



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.

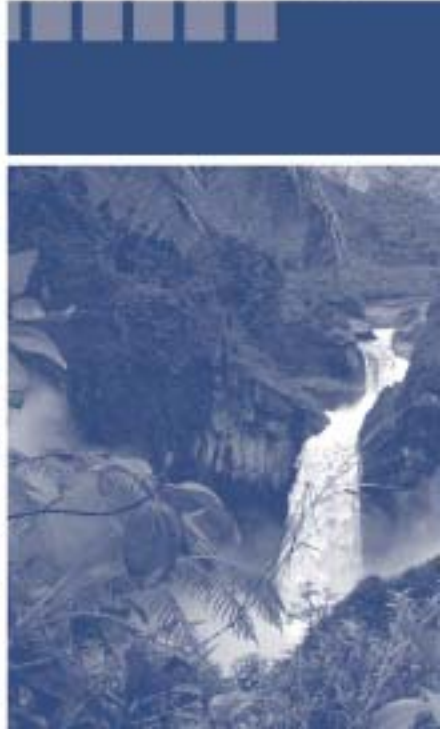
Insourcing would have two other major benefits. First, because Samaritan Inns would no longer depend on hospitals for referrals, it would ensure a consistent supply of participants for the other two phases of the program. Second, a unified, three-phase approach offered a far more coherent model for replication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

If 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.