practices, behavior norms, and most important, the organization's orientation towards performance.

By combining all the different elements of organizational capacity in a single, coherent diagram, the pyramid emphasizes the importance of examining each element both individually and in relation to the other elements, as well as in context of the whole enterprise. These emphases reflect a key finding of the research: many nonprofits tend to think capacity building is limited to "technical assistance" or improving the effectiveness of functions at the bottom of the pyramid – human resources or organizational structure, for example.

In fact, the case studies suggest that the greatest gains in social impact came when organizations engaged in capacity building efforts that were aligned within the pyramid. As in the case of Samaritan Inns, the organization's systems were most effective when integrated both with other lower-level capacity elements such as structure and human resources and with the higher-level elements of aspirations, strategies, and skills. Prudent nonprofit managers are therefore well advised to consider the organizationwide impact of an initiative designed to build capacity in one element and plan accordingly. Certainly, nonprofits need not attempt to fix all of the elements of capacity at once – such an effort would undoubtedly lead to institutional paralysis for the duration of the project. By the same token, they must be aware that capacity building cannot be undertaken in isolation. Far better to extend capacity building started in one element to the most pertinent interconnected capacity elements.

The team also developed the Capacity Assessment Grid (see Appendix), a diagnostic tool to measure an organization's strength along each capacity element in the Capacity Framework. In essence, this grid enables an organization to determine where it stands along the continuum of best practices for each element of capacity. A nonprofit manager can use the grid to map her organization's institutional evolution along each area – board, fund-raising, information systems, and so forth. We tested the grid with nearly a dozen nonprofit executive directors, all of whom found the exercise illuminating and relevant. In the appendix, we go into greater detail about how nonprofits can use this tool and how to interpret the data that it generates.

Aspirations

Strategies

Organizational skills

Culture

Human resources

Systems and infrastructure

Organizational structure
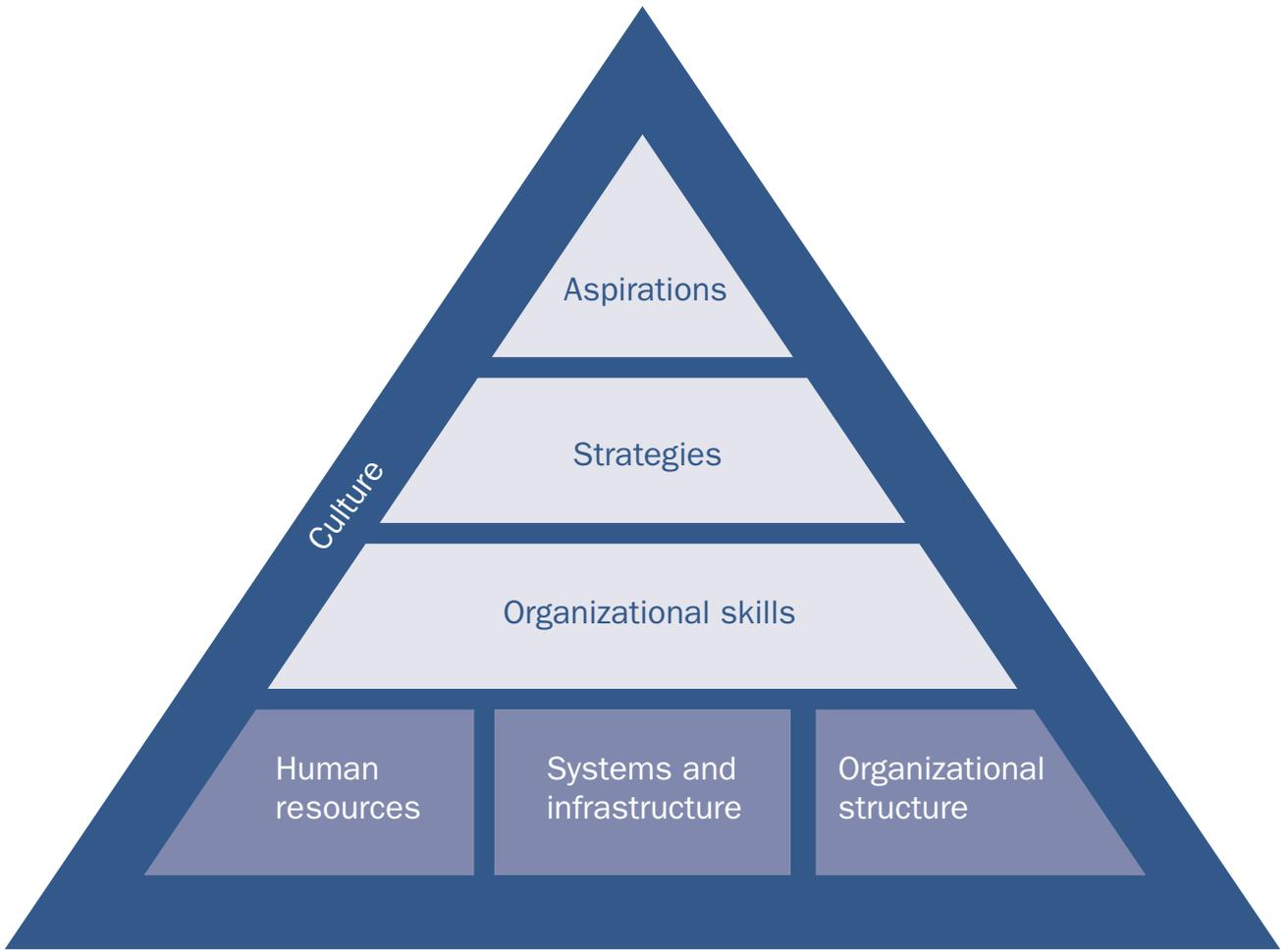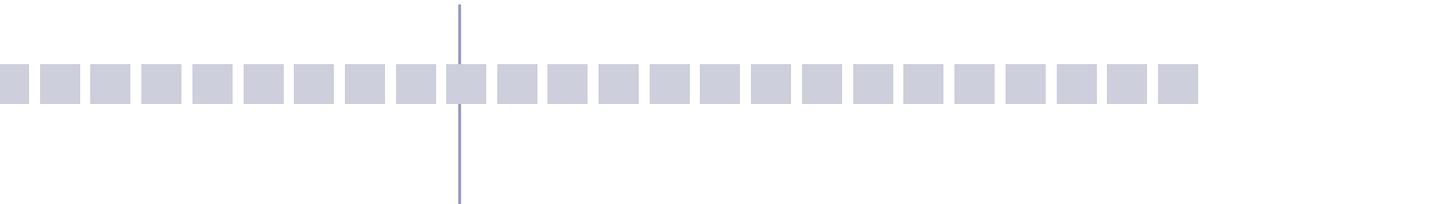
THE SEVEN ELEMENTS
OF NONPROFIT CAPACITY

The seven elements of nonprofit capacity are closely connected, and organizations need to do some serious strategic thinking about which element of capacity to build first. Nonetheless, each element is distinct. Let us now discuss each element, using case studies from the research to illustrate the key themes.

ASPIRATIONS

Influenced by corporate models, many nonprofits have adopted the standard "mission, vision, goals" structure in articulating the big-picture objectives of their enterprises. In the best organizations, these three concepts are described in clear, succinct statements of one or two sentences each, with the goals expressed in precise, measurable terms. In less disciplined organizations, the descriptions can run on for pages. To discuss these concepts – and because mission, vision, and goals all reflect aspects of overall organizational purpose – we bundled these three elements under the term "aspirations" in developing the Capacity Framework.

Nonprofits need to spend time and effort evaluating and articulating their aspirations. Aspirations inspire staff, volunteers, and donors. They define what an organization will do – and won't do. They help define an organization's overall approach and set priorities for action. They are a basis for strategy, which in turn defines the necessary organizational skills that can be delivered only with the proper design of human resources, systems, and organizational structure. In short, aspirations drive everything. According to our findings, the organizations that made the greatest gains in social impact were those which tackled high-level questions of mission, vision, and goals.

THE NATURE CONSERVANCY

The Nature Conservancy, the nation's largest private conservation group, provides an excellent case of how aligning an organization's aspirations can enhance its impact. Under the leadership of John Sawhill, a former McKinsey partner and senior government official, the Conservancy undertook no less than three major capacity building initiatives during the 1990s, all focused on aspirations-level issues. One effort rewrote the mission statement; the second produced a new conservation vision and approach; and the third set concrete organizationwide goals.

On the surface, the organization that Sawhill inherited in 1990 was thriving, having posted record revenues, membership, and number of acres acquired. The organization's basic strategy – protecting rare species of plants and animals by buying land – was time-honored and very attractive to donors. Despite these successes the Conservancy's organizational design harbored a flaw that was diluting its social impact.

Although legally a single 501(c)3 entity, the Conservancy looked and behaved more like a federation, with each autonomous state office setting its goals and priorities separately and raising its own operating funds. As a result, it was very difficult to allocate resources effectively, to mobilize resources for institutionwide priorities, or to assess organizationwide progress toward the mission. With no common objective for the entire enterprise, operating units found it difficult to cooperate on conservation initiatives that crossed multiple geopolitical boundaries.

The lack of internal cooperation was especially troublesome because advances in conservation science were driving the organization to rethink its basic conservation approach. In particular, it was clear that the mission demanded that the Conservancy protect land on much larger scales than ever, making the old capital-intensive approach of buying and managing natural areas

economically unfeasible over the long term. The future of conservation would depend upon cross-border collaboration and partnership – qualities notably lacking from the Conservancy's organizational skill base. Sawhill recognized that the Conservancy would never reach its potential until it started to act as a single institution.

Preaching the gospel of "One Conservancy," Sawhill was careful to work with and not against his organization's fiercely independent culture in rolling out his capacity building initiatives. He recognized that the organization would balk at any heavy-handed, top-down effort, and so from the start, he appealed to the organization's competitiveness, challenging it to raise the bar and increase its collective impact. Even the most independent-minded managers couldn't argue with that. From there, it was not such a great leap to secure organizational consensus that the best way to the next level of effectiveness was to focus all of the Conservancy's resources on a common vision, conservation approach, and set of goals.

Nailing down the exact details of the vision and approach was an agonizing, lengthy process. Many parts of the organization resisted surrendering local control, even in exchange for increased impact. But by 2000, after a decade of capacity building, the Conservancy had executed a remarkable makeover. Where once its mission, vision, goals, and strategies were completely disjointed, now the Conservancy has attained a large degree of strategic alignment, with every operating unit aware of its role in advancing the overall objectives of the organization.

These efforts at aligning the Conservancy's aspirations have had a dramatic impact on its conservation effectiveness. Having aligned aspirations, the Conservancy was able to develop new organizationwide initiatives such as Last Great Places, improve the recruiting and retention of top talent, and conduct more coordinated and aggressive fund-raising campaigns. As a result, in the decade since John Sawhill started down the capacity building path, the Conservancy has improved its performance on

biodiversity indicators, and its revenues, staff, and number of offices have tripled. Membership has more than doubled. Its traditional land protection activity – both through acquisition and other protection tools, including partnerships – now exceeds a million acres a year. Thanks to the unified goals and the common vision of success, the protection programs focus only on lands identified as organizationwide priorities. The Conservancy continues to expand rapidly, and is already well on its way to its goal of launching 500 new large-scale project offices by 2010.

The Conservancy is hardly unique, however, in having realized large impact gains from capacity building at the aspirational level. For instance, by including outcome measures such as "to decrease the Florida dropout rate by 1 percent" in its aspirations, Take Stock in Children, a Florida-based mentoring and scholarship program, simultaneously raised the bar and focused the efforts of that organization. Meanwhile, as the direct result of a donor-driven initiative to increase organizational capacity, America's Second Harvest, the nation's largest anti-hunger group, recently changed its mission from feeding the hungry to creating a hunger-free America. This aspirational shift has in turn compelled Second Harvest to become aggressively engaged in advocacy work, and with positive results. By exploiting the political clout of its network of local food banks, Second Harvest has been able to influence the resources allocated to federal food programs, thereby greatly leveraging its own impact.

STRATEGY

If a nonprofit's aspirations describe at a high level what the organization wishes to achieve – its purpose and objectives – *strategy* represents the means for reaching those aspirations. Optimally, organizations will implement strategies that are coherent, well integrated, and linked directly to an organization's major goals. More than simply the sum of an organization's activities, well-conceived strategies should build on a nonprofit's core competencies, allocate resources to priorities, and help delineate its unique point of differentiation.

Capacity building efforts that focus on the strategy component have typically sought to align an organization's strategies with its aspirations. This exercise serves a dual purpose: on the one hand, it can play a useful role in helping eliminate programs of limited mission impact, while on the other it allows organizations to take advantage of changed circumstances or new opportunities. But strategies also have been aligned with the rest of the organization – with skills, human resources, and so forth – to ensure the greatest chance of making a positive social impact.

TAKE STOCK IN CHILDREN

Consider the case of Take Stock in Children (TSIC), a Florida-based organization committed to reducing the high school dropout rate of children in Florida's public schools. Originally created as a program for the Pinellas County Education Foundation (PCEF) in 1991, the idea behind TSIC was to pair an at-risk elementary or middle school child with an adult mentor for one hour a week. Participants who stuck with the program throughout their school careers – and who maintained good grades while staying in school, drug-free, and out of trouble – were guaranteed college scholarships.

"We came to the conclusion that we had something unique and important to offer to the children and the communities of this state, and if we do not seize the opportunity at hand, it might not come again. The cost of such rapid expansion was uneven program quality; the benefit was that we established a new social enterprise that filled an important need."
— Don Pemberton,
Take Stock in Children

The strong interest in the TSIC program emboldened PCEF's director, Don Pemberton, to launch a separate TSIC foundation to house the program and begin statewide program expansion in 1995. Ninety-four percent of its first class completed the program and 80 percent of those students are still in college. Although these numbers were not yet available in 1995, Pemberton knew, based on his intensive experience and research, that the program would be very effective. Through a timely partnership with Barnett Bank, the largest bank in the state, and particularly because of the commitment of Barnett's chief executive, Charlie Rice, TSIC was able to undergo a period of explosive growth by forging alliances with local organizations willing to manage the TSIC program and local companies willing to support the organization. In the space of less than 10 months, TSIC expanded from a single entity to an operation with 31 locally managed affiliates servicing nearly 50 counties across the state.

Not surprisingly, however, this aggressive growth strategy brought with it a host of serious management issues. Without strong infrastructure and oversight – the consequence of inadequate capacity, caused by rapid growth – the quality of program delivery varied significantly with the capacity of the local partner. Similarly, some of the local partners experienced operational funding shortfalls, while TSIC lacked the systems to monitor its performance in any systematic fashion.

In 1997, Pemberton tackled these intertwined problems with a comprehensive capacity building effort to create a new operating strategy facilitated by an outside consulting firm. This effort began by clarifying TSIC's aspirations, which in turn formed the basis for the strategies to be developed and the related capabilities, people, systems, and structure that would be required. In addition to a refined mission and goal for TSIC (to reduce Florida's statewide dropout rate by 1 percent), this effort resulted in new performance measures applicable across all TSIC locations, an expanded, more professional staff with new skills, a new organizational structure and management processes, and targeted strategies for fund-raising and mentor recruitment.

Together these changes, affecting virtually all aspects of TSIC, constitute an entirely new business model and strategy for achieving its mission. The results speak for themselves. The number of children served has grown to 5,800 – a growth rate of 830 percent since 1995. A new board legislative committee, for example, has secured for TSIC an annual appropriation of $3 million from the state legislature, helping boost total annual revenues to $15.2 million. The headquarters staff has grown from 3 to 13, enabling far better quality control over affiliates, which themselves employ an additional 70 full-time staff. This network of partner organizations, meanwhile, has now reached 40, working in 54 counties.
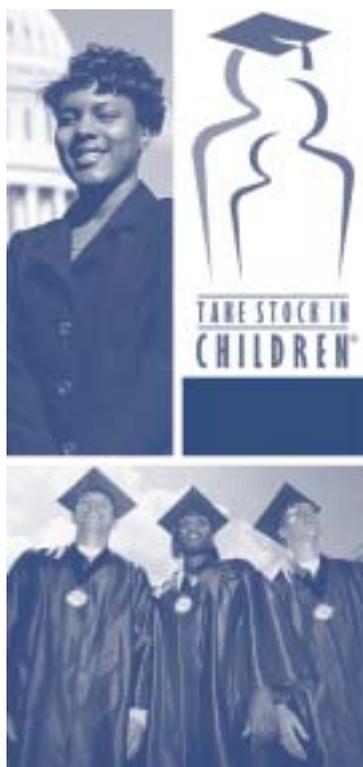
Other nonprofits have proved as willing as Take Stock in Children to reassess their organizational strategies in the interests of improving impact and adjusting to new conditions. Youth Eastside Services (YES), a Seattle-area organization that reaches out to troubled teenagers, has taken advantage of the powerful technology presence in its community by building the technology infrastructure necessary to be able to leverage the Internet to reach new and existing clients with YES's programs and services.

Meanwhile, before entering the highly competitive market in youth services in New York, the Children's Defense Fund – New York (CDF-NY) carefully devised an alliance-building strategy that allowed it to tap into the strengths of existing organizations without threatening them. Through the clever strategy of focusing on a narrow and uncontroversial issue (child health) and becoming the acknowledged expert in that topic, CDF-NY not only managed to avoid stepping on the toes of its colleagues, but in fact was able to add value to the whole sector. On the one hand, it introduced new mechanisms and arenas of interaction between child-advocacy groups in New York, and on the other hand, it helped leverage federal funds that would be used to provide health insurance for children in New York.

ORGANIZATIONAL SKILLS

For many high-performing nonprofits, the most important component of the value chain is the process through which they develop, implement, fund, and measure programs. Crafting a successful process – one that increases social impact – draws on the full range of an organization's skills, from strategic planning to marketing and fund-raising to program development and execution.

Think of an organization that has a demonstrated record of success in delivering a particular program, but has very limited skills in such areas as financial management or program evaluation – a common combination in the nonprofit sector. This skill gap inherently compromises the ability to improve and expand services to more clients. Donors and government agencies, for example, will be reluctant to dedicate significant resources to an enterprise with weak financial controls. Similarly, organizations that do not rigorously evaluate and measure the effectiveness of their programs have a hard time demonstrating the kind of tangible results that inspire donors.

THE VERA INSTITUTE OF JUSTICE

Closing the skill gap – strengthening the full range of organizational skills required for mission success, thereby increasing impact – has been the objective of a number of nonprofit capacity building initiatives. A telling case concerns the New York-based Vera Institute of Justice, which seeks to make the justice system more effective, humane, and just. Founded in 1961, Vera specializes in developing and testing innovative new approaches to issues of criminal and social justice, and then transferring responsibility for large-scale implementation to a government agency or a spinoff nonprofit.

"In most public or nonprofit service organizations, innovation is seen as a luxury, not a necessity. So it does not receive the sustained investment, management, and talent development that it requires.... For us, investment in the process of innovation itself provided the crucial breakthrough that allowed us to refine and strengthen our core capacities for new program development."
— Chris Stone,
Vera Institute of Justice

In the mid 1990s, under the leadership of chief executive Chris Stone, Vera completely redesigned its core business process to ensure that it had appropriate skills and capacity to support each step in its value chain, from planning to spinoff. Over time Vera's definition of "justice" had expanded to include, for example, environmental justice, so Stone started the redesign process by restricting Vera's programmatic focus to five closely related areas of activity: crime and victimization; policing; judicial process; sentencing and corrections; and youth safety and justice. This focusing exercise not only helped ensure that Vera did not get involved in efforts unrelated to its core competencies, but also allowed the organization to focus its intellectual capital and skills on a common set of problems.

Stone then turned to Vera's value chain. What made Vera effective? Several things, it turned out. Vera drew on high-quality research, its proposals were innovative, and it had clear expertise in running demonstration projects. Vera had a lot of experience in taking programs to scale, locally and nationally. As a result, Vera had amassed an impressive array of organizational skills – but was underleveraging these assets because it lacked the critical project management skills necessary to bind them together into a cohesive whole.

To address this problem, Stone reorganized the entire enterprise around a six-stage value chain, setting up separate departments for each. Research, for example, collects and analyzes data to inform new projects and evaluate ongoing efforts. Planning develops ideas for new programs and projects. Demonstration takes the innovations of the Planning team and translates them into on-the-ground reality. The National Assistance group works to take effective local-level demonstrations statewide or nationally, while International Assistance applies Vera's findings, experience, and process to criminal justice issues overseas. The last stage in the process is Spinoffs, which is responsible for creating viable governmental or nonprofit institutions to take on full-time implementation of successful Vera demonstration projects.

Vera actively manages itself according to this process. Every quarter, for example, Stone delivers to his board a grid that captures the current status of Vera projects and programs on a single page. Along the vertical axis are the five areas of program activity; along the horizontal axis are the six stages of program development. At a glance, board members or managers can see what project is at what stage of development. Because the process is explicitly articulated in terms of the different skills required for each stage of project development, Vera has a near-automatic mechanism for identifying and rectifying skill gaps.

Vera's capacity gains appear to have translated into better social, organizational, and financial performance. Its retooled organizational process ensures a steady stream of new projects in the pipeline – on average four new demonstration projects per year in each of its five program areas, compared with only one before its capacity building effort. Each of these innovations, furthermore, is better managed than before, with each project rigorously evaluated at each stage in the process. And Vera has been able to accelerate its deliberate strategy of spinning off projects to other entities. Before Stone arrived, Vera was spinning off a program about once every 3 years on average; the organization is now averaging one new spinoff every year. During the past 8 years Vera's net assets have grown from $9 million to $26 million.

Vera's experience underscores one additional point about building organizational skills. Many nonprofit managers interpret skills too narrowly, thinking of them as the capabilities of a particular individual rather than as organizational assets. The key to Vera's capacity leap and increased social impact was the recognition that the most important part of its value chain was knowledge – its six-step process for designing and implementing projects. Vera could then go out and acquire or build the skills it needed to excel at each step in the process.

CHILDREN'S DEFENSE FUND – NEW YORK

By contrast, when the Children's Defense Fund decided to enter the highly competitive New York child advocacy sector, the skills CDF-NY needed most related to nurturing partnerships and developing alliances. Some 5,000 separate organizations are involved in the issues of child advocacy and child welfare to one degree or another. For an outside organization, the situation was clearly fraught with peril. The opportunities to offend territorial, entrenched constituencies were legion, while it was not at all obvious what added value CDF-NY would bring to children's issues in New York.

CDF-NY's executive director, Donna Lawrence, and the deputy director, Sandy Trujillo, immediately recognized that their best chances of making an impact depended on cooperation, rather than competition, with the other child advocacy organizations in New York. Consequently, starting in 1995 they launched three separate initiatives intended to build a long-term, broad-based network of mutually beneficial alliances between CDF-NY and a wide range of partners, both public and nonprofit. The idea was to rally parties concerned with similar issues through deliberative, inclusive "win-win" arrangements, actively engaging partners in CDF-NY's projects, and maintaining regular contact with them. CDF-NY could thereby create a coalition of partners that it could mobilize to advance its institutional objectives.

Lawrence and Trujillo began by leveraging existing relationships from previous jobs to assemble a coalition of city government agencies, community-based organizations, and unions around a CDF-NY initiative to increase the percentage of children getting proper vaccines. The success of this effort – the number of vaccinated children in New York rose from 52 percent in 1995 to 85 percent today – not only helped establish CDF-NY's credibility in the child advocacy community, but also opened the eyes of Lawrence and Trujillo to the opportunities for effective advocacy that could come from mobilizing the coalition they had assembled.

Drawing on its own network, and encouraging its partners to leverage their own networks and resources, CDF-NY soon led the fight in Congress to create the Children's Health Insurance Program (CHIP) and then played a key role in developing and implementing New York's CHIP program that has served as model for the rest of the country. The Federal Government subsequently committed $2.5 billion over ten years to CHIP.

CDF-NY's commitment to building partnerships resonates in every aspect of the organization. When some perceived its relationship with government as overly cozy, it diversified its base of partners by reaching out to churches and day care centers. Working under the principle that you can accomplish amazing things if you don't care who gets the credit, CDF-NY deliberately nurtured relationships that gave partner organizations opportunities for ownership, networking, and cross-fertilization. And it maintains regular contact with coalition members through meetings, a 30,000-member mailing list, and mass faxes.

In retrospect, it is clear that key capacity building decision for CDF-NY was to hire a management team with proven credentials in New York and with the skills suitable to build a wide array of partnerships and alliances. Through exceptional inclusiveness and skillful political navigating, Lawrence and Trujillo helped to unify a diverse group of child advocacy organizations, thereby positioning CDF-NY as a focal point and leader in the child advocacy community.

HUMAN RESOURCES

People – professional staff, volunteers, board members – are the lifeblood of any nonprofit organization. An organization's human resources represent the collective capabilities and experiences of its people, and yet nonprofit organizations not only are reluctant to manage talent actively (especially compared to the private sector) but they also tend to undervalue their people. Yet, when organizations succeed in attracting talented people and unleashing their full potential, good things happen. This lesson comes through clearly in the cases of Citizen Schools, Rubicon Programs, and Powerful Schools, three organizations that focused on instituting progressive human resources practices.

CITIZEN SCHOOLS

Citizen Schools (CS) is a Boston-based organization that seeks to educate children and strengthen community ties through improved after-school programs. Its program quality depends critically on the quality of the teaching staff and volunteers, which means human resources is at the top of this organization's capacity building priorities.

Citizen Schools was launched in 1995 by Ned Rimer and Eric Schwarz, two social entrepreneurs fresh off a successful personal experience teaching public school children first-aid and journalism. They had seen what difference they could make in the lives of children in a few short hours of their innovative after-school program, but at the time Boston offered parents few high-quality or affordable after-school options.

Schwarz and Rimer's model for tackling this problem was based around a cadre of "Citizen Teachers." These volunteers would help children between the ages of 9 and 14 develop skills in such areas as leadership, writing, public speaking, and using the scientific method. By framing these activities as "apprenticeships" and making them fun and educational, Schwarz and Rimer felt that Citizen Schools could meet an unserved need and at the same time improve Boston's poor educational testing results.

Citizen Schools quickly learned that a major challenge in the after-school sector was attracting and recruiting enough talented part-time teaching staff to populate the program. Schwarz and Rimer overcame this hurdle by creating an innovative employment model that relied on staff-sharing agreements with several leading Boston-area nonprofits. Citizen Schools designed 1- to 2-year full-time positions, complete with benefits and professional development opportunities, and branded them as a prestigious "Fellows Program." Citizen Schools then sought and secured corporate funding to underwrite the program. Under this program, each Fellow splits his or her time equally between Citizen Schools and another nonprofit organization. The Fellows now comprise one-third of the Citizen Schools staff, which has risen sharply from 13 to its current level of 57.

Citizen Schools' overall investments in capacity building – including its focus on human resources – have been rewarded handsomely. On the financial front, it has leveraged its new strategic clarity and corporate partnerships into $3.5 million in additional funding. The program is reaching many more children, as well – from 560 in 1998 to more than 1,200 in 2000. In terms of social impact, Citizen Schools can point to some very promising trends. In early tests, for example, children who have gone through Citizen Schools demonstrate significant improvements in writing skills. Furthermore, the product is in demand. There has been a 50 percent increase in the number of licensed after-school slots in the Boston schools since 1995; fully one-third of the increase is attributable to Citizen Schools.

POWERFUL SCHOOLS

Other nonprofits have looked to external resources to build their human resources capacity. Powerful Schools, a Seattle-based organization that provides comprehensive education programs for small coalitions of public schools and community organizations, is an example of an enterprise that quickly and cost-effectively increased its human resources capacity by creating new volunteer opportunities for its funders and other partners. Powerful School's active management of volunteers has been a key driver in its successful effort to build capacity and deliver its program.

Powerful Schools was launched in 1992 by a group of parents and principals concerned about the quality of Seattle's public education. Its initiatives involve mobilizing local resources – parents, writers, and artists – to supplement the regular school curriculum and after-school programs. Then in 1998, Powerful Schools became a founding member in the portfolio of Seattle's Social Venture Partners (SVP), which operates a volunteer model of venture philanthropy in which the individual "Partners" donate at least $5,000 annually for at least 2 years and lend their expertise to capacity building projects at the portfolio organizations. Each portfolio organization selected by SVP receives a contribution of between $24,000 and $109,000, in addition to the expertise provided by SVP volunteers.

Powerful Schools' alliance with SVP not only infused the organization with additional financial resources, but also brought a dedicated team of volunteers with the expertise to tackle a whole range of capacity building efforts. As these efforts have come to fruition over the past 3 years, Powerful Schools has been able to expand its programs, organize new fund-raising events, implement a technology plan, and devise a plan for replicating the Powerful Schools model elsewhere. In 2000, Powerful Schools expanded its program to two Seattle-area communities. Meanwhile, to provide long-term funding for Powerful Schools, three SVP partners and the chair of the organization's board formed a development team to explore earned-income strategies. Thanks to SVP's financial support, the executive director of Powerful Schools was nominated to participate in the Denali Initiative, a 3-year intense social enterprise development program designed for leaders with demonstrated high entrepreneurial potential and ethical standards.

RUBICON PROGRAMS

Rubicon Programs of Contra Costa County, California, is another organization that has paid close attention to building its human resources capacity. Rubicon's mission is to help people who are homeless, economically disadvantaged, or disabled achieve greater independence and self-sufficiency. In the 30 years since its founding, Rubicon has engaged in programs ranging from housing and job-training services to mental health care and money management. It also owns three social-purpose businesses that employ low-income or disabled adults: a bakery, a landscaping service, and a home care business for the elderly and disabled.

These social-purpose businesses hold the key to Rubicon's innovative approach to human resources. The bakery and other businesses compete in the open marketplace, and consequently need to be professionally run to be competitive. Granted, profits are of secondary importance to helping the client population, but Rubicon cannot afford to allow these businesses to lose money. As a consequence, Rubicon places great value on ensuring that it hires professional staff with relevant business skills and experience – M.B.A.s and the like. What's more, it compensates these people well above the standard nonprofit rate, with its human resources department conducting regular salary surveys of comparable jobs in the Bay Area.

"We pay better than most nonprofits in the area and we focus on being able to attract and retain strong managers. Management really makes or breaks nonprofits"
— Dr. Rick Aubry,
Rubicon Programs

In addition to its competitive compensation policies and active recruitment of talented staff, Rubicon has adopted other human resources measures that draw heavily on best practices from the for-profit sector. It gives its managers a great deal of autonomy to run their own departments and it carefully monitors performance. All 280 Rubicon staff – managers and client-employees alike – undergo a yearly evaluation process, with the results linked to an incentive program of salary raises. In addition – and unusually in the nonprofit context – Rubicon has demonstrated a willingness to terminate staff that do not meet its performance expectations. As one outside observer noted: "Rubicon has tough standards; as a result, they have very competent managers throughout the organization."

Rubicon's enlightened approach to building human resources capacity illustrates a number of important lessons about nonprofit capacity building as a whole. For one, external pressures – in this case, competition – can help bring discipline and focus to the capacity building process. Second, its success in recruiting and retaining high-performing staff shows the value of nonprofits adopting for-profit models. Third, it demonstrates how building capacity in one area (human resources in this case) spills over into other areas of capacity. To attract talented managers, for example, Rubicon needed effective evaluation and incentive systems, as well as an organizational structure that would give managers the autonomy they craved. As we have seen before, building the capacity of one element cannot be viewed in isolation.

SYSTEMS AND INFRASTRUCTURE

Nonprofit managers often have an easier time understanding the importance of capacity building in relation to systems and infrastructure than they do with any other component of the Capacity Framework. At one level, this awareness reflects the fact that systems failures are often visible, immediate, and embarrassing for nonprofits – breakdowns such as sending a direct-mail solicitation to the chairman of the board of governors or using financial systems that can't generate timely reports. Every nonprofit CEO has encountered such frustrations personally and vowed to avoid repeating them. Building capacity to improve systems is therefore rarely a hard sell internally.

A harder task is to get nonprofits to think about building capacity across the full range of systems that support the organization. An executive director can command the membership department "to fix" a problem like unwanted solicitations of board members, but that is not capacity building. Indeed, fixing the original problem without regard to other systems invariably spawns additional problems. By contrast, the enlightened executive will recognize that such failures are symptomatic of deeper troubles in the organization, and will look instead at how the entire suite of systems works (or does not work) together.

Within the context of the Capacity Framework, systems are the processes, both formal and informal, by which the organization functions – in short, how things work. Nonprofit systems can be complex, even mystifying, especially in relation to managing decisions, knowledge, and people. Systems are also one of the more obvious levers of capacity, with nonprofits already accustomed to seeking "technical assistance" from specialized external third parties. Infrastructure, meanwhile, describes the assets that support the organization, both physical and technological. Although infrastructure is often taken for granted – the nonprofit ethic of "make do with what you have" is at work here – in fact there are strong possibilities for nonprofits to add value in this area, just as with systems.

RUBICON PROGRAMS

The value of systems comes through clearly in the case of Rubicon. Since 1994, Rubicon has undergone no less than three capacity building efforts, in large measure spurred by a key supporter, the venture philanthropy group Roberts Enterprise Development Fund (REDF). REDF funded the development of the most important systems initiative – a social impact tracking system that would allow Rubicon to quantify how well it was delivering on its aspirations in terms of changed lives. Well aware that systems enhancements have far-reaching implications, Rick Aubry paid close attention to constructing a collaborative process that would lead to actual behavioral change by the staff when rolling out this initiative.

The central feature of Rubicon's measurement system was a database to track client flows and outcomes. Before beginning to develop the software to manage this database, teams mapped the client flow through the Rubicon system and defined the key indicators that the database would track. Once the system was ready, Rubicon invested significant time training its staff in running the system and securing organizational buy-in to its value. Similar thought went to testing and actual software development.

 On the surface, it might seem that Rubicon could simply have farmed out the task of upgrading its database to a few competent programmers from an outside consulting firm. But Aubry's inspiration was to realize that this new system could and would do more than simply improve the database and better track Rubicon's results to meet the reporting requirements of funders. In addition to meeting these criteria, the increase in data transparency has enhanced the organization's ability to assess the suitability of its programs to the needs of recipients and then take action accordingly.

> *"This process led us to take a comprehensive view of our clients. We reorganized the whole flow of clients through Rubicon, stopped asking people the same questions in three different places, and created a single generic intake instead of the previous multiple, department-specific intakes."*
> — Dr. Rick Aubry,
> Rubicon Programs

Perhaps most important, this capacity building effort aimed at measuring impact has helped fundamentally reshape the organization's performance culture. This system and the high degree of attention paid to it by senior management reinforce the message that Rubicon is not building capacity for the sake building capacity, but rather for increasing the organization's social impact. Management's commitment to consistent communication about the system and its efforts to secure broad buy-in and usage (including a naming contest and launch party) have ensured that Rubicon's 280 staff clearly understand the organization's priorities. Aubry concludes: "This new system has brought about significant cultural changes internally."

The success of its capacity building efforts leaves Rubicon poised to make the jump into taking its program to scale. Its recent rapid growth – the staff has quadrupled in 6 years – and increased financial self-sufficiency – revenues have risen from $5 million in 1997 to $12 million in 2000 – tell part of the story. So too do the results for clients. By large margins, participants reported that since being hired by Rubicon's social purpose enterprises, they had experienced an increase in income, better housing, and decreased dependence on public assistance. As a final measure, increased capacity also helped Rubicon to serve more people: from 800 in 1994 to 4,000 in 2000.

CARRERA PROGRAM

For some nonprofits, building capacity in infrastructure is as important as building capacity in systems. A case in point is the program founded by Dr. Michael Carrera, a nationally respected expert on teenage sexuality. Carrera runs the National Adolescent Sexuality Training Center, a program of the Children's Aid Society that attempts to influence decision-making and behavior as a means of preventing teen pregnancy.

His approach has three main ingredients. First, it is long-term and intensive, with teens engaged in the program at least 5 days a week for as long as 5 to 8 years. Second, it features a "parallel family system" to provide teens with a stable, nurturing, family-like environment. Third, it provides participants with a comprehensive range of support services, including education, employment training, family life and sex education, medical care, and counseling.

"We have enormously benefited from the name of Children's Aid Society, a well-known organization, helping us establish quick credibility."
— Michael Carrera, National Adolescent Sexuality Training Center

This holistic approach, combined with Carrera's charismatic leadership, enabled the program to achieve remarkable success in three Children's Aid Society locations where it was offered. Teens going through the program showed decreased pregnancy and birth rates, delayed initiation of sexual intercourse, increased employment experience, and access to more comprehensive health care compared to a control group of teens.

A key to Carrera's success has been his relationship with the Children's Aid Society (CAS), which handles the infrastructure needs of this program in the same way it manages its community school program and other similar large-scale CAS programs. CAS provides the Carrera Program with office space and back-office services such as accounting, payroll, administration, and communications. In addition, CAS's name increased the local and national visibility of this pioneering enterprise. As Carrera says, "We have enormously benefited from the name of Children's Aid Society, a well-known organization, helping us establish quick credibility." CAS also provides Carrera with ongoing funding for general operating expenses. CAS has benefited from its 30-year relationship with Carrera and is seen as a social services leader in the areas of adolescent sexuality and pregnancy prevention. Carrera thus serves as a charismatic representative of CAS's work.

This arrangement has allowed the Carrera Program to focus on core functions for a growing institution – program development and fund-raising. In short, it has bought Carrera time to refine his approach and build his donor base without having to expend too much time and effort building the infrastructure necessary to support his model in the short run. Of course, Carrera cannot ignore capacity building forever, particularly now that he is looking to take his model to scale, but this example illustrates the value of mutually beneficial partnerships in strengthening capacity. Carrera is dramatically better positioned to take the next step in terms of building capacity than he was before he entered into his partnership with CAS.

ORGANIZATIONAL STRUCTURE

Along with systems improvements, nonprofits find it easiest to deal with capacity building efforts that address issues of organizational structure. Clarifying roles and responsibilities, creating new work groups or spinning off existing ones, developing and working with a board – most of these activities are familiar to nonprofit managers and therefore not overly threatening. Because so many people already equate capacity building exercises with reorganization, practitioners have even come to expect that their organizations will undergo significant structural modifications at regular intervals.

Structural "fixes" have to be taken with a grain of salt, however. A nonprofit can keep changing its organization chart every 3 months if it wants, but it will never achieve institutional alignment unless its organizational design supports not only systems and human resources, but also its aspirations, strategies, and skills. As with other components of organizational capacity, changes in an organization's structure are most effective when they are integrated with a comprehensive package of capacity building initiatives.

AMERICA'S SECOND HARVEST

From its inception in 1979, America's Second Harvest has employed a unique structural model for advancing its mission of creating a hunger-free America. Second Harvest was established to serve as the middleman between a nationwide network of local food banks on the one hand and major food producers on the other. Second Harvest collects bulk donations of food from suppliers – 400 million pounds of it each year, valued at $682 million – and then uses a state-of-the-art logistics system to allocate the food to local food banks, according to need. The food banks then distribute this food to an additional 50,000 soup kitchens, shelters, and church feeding programs, which deliver the actual service of feeding hungry people.

Second Harvest occupies a critical niche in the process of getting food from producers to the hungry. It provides a single point of contact for corporations that otherwise would have to work with hundreds of food banks. As a central repository of donated food, it can direct resources to the most needy places or respond at appropriate scale to a local food emergency. By setting national standards for food banks in areas such as food safety and handling procedures, it provides local food banks with credibility that they can leverage with local donors.

At the same time, this structure ensures that each of the local food banks retains its own identity. Food banks may well be members of the America's Second Harvest network, but first and foremost they are proud and separate entities, with their own boards and accountable to the people in their community. Many of the food banks, in fact, are powerhouse nonprofits themselves that received only modest support from Second Harvest. The Greater Chicago Food Depository, for instance, gets only 10 percent of its food from the national organization, raising the remainder locally. In trying to maximize the impact of its entire network, Second Harvest must therefore tread carefully and respect the autonomy of the local food banks.

Yet Second Harvest is unafraid to make structural changes, even if it means spending a lot of time educating and bringing along its network. A good example is the decision process that led to Second Harvest's recent merger with Foodchain, the country's largest food-rescue organization. Food-rescue programs, which transport perishable or prepared foods to the hungry before they spoil, have taken off in recent years, to the point where perishable foods are now the fastest-growing segment of the food donation universe. With its clients also agitating for more fresh food and more diverse diets, America's Second Harvest clearly understood that the food-rescue business offered a significant opportunity to increase its social impact.

But with this opportunity came challenges. At a practical level, fresh goods, with a short shelf life, pose a far greater logistical problem than bulk goods. Most of the 50,000 agencies do not have adequate refrigeration to store fresh produce, for example. Second Harvest struggled with how best to approach a move into the food-rescue business, with its options running the gamut from building in-house capacity, to relying on its network of partners to launch local food-rescue programs, to merging with Foodchain, the leading program in field.

Second Harvest chose the merger route. On the face of it, the strategic fit seems solid. The two organizations shared common aspirations, but complemented each other neatly in the areas of strategy and skills. Second Harvest saved considerable time and effort by wholly adopting Foodchain's food-rescue model; Foodchain gained financial security and the power of Second Harvest's food bank network. Foodchain's small national staff (four people) ensured that integrating the two corporate cultures would not be unduly onerous.

This structural response to changing conditions in the marketplace has positioned Second Harvest for a sharp increase in its social impact. The addition of Foodchain's local network of programs promises to increase Second Harvest's capacity, while simultaneously eliminating competition for funds and food donations. With bulk food donations hitting a plateau, the food-rescue business will likely account for much of Second Harvest's growth moving forward. However, in order to realize the new potential created, Second Harvest needs to complete its merger successfully and overcome the barriers and difficulties intrinsic in post-merger management.

Not all structural capacity building efforts need be as large or dramatic as America's Second Harvest's merger with Foodchain. For example, the "Fellows Program" at Citizen Schools and the "Powerful Writers" initiative at Powerful Schools both serve as examples of what were at their core structural inventions. Upon implementation, both of these programs turned out to generate big gains in human resources capacity and in turn increase the social impact of these organizations. In other cases, such as Vera Institute and The Nature Conservancy, spinning off parts of the organization into new, separate nonprofit entities has enabled them to stayed focused on their core competencies and thus remain effective. The point is that an organization's structure needs to be aligned with all the elements of nonprofit capacity, from the top-tier of aspirations, strategy, and skills, to systems, culture, and human resources.

CULTURE

Culture runs like an invisible thread throughout the entire subject of capacity building. How many times have we seen nonprofits go through contortions to accommodate the demands of their organization's culture? Groups like The Nature Conservancy and Second Harvest have gone to great lengths to preserve the sense of autonomy and independence of their field units, reckoning that these are a non-negotiable part of the culture. Rubicon Programs invested significant time and effort in rolling out its new tracking system so that the organization's culture would embrace and not reject it.

For nonprofits, culture plays an even more vital role than it does for businesses. The culture holds the organization together, an important reason why nonprofit employees are willing to accept relatively low pay and work so hard. Because of its pervasiveness and importance, nonprofit culture is difficult to change. The record is littered with nonprofit chief executives whose best-laid plans to build capacity foundered on the shoals of an unimpressed and tradition-bound culture. This is a shame, because organizations can strengthen their cultures just as they can strengthen any of the other components of organizational capacity. The trick lies in making changes to the culture in a way that builds positively on a shared commitment of staff and volunteers to the mission. In this arena, it is all too easy inadvertently to undermine the morale of staff and volunteers.

For purposes of this discussion, we want to distinguish between two aspects of an organization's culture: its core values, beliefs, and behavior norms, on the one hand, and its performance orientation, or "performance culture" on the other. Neither of these distinct concepts is well understood in the nonprofit sector, with many practitioners operating under the assumption that culture is little more than a composite of the various personalities, experiences, ideas, and working styles of the people inside the

organization. In fact, building a strong values-based culture – or building a strong performance culture – is a strategic, intellectual, and often difficult process. It requires a substantial commitment from the organization in terms of time and resources, but the payoff can be substantial.

CITY YEAR

> *"A powerful culture was essential for City Year, because everything mattered – we needed to be able to utilize every aspect of the organization to promote the idea of a civic year."*
> — Michael Brown, City Year

Consider the case of City Year, which seeks to engage people in a lifetime commitment to national service by tapping into the civic power and idealism of 17- to 24-year-olds for a yearlong program of full-time service, leadership development, and civic engagement. City Year was founded in 1988 as an 8-week summer program in Boston involving 50 people. It was a small, local service program with limited brand awareness and a culture that did little to hold the enterprise together.

Even so, by 1990 City Year's founders, Michael Brown and Alan Khazei, were sufficiently encouraged by the results to expand the program to a full year. But first they decided that it was essential to build a cultural framework for the organization that would serve as the backbone for setting performance expectations and operating parameters, as well as creating a consistent and visible message to the public. Thus was launched the first of two capacity building initiatives explicitly designed to strengthen City Year's culture.

Brown and Khazei started by going on an extended intellectual journey, consulting the writings of inspirational figures like Martin Luther King Jr., Robert Kennedy, and Gandhi; reading widely on topics ranging from entrepreneurship to mythology; and studying other institutions and organizations that worked extensively with young adults, such as the military, the Peace Corps, and New York City's City Volunteer Corps. They were determined to create a culture out of the whole cloth, from the very beginning, that would not only enhance the ability of City Year corps members to serve their communities, but also inculcate in corps members a lasting sense of civic responsibility.

"Over time we realized that team leaders were developing their own culture out of necessity to make the program and the organization work."
— Michael Brown,
City Year

From these deliberations arose the core values and elements of the City Year culture, along with the most visible of all symbols of the program: the uniform that all corps members wear. It's a bright red jacket bearing the City Year logo, an American flag sewn to the sleeve, khakis, Timberland boots, and a baseball hat. To Brown and Khazei, the uniform was a natural extension of the kind of civic service they were promoting. "We view national service as the civilian equivalent of the military, so the uniform was a no-brainer," Khazei recalls. Another signature element of City Year's culture with military roots is the emphasis on physical training – all corps members meet in the morning for group exercises. At the same time, the founders drew on their readings about the power of myths and common rituals, and told and retold a set of common stories that soon became embedded in the lore and values of the organization.

Brown and Khazei believed that these efforts were essential to unite a diverse organization, create an inclusive community, and promote City Year's model of service. What's more, distinctive uniforms would help ensure a consistent image and brand. The only problem was that the initial corps members hated it – especially the uniforms. At the very least, they wanted to wear their own baseball hats to retain a sense of individuality.

City Year quickly realized that it needed to make the culture tangible for all members of the organization. Working with The Monitor Group, a private consulting firm, Brown and Khazei launched a second capacity building effort to translate the culture's intellectual framework into shared practice – to institutionalize the values. They interviewed corps members and team leaders, talked about the values at every opportunity, and observed the language and rituals that each team had developed.

The uniform remained a hard sell, but for reasons of brand identity and team building, City Year ultimately kept it. But at the same time, it dedicated considerable effort to introducing a series of complementary initiatives that also sought to strengthen the

culture. For example, it created and distributed "Power Tools," a set of shared activities, rituals, and words that communicate City Year's core values and that are applied consistently across the enterprise. It developed a handbook, *Putting Idealism to Work*, which captures the collective wisdom of the organization in 180 principles. It launched City Year Academy, a training program for team leaders that places enormous emphasis on how to do things the "City Year Way." Even today, every team leader attends training every year, regardless of how long they have been with the organization.

It should come as no surprise that City Year is renowned throughout the nonprofit sector for its powerful culture and shared values, and it is by no means a stretch to suggest that much of the organization's success derives from its investment in building its culture. City Year today has 1,000 corps members working in 13 different sites. Its revenue has grown from $700,000 in 1988 to $25 million today and it enjoys the support of prominent public and private sponsors. In the first step toward Brown and Khazei's vision of universal national service, City Year served as the model for creating the AmeriCorps program.

CITIZEN SCHOOLS

Where City Year put its emphasis on creating strong shared values, other nonprofit organizations have strengthened their performance culture – and sometimes as the byproduct of other capacity building efforts. In 1999, for example, Citizen Schools initiated a capacity building plan in conjunction with the venture philan-thropy organization New Profit, Inc., which committed $1 million in cash and significant intellectual capital over 5 years. But New Profit's contribution came with strings attached. Only if Citizen Schools engaged in a systematic effort to hone its strategy and develop a growth plan – and only if it achieved predetermined performance milestones – would New Profit renew its support from year to year.

Together with The Monitor Group, Citizen Schools and New Profit have worked closely to clarify the organization's strategy and develop a "Balanced Scorecard" that translated its aspirations into a set of concrete objectives and measures. For example, the new goal of Citizen Schools is to serve 15 percent of the Boston public school population by 2003 and to become a national model for after-school programming. The key to the Balanced Scorecard, though, was its comprehensiveness. It did not stop after providing Citizen Schools with goals and measures of social impact; it also included measures for financial performance, internal processes and operations, learning, and growth and innovation.

The Scorecard now serves as a tool both for managing the organization internally and for managing the relationship with New Profit. Even New Profit's funders will only have to pay their pledged funds in later years if New Profit fulfills its own Balanced Scorecard, which in turn depends on Citizen Schools' Balanced Scorecard. The cumulative effect of all these efforts has been to create a culture of measurement and accountability throughout Citizen Schools. With the performance expectations clearly defined – and with the organization's financial health linked directly to meeting them – everyone affiliated with Citizen Schools comes to work knowing exactly what they need to do.

"The staff became attuned to looking at data every month and interpreting it. They went from data eschewers to data junkies."
— Dr. Susan Philliber, Philliber Research Associates

As with other elements in the Capacity Framework, enhancements in one area will often spill over into the others, and performance culture is no exception. In 1996, for example, the Carrera Program initiated a 3-year study with a professional social services evaluation firm to assess the social impact of the program. The purpose was to help validate the effectiveness of Carrera's approach to stopping teen pregnancy, but an unanticipated benefit was the impact on the organization's performance culture. The new emphasis on measurable outcomes led to a new appreciation of the value of good information as a management tool. As the lead evaluator commented, "The staff became attuned to looking at data every month and interpreting it. They went from data eschewers to data junkies." As a result, the Carrera Program has now embraced a performance culture dedicated to continual assessment of program effectiveness and organizational capacity.
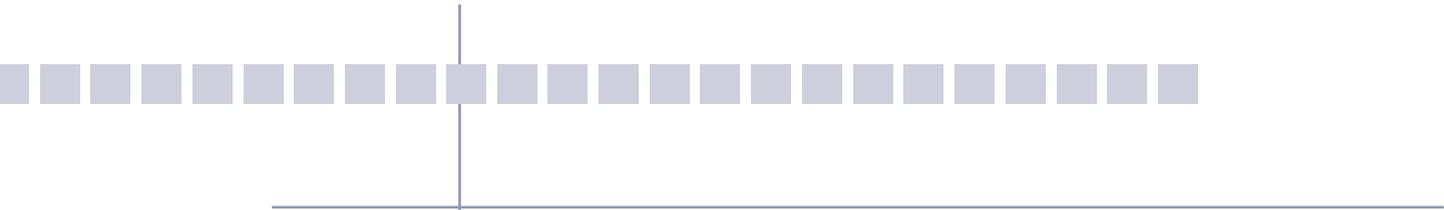
KEY SUCCESS FACTORS
AND LESSONS LEARNED

Deducing the top-level message from these case studies is not difficult. Although we acknowledge that the sample was too small to draw any concrete conclusions, the research strongly suggested that capacity building initiatives have a proven impact on nonprofit performance. The best results, meanwhile, were attained when organizations took a deliberate, proactive approach to capacity building and assessed their needs in relation to their entire enterprise. Effective capacity building, we found, is rarely confined to addressing only one of the elements in isolation; as soon as a nonprofit starts digging around in its systems, for example, it invariably discovers that it must also examine, analyze, and address the ramifications that making changes will have on the other elements. For this reason, capacity building must be firmly driven by the senior management of the organization.

In addition, three other lessons emerge that cut across the nonprofit sector, regardless of an organization's size, mission, or business model. The first lesson is that the act of resetting aspirations and strategy is often the first step toward a dramatic improvement of an organization's capacity. Quite simply, unless an organization has a clear idea of its purpose and strategy, it will never reach its full potential. The second lesson is that both leadership *and* management are important. Nonprofits need people in senior positions who are committed to taking the initiative to make capacity building happen and are willing to "own" it and drive it down through the organization. The third lesson is that you must have patience. In both the nonprofit and for-profit worlds, building capacity can take a long time and can be very frustrating.

RESETTING ASPIRATIONS AND RETHINKING STRATEGY

"I put a higher weight on mission and strategy when getting started – you build the rest as you go. It is a bit like building the boat as you are sailing – but at least you know your compass baring. Knowing where you are going will keep your keel in the water and the boat headed in the right direction."

**— Ned Rimer,
Citizen Schools**

The organizations in this study that experienced the greatest gains in capacity were those that undertook a reassessment of their aspirations – their vision of what they were attempting to accomplish in the next phase of development – and their strategy. Closely linked to this sense of purpose was the integrated set of actions designed to achieve the organization's overarching goals. Invariably, these steps provided a tight institutional focus and a road map for the organization to use with both internal and external audiences.

For evidence of the primacy of aspirations in nonprofit capacity building, look no further than the experiences of organizations like Take Stock in Children or Citizen Schools. Both organizations initially undertook capacity building initiatives without considering altering their aspirations. This is common in the sector, where aspirations – no matter how inarticulately stated – are often deemed politically untouchable. Yet as soon as managers at both of these enterprises started to examine their options for building capacity at the systems and structural level, they were driven straight to questions of mission, vision, and overarching goals.

It is important to emphasize that a new aspiration or strategy can only be transformative if it is then used to align the other aspects of organizational capacity. At Take Stock in Children, for example, aligning with the new mission meant among other things significant changes in board and staff at both headquarters and affiliates, as well as changes in systems and culture. Even now, The Nature Conservancy is struggling to align its skills, structure, and systems to deliver better on its more lofty aspirations and goals. Samaritan Inns, meanwhile, did not allow current circumstances to get in the way of its reassessment of its aspirations; indeed, in the face of crisis Samaritan Inns raised the bar on its aspirations – and then figured out how to get there.

THE ROLE OF LEADERSHIP AND MANAGEMENT

"I just did everything, and when things didn't go well, I just put in more hours. How could I stop long enough to bring people on? But now I know the beginning of wisdom is asking 'what is my organizational structure?' and then figuring out what to build."
— **Michael Carrera,
National Adolescent
Sexuality Training Center**

Most nonprofits with a long track record of tangible results have inspirational, often visionary leaders. But visionary leadership should not be confused with visionary management, and on this score, even some of the country's highest performing nonprofits fall short. Effectively resetting aspirations and strategy, institutionalizing sound management processes, improving systems to work at scale – progress on any of these requires managerial ability as well as good leadership. As Michael Carrera discovered, without strong management an organization can only go so far.

Carrera's energy and personal charisma were essential to the early success of his approach to combating teen pregnancy, but when he tried to replicate his program on a larger scale, his own managerial shortcomings and limited organizational capacity soon became evident. Carrera was open to the recommendations of the Robin Hood Foundation about how to tackle the complex management and infrastructure issues that would make or break Carrera's effort to expand. But not all nonprofit managers are so self-aware, and there is a tendency across the sector for executive directors – especially if they are the founders of the organization – to resist comprehensive capacity building exercises.

To be sure, there are other constraints that prevent nonprofit managers from taking the plunge into capacity building. It takes a certain kind of leader, or personality, to combine not only the right skills, but also the commitment to tackle capacity building proactively and be willing to push it throughout the organization. In addition, many nonprofit managers simply lack the time, money, or awareness to put adequate effort into capacity building. This point underscores the importance of "building the capacity to build capacity" – in other words, freeing up management time and organizational resources from daily responsibilities, in order to be able to focus on the bigger-picture issues of capacity building.

What organizations facing these circumstances often need is a chief operating officer – a trained professional manager who can ensure that the organization functions efficiently and effectively. This arrangement allows the chief executive – often charismatic, often the founder – to focus on promoting a common vision for the organization and on mobilizing people inside and out to take action. Based on our research, very few individuals excel from the outset at both leadership and management; in fact, as nonprofit executives who complete the capacity assessment soon learn, most organizations have a glaring capacity gap in the area high-level managerial skills. This is one capacity issue where ego often trumps effectiveness, and that should change.

THE IMPORTANCE OF PATIENCE

The last and most universal lesson is that the wise nonprofit manager takes a long-term view. Institutionalizing best practices in nonprofits through capacity building is typically a lengthy, arduous process. The Nature Conservancy has been focusing on enhancing its capacity pretty much continuously for more than a decade. Samaritan Inns is 4 years removed from the decision to cut off public funding for drug rehabilitation programs, and nonetheless still has miles to travel before it has achieved true organizational alignment. For some organizations capacity building proves to be too much of a challenge. For example BOSS, a San Francisco Bay Area self-help program, pulled out of a capacity building effort in which it had invested considerable time and effort, and which had been heavily advocated by a venture philanthropy group.

Almost everything about building capacity in nonprofits (and in for-profit companies) takes longer and is more complicated than one would expect. One reason is that organizations have traditionally underinvested in capacity, leaving them in need of improvement in virtually every area. The sad fact is that few recognize the extent of their predicament, a failing also common to capacity builders and donors. There are few quick fixes when it comes to building capacity, and in many cases it is unrealistic and often counterproductive for capacity builders to demand immediate results, reported quarterly.

Meanwhile, organizations that are part of federations or networks, like America's Second Harvest, already expend enormous effort managing the relationships with their affiliates and the network partners. Rolling out a new, networkwide capacity initiative requires extensive consultation and buy-in, adding time and cost to the project. The strong culture in nonprofits can also dilute the desired impact of capacity building, especially in organizations that are decentralized or that champion the autonomy of local operating units. Nonprofit managers therefore need to bring along their staff and volunteers carefully if they intend to make any dramatic changes.

"We often think of capacity on a single dimension – staff, computing, financial – and it is easy enough to increase any one of these. But to make a meaningful, long-term shift in organizational capacity requires a campaign on many fronts at once..."

**— Chris Stone,
Vera Institute of Justice**

Finally, in nonprofits as in for-profit firms, these issues are all intertwined. Alignment is a continuous process simply because improvements in one area or practice have a way of placing unexpected new demands on other areas, which in turn necessitate upgrading. As we argued earlier, the interconnectedness of the elements of capacity does not imply that organizations should seek to build capacity in all of them at the same time, but rather that nonprofit managers should be aware of the relationship between elements when contemplating a capacity building initiative of one sort or another. The chances of severing issues of structure, say, from systems and human resources are remote at best.
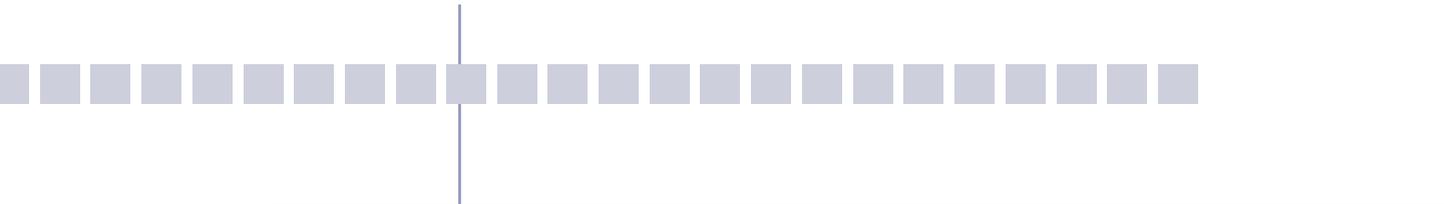
CONCLUSION

For the nonprofit manager, building organizational capacity can seem daunting indeed. It can be hard to fund, hard to launch, and hard to implement. It takes a long time and the need is not always apparent to staff, volunteers, board members, or donors. But nonprofit leaders cannot allow themselves to be dismayed by these obstacles, because nonprofits enjoy an inherent advantage. At its core, the nonprofit sector is driven by people committed to a mission and to increased social impact. Consequently, employees, board members, and donors will almost invariably respond positively to a proposal that will clearly advance the mission, no matter how radical the proposal is. That is why visionary nonprofit managers like David Erickson, Chris Stone, and Michael Carrera have placed such emphasis on developing ways of quantifying the social impact of their organizations through evaluation and research programs. Demonstrate the increased social impact from capacity building and opposition will soon fade.

Prudent leaders, of course, will avoid opposition in the first place. Instead, they will recognize the importance of building organizational capacity from the very start and make it the hallmark of their tenure. They do not wait for a crisis before addressing capacity gaps; rather, they will aggressively seek out those gaps and take measures to fill them. Capacity building does matter, and it does make a difference in a nonprofit's ability to fulfill its aspirations. The sooner nonprofits realize this and start assessing their capacity needs, and the sooner funders increase their support for capacity building efforts, the better off nonprofits – and society as a whole – will be.
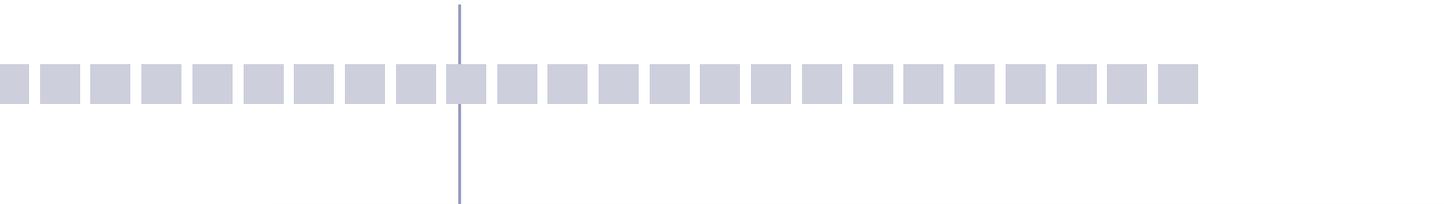
APPENDIX:
CAPACITY ASSESSMENT GRID

DESCRIPTION

■ The McKinsey Capacity Assessment Grid is a tool designed to help nonprofit organizations assess their organizational capacity. The grid should be used in conjunction with the Capacity Framework, which explains the seven elements of organizational capacity and their components. The grid asks the reader to score the organization on each element of organizational capacity, by selecting the text that best describes the organization's current status or performance. The framework and the descriptions in the grid were developed based on our team's collective experience as well as the input of many nonprofit experts and practitioners.

■ The grid may be used by nonprofit managers, staff, board members and external capacity builders and funders with the following objectives:

• To identify those particular areas of capacity that are strongest and those that need improvement

• To measure changes in an organization's capacity over time

• To draw out different views within an organization regarding its capacity; different responses to the grid among staff, Board members and funders, for example, can be a valuable discussion-starter within an organization

■ The grid is not a scientific tool, and should not be used as one. It is very difficult to quantify the dimensions of capacity, and the descriptive text under each score in the grid is not meant to be exact. The scores are meant to provide a general indication – a "temperature" taking, if you will – of an organization's capacity level, in order to identify potential areas for improvement. Furthermore, the results of the exercise should be interpreted in the context of the organizatins stage of development. For example, a score of "2" on organizational processes may be sufficient for a new organization, and this area may not merit immediate attention. In fact, many organizations may never get to level 4 on many elements.

■ This tool is meant to be a starting point only. We encourage you to adapt the grid to meet your own organization's capacity assessment needs.

INSTRUCTIONS

GUIDELINES FOR SURVEY ADMINISTRATORS

Decide for which point(s) in time you want to assess the nonprofit's organizational capacity – e.g., today, beginning of last year, 3 years ago, etc. You may choose to assess the organization at two different points in time, in order to measure changes in capacity.

Select the people whom you want to assess the nonprofit (assessors); these can include nonprofit staff members, board members, or external parties. Ideally, assessors should have a good knowledge of the organization for all points in time chosen for the assessment.

For the human resources section, decide whom you wish to evaluate in the set of rows pertaining to "CEO/ED and/or senior management team." Options include 1) CEO/ED only; 2) CEO/ED and senior management team considered collectively; 3) CEO/ED on the one hand and senior management team on the other; or 4) individuals taken separately. If you choose option 3 or 4, you may need to copy the relevant section for each separate person or group of persons covered by the assessment.

GUIDELINES FOR THOSE FILLING OUT THE SURVEY (ASSESSORS)

For each row, determine the description most suitable for the point in time chosen and write the date (e.g., 6/99) in that box. If you are also conducting the assessment for a second point in time, repeat the procedure with the corresponding date (e.g., 6/01).

Mark the box that is closest to describing the situation at hand; descriptions will rarely be perfect. Interpret the text loosely when necessary and keep in mind that you are trying to score your organization on the continuum of "1" to "4." You may select the limit between two boxes if this seems most accurate.

If a row is not relevant to the organization assessed, designate the row "N/A"; if you simply have no knowledge, mark the row "N/K."

A PDF file of the Capacity Assessment Grid can be obtained on Venture Philanthropy Partners' Web site, www.venturepp.org

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- Vision – boldness
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- – Human resources management – general staff recruiting, development, and retention
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- Performance as shared value
- Other shared beliefs and values
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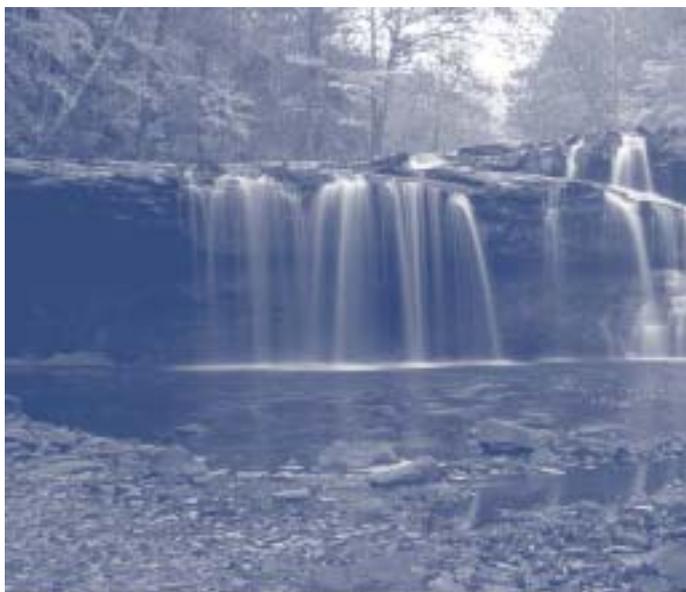
McKinsey Capacity Assessment Grid I. ASPIRATIONS	1 Clear need for increased capacity	2 Basic level of capacity in place	3 Moderate level of capacity in place	4 High level of capacity in place
Mission	No written mission or limited expression of the organization's reason for existence; lacks clarity or specificity; either held by very few in organization or rarely referred to	Some expression of organization's reason for existence that reflects its values and purpose, but may lack clarity; held by only a few; lacks broad agreement or rarely referred to	Clear expression of organization's reason for existence which reflects its values and purpose; held by many within organization and often referred to	Clear expression of organization's reason for existence which describes an enduring reality that reflects its values and purpose; broadly held within organization and frequently referred to
Vision – clarity	Little shared understanding of what organization aspires to become or achieve beyond the stated mission	Somewhat clear or specific under-standing of what organization aspires to become or achieve; lacks specificity or clarity; held by only a few; or "on the wall," but rarely used to direct actions or set priorities	Clear and specific understanding of what organization aspires to become or achieve; held by many within the organization and often used to direct actions and set priorities	Clear, specific, and compelling understanding of what organization aspires to become or achieve; broadly held within organization and consistently used to direct actions and set priorities
Vision – boldness	No clear vision articulated	Vision exists but falls short of reflecting an inspiring view of the future and of being demanding yet achievable	Vision is distinctive along only one of following two attributes: reflects an inspiring view of future; demanding yet achievable	Vision reflects an inspiring view of future and is demanding but achievable

| Overarching goals | Vision (if it exists) not explicitly translated into small set of concrete goals, though there may be general (but inconsistent and imprecise) knowledge within organization of overarching goals and what it aims to achieve | | Vision translated into a concrete set of goals; goals lack at least two of following four attributes: clarity, boldness, associated metrics, or time frame for measuring attainment; goals known by only a few, or only occasionally used to direct actions or set priorities | | Vision translated into small set of concrete goals, but goals lack at most two of following four attributes: clarity, boldness, associated metrics, or time frame for measuring attainment; goals are known by many within organization and often used by them to direct actions and set priorities | | Vision translated into clear, bold set of (up to three) goals that organization aims to achieve, specified by concrete to measure success for each criterion, and by well-defined time frames for attaining goals; goals are broadly known within organization and consistently used to direct actions and set priorities | |

McKinsey Capacity Assessment Grid

II. STRATEGY	1 Clear need for increased capacity	2 Basic level of capacity in place	3 Moderate level of capacity in place	4 High level of capacity in place
Overall strategy	Strategy is either nonexistent, unclear, or incoherent (largely set of scattered initiatives); strategy has no influence over day-to-day behavior	Strategy exists but is either not clearly linked to mission, vision, and overarching goals, or lacks coherence, or is not easily actionable; strategy is not broadly known and has limited influence over day-to-day behavior	Coherent strategy has been developed and is linked to mission and vision but is not fully ready to be acted upon; strategy is mostly known and day-to-day behavior is partly driven by it	Organization has clear, coherent medium- to long-term strategy that is both actionable and linked to overall mission, vision, and overarching goals; strategy is broadly known and consistently helps drive day-to-day behavior at all levels of organization
Goals/performance targets	Targets are non-existent or few; targets are vague, or confusing, or either too easy or impossible to achieve; not clearly linked to aspirations and strategy, and may change from year to year; targets largely unknown or ignored by staff	Realistic targets exist in some key areas, and are mostly aligned with aspirations and strategy; may lack aggressiveness, or be short-term, lack milestones, or mostly focused on "inputs" (things to do right), or often renegotiated; staff may or may not know and adopt targets	Quantified, aggressive targets in most areas; linked to aspirations and strategy; mainly focused on "outputs/outcomes" (results of doing things right) with some "inputs"; typically multiyear targets, though may lack milestones; targets are known and adopted by most staff who usually use them to broadly guide work	Limited set of quantified, genuinely demanding performance targets in all areas; targets are tightly linked to aspirations and strategy, output/outcome-focused (i.e., results of doing things right, as opposed to inputs, things to do right), have annual milestones, and are long-term nature; staff consistently adopts targets and works diligently achieve them
Program relevance and integration	Core programs and services vaguely defined and lack clear alignment with mission and goals; programs seem scattered and largely unrelated to each other	Most programs and services well defined and can be solidly linked with mission and goals; program offerings may be somewhat scattered and not fully integrated into clear strategy	Core programs and services well defined and aligned with mission and goals; program offerings fit together well as part of clear strategy	All programs and services well defined and fully aligned with mission and goals; program offering are clearly linked to one another and to overall strategy; synergies across programs are captured

Program growth and replication	No assessment of possibility of scaling up existing programs; limited ability to scale up or replicate existing programs		Limited assessment of possibility of scaling up existing programs and, even when judged appropriate, little or limited action taken; some ability either to scale up or replicate existing programs		Occasional assessment of possibility of scaling up existing programs and when judged appropriate, action occasionally taken; able to scale up or replicate existing programs		Frequent assessment of possibility of scaling up existing programs and when judged appropriate, action always taken; efficiently and effectively able to grow existing programs to meet needs of potential service recipients in local area or other geographies	
New program development	No assessment of gaps in ability of current program to meet recipient needs; limited ability to create new programs; new programs created largely in response to funding availability		Limited assessment of gaps in ability of existing program to meet recipient needs, with little or limited action taken; some ability to modify existing programs and create new programs		Occasional assessment of gaps in ability of existing program to meet recipient needs, with some adjustments made; demonstrated ability to modify and fine-tune existing programs and create new programs		Continual assessment of gaps in ability of existing programs to meet recipient needs and adjustment always made; ability and tendency efficiently and effectively to create new, truly innovative programs to the needs of potential service recipients in local area or other geographies; continuous pipeline of new ideas	

McKinsey Capacity Assessment Grid	II. STRATEGY	1 Clear need for increased capacity	2 Basic level of capacity in place	3 Moderate level of capacity in place	4 High level of capacity in place
	Funding model	Organization highly dependent on a few funders, largely of same type (e.g., government or foundations or private individuals)	Organization has access to multiple types of funding (e.g., government, foundations, corporations, private individuals) with only a few funders in each type, or has many funders within only one or two types of funders	Solid basis of funders in most types of funding source (e.g., government, foundations, corporations, private individuals); some activities to hedge against market instabilities (e.g., building of endowment); organization has developed some sustainable revenue-generating activity	Highly diversified funding across multiple source types; organization insulated from potential market instabilities (e.g., fully developed endowment) and/or has developed sustainable revenue-generating activities; other nonprofits try to imitate organization's fund-raising activities and strategies

McKinsey Capacity Assessment Grid	III. ORGANIZATIONAL SKILLS	1 Clear need for increased capacity	2 Basic level of capacity in place	3 Moderate level of capacity in place	4 High level of capacity in place
	Performance management				
	Performance measurement	Very limited measurement and tracking of performance; all or most evaluation based on anecdotal evidence; organization collects some data on program activities and outputs (e.g., number of children served) but has no social impact measurement (measurement of social outcomes, e.g., drop-out rate lowered)	Performance partially measured and progress partially tracked; organization regularly collects solid data on program activities and outputs (e.g., number of children served) but lacks data-driven, externally validated social impact measurement	Performance measured and progress tracked in multiple ways, several times a year, considering social, financial, and organizational impact of program and activities; multiplicity of performance indicators; social impact measured, but control group, longitudinal (i.e., long-term) or third-party nature of evaluation is missing	Well-developed comprehensive, integrated system (e.g., balanced scorecard) used for measuring organization's performance and progress on continual basis, including social, financial, and organizational impact of program and activities; small number of clear, measurable, and meaningful key performance indicators; social impact measured based on longitudinal studies with control groups, and performed or supervised by third-party experts
	Performance analysis and program adjustments	Few external performance comparisons made; internal performance data rarely used to improve program and organization	Some efforts made to benchmark activities and outcomes against outside world; internal performance data used occasionally to improve organization	Effective internal and external benchmarking occurs but driven largely by top management and/or confined to selected areas; learnings distributed throughout organization, and often used to make adjustments and improvements	Comprehensive internal and external benchmarking part of the culture and used by staff in target-setting and daily operations; high awareness of how all activities rate against internal and external best-in-class bench-marks; systematic practice of making adjustments and improvements on basis of benchmarking

Planning				
Monitoring of landscape	Minimal knowledge and understanding of other players and alternative models in program area	Basic knowledge of players and alternative models in program area but limited ability to adapt behavior based on acquired understanding	Solid knowledge of players and alternative models in program area; good ability to adapt behavior based on acquired understanding, but only occasionally carried out	Extensive knowledge of players and alternative models in program area; refined ability and systematic tendency to adapt behavior based on understanding
Strategic planning	Limited ability and tendency to develop strategic plan, either internally or via external assistance; if strategic plan exists, it is not used	Some ability and tendency to develop high-level strategic plan either internally or via external assistance; strategic plan roughly directs management decisions	Ability and tendency to develop and refine concrete, realistic strategic plan; some internal expertise in strategic planning or access to relevant external assistance; strategic planning carried out on a near-regular basis; strategic plan used to guide management decisions	Ability to develop and refine concrete, realistic and detailed strategic plan; critical mass of internal expertise in strategic planning, or efficient use of external, sustainable, highly qualified resources; strategic planning exercise carried out regularly; strategic plan used extensively to guide management decisions
Financial planning/ budgeting	No or very limited financial planning; general budget developed; only one budget for entire central organization; performance against budget loosely or not monitored	Limited financial plans, ad hoc update; budget utilized as operational tool; used to guide/assess financial activities; some attempt to isolate divisional (program or geographical) budgets within central budget; performance-to-budget monitored periodically	Solid financial plans, regularly updated; budget integrated into operations; reflects organizational needs; solid efforts made to isolate divisional (program or geographical) budgets within central budget; performance-to-budget monitored regularly	Very solid financial plans, continuously updated; budget integrated into full operations; as stra-tegic tool, it develops from process that incorpo-rates and reflects organiza-tional needs and objectives; well-understood divisional (pro-gram or geographical) bud-gets within overall central budget; performance-to-bud-get closely and regularly monitored

McKinsey Capacity Assessment Grid

III. ORGANIZATIONAL SKILLS	1 Clear need for increased capacity	2 Basic level of capacity in place	3 Moderate level of capacity in place	4 High level of capacity in place
Planning				
Operational planning	Organization runs operations purely on day-to-day basis with no short- or longer-term planning activities; no experience in operational planning	Some ability and tendency to develop high-level operational plan either internally or via external assistance; operational plan loosely or not linked to strategic planning activities and used roughly to guide operations	Ability and tendency to develop and refine concrete, realistic operational plan; some internal expertise in operational planning or access to relevant external assistance; operational planning carried out on a near-regular basis; operational plan linked to strategic planning activities and used to guide operations	Organization develops and refines concrete, realistic, and detailed operational plan; has critical mass of internal expertise in operational planning, or efficiently uses external, sustainable, highly qualified resources; operational planning exercise carried out regularly; operational plan tightly linked to strategic planning activities and systematically used to direct operations
Human resources planning	Organization uncovers and/or addresses HR needs only when too large to ignore; lack of HR planning activities and expertise (either internal or accessible external); no experience in HR planning	Some ability and tendency to develop high-level HR plan either internally or via external assistance; HR plan loosely or not linked to strategic planning activities and roughly guides HR activities	Ability and tendency to develop and refine concrete, realistic HR plan; some internal expertise in HR planning or access to relevant external assistance; HR planning carried out on near-regular basis; HR plan linked to strategic planning activities and used to guide HR activities	Organization is able to develop and refine concrete, realistic, and detailed HR plan; has critical mass of internal expertise in HR planning (via trained, dedicated HR manager), or efficiently uses external, sustainable, highly qualified resources; HR planning exercise carried out regularly; HR plan tightly linked to strategic planning activities and systematically used to direct HR activities

Fund-raising and revenue generation							
Fund-raising	Generally weak fund-raising skills and lack of expertise (either internal or access to external expertise)		Main fund-raising needs covered by some combination of internal skills and expertise, and access to some external fund-raising expertise		Regular fund-raising needs adequately covered by well developed internal fund-raising skills, occasional access to some external fund-raising expertise		Highly developed internal fund-raising skills and expertise in all funding source types to cover all regular needs; access to external expertise for additional extraordinary needs
Revenue generation	No internal revenue-generation activities; concepts such as cause-related marketing, fee-for-services and retailing are neither explored nor pursued		Some internal revenue-generation activities, however financial net contribution is marginal; revenue-generation activities distract from programmatic work and often tie up senior management team		Some proven internal revenue-generation activities and skills; these activities provide substantial additional funds for program delivery, but partially distract from programmatic work and require significant senior management attention		Significant internal revenue-generation; experienced and skilled in areas such as cause-related marketing, fee-for-services and retailing; revenue-generating activities support, but don't distract from focus on creating social impact
External relationship building and management							
Partnerships and alliances development and nurturing	Limited use of partnerships and alliances with public sector, nonprofit, or for-profit entities		Early stages of building relation-ships and collaborating with other for-profit, nonprofit, or public sector entities		Effectively built and leveraged some key relationships with few types of relevant parties (for-profit, public, and nonprofit sector entities); some relations may be precarious or not fully "win-win"		Built, leveraged, and maintained strong, high-impact, relationships with variety of relevant parties (local, state, and federal government entities as well as for-profit, other nonprofit, and community agencies); relationships deeply anchored in stable, long-term, mutually beneficial collaboration

McKinsey Capacity Assessment Grid	III. ORGANIZATIONAL SKILLS	1 Clear need for increased capacity	2 Basic level of capacity in place	3 Moderate level of capacity in place	4 High level of capacity in place
	Local community presence and involvement	Organization's presence either not recognized or generally not regarded as positive; few members of local community (e.g., academics, other nonprofit leaders) constructively involved in the organization	Organization's presence somewhat recognized, and generally regarded as positive within the community; some members of larger community constructively engaged with organization	Organization reasonably well-known within community, and perceived as open and responsive to community needs; members of larger community (including a few prominent ones) constructively involved in organization	Organization widely known within larger community, and perceived as actively engaged with and extremely responsive to it; many members of the larger community (including many prominent members) actively and constructively involved in organization (e.g., board, fund-raising)
	Other organizational skills				
	Public relations and marketing	Organization makes no or limited use of PR/marketing; general lack of PR/marketing skills and expertise (either internal or accessible external or expertise	Organization takes oppor-tunities to engage in PR/marketing as they arise; some PR/ marketing skills and experience within staff or via external assistance	Organization considers PR/ marketing to be useful, and actively seeks opportunities to engage in these activities; critical mass of internal expertise and experience in PR/marketing or access to relevant external assistance	Organization fully aware of power of PR/marketing activities, and continually and actively engages in them; broad pool of nonprofit PR/marketing expertise and experience within organization or efficient use made of external, sustainable, highly qualified resources
	Influencing of policy-making	Organization does not have ability or is unaware of possibilities for influencing policy-making; never called in on substantive policy-discussions	Organization is aware of its possibilities in influencing policy-making; some readiness and skill to participate in policy-discussion, but rarely invited to substantive policy discussions	Organization is fully aware of its possibilities in influencing policy-making and is one of several organizations active in policy-discussions on state or national level	Organization pro-actively and reactively influences policy-making, in a highly effective manner, on state and national levels; always ready for and often called on to participate in substantive policy discussion and at times initiates discussions

Management of legal and liability matters	Organization does not anticipate legal issues, but finds help and addresses issues individually when they arise; property insurance includes liability component	Legal support resources identified, readily available, and employed on "as needed" basis; major liability exposures managed and insured (including property liability and workers compensation)	Legal support regularly available and consulted in planning; routine legal risk management and occasional review of insurance	Well-developed, effective, and efficient internal legal infrastructure for day-to-day legal work; additional access to general and specialized external expertise to cover peaks and extraordinary cases; continuous legal risk management and regular adjustment of insurance
Organizational processes use and development	Limited set of processes (e.g., decision making, planning, reviews) for ensuring effective functioning of the organization; use of processes is variable, or processes are seen as ad hoc requirements ("paperwork exercises"); no monitoring or assessment of processes	Basic set of processes in core areas for ensuring efficient functioning of organization; processes known, used, and truly accepted by only portion of staff; limited monitoring and assessment of processes, with few improvements made in consequence	Solid, well-designed set of processes in place in core areas to ensure smooth, effective functioning of organization; processes known and accepted by many, often used and contribute to increased impact; occasional monitoring and assessment of processes, with some improvements made	Robust, lean, and well-designed set of processes (e.g., decision making, planning, reviews) in place in all areas to ensure effective and efficient functioning of organization; processes are widely known, used and accepted, and are key to ensuring full impact of organization; continual monitoring and assessment of processes, and systematic improvement made

McKinsey Capacity Assessment Grid	IV. HUMAN RESOURCES	1 Clear need for increased capacity	2 Basic level of capacity in place	3 Moderate level of capacity in place	4 High level of capacity in place
	Staffing levels	Many positions within and peripheral to organization (e.g., staff, volunteers, board, senior management) are unfilled, inadequately filled, or experience high turnover and/or poor attendance	Most critical positions within and peripheral to organization (e.g., staff, volunteers, board, senior management) are staffed (no vacancies), and/or experience limited turnover or attendance problems	Positions within and peripheral to organization (e.g., staff, volunteers, board, senior management) are almost all staffed (no vacancies); few turnover or attendance problems	Positions within and peripheral to organization (e.g., staff, volunteers, board, senior management) are all fully staffed (no vacancies); no turnover or attendance problems
	Board – composition and commitment	Membership with limited diversity of fields of practice and expertise; drawn from a narrow spectrum of constituencies (from among nonprofit, academia, corporate, government, etc.); little or no relevant experience; low commitment to organization's success, vision and mission; meetings infrequent and/or poor attendance	Some diversity in fields of practice; membership represents a few different constituencies (from among nonprofit, academia, corporate, government, etc.); moderate commitment to organization's success, vision and mission; regular, purposeful meetings are well-planned and attendance is good overall	Good diversity in fields of practice and expertise; membership represents most constituencies (nonprofit, academia, corporate, government, etc.); good commitment to organization's success, vision and mission, and behavior to suit; regular, purposeful meetings are well-planned and attendance is consistently good, occasional subcommittee meetings	Membership with broad variety of fields of practice and expertise, and drawn from the full spectrum of constituencies (nonprofit, academia, corporate, government, etc.); includes functional and program content-related expertise, as well as high-profile names; high willingness and proven track record of investing in learning about the organization and addressing its issues; outstanding commitment to the organization's success, mission and vision; meet in person regularly, good attendance, frequent meetings of focused subcommittees

Board – involvement and support	Provide little direction, support, and accountability to leadership; board not fully informed about 'material' and other major organizational matters; largely "feel-good" support		Provide occasional direction, support and accountability to leadership; informed about all 'material' matters in a timely manner and responses/decisions actively solicited		Provide direction, support and accountability to programmatic leadership; fully informed of all major matters, input and responses actively sought and valued; full participant in major decisions		Provide strong direction, support, and accountability to programmatic leadership and engaged as a strategic resource; communication between board and leadership reflects mutual respect, appreciation for roles and responsibilities, shared commitment and valuing of collective wisdom	
CEO/executive director and/ or senior management team								
Passion and vision	Low energy level and commitment; little continued attention to organizational vision		Good energy level; visible commitment to organization and its vision		Inspiringly energetic; shows constant, visible commitment to organization and its vision; excites others around vision		Contagiously energetic and highly committed; lives the organization's vision; compellingly articulates path to achieving vision that enables others to see where they are going	

McKinsey Capacity Assessment Grid	**IV. HUMAN RESOURCES**	**1 Clear need for increased capacity**	**2 Basic level of capacity in place**	**3 Moderate level of capacity in place**	**4 High level of capacity in place**
	CEO/executive director and/ or senior management team				
	Impact orientation	Focused purely on social impact; financials viewed as an unfortunate constraint; fails to deliver impact consistently; delays decision making; reluctant to change status quo; mandates rather than leads change	Focused on social impact with some appreciation for cost-effectiveness when possible; constantly delivers satisfactory impact given resources; promptly addresses issues; understands implications and impact of change on people	Sees financial soundness as essential part of organizational impact, together with social impact; focuses on ways to better use existing resources to deliver highest impact possible; has a sense of urgency in addressing issues and rapidly moves from decision to action; develops and implements actions to overcome resistance to change	Guides organiza-tion to succeed simultaneously in dual mission of social impact and optimal financial efficiency; constantly seeks and finds new opportunities to improve impact; anticipates possible problems; has sense of urgency about upcoming challenges; communicates compelling need for change that creates drive; aligns entire organization to support change effort
	People and organizational leadership/ effectiveness	Has difficulty building trust and rapport with others; micromanages projects; shares little of own experiences as developmental/coaching tool	Is responsive to opportunities from others to work together; expresses confidence in others' ability to be successful; shares own experience and expertise	Actively and easily builds rapport and trust with others; effectively encourages others to succeed; gives others freedom to work their own way; gives people freedom to try out ideas and grow	Constantly establishing successful, win-win relationships with others, both within and outside the organization; delivers consistent, positive and reinforcing messages to motivate people; able to let others make decisions and take charge; finds or creates special opportunities to promote people's development

Personal and interpersonal effectiveness	Fails to show respect for others consistently, may be openly judgmental or critical; has difficulty influencing without using power, limited charisma or influence; limited curiosity about new ideas and experiences	Earns respect of others, takes time to build relationships; has presence, is able to influence and build support using limited communication style; accepts learning and personal development opportunities that arise	Is respected and sought out by others for advice and counsel; has strong presence and charisma; uses multiple approaches to get buy-in, appreciates the impact of his/her words or actions; seeks new learning and personal development opportunities	Is viewed as outstanding "people person"; uses diversity of communication styles, including exceptional charisma, to inspire others and achieve impact; continually self-aware, actively works to better oneself; outstanding track record of learning and personal development
Analytical and strategic thinking	Is uncomfortable with complexity and ambiguity and does whatever possible to reduce or avoid it; relies mainly on intuition rather than strategic analysis	Is able to cope with some complexity and ambiguity; able to analyze strategies but does not yet generate strategies	Quickly assimilates complex information and able to distill it to core issues; welcomes ambiguity and is comfortable dealing with the unknown; develops robust strategies	Has keen and exceptional ability to synthesize complexity; makes informed decisions in ambiguous, uncertain situations; develops strategic alternatives and identifies associated rewards, risks, and actions to lower risks
Financial judgment	Has difficulty considering financial implications of decisions	Draws appropriate conclusions after studying all the facts; understands basic financial concepts and drives for financial impact of major decisions	Has sound financial judgment; consistently considers financial implications of decisions	Has exceptional financial judgment; has keen, almost intuitive sense for financial implications of decisions

McKinsey Capacity Assessment Grid	IV. HUMAN RESOURCES	1 Clear need for increased capacity	2 Basic level of capacity in place	3 Moderate level of capacity in place	4 High level of capacity in place
	CEO/executive director and/ or senior management team				
	Experience and standing	Limited experience in nonprofit management and few relevant capabilities from other field(s); little evidence of social entrepreneur-like qualities; limited recognition in the nonprofit community	Some relevant experience in nonprofit management; some relevant capabilities from other field(s); emerging social entrepreneur-like qualities; some local recognition in the nonprofit community	Significant experience in nonprofit management; many relevant capabilities from other field(s); significant evidence of social entrepreneur-like qualities; some national recognition as a leader/shaper in particular sector	Highly experienced in nonprofit management; many distinctive capabilities from other field(s) (e.g., for-profit, academia); exceptional evidence of social entrepreneur-like qualities; possesses a comprehensive and deep understanding of the sector; recognized nationally as a leader/shaper in particular sector
	Management team and staff – dependence on CEO/executive director	Very strong dependence on CEO/executive director; organization would cease to exist without his/her presence	High dependence on CEO/ executive director; organization would continue to exist without his/her presence, but likely in a very different form	Limited dependence on CEO/executive director; organization would continue in similar way without his/her presence but areas such as fund-raising or operations would likely suffer significantly during transition period; no member of management team could potentially take on CEO/ED role	Reliance but not dependence on CEO/ executive director; smooth transition to new leader could be expected; fund-raising and operations likely to continue without major problems; senior management team can fill in during transition time; several members of manage-ment team could potentially take on CEO/ED role

Senior management team	Team has no or very limited experience in nonprofit or for-profit management; team represents few constituencies (nonprofit, academia, corporate, government, etc.) and has no or very limited capabilities and track record from other fields; limited track record of learning and personal development; mostly energetic and committed		Team has some experience in nonprofit or for-profit management; team represents some constituencies (nonprofit, academia, corporate, government, etc.); some relevant capabilities and track record from other fields; good track record of learning and personal development; energetic and committed		Team has significant experience in nonprofit or for-profit management; team represents most constituencies (nonprofit, academia, corporate, government, etc.); significant relevant capabilities and track record from other fields; good track record of learning and personal development; highly energetic and committed		Team highly experienced in nonprofit or for-profit management; drawn from full spectrum of constituencies (nonprofit, academia, corporate, government, etc.); outstanding capabilities and track record from other fields; outstanding track record of learning and personal development; contagiously energetic and committed	
Staff	Staff drawn from a narrow range of backgrounds and experiences; interest and abilities limited to present job; little ability to solve problems as they arise		Some variety of staff backgrounds and experiences; good capabilities, including some ability to solve problems as they arise; many interested in work beyond their current jobs and in the success of the organization's mission		Staff drawn from diverse backgrounds and experiences, and bring a broad range of skills; most are highly capable and committed to mission and strategy; eager to learn and develop, and assume increased responsibility		Staff drawn from extraordinarily diverse backgrounds and experiences, and bring broad range of skills; most staff are highly capable in multiple roles, committed both to mission/ strategy and continuous learning; most are eager and able to take on special projects and collaborate across divisional lines; staff are frequent source of ideas and momentum for improvement and innovation	

McKinsey Capacity Assessment Grid	IV. HUMAN RESOURCES	1 Clear need for increased capacity	2 Basic level of capacity in place	3 Moderate level of capacity in place	4 High level of capacity in place
	Volunteers	Limited abilities; may be unreli-able or have low commitment; volunteers are poorly managed	Good abilities; mostly reliable, loyal, and committed to organization's success; volunteers managed but without standards and little accountability	Very capable set of individuals, bring required skills to organization; reliable, loyal and highly committed to organization's success and to "making things happen"; work easily with most staff, but do not generally play core roles without substantial staff supervision; volunteers are managed and contribute to the overall success of the organization	Extremely capable set of individuals, bring complementary skills to organization; reliable, loyal, highly committed to organization's success and to "making things happen"; often go beyond call of duty; able to work in a way that serves organization well, including ability to work easily with wide range of staff and play core roles without special supervision; volunteers managed very well and significantly contribute to overall success of organization

McKinsey Capacity Assessment Grid

IV. SYSTEMS AND INFRA-STRUCTURE	1 Clear need for increased capacity	2 Basic level of capacity in place	3 Moderate level of capacity in place	4 High level of capacity in place
Systems				
Planning systems	Planning happens on an ad hoc bases only and is not supported by systematically collected data	Planning done regularly and uses some systematically collected data	Regular planning complemented by ad hoc planning when needed; some data collected and used systematically to support planning effort and improve it	Regular planning complemented by ad hoc planning when needed; clear, formal systems for data collection in all relevant areas; data used systematically to support planning effort and improve it
Decision making framework	Decisions made largely on an ad hoc basis by one person and/or whomever is accessible; highly informal	Appropriate decision makers known; decision making process fairly well established and process is generally followed, but often breaks down and becomes informal	Clear, largely formal lines/ systems for decision making but decisions are not always appropriately implemented or followed; dissemination of decisions generally good but could be improved	Clear, formal lines/ systems for decision making that involve as broad participation as practical and appropriate along with dissemination/ interpretation of decision
Financial operations management	Gifts and grants deposited and acknowledged, bills paid, supporting documentation collected/retained	Financial activities transparent, clearly and consistently recorded and documented, include appropriate checks and balances, and tracked to approve budget	Formal internal controls governing all financial operations; fully tracked, supported and reported, annually audited fund flows well managed; attention is paid to cash flow management	Robust systems and controls in place governing all financial operations and their integration with budgeting, decision making, and organizational objectives/strategic goals; cash flow actively managed

Human resources management – management recruiting, development, and retention	Standard career paths in place without considering managerial development; no or very limited training, coaching, and feedback; no regular performance appraisals; no systems/processes to identify new managerial talent	Some tailoring of development plans for brightest stars; personal annual reviews incorporate development plan for each manager; limited willingness to ensure high-quality job occupancy; some formal recruiting networks are in place	Recruitment, development, and retention of key managers is priority and high on CEO/executive director's agenda; some tailoring in development plans for brightest stars; relevant training, job rotation, coaching/feedback, and consistent performance appraisal are institutionalized; genuine concern for high-quality job occupancy; well connected to potential sources of new talent	Well-planned process to recruit, develop, and retain key managers; CEO/executive director takes active interest in managerial development; individually tailored development plans for brightest stars; relevant and regular internal and external training, job rotation, coaching/feedback, and consistent performance appraisal are institutionalized; proven willingness to ensure high-quality job occupancy; well-connected to potential sources of new talent
Human resources management – general staff recruiting, development, and retention	Standard career paths in place without considering staff development; limited training, coaching and feedback; no regular performance appraisals; no systems/processes to identify new talent	No active development tools/ programs; feedback and coaching occur sporadically; performance evaluated occasionally; limited willingness to ensure high-quality job occupancy; sporadic initiatives to identify new talent	Limited use of active develop-ment tools/programs; frequent formal and informal coaching and feedback; performance regularly evaluated and discussed; genuine concern for high-quality job occupancy; regular concerted initiatives to identify new talent	Management actively interested in general staff development; well-thought-out and targeted development plans for key employees/positions; frequent, relevant training, job rotation, coaching/ feedback, and consistent performance appraisal institutionalized; proven willingness to ensure high-quality job occupancy; continuous, proactive initiatives to identify new talent

McKinsey Capacity Assessment Grid

IV. SYSTEMS AND INFRA-STRUCTURE	1 Clear need for increased capacity	2 Basic level of capacity in place	3 Moderate level of capacity in place	4 High level of capacity in place
Systems				
Human resources management – incentives	No incentive system to speak of; or incentive system that is ineffective and/or generates bad will	Some basic elements of incentive system in place; may include one of following: competitive salary (possibly partly performance-based), attractive career development options, or opportunities for leadership and entrepreneurship; some evidence of motivational effect on staff performance	Many elements of incentive system in place; includes a few of following: competitive salary (partly performance-based), attractive career development options, opportunities for leadership and entrepreneurship; obvious effect in motivating staff to overdeliver	Well-designed, clear, and well-accepted incentive system; includes competitive salary (partly performance-based), attractive career development options, opportunities for leadership and entrepreneurship; system effective in motivating staff to overdeliver in their job
Knowledge management	No formal systems to capture and document internal knowledge	Systems exist in a few areas but either not user-friendly or not comprehensive enough to have an impact; systems known by only a few people, or only occasionally used	Well-designed, user-friendly systems in some areas; not fully comprehensive; systems are known by many people within the organization and often used	Well-designed, user-friendly, comprehensive systems to capture, document, and disseminate knowledge internally in all relevant areas; all staff is aware of systems, knowledgeable in their use, and make frequent use of them

Infrastructure				
Physical infrastructure – buildings and office space	Inadequate physical infra-structure, resulting in loss of effectiveness and efficiency (e.g., unfavorable locations for clients and employees, insufficient workspace for individuals, no space for teamwork)	Physical infra-structure can be made to work well enough to suit organization's most important and immediate needs; a number of improvements could greatly help increase effectiveness and efficiency (e.g., no good office space for teamwork, no possibility of holding confidential discussions, employees share desks)	Fully adequate physical infra-structure for the current needs of the organization; infrastructure does not impede effectiveness and efficiency (e.g., favorable locations for clients and employees, sufficient individual and team office space, possibility for confidential discussions)	Physical infra-structure well-tailored to organization's current and anticipated future needs; well-designed and thought out to enhance organization's efficiency and effectiveness (e.g., especially favorable locations for clients and employees, plentiful team office space encourages teamwork, layout increases critical interactions among staff)
Technological infrastructure – telephone/fax	Status, lack of sophistication, or limited number of telephone and fax facilities are an impediment to day-to-day effectiveness and efficiency	Adequate basic telephone and fax facilities accessible to most staff; may be moderately reliable or user-friendly, or may lack certain features that would increase effectiveness and efficiency (e.g., individual voice-mail), or may not be easily accessible to some staff (e.g. front-line deliverers)	Solid basic telephone and fax facilities accessible to entire staff (in office and at front line); cater to day-to-day communication needs with essentially no problems; includes additional features contributing to increased effectiveness and efficiency (e.g., individual, remotely accessible voice-mail)	Sophisticated and reliable telephone and fax facilities accessible by all staff (in office and at frontline), includes around-the-clock, individual voice mail; supplemented by additional facilities (e.g., pagers, cell phones) for selected staff; effective and essential in increasing staff effectiveness and efficiency

McKinsey Capacity Assessment Grid

IV. SYSTEMS AND INFRA-STRUCTURE	1 Clear need for increased capacity	2 Basic level of capacity in place	3 Moderate level of capacity in place	4 High level of capacity in place
Infrastructure				
Technological infrastructure – computers, applications, network, and e-mail	Limited/no use of computers or other technology in day-to-day activity; and/or little or no usage by staff of existing IT infrastructure	Well-equipped at central level; incomplete/limited infrastructure at locations aside from central offices; equipment sharing may be common; satisfactory use of IT infrastructure by staff	Solid hardware and software infrastructure accessible by central and local staff; no or limited sharing of equipment is necessary; limited accessibility for frontline program deliverers; high usage level of IT infrastructure by staff; contributes to increased efficiency	State-of-the-art, fully networked computing hardware with comprehensive range of up-to-date software applications; all staff has individual computer access and e-mail; accessible by frontline program deliverers as well as entire staff; used regularly by staff; effective and essential in increasing staff efficiency
Technological infrastructure – Web site	Organization has no individual Web site	Basic Web site containing general information, but little information on current developments; site maintenance is a burden and performed only occasionally	Comprehensive Web site containing basic information on organization as well as up-to-date latest developments; most information is organization-specific; easy to maintain and regularly maintained	Sophisticated, comprehensive and interactive Web site, regularly maintained and kept up to date on latest area and organization developments; praised for its user-friendliness and depth of information; includes links to related organizations and useful resources on topic addressed by organization

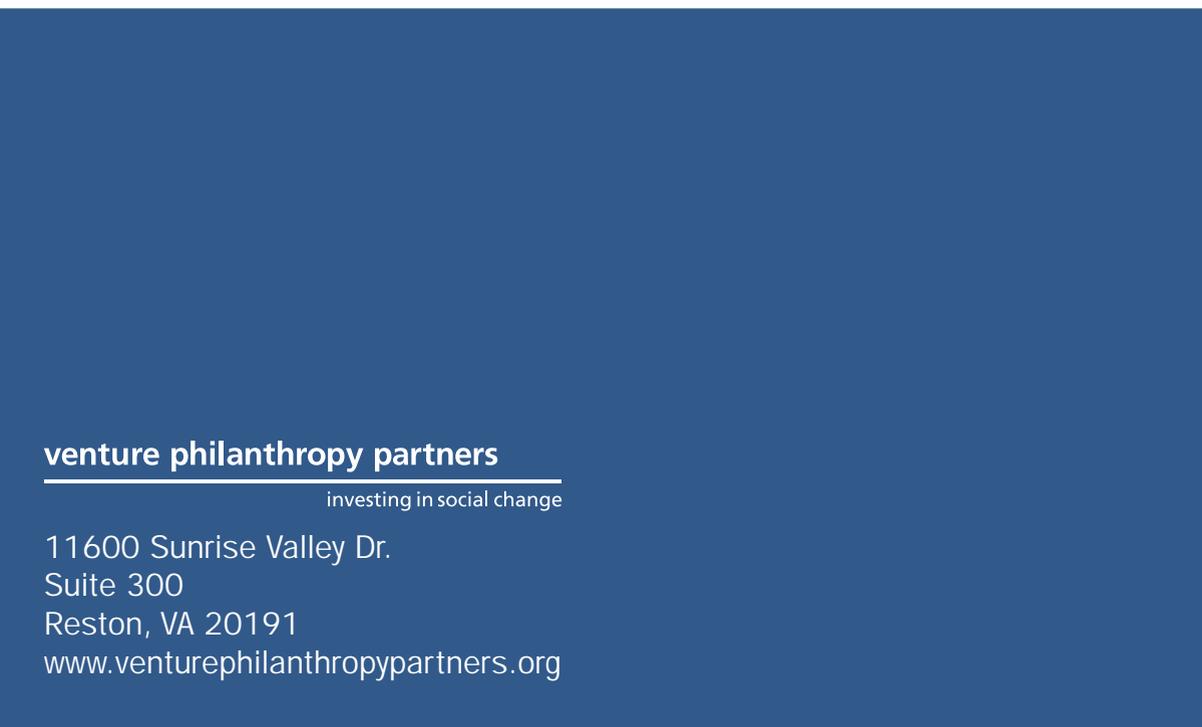| Technological infrastructure – databases and management reporting systems	No systems for tracking clients, staff volunteers, program outcomes and financial information		Electronic data-bases and management reporting systems exist only in few areas; systems perform only basic features, are awkward to use or are used only occasionally by staff		Electronic data-base and management reporting systems exist in most areas for tracking clients, staff, volunteers, program outcomes and financial information; commonly used and help increase information sharing and efficiency		Sophisticated, comprehensive electronic database and management reporting systems exist for tracking clients, staff, volunteers, program outcomes and financial information; widely used and essential in increasing information sharing and efficiency	

McKinsey Capacity Assessment Grid

VI. ORGANIZATIONAL STRUCTURE	1 Clear need for increased capacity	2 Basic level of capacity in place	3 Moderate level of capacity in place	4 High level of capacity in place
Board governance	Board does not scrutinize budgets or audits, does not set performance targets and hold CEO/ED accountable or does not operate according to formal procedures; executive, treasury, and board functions unclear	Roles of legal board, advisory board and management are clear; board functions according to by-laws, reviews budgets, and occasionally sets organizational direction and targets, but does not regularly review CEO/ED performance, monitor potential conflicts of interest, scrutinize auditors, or review IRS and state filings	Roles of legal board, advisory board, and managers are clear and function well; board reviews budgets, audits, IRS and state filings; size of board set for maximum effectiveness with rigorous nomination process; board co-defines performance targets and actively encourages CEO/ED to meet targets; annual review of CEO's performance, but board not prepared to hire or fire CEO	Legal board, advisory board and managers work well together from clear roles; board fully understands and fulfills fiduciary duties; size of board set for maximum effectiveness with rigorous nomination process; board actively defines performance targets and holds CEO/ED fully accountable; board empowered and prepared to hire or fire CEO/ED if necessary; board periodically evaluated
Organizational design	Organizational entities (e.g., headquarters, regional and local offices) are not "designed," and roles, responsibilities of entities are neither formalized nor clear; absence of organization chart	Some organiza-tional entities are clearly defined, others are not; most roles and responsibilities of organizational entities are formalized but may not reflect organizational realities; organization chart is incomplete and may be outdated	Organizational entities are clearly defined; all roles and responsibilities of organizational entities are formalized but do not necessarily reflect organizational realities; organization chart is complete but may be outdated	Roles and respon-sibilities of all organizational entities (e.g., headquarters, regional and local entities) are formalized, clear and complement each other; organization chart is complete and reflects current reality

Interfunctional coordination	Different programs and organizational units function in silos; little or dysfunctional coordination between them	Interactions between different programs and organizational units are generally good, though coordination issues do exist; some pooling of resources	All programs and units function together effectively with sharing of information and resources; few coordination issues	Constant and seamless integration between different programs and organizational units with few coordination issues; relationships are dictated by organizational needs (rather than hierarchy or politics)
Individual job design	Lack of positions created to address a number of key roles (e.g. CFO, HR, learning and measurement); unclear roles and responsibilities with many overlaps; job descriptions do not exist	Positions exist for most key roles, with a few still missing; most key positions are well-defined and have job descriptions; some unclear accountabilities or overlap in roles and responsibilities; job descriptions tend to be static	All key roles have associated positions; most individuals have well-defined roles with clear activities and reporting relationships and minimal overlaps; job descriptions are continuously being redefined to allow for organizational development and individuals' growth within their jobs	All roles have associated dedicated positions; all individuals have clearly defined core roles which must be achieved and an area of discretion where they can show initiative and try to make a difference; core roles are defined in terms of end-products and services rather than activities; individuals have the ability to define their own activities and are empowered to continuously reexamine their jobs

McKinsey Capacity Assessment Grid

VII. CULTURE	1 Clear need for increased capacity	2 Basic level of capacity in place	3 Moderate level of capacity in place	4 High level of capacity in place
Performance as shared value	Employees are hired, rewarded and promoted for executing a set of tasks/duties or for no clear reason, rather than for their impact; decisions are mostly made on "gut feeling"	Performance contribution is occasionally used and may be one of many criteria for hiring, rewarding and promoting employees; performance data is used to make decisions	Employee contribution to social, financial and organizational impact is typically considered as a preeminent criterion in making hiring, rewards and promotion decisions; important decisions about the organization are embedded in comprehensive performance thinking	All employees are system- atically hired, rewarded and promoted for their collective contribution to social, financial and organizational impact; day-to-day processes and decision making are embedded in comprehensive performance thinking; performance is constantly referred to
Other shared beliefs and values	No common set of basic beliefs and values exists within the organization	Common set of basic beliefs exists in some groups within the organization, but is not shared broadly; values may be only partially aligned with organizational purpose or only rarely harnessed to produce impact	Common set of basic beliefs held by many people within the organization; helps provide members a sense of identity; beliefs are aligned with organizational purpose and occasionally harnessed to produce impact	Common set of basic beliefs and values (e.g., social, religious) exists and is widely shared within the organization; provides members sense of identity and clear direction for behavior; beliefs embodied by leader but nevertheless timeless and stable across leadership changes; beliefs clearly support overall purpose of the organization and are consistently harnessed to produce impact

Shared references and practices	No major common set of practices and references exists within the organization (such as traditions, rituals, unwritten rules, stories, heroes or role models, symbols, language, dress)		Common set of references and practices exists in some groups within the organization, but are not shared broadly; may be only partially aligned with organizational purpose or only rarely harnessed to produce impact		Common set of references and practices exists, and are adopted by many people within the organization; references and practices are aligned with organizational purpose and occasionally harnessed to drive towards impact		Common set of references and practices exist within the organization, which may include: traditions, rituals, unwritten rules, stories, heroes or role models, symbols, language, dress; are truly shared and adopted by all members of the organization; actively designed and used to clearly support overall purpose of the organization and to drive performance	