Nonprofit organizations face an increasingly challenging operating environment. Economic downturns, impending leadership crises, increasing needs…the list gets long very quickly. And yet, as local governments face budget cuts and shortfalls, more and more communities are relying on nonprofits to provide essential services.

The ultimate test of a nonprofit's effectiveness is its ability to achieve its mission. Nearly all nonprofits try to achieve their mission through their programs and services. This suggests that high quality, high impact programs should result in mission success and nonprofit effectiveness.

However, this is easier said than done. Too many nonprofits fail to reach their potential because they lack the organizational capacity to consistently deliver high quality, high impact programs.

For too long, the conventional wisdom about nonprofit effectiveness has been to put every available dollar into programs. Increasingly, the sector has come to understand that this is simply not a sustainable business model. Few for-profit corporations could expect to stay in business for very long if they weren't investing in things like research and development, management training, or adequate financial tracking systems. Even if they were able to remain in business, the quality of their product would almost certainly decline, as would their profit margins and reputation.

For nonprofits to achieve their bottom line – achieving their mission – the same set of rules apply. Invest in organizational capacity – all those things that support high quality, high impact services, such as strong leadership, effective governance, or adequate technology – and your nonprofit is much more likely to be effective. Capacity building is about building your capacity to succeed.

## The Core Capacity Model of Capacity Building

The Core Capacity Model assumes that for an organization to be effective over time, it needs to be strong in four domains, or capacities:

*1. Leadership:* the ability of executive staff and the Board to develop a strong shared vision for the organization and acquire the resources needed to implement that vision;

*2. Adaptive:* an organization's ability to gather data from internal and external sources (evaluations, needs assessments, planning processes, professional networks, etc.) and use that information to continually strengthen its programs and operations;

*3. Management:* the ability to allocate all of an organization's resources effectively and efficiently; and

*4. Technical:* the extent to which the organization has what it needs to do its work well (e.g., equipment, facilities, professional development, etc.)

In addition to the four core capacities, the organizational effectiveness model also takes into account organizational culture. Culture is not a capacity, but it influences each of the core capacities. Organizational culture includes elements such as how the organization responds to stress, Board and staff decision-making norms, organizational values, and the extent to which successes are recognized.

Although each of the four capacities is critical to an organization's ability to be effective over time, leadership and adaptive capacities are often the most important. Without strong leadership and the ability to understand, predict, and effectively respond to trends in the operating environment, organizations cannot consistently meet their bottom lines.
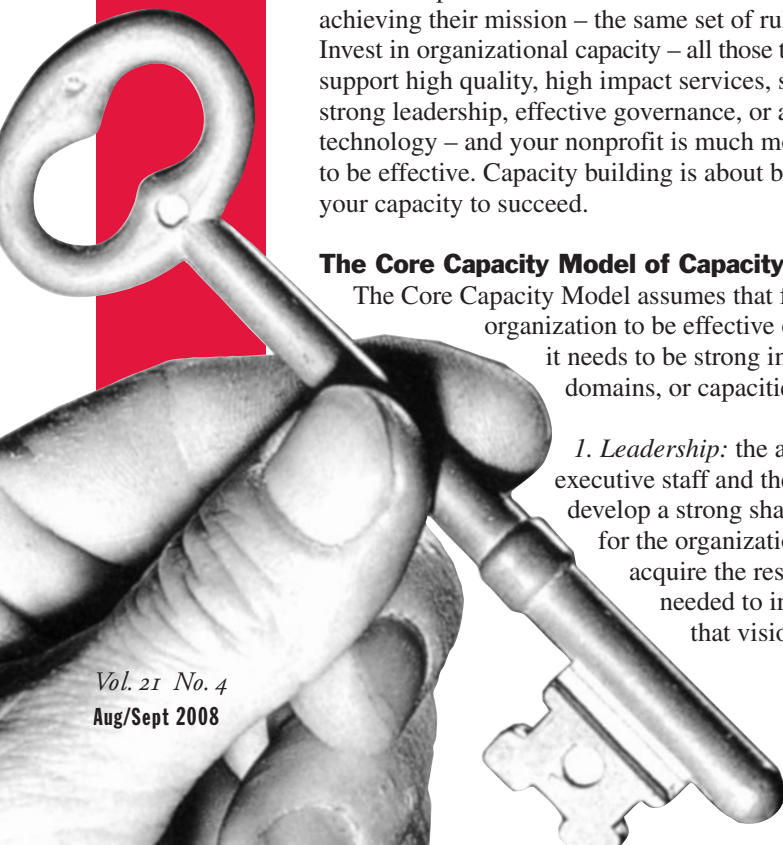
## Getting Started

Before building a nonprofit's capacity, it's important to first determine which capacities need to be supported. Some leaders might be very clear on what

# The Capacity to Succeed

*Using the Core Capacity Model to Strengthen Your Nonprofit*

**by Anne Sherman and Susan Misra**

needs to be done first, but others may be less so. Or, there may be dissenting opinions within the leadership (i.e., the Board may have different goals than the Executive Director.)

An organizational assessment tool can help measure a nonprofit's capacity-building needs. A good assessment can provide objective data on your organization's strengths and weaknesses and be used to decide your organization's capacity-building priorities. Depending on budget constraints, organizations can hire an external consultant to conduct the assessment or use one of the low-cost assessment tools that are available online or in print (see *Capacity – Assesment Resources* on page 7 for a list.)

Many organizations also find it helpful to think about their capacities in terms of an organizational lifecycle. A small, growing organization tends to have different capacity-building needs and goals than an organization that is seeking to retool its mission or is not interested in growing bigger. (To learn more about the organizational lifecycle, see *The Five Stages of Nonprofit Lifecycle Development* on page 6.)
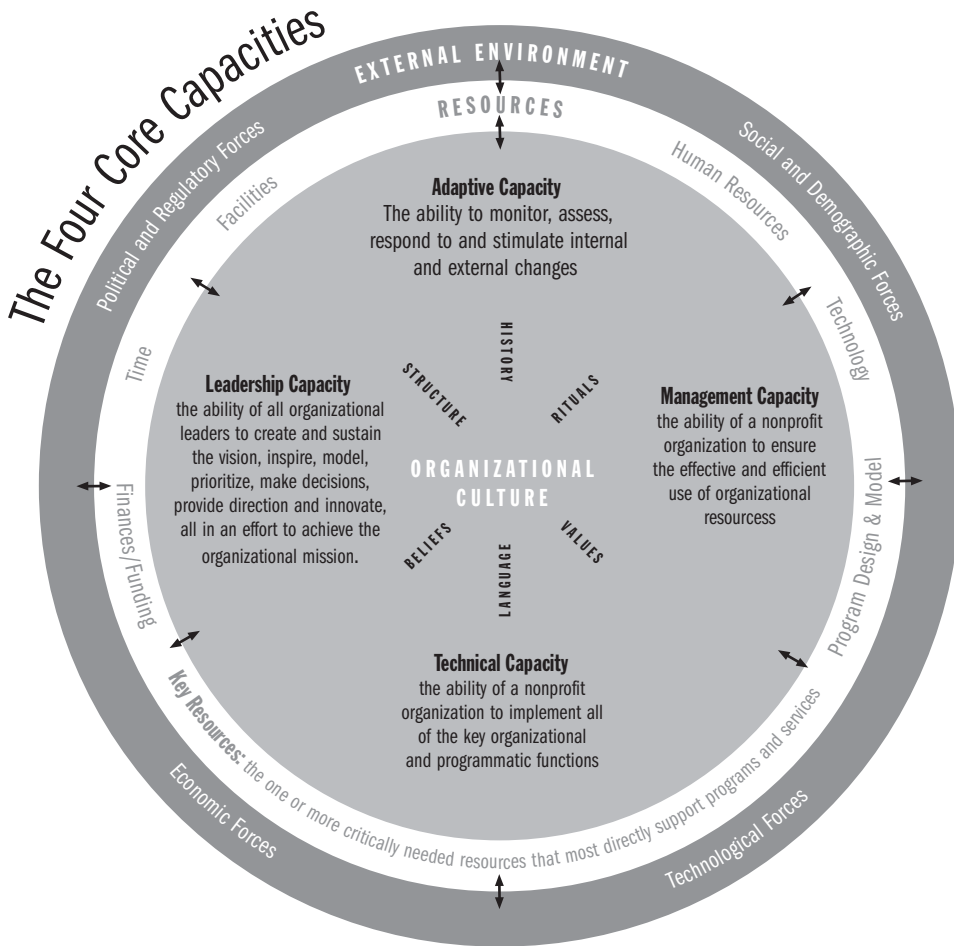
## Leadership Capacity

In a nonprofit, both the staff and Board play a critical leadership role. In addition to the executive director, anyone who is involved with developing and implementing an organizational vision can be considered part of the organization's leadership. Certainly, the Board also has an essential role, through its fiduciary responsibility, development of policy, and oversight of the executive director or CEO.

A nonprofit with strong leadership capacity has effective staff and Board leadership, and both parties are clear about their respective roles and responsibilities. Overtime, the CEO's role may evolve: decreasing its emphasis on day-to-day activities and exchanging it for more of a focus on engaging external stakeholders, such as peers, policy makers, or funders. In order to do this, there must be a strong "bench" of staff leaders who can increasingly assume responsibility for program implementation and operations.

Coaching can be a very effective strategy for increasing leadership capacity. Many nonprofit CEOs have used coaching to improve their ability to articulate a vision for the organization and better understand their role. Board development is another common leadership development strategy and can include educating a Board on its roles and responsibilities with respect to fundraising or recruiting and training new Board members.

There are also many ways in which a nonprofit can build its leadership capacity at no additional cost. In the annual review process, supervisors can help staff establish goals that involve taking on increasing responsibility in the coming year. Or, the CEO can work with staff, either individually or in groups, to ensure that there is clarity and consistency about the organization's mission, vision, and values. In addition, the board chair can lead a board assessment and work with individual board members to clarify expectations.

Leadership capacity-building activities may depend on how well established an organization, or its focus, is. An organization focused on core program development is often

# The Four Core Capacities

**EXTERNAL ENVIRONMENT**

RESOURCES

Political and Regulatory Forces

Social and Demographic Forces

Facilities

Human Resources

Technology

Time

**Adaptive Capacity**
The ability to monitor, assess, respond to and stimulate internal and external changes

HISTORY

STRUCTURE

RITUALS

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

**ORGANIZATIONAL CULTURE**

**Management Capacity**
the ability of a nonprofit organization to ensure the effective and efficient use of organizational resourcess

Finances/Funding

BELIEFS

LANGUAGE

VALUES

Program Design & Model

**Technical Capacity**
the ability of a nonprofit organization to implement all of the key organizational and programmatic functions

Key Resources: the one or more critically needed resources that most directly support programs and services

Economic Forces

Technological Forces

---

all about the CEO's vision and passion. Appropriate activities at this stage might include mentoring for a young executive director, or ensuring that the organization's mission and vision are stated in clear and compelling ways. With respect to the Board, leadership might mean building a Board that can meet the organization's specific needs, such as having a basic understanding of its roles and responsibilities.

For an organization engaged in infrastructure development, leadership development means ensuring that the vision for the organization is not only about programs but also recognizes the importance of infrastructure as well. Many nonprofit leaders choose nonprofit careers because of their passion for a cause or issue – not their love of administration.

Coaching can help an executive director understand the need to build an organization that can adequately support its programs. This could mean more administrative systems, a new financial management system, or simply understanding the need for a cadre of strong managers who can take more responsibility for decision-making and program implementation. With respect to the Board, leadership might mean diversifying and training the Board on how to govern and fundraise.

For more established or mature organizations, leadership development is often about creating organizational leaders – both staff and Board. Appropriate strategies might include leadership development training, rebranding the organization, or fostering partnerships with strategic allies.

## Adaptive Capacity

Although few people would suggest running an organization without leadership, adaptive capacity often falls by the wayside. After all, most adaptive capacity activities – strategic planning, evaluation, or needs assessments – are not directly linked with providing services. In crunch times, these activities can feel like "extras."

But in an era of scarce resources, increasing competition, and rapid change, building your organization's adaptive capacity could not be more important. Organizations with strong adaptive capacity are able to understand what is working well, where there is room for improvement, where there are opportunities in the external environment, and what threats might be on the horizon[1] – and, most importantly – they can make changes based on this information. In short, it helps them to adapt, and an organization that can adapt appropriately is better prepared to seize opportunities and anticipate or manage challenges.

Strategic planning can be an especially helpful tool for nonprofits. At its most basic, strategic planning is about figuring out where you want your organization to be several years out and how you will allocate resources (both human and financial) to get there. By definition, strategic planning is about change – presumably the vision at the core of your

*But in an era of scarce resources, increasing competition, and rapid change, building your organization's adaptive capacity could not be more important*

plan describes a future that looks different than where you are today (e.g., growth, expansion, new competencies, sustainability, etc.). With that vision as your "destination," the plan behind it is a road map for getting there and it covers such as issues as the types of programs and services provided, staff needed, and revenue sources required.

Whether the change is relatively minor or significant, having a solid plan in place can be a very helpful manage-

1. This is often called a SWOT analysis: Strengths, Weaknesses, Opportunities and Threats.

ment tool. A strategic plan can help a stagnant organization engineer a turnaround, and it can help an organization grow.

Not all organizations regularly engage in formal planning processes, however, and that's fine too. In fact, in some cases, it is not wise for an organization to engage in a strategic planning process. Start-up organizations, for example, need to focus on developing their programs and

*[Management capacity] is fundamentally about the ways in which people in an organization – managers and the people they supervise – interact with one another.*

services and assessing needs in the community (which is an important aspect of adaptive capacity.) Also, organizations in crisis cannot engage in long-term planning, since they need to devote their attention to putting out fires and stabilizing. Finally, organizations in the midst of an executive transition are probably better off if they wait for the new CEO to arrive before engaging in a planning process. Because the CEO is the keeper of the vision and will ultimately be responsible for the plan's successful implementation, he or she should play a role in determining its goals and priorities.

Assuming your organization does not fall into one of those three categories, it is probably a good idea to have some sort of plan that is up-to-date and focused on the future. For some nonprofits, this means a formal strategic plan, updated on a regular basis. But not all organizations can afford to engage in a formal strategic planning process, and for some, their missions make it impossible to look several years into the future. For instance, an organization focused on increasing nonprofits' access to technology must be constantly dealing with change – new technology is continually being produced and making other technological resources obsolete. Formal strategic plans might not make sense for this organization, but it could use other mechanisms, both formal and informal, for the soliciting the input of staff and its users. For instance, staff could meet regularly to discuss data and should seek to strategically update, improve and innovate to achieve their mission.

## Management Capacity

Management capacity is an indicator of how well a nonprofit is run. Is staff performance evaluated in a clear and consistent manner? Do managers communicate with staff in productive ways? Are managers able to solve human resource problems effectively? Are the organization's finances well managed? Management capacity can be an especially sensitive issue for nonprofits, because the sector has a history of promoting staff who have been effective in their programmatic roles, but often lack the skills, knowledge, or even aptitude to be successful managers.

Often times, management capacity-building activities focus on putting systems into place such as a new organizational chart, consistent job descriptions, timesheets, or financial checks and balances. These are all appropriate and necessary tools for a well-run organization. However, this particular aspect of capacity building is fundamentally about

the ways in which people in an organization – managers and the people they supervise – interact with one another.

Effective strategies for building management capacity often focus on increasing the managers' self-awareness and building their ability to communicate more effectively with their direct reports. Very often, this takes the form of executive coaching. A consulting engagement that involves a combination of setting-up systems and then helping managers understand how to implement them is also effective.

Again, while the perspective and knowledge of an external consultant can be helpful, it is not always essential.

As nonprofit management has become increasingly professionalized as a field, the number of publications or online tool-kits related to management capacity has exploded, making it possible for a manager or a team of managers to develop and implement systems for themselves. Moreover, managers can seek the advice and feedback of a mentor or colleague whom they trust and respect. Or, an organization can conduct an internal survey that solicits people's opinions about the way the organization is managed and commit to using the results to enact meaningful change.

Lifecycle stage can be a very helpful concept to use when considering management capacity (see sidebar on page 6.) The model makes an implicit assumption that organizations in the "core program development" phase will not be focused on building management capacity. Those seeking to make the leap to the next phase, "infrastructure," will, by definition, invest considerable resources in creating the systems, policies, and procedures that help ensure organiza- tional effectiveness and efficiency. (This typically occurs when an organization has found that its expanding programs and services have outgrown whatever systems may have been put in place.)

While strong management capacity is important, it can also be a trap for more established organizations. As consultants, we have worked with a number of organizations whose systems, policies, and procedures have allowed the nonprofit to become entrenched in "the way we always do things." Without ever meaning to, managers can become overly invested in the systems they have created and lose sight of what is required to achieve their mission. Such organizations can be at risk of stagnating and becoming less effective.

## Technical Capacity

Technical capacity is fundamentally about having the tools, skills, and other resources needed to get the job done day in and day out and otherwise run the organization properly. Technical capacity is what first comes to mind

> Every organization, regardless of age, size, or sub-sector, can begin a successful journey to organizational effectiveness. Keep the following in mind:
>
> • **Start with an assessment**
>
> • **Leadership and adaptive capacities must be addressed**
>
> • **You do not always need a consultant. More important is commitment to improvement and reflection.**

when many nonprofit leaders consider engaging in capacity building. They will understandably focus on those tangible resources that appear to be the greatest barriers to getting the work done: lack of computers or software, the need to train staff, or most frequently, the lack of fundraisers.

All of these elements of technical capacity are important, and they should be strengthened as necessary. There are pragmatic reasons for focusing on technical capacity, (e.g. without appropriate IT systems, trying to get work done becomes increasingly frustrating.) Technical capacity is also the most straightforward of the four core capacity areas and thus lends itself to some easy wins. With the purchase of decent financial software, for instance, monthly reports suddenly become a lot easier to produce and use.

There are ways to develop some aspects of technical capacity with minimal financial investments. You can download technology assessments online at no cost and receive donated hardware and software. For other skills, such as marketing or legal, you may be able to seek assistance from a local firm that provides pro bono services, or recruit Board members or other volunteers with particular expertise in the area. You may also be able to attend trainings to develop skills and gather other resources.

While it is fine to start your capacity building efforts with technical capacity building, don't stop there. Remember the ongoing need to build leadership and adaptive capacities. Use your assessment to determine what other areas of your organization need investment and improvement and develop a plan for addressing those as well. While the needs might not seem as urgent, organizations with strong adaptive and leadership capacities ultimately do not have to worry as much about management or technical. Those organizations that focus on technical and management capacity end up having to start over again when resources are depleted or people leave, or, perhaps worse, end up having all the right people on a bus that is going the wrong direction.

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# The Five Stages of Nonprofit Lifecycle Development

It would be a mistake to think that there is a one-size-fits-all model for the nonprofit sector when it comes to analyzing capacities. The sector is too diverse, and the contextual factors influencing nonprofits vary greatly depending on geography, subsector, economic forces, etc. Many organizations find it helpful to look at their lifecycle stage when assessing their organizational effectiveness.

The lifecycle is a framework to help nonprofits understand their capacity-building issues in a developmental context. Like people, nonprofits are dynamic, and their relative strengths and needs change over time. TCC Group's version of the lifecycle model recognizes five stages:

1. **Core Program Development:** An organization at this stage of the lifecycle is focused on the development and implementation of its programs. These nonprofits are often, but not necessarily, either starting up or in the early stages of development. However, a more established organization with sophisticated infrastructures could be redesigning programs or refreshing its attention to programs and could find itself at this stage too.

2. **Infrastructure Development:** Organizations at this phase of the lifecycle tend to have achieved some measure of programmatic success and may be in the process of expansion. Many have found that the demands of their programs exceed the capacity of their administrative systems, which tend to be informal. They may need to be a formal organizational chart, for example, or the current human resources function may no longer be able to keep up with new hires.

3. **Mission Impact:** These groups have both strong programs and adequate infrastructure. They have also, in many cases, actively engaged in the broader context in which they operate through activities such as collaboration, strategic alliances, advocacy, disseminating the results of their evaluation findings, etc. Moreover, they are continually improving their programs and operations through informal feedback loops, formal evaluations and assessments, and reflection.

## Developmental Stages and Typical Characteristics of Organizational Lifecycles

| Area | Start-up | Adolescent | Mature | Stagnant | Ready to Shut-Down |
|---|---|---|---|---|---|
| **Program** | • There is a perceived need for a program or service.<br>• Simple programs are initiated.<br>• Strong commitment to delivering services. | • Programs begin to establish themselves in the market. | • Programs are established and recognized in the market.<br>• Organization continues to look for new opportunities to add or eliminate programs, based on market needs. | • Organization loses sight of market; just delivers "same old" programs.<br>• Programs are developed primarily to attract available funding.<br>• Difficulty in delivering services and reaching goals. | • Organization no longer meets the needs of the market.<br>• Loss of credibility with clients and funders. |
| **Management** | • Founder's vision drives group.<br>• Small, enthusiastic, and entrepreneurial staff.<br>• Sense of "family" and cooperation among staff.<br>• Frequent informal communications.<br>• Little or no hierarchy. | • Staff size increases.<br>• Experimentation with strategic division of labor.<br>• Deepening organization chart, with more centralized management. | • Larger staff than in growth or adolescent stages.<br>• Professional managers are hired.<br>• Vertical, hierarchical organization chart.<br>• Delegation of authority and clear accountability.<br>• Formal communications. | • Focus is on individual programs, as opposed to organizational goals.<br>• Fiefdoms develop.<br>• Low staff morale; staff turnover. | • Internal fighting and back-stabbing.<br>• Departure of key staff. |
| **Board** | • Board is small, homogenous, and loosely formed (an "organizing" board.)<br>• Members tend to be volunteers or hand-picked by Executive Director.<br>• Board may perform operating tasks.<br>• Strong emotional commitment to mission. | • New board members are added who are professionals with expertise.<br>• Board concentrates less on operations, and more on planning and oversight | • Board size and heterogeneity increases (an "institutional" board.)<br>• Board's main function is policy and oversight and fundraising becomes a more important board role.<br>• Board organized into strong, independent committees. | • Low board turnover.<br>• Board is sluggish and less involved with program, development, nominating and governance functions.<br>• Board bogged down in structure that might be outdated. | • Key board members may leave.<br>• Board eventually dissolves itself. |
| **Administrative Systems** | • Informal management infrastructure.<br>• Few operational routines or systems in place. | • Unsophisticated operating systems.<br>• Operations are unstable. | • Program coordination through formal planning.<br>• Systems are in place.<br>• Standardized and efficient operations. | • Well-developed systems become "red tape."<br>• Poor planning. | • Departure from systems to crisis management.<br>• Poor internal controls. |
| **Finances** | • Focus on marshaling resources.<br>• Limited financial resources; small budget.<br>• Hand-to-mouth. | • Insecure funding resources.<br>• Cash flow problems.<br>• Organization is under-capitalized.<br>• Cost considerations become more important. | • Reliable and diverse funding streams.<br>• Significant cash reserves.<br>• Have, or are considering raising an endowment. | • Loss of financial support.<br>• Falling behind on financial obligations.<br>• Insufficient cash reserves. | • Bankruptcy |

Adapted by TCC Group from a variety of sources including Management Assistance Group's *Passages: Organizational Life Cycles* and The Stevens Group's *Growing Up Nonprofit*.

**4. Stagnant:** A stagnant organization is one that is no longer growing in a way that increases its effectiveness. Often, stagnant groups have lost touch with their constituents and their needs and interests or other key factors in their operating environment, such as political climate or policy changes. Stagnant organizations may be too invested in doing things "the way we have always done them," and their leaders may have lost interest in innovation or improvement. Signs of stagnation include decreasing program participation, low staff morale, or a disengaged executive director.

**5. Dissolve/Merge:** Stagnant organizations that can be candid about their shortcomings can often embark on a process of renewal and rejuvenation. Those that are not able to regroup in this way often find themselves becoming increasingly irrelevant. Financial problems continue to mount, reputation suffers, and it may become increasingly difficult to attract and retain high quality staff. In time, these groups will cease to exist, either through dissolution or through a merger.[*]

*It should be noted, however, that TCC Group does not believe that mergers are necessarily a sign of stagnation or decline. Mergers can be an effective strategy for ensuring program efficiency.
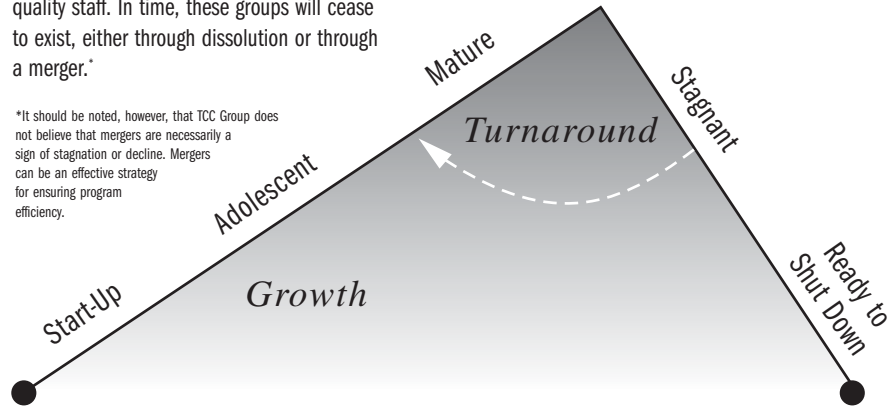


## Capacity-Assessment Resources

|  |  |
|---|---|
| Name: | **McKinsey Capacity Assessment Grid (electronic version by Blueprint)** |
| Location: | http://www.caseygrants.org/pages/resources/ resources_downloadassessment.asp |
| Price: | Free |
| Format: | Online in Excel or printable copy in pdf |
| Final product: | Self-assessment, final product is created by nonprofit staff |

|  |  |
|---|---|
| Name: | **Innovation Network's Point K Organizational Assessment Tool** |
| Location: | http://www.innonet.org/index.php?section_id= 64&content_id=185 |
| Price: | Free |
| Final product: | Self-assessment, final product is created by nonprofit staff |

|  |  |
|---|---|
| Name: | **Elements of an Effectively Managed Organization (EEMO)** |
| Location: | http://media.premierstudios.com/nazarene/docs/ dobson_paper.pdf (beginning on page 14) |
| Price: | Free online or available in Mike Allison's book *Strategic Planning for Nonprofit Organizations* for $39.95 or less |
| Format: | Printable copy online or photocopy tool in back of book. Completed by up to 25 staff, rates 40 questions and short response on scale of 4-1; hand tabulated by staff for each question individually, also must compile short comments |
| Final product: | Self-assessment, final product is created by nonprofit staff |

|  |  |
|---|---|
| Name: | **CCAT** |
| Location: | www.tccCCAT.com |
| Price: | $300 base price |
| Format: | Only senior leaders (board and staff, as identified by the Executive Director) take the survey. Data is aggregated to develop organizational scores on the capacities. |
| Final product: | Comprehensive report includes graphs and a list of scores for individual capacities and recommendations for building capacities. The report also includes a lifecycle measurement. |

|  |  |
|---|---|
| Name: | **The C.Q.® Process** |
| Location: | http://www.unityfdn.org/cq.html |
| Price: | $495 |
| Format: | Organizations must register and provide IRS 990 and organizational chart. An administrator is then contacted to set up the program with emails, names and passwords. The Administrator will be able to check participant progress using the Administrative Panel. |
| Final product: | 50+ page C.Q.® Benchmarks Report and C.Q.® Benchmarks Report Analysis within 24 to 48 hours following completion of the C.Q.® by all participants. Debriefing session in which a C.Q.® Coach walks the Board and Staff through the Benchmarks Report and provides a planning tool for building the organization's capacity is also available. |