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.