

# When Capacity-Building Grants **FLATLINE**

BY LEE DRAPER

**No need to panic. Sometimes, it's the best thing that can happen to a nonprofit. But foundations have to know how to diagnose problems and then apply critical care to nurse the nonprofit back to a stronger, healthier organization.**

## **The Symptoms**

Imagine that you've funded an outstanding, small nonprofit for three years that provides services perfectly matched to your foundation's mission. Your relationship is respectful and the communication open. You and the executive director decide a capacity-building grant would be very productive for the nonprofit's development. The grant would create a strategic plan, enhance board and staff fundraising skills and contribute to the organization's growth and long-term sustainability.

Shortly after receiving the grant, the nonprofit's board of directors embarks on a strategic planning process. But during a retreat, a long-overlooked, and divisive, issue over the direction of services emerges.

About half the board, including the chair (who is the best fundraiser on the board and active in the community), wants to lead the nonprofit in the new direction of providing services focused on youth. But the other board members and executive director believe this would move the nonprofit away from its intended mission

of providing comprehensive social services to low-income families. A particularly heated debate takes place, and the following week, the chair resigns along with five other board members.

How could a nonprofit you know so well implode over such basic issues as mission and vision—core principles you thought were well-established in the organization? Everything was going so well until that capacity-building grant...

## **The Examination**

### ***What Funders Keep Mum About.***

Before you start blaming yourself or second-guessing the value of capacity-building grants, here's a simple fact many in the philanthropic field don't like to talk about: Capacity-building grants are messy, and they can—and often do—go sour.

Among the reasons for this are:

- Board and staff do not always agree on priorities or procedures.
- Nonprofit leaders can depart suddenly.
- Crucial historical recordkeeping or financial accounting can be

so poorly managed that immediate attention to those is required before anything else can be tackled.

■ Planning sessions can reveal impediments everyone hoped could be kept in check.

■ Economic downturns can expose dependence on limited revenue streams.

The issue for foundation professionals is not how to *prevent* capacity-building grants from going sour. Rather, it's how to handle the situation *when* problems emerge. That way, funders can support grantees through what often turns out to be a challenging, but ultimately strengthening, period of growth.

In fact, trying to prevent a capacity-building grant from going awry may do more harm than good. Frequently, change is what many organizations dread or avoid, but often it's just what a nonprofit needs to move forward to its next level of growth.

A capacity-building grant should provide both technical assistance and financial resources to help a nonprofit reach a new stage, as well as a support system for easing a nonprofit

# Coming to Terms and Purpose

**What are capacity-building grants? What purpose do they serve?**

**Their Definition.** Three terms are most often used to refer to grants that seek to strengthen the infrastructure and operations of nonprofits:

**1. Capacity Building.** *The Nonprofit Quarterly* (Winter 1999) defines capacity building as “a process of developing and strengthening skills, instincts, abilities, processes and resources that nonprofits and communities need to survive, adapt and thrive in a fast-changing world.”

**2. Technical Assistance.** The Foundation Center, for example, uses the term “technical assistance” in their widely used database, *FC Search*. Technical assistance is defined as “Operational or management assistance given to nonprofit organizations, including fundraising assistance, budgeting and financial planning, program planning, legal advice, marketing and other aids to management. Assistance may be offered directly by the staff of a foundation or corporation, or it may be provided in the form of a grant to pay for the services of an outside consultant.”

**3. Organizational Development.** Community Development Works, a nonprofit based in Alexandria, Louisiana, that provides capacity-development services to human services organizations, says in a glossary on its website ([www.communitydevelopmentworks.org/glossary.htm](http://www.communitydevelopmentworks.org/glossary.htm)) that organizational development is “the tools and skills that enable a board and staff to run a nonprofit organization effec-

through the difficult process of soul-searching, reorganizing or changing its institutional culture.

## The Diagnosis

Common factors causing a grant to go sour include a nonprofit’s staff turnover, resistance to change or a weak infrastructure. Following are a few examples of capacity-building grants that have soured and how the foundations handled the situation in helpful ways.

**Staff Turnover.** This is a common scenario, because allocating resources for reflection or retooling a nonprofit usually causes the people involved to reassess their roles *in*, and look more carefully *at*, their organization.

This can lead to reassessment of commitment, identification of dysfunctional behavior and inadequate skill sets or recognition of incompatibility among staff and/or trustees regarding the direction of the agency. The result: Staff or board members depart or are asked to leave.

The California Endowment in Woodland Hills made a grant to a nonprofit for strategic planning and board development in 2002. The grant was designed to motivate and expand a small, inactive board and develop a roadmap for raising private funds, so the nonprofit wouldn’t be as dependent on government grants.

After the grant was awarded, the executive director suddenly resigned and five board members left (including the chairs of the board and the development committee). After a new executive director was recruited, the interim director—one of the few staffers with a history at the nonprofit—left to take another job. It looked bleak.

When the dust settled, the board admitted that the dark days actually brought about positive developments. They uncovered things that had been festering but no one had wanted to acknowledge: The nonprofit had an executive director who was burned out and wanted to leave; board members who were not pulling their weight, dragging the rest of the group down; and a key staffer who had alienated other staff members through jockeying for the directorship. In addition, everyone was plagued by anxiety that nothing could be done to improve this situation.

The endowment decided to go forward with the capacity-building grant. It woke everyone up: Turnover was the best thing that could have happened. The departures paved the way for new blood and consensus building.

To help them conduct the strategic planning process, the new executive director and the remaining board members convened a task force, which included community leaders they hoped to recruit to the board because of their skill sets.

The process became a galvanizing force: It strengthened the new director’s role, affirmed board members’ commitment to the agency’s mission, enhanced relationships with key community representatives and infused all with a sense of hope. In fact, most of the task force members eventually joined the board and led a successful community fundraising campaign.

**Resistance to Change.** Capacity-building grants are synonymous with change, which is uncomfortable for individuals *and* organizations.

After a grant is awarded, replacing desire with reality can be difficult if some in a nonprofit resist its goals or process. For example, tensions can surface between old and new board members, between the executive director and board, and between key staff and the executive director. There can be differing personalities and expectations, as well as differences on mission and priorities, organizational style and methods.

Jose Marquez, a program officer at The California Endowment, recently monitored a capacity-building grant. The grant had been given to a nonprofit providing services to an underserved population that had tripled in size in three years. He and the executive director felt the nonprofit needed to expand its administrative staff to better manage greater organizational complexity and accelerated growth. The executive director told Marquez she needed a director of finance and a director of administration.

After the grant had been made, the executive director did not hire for either position. She told Marquez that she found it difficult to hire anyone with the level of experience needed at a salary she could offer. Therefore, she had decided to delegate the administrative tasks to existing employees and the grant was funding their salaries. Upon further investigation, it was apparent that the organization still lacked the level of expertise it needed in the areas of financial management, human resources, and overall administration. The executive director, however, was resistant to reopening the search for the two new positions.

Marquez informed the nonprofit that it was out of compliance with the grant, but decided to

delve further into the staff's resistance to doing what they themselves had wanted to do. When he visited the agency the executive director reiterated that she had been unable to recruit anyone with the appropriate skills and experience at the salaries they were offering. She then confided that she felt uncomfortable about increasing the salary ranges because they would be higher than her own salary. The agency board was opposed to increasing the management team's compensation levels and was not convinced that the agency needed to spend its resources on new administration positions rather than on expanding programs.

Once the roots of the dilemma were revealed, Marquez counseled the executive director to discuss the situation with her board. Taking his advice, the executive director went to the agency board and stressed the importance of building the internal management capacity as the organization grew. She was also prepared with information about current competitive salaries, including compensation packages for executive directors at comparable organizations. The board approved the higher salary ranges for all three senior management positions.

This enabled the nonprofit to fill the two new positions and increase its internal capabilities. Today, it's programmatically and fiscally strong, continues to grow and has won additional funding from The California Endowment and several other funders.

**Weak Infrastructure.** A foundation's intervention to help build a nonprofit's capacity in one area can be handicapped by weaknesses in other areas of its management. A capacity-building grant can uncover inadequate or inappropriate systems, gaps in management or the need for new resources, methods or skills in a seemingly unrelated area that, if left unaddressed, would prevent progress toward the grant project's goals. Inadequate internal capacity can stifle the best intentions in one area of an agency's activities.

For example, a foundation could award a grant allowing a nonprofit to retain a consultant to design a fundraising campaign and train the board and staff in fundraising. But then the consultant finds that an incompetent controller, who manages the accounting system and financial reporting to the board, is six months in arrears.

In a similar example, Jennifer Vanica, president of the Jacobs Family Foundation in San Diego, recounts the 1997 case of a small neigh-

borhood nonprofit running a children's science center out of an old house in an impoverished neighborhood. The foundation had worked with the nonprofit for years and built a strong relationship. Although the nonprofit had never raised more than \$80,000 a year, the board wanted to start a capital campaign to build a new center in a more visible and accessible area.

The foundation underwrote costs for the board and staff to participate in training. It also provided funding for the nonprofit to hire consultants to give customized workshops so its leadership could learn, at its own pace, how to raise the necessary funds and manage the capital campaign. Over time, the nonprofit raised sufficient funds to start construction on a new building.

The technical assistance in the campaign phase was so successful the foundation and organization expected the same great results from the construction phase. However, as construction progressed, concerns grew about extended timelines and changed orders. The foundation felt responsible for recommending the construction management process selected by the organization, but was hesitant to step in. The organization was concerned about the delays but was trying to be respectful of the process set in motion. The project seemed to derail.

Fortunately, the foundation had worked with the organization for years and had a strong relationship. The organization's leadership eventually shared their concerns and asked for a change in the expertise they needed. The foundation responded by adding a strong construction supervisor to the support they had already provided. Today, construction is almost complete and the organization is about to open the 15,000-square-foot facility.

### **Further Diagnoses**

Sometimes a foundation believes that it has accounted for every variable and contingency in a capacity-building grant, but is faced with the impact of external forces beyond anyone's control. The economic downturn, for example, has shaken the goals and desired outcomes of many capacity-building grants. Other challenges include:

**Facing the Unexpected.** When Gwen Foster was a senior program officer at The David and Lucile Packard Foundation in Los Altos, California (she's now a program officer at The Califor-

tively and efficiently, including resource development, financial management, strategic planning, board recruitment and development, and communications. Organizational development is not about what a nonprofit does, but how it does its work."

**Their Purpose.** Whatever term is used, capacity-building grants are designed to help a nonprofit enhance its internal infrastructure, so that it can deliver quality programming more effectively and efficiently, and do so for years to come. Unlike general operating or unrestricted grants, capacity-building grants have a specific purpose or issue they are intended to address, such as strategic planning or technology enhancement. They are usually awarded with defined objectives and agreed upon methodology.

Grantmakers for Effective Organizations (GEO), a Council on Foundations affinity group in Washington, DC, says on its website ([www.geofunders.org](http://www.geofunders.org)) that capacity building is an activity that enhances an "organization's ability to connect its vision to its goals, its goals to its plans, its plans to its actions and its actions to results. It is a dynamic, flexible and fluid state, an ever-evolving mosaic of increasing self-awareness and internal development that keeps and nonprofit moving steadily toward its vision."

—L.D.



Often the issues tend to be larger than the grant; therefore, capacity-building grants tend to frequently underperform.

nia Endowment), she was responsible for the allocation of a program-related investment (PRI) to a long-standing community action agency. The PRI was designed to help the nonprofit renovate a historic building, with the expectation of it being repaid in four years.

Unfortunately, just after the PRI was awarded, the nonprofit's executive director became seriously ill and was out for many months. Upon his return, he found numerous messages from vendors stating that they

had not been paid. Shortly thereafter, the chief financial officer abruptly quit. The organization probed and determined that significant amounts of its funds were missing, creating a cash flow problem that threatened the agency and the loan.

To understand what had happened and how it happened, Foster met with the executive director and board of directors several times. Everyone came to realize that although the nonprofit's programs were excellent and delivered competently, the agency had inadequate oversight.

Foster suggested that the nonprofit redesign their administrative operations to ease the demands on the executive director. Upon the completion of a strategic planning process that addressed the management issues, she offered to convert the original PRI into a grant (thus waiving the repayment requirement).

The executive director postponed his retirement to lead the nonprofit through the capacity-building process. Encouraged by Packard's conversion of the PRI to a grant, a local donor made a contribution of \$500,000 that enabled the agency to pay its backlogged bills and proceed with its strategic plan, including recruiting additional management staff.

Today, the nonprofit is vital and solvent.

**Out of Our Control.** Sometimes, the match with a consultant and a nonprofit proves unworkable and is ended midway through the process. What can be done when neither the foundation nor the nonprofit has control over a situation?

Laura Campobasso, executive director of the Whitecap Foundation in Los Angeles, cites one

example when an organization received a grant to create a strategic plan. The organization hired a consultant to assist them and the project was on its way. The consultant decided immediately to conduct individual interviews with the organization's staff and present the findings and recommendations at a staff retreat.

Unfortunately, the effort fell far short of what the organization had hoped for and the presentation frustrated staff. Because there had not been sufficient involvement of the organization's staff in planning the effort or identifying key issues, the findings did not seem to reflect individual input or collective desires. The planning report was not relevant or constructive, and nothing could bridge the gap between staff and the consultant.

The nonprofit's staff asked Campobasso to join them in brainstorming ways to salvage the strategic plan. They decided to hire someone to facilitate a session where the staff could identify useful sections of the report, develop modifications and expand on those ideas. Campobasso was able to provide another smaller grant to hire a facilitator.

The nonprofit's executive director had never worked with consultants and selected someone without adequately defining the project or investigating the consultant's expertise. Even though the process was difficult, there were several gains: (1) The nonprofit staff learned how to systematically recruit and select outside guidance; and (2) Most importantly, they took responsibility for the planning project. They admitted that they had not initially seen the value of planning and were just going through the motions. As a result of the problems, they became fully committed to achieving their objectives and gained a new appreciation of the benefits of strategic planning. Needless to say, the new approach was a success and the Whitecap Foundation continues to award grants to the nonprofit.

### Foundation Triage

In all of the examples above, the foundations and nonprofits worked together to address a souring situation and remedy it.

Here are crucial actions for a foundation to take when a capacity-building grant goes sour:

**Stay with the Nonprofit When the Going Gets Tough.** The Whitecap Foundation's Campobasso says, "There are very few times when

you cannot find something good to come out of a capacity-building project—where something useful can come out of the effort.”

A capacity-building grant is an investment in a nonprofit in all its aspects and complexity. The benefits may be more difficult to achieve or even different than initially conceived. But dropping a nonprofit when embedded problems are discovered, or because the effort involves other aspects of the nonprofit’s operations, can do far more harm than good. It can leave a nonprofit without the means to remedy the situation. By sticking with a nonprofit while it tackles challenging obstacles, the foundation can learn much about building strong and healthy nonprofits.

**Listen to the Nonprofit.** As problems arise, it’s important for the foundation to focus on the nonprofit and understand what it’s going through. Sometimes the nonprofit itself may not fully understand the root causes of its problems, or it may be reluctant to discuss deficiencies with a funder. But by fully understanding the situation, the grantmaker can offer to adjust or redirect its support to the areas where it’s most needed.

“Like any relationship, these grants never go in a smooth or straight line. It’s hard work on both sides to keep discussions open, but it is also easier to solve problems when there is a long-term commitment, trust and lots of communication,” says Jennifer Vanica of the Jacobs Family Foundation.

**Flexibility Is Key.** Being flexible means grantmakers need to be willing to modify work plans, and even objectives, when things don’t go as planned. Unexpected snags can hit anytime, and sometimes, the snags are actually the heart of a nonprofit’s impediments, rather than what was originally negotiated in the grant.

**Honesty Is the Best Policy.** Before jumping into capacity building, the nonprofit and foundation need to be honest about the amount of work involved.

“I am surprised at how much funders expect to get done for so little, and how nonprofits tend to fall into this trap, as well,” says Elizabeth Bremner, executive director of The Foundation Incubator, a nonprofit in Palo Alto that helps existing and emerging foundations come together to exchange ideas and collaborate.

“Often the issues tend to be larger than the grant; therefore, capacity-building grants tend to frequently underperform,” adds Bremner.

Honesty from the beginning enables communication to be strong if problems arise and challenges have to be addressed more directly and quickly.

**Be Prepared for a Longer Process Than You Expected.** Patience is essential when building the internal capacity of nonprofits. But Bremner believes that “the ideal would be for nonprofits to be well-financed and able to give regular attention to organizational development. Capacity building is an ongoing, long-term process.”

There are few quick-and-easy fixes to nonprofit management challenges. Obstacles to growth and solid management systems are exacerbated by the lack of resources and administrative personnel devoted to infrastructure development.

The California Endowment’s Marquez agrees, “Funders need to really work with nonprofits over the long term. Communities benefit with better services that can only be offered and enhanced through ongoing strengthening of the agencies that deliver the services.”

**Keep the Faith.** Gwen Foster of The California Endowment explains, “Sometimes, capacity-building grants involve an act of faith that it will all turn out.” Keeping the faith and rolling with the punches can turn a messy capacity-building grant experience into a rewarding adventure.

**Be Prepared for It to Cost More.** If at all possible, be receptive to awarding more funding. Perhaps the most important part of capacity building is the learning process—the nonprofit discovering new things about itself so that it can become a stronger, sustainable entity. Campobasso says, “Like other types of grantmaking, capacity building is designed so that an organization can achieve results, but in this area, the process is an important part of the results.”

That process takes time, commitment, opportunities for growth and problem solving on many levels and adequate financing.

## Beware of Infections

There is a fine line between providing a nonprofit with assistance and telling a nonprofit how to solve its problems. So, how involved should a funder get?

The Council of Michigan Foundations states in its guide on the practical considerations of grantmaking that, “Occasionally, a foundation’s grant review committee or board will look at

Some grantmakers concentrate on capacity-building grants, while others use it to complement their program grants or as an occasionally-used tool.

Jennifer Vanica, president of the Jacobs Family Foundation explains, “Capacity building is the focus of our work. Programs and issues will come and go, but if a funder helps build an organization’s internal capacity, it will be able to deal with any issue that arises. This goal is especially important to the foundation because it has a sunset clause and wants to leave behind strong, self-sustaining organizations.”

Laura Campobasso, executive director of the Whitecap Foundation, states that:

“to accomplish our mission, Whitecap engages in a process we call enhanced grantmaking. We combine technical assistance and training with our programmatic grants to address challenges common to all grantees: leading and managing the organization, personnel issues, programs, financial planning and other capacity-building efforts.”

To fulfill its goal of improving the health of state residents, The California Endowment invests in capacity building. “If we don’t award this type of support to strengthen the nonprofits that are addressing health access and quality care for the underserved, then there will be an even larger disparity of healthcare in this state,” Program Officer Jose Marquez says.

—L.D.



an application and become convinced that the program would work better if implemented differently. In that instance, the application should probably be denied, as it just doesn't work when an outsider imposes a design on those who are responsible for implementation."

Micromanaging is almost always destructive. But it's especially hard to detect in capacity-building grants. Nonetheless, the relationship between grantmaker and nonprofit needs to be close, and it's at its best when the funder is willing to provide additional assistance.

As capacity building involves the nonprofit in identifying its weaknesses, the balance of roles is particularly delicate. The funder, with the weighted hand of money, can easily slip into telling the grantee how it should solve its problems.

Keeping in mind the goal of a strong and vibrant nonprofit can help the funder and the nonprofit chart their future. Funders are instrumental in helping nonprofits stay focused on building their capabilities and infrastructure as attentively as they support programs and services.

On the limits of responsibility: Grantmakers should avoid the tendency to blame and second-guess: "If only we hadn't made this grant..." Instead, think positively: "If we hadn't made this grant, this nonprofit would have wasted even more time, energy and resources by not addressing its underlying problems. It's a good thing we enabled them to identify their obstacles and discover workable solutions."

Pat yourself and the nonprofit on the back for being willing to endure some pain, get dirty and reflect, allowing the nonprofit to emerge stronger and surer as a result. Capacity-building grants can be the most challenging of grants, but because of this, they are often the most fulfilling and meaningful. **FNSC**

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