



Capacity Building 3.0

Briefing
Paper

How to Strengthen the Social Ecosystem

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Introduction

In recent years, the social sector has evolved to incorporate multiple stakeholders and organizations to solve social issues, working together in a larger ecosystem to increase efficiency, effectiveness, and scale. The process of building the systems, structures, and skills necessary for success in this environment, commonly referred to as “capacity building,” has played an active role in the social sector since at least the 1970s.

As a term, capacity building has been maligned for vagueness, overuse, and even for being a distraction from the core ethos of doing good. Alternatively, it has also been lauded as a measure of good stewardship, the driver of efficiency and effectiveness, and the key to ultimate success.

The conversation on capacity building has not kept pace with the evolution of the sector. The practice of capacity building has continued to grow and change, evolving to meet emergent needs like impact investing or scaling. But, in so doing, the term itself has stagnated, as the frameworks for discussion have lacked a cohesive dialogue. As a sector, we still tend to think and talk in narrow terms of the capacity of nonprofit workers, nonprofit organizations themselves, or “cohorts” of “grantees” (De Vita & Fleming, 2001). We neglect to include the host of other actors that comprise the entire social ecosystem, including funders, the private sector, government, management support organizations, and their various networked combinations. Finally, even as we adopt new ways of doing capacity building, we only crudely (if at all) distinguish between *capacity* and the *process* of capacity *building*.

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Reflecting on TCC Group's 35-year history of designing, managing, and evaluating capacity building in a variety of formats, it is clear to us and to those with whom we work that the field is ready for an evolution in the ways we talk about capacity building. A foundation has already been laid for this new conversation by the diverse and thoughtful practice of many in the sector. We hope that by identifying the issues and providing a framework for discussion, we can enable the field to further advance capacity-building strategy and practice, thereby enhancing the work of a wider range of dedicated and conscientious actors looking to have a positive impact on society.

Our intent with this paper is to frame the discussion in the field, not to claim ownership over any particular ideas. Many individuals and organizations are moving in this direction, which is exactly what we want to encourage through a fieldwide dialogue and moment of reflection. While considerable research was conducted for this paper, and we have been an active part of a community of capacity builders for many years, this paper is not intended as a comprehensive literature review, and we seek additions to the list of sources that speak to the concepts and practices outlined in this framework. Contact us at cb3.o@tccgrp.com or tweet [#cb3.o](https://twitter.com/cb3.o). We welcome the opportunity to recognize the work of others alongside those already cited in this paper.

This paper is organized in the following way: The first section, "A Basic Distinction," covers fundamental concepts, terms, and definitions of capacity and capacity building critical to our discussion. The second section, entitled "An Evolution in the Who," examines who needs to build capacity and how that understanding has evolved over time. The third section, entitled "An Evolution in the What," assesses how *capacity* in capacity-building has evolved, arriving at a new "organizational actualization" framework. The fourth section, "An Evolution in the How," highlights the emergence of new methods for accomplishing capacity building and details the new innovations and techniques that are being used by those doing effective capacity building.

A Basic Distinction

A longtime criticism of the term *capacity building* has been that it can mean just about anything to anyone. Such confusion arises primarily when capacity building is conflated with capacity. *Capacity* describes the skills and ability to make and execute decisions in a manner that achieves effective and efficient results. *Capacity building* is the process of developing those skills and ability. This distinction between capacity—the *What*—and capacity building—the *How*—is fundamental to understanding the conversation in the capacity-building field.

There is a third component to capacity building that has gone largely unexamined: *The Who*. Unfortunately, the question of who is or ought to be involved in capacity building is frequently ignored, under the assumption that it is either obvious, or worse, that it is irrelevant. Thankfully, the use of broader ecosystem thinking has opened a conversation that has both expanded the definition and honed the focus of which actors within an organization, and within a social ecosystem, need to build capacity.

The remarkable thing (or perhaps it is unremarkable given the pace of change) is that the field’s understanding of all three elements (*what, how, and who*) has evolved considerably in the last 30 years, but it has done so unobtrusively and through fragmented iteration. The remainder of this article will recount the evolution in the *what, how, and who*, articulating from where they have come and to where the current environment demands that they go.



An Evolution in the Who

The proverb “Give a man a fish and you feed him for today; teach a man to fish and you have fed him for a lifetime” might well be the mantra of capacity building. As a proverb, we take it at its abstract implication; as a point of practical guidance, we must question who these future fishermen are and what the implications are for the teacher. As noted above, the *who* of capacity building has been underemphasized or ignored altogether. In a globally connected world and a more self-reflective and metrics-driven social sector, we can no longer assume this question has an implicit answer. Evolutionary lines can be blurry, so it’s helpful to see a phased consideration of how capacity building has identified the target over time.

Capacity 1.0: Nonprofit Individuals

Individuals in nonprofits were the earliest target of capacity-building efforts—Board members, development directors, executive directors and organizational leaders. These were individuals who had a distinct and defined role to play in advancing the work of an organization. While there were some cases where individuals identified their own need for professional development, more frequently nonprofits selected participants based on perceived deficits in organizational functioning or because those individuals represented a particular organizational role.

Capacity 2.0: Nonprofit Institutions

Over time, a focus on individuals gave way to a focus on institutions, and the *who* of capacity building expanded exponentially, encompassing groups of individuals within organizations. No longer was it just an individual or functional area, but it was *relational*—with whom did one need to work and in what ways. Organizations began to realize that capacities are developed through social relationships, and the nature of those relationships has profound consequences for the ability of an organization to get things done. Yet the primary target in the social sector remained nonprofits. As the front line of the sector, they were the ones deemed to need capacity improvements in order to better execute their programs.

There were, however, nascent efforts within philanthropies and businesses to consider their own capacities. Although this issue had not yet escalated to an institutional level, many within these groups began to ask themselves how they could be more effective in their own work. But these inquiries were largely underdeveloped and took a backseat to nonprofit capacity.

Capacity 3.0: Social Sector Ecosystem

While capacity building was historically framed as a benefit bestowed upon nonprofits and NGOs by funders and outside parties, it has become increasingly clear that all actors within a social ecosystem can profit from capacity building. This view sees capacity building as relational, and it expands the scope of organizations that are in need of capacity building. Once the purview of individuals within nonprofit or nongovernmental organizations, capacity building has steadily expanded its arc of inclusion to incorporate a broader web of connection.

Figure 1 depicts the broad stakeholder groups in the sector, all of whom are now identified as in need of capacity building in a 3.0 environment. We briefly address the capacity-building rationale of these diverse stakeholders in the ecosystem below.

- **Funders:** Grantmaking entities are unique in their power relationship to the sector. They gain influence from their ability to pick and choose where they invest their funds and time. Because their primary impact generally comes not from their direct work, but from the work of their grantees, they are in large part dependent on others to achieve their aims. However, funders have always done more than make grants, and they are increasingly being explicit about the value of non-grantmaking roles, such as research, public outreach, advocacy, and convening.¹ Such activities require particular forms of capacity—on top of the specific capacities needed to be an effective grantmaker (Cockfield, Raynor, & Sood, 2013).

In a social ecosystem context, funders are more than just “the money” and this means that their own internal capacity needs greater attention. Grantmakers for Effective Organizations, Center for Effective Philanthropy, and the Foundation Center work broadly on foundation effectiveness, while watchdog and issue groups like National Committee for Responsive Philanthropy, the D5 Coalition, and the Joint Affinity Groups advance specific practices. But the conversation on funder capacity has only begun, and topics such as governance and staffing cannot be taken for granted.

- **Nonprofits:** Nonprofits have been, and will remain, the heart of the sector. It is upon their dedicated shoulders that the work of the sector is most consistently carried out. Their commitment to enhancing organizational performance, frequently doing more with less (and making known where less will not suffice), serves as the basis for most of what the field knows about effective capacity building. However, they, too, are evolving as players in their own sector. Nonprofits

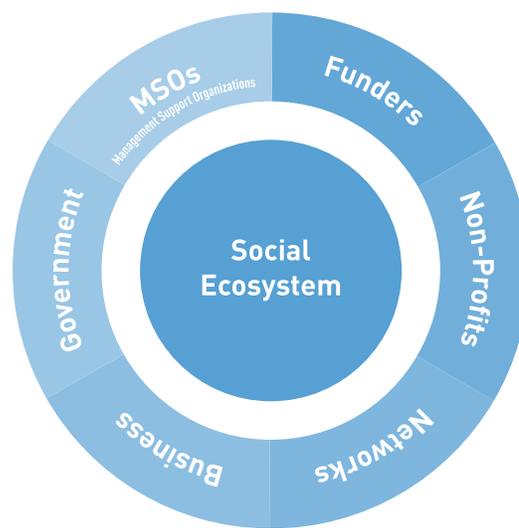


Figure 1. Capacity Building 3.0 Key Stakeholders

1. For example see: Center for the Public Interest. (2010, September). Advocacy and Civic Engagement Toolkit for Private Foundations. Retrieved from http://docs.geofunders.org/?filename=PF_Toolkit_Complete.pdf

are learning how to incorporate varied players into the social-sector space, such as for-benefit organizations, B-corps, and social-venture firms. They continue to see a professionalization of their staff and are adopting new (and revisiting old) organizational structures. What has not changed is their commitment to a mission, which serves as the anchor for effective capacity building.

- **Networks:** Networks, coalitions, movements, campaigns, associations, collective-impact efforts—such collaboration is not limited to nonprofits working with each other or to distinct funder collaboratives. Increasingly, we see *cross-sector* collaboration becoming the norm and each of those actors seeking to better understand and execute their own roles. The effectiveness of these various interorganizational relationships is more than just the collective capacity of the participating organizations. Rather, they all have capacity needs as distinct operational entities. Several resources have begun to articulate capacity needs of networks² and, given their prominence in the sector, additional work is clearly warranted.
- **Business:** Businesses have become increasingly more sophisticated in their roles as “corporate citizens.” As stakeholder pressure on companies continues to increase, companies recognize that they face higher expectations to rethink their products and services to be more beneficial for society, more beneficial for the company, and to address global social issues that align with their core business (such as health-care issues for pharmaceutical companies or economic and community development for financial-service companies). This has also given rise to social venture firms and a growing number of B-corporations (Surowiecki, 2014). As companies recognize the need to take a more active role and to develop and build more sophisticated approaches to addressing issues, there is a need for an internal cultural shift that focuses on building social-sector leadership capacity. Forums like Business for Social Responsibility, Boston College Center for Corporate Citizenship, and others are highlighting this need, and consulting firms with knowledge and experience within the sector are providing support, as companies move quickly in this direction.
- **Government:** Whether through funding innovation or serving as the primary financier of scaling efforts, government at all levels plays a critical role within the social sector. Issues and ideas of the day such as social impact bonds, government sponsored prizes and competitions, the Corporation for National and Community Service, and an ever-increasing focus on effective use of public dollars all highlight areas where government capacity is critical to achieving social goals.

2. For additional information and resources see: Jared Raynor. (2011) What makes an effective coalition: Evidence-based indicators of success. Los Angeles: The California Endowment and TCC Group; Working better together: building nonprofit collaborative capacity. GEO Funders. (2013). Retrieved from http://docs.geofunders.org/?filename=geo_2013_collaborative_capacity.pdf; Needle-moving collective impact guide: Capacity and structure. The Bridgespan Group. Retrieved from <http://www.bridgespan.org/Publications-and-Tools/Revitalizing-Communities/Community-Collaboratives/Guide-Community-Collaborative-Life-Stages.aspx#.VFE7hvnF-So>

- **Management Support Organizations (MSOs):** “Physician, heal thyself” has finally come to capacity builders. MSOs in the social sector are organizations dedicated to enhancing the effectiveness of the sector. This includes both nonprofit and for-profit organizations whose missions are grounded in enhancing the success of other organizations. At TCC Group, our own organization is committed to help organizations build strategies to achieve social impact. Due to work we have done with numerous MSOs and capacity-building intermediaries, we recognize that our own capacity must evolve and be transparent. We have written about and worked with other MSOs and capacity-building intermediaries for funders, businesses, and nonprofits related to the importance of MSOs building their own capacity (Connolly & York, 2003). Whether it is cultural competency, financial sustainability, strategic positioning, or a host of other issues, MSOs need to build their own capacity to effectively operate in a shifting field. Fortunately, forums such as the Alliance for Nonprofit Management, the National Network of Consultants to Grantmakers, the National Council of Nonprofits, and others continue to encourage MSOs to be more thoughtful, more inclusive, and more data-driven in their approach to their work.

An Evolution in the What

One of the hardest issues related to capacity building is: What constitutes capacity? Answering this simple question is remarkably complex, beginning with difficulty in defining the ends that the capacity seeks to serve. A specific program? An organization’s overall mission? The efficiency or the effectiveness of the intervention? Return on Investment (ROI)? Sustainability? In other words, what is the anchor or purpose of capacity building?

Based on the answer to that question, capacity needs may be subtly different. For example, a few years ago, TCC Group offered a series of findings detailing the capacities most critical to *nonprofit sustainability*, in a report we termed “The Sustainability Formula” (York, 2009). When we performed further analysis with *effective volunteer utilization* as the anchor, slightly different capacities emerged as most important. While these targeted capacity areas are not necessarily at odds with each other, this example highlights how defining an anchor can alter what we conceive of as capacity.

We must acknowledge that, at their core, conversations about capacity are inherently infused with value judgments. Having recognized this point, we can explore how the definition of capacity has evolved within the capacity-building field.

Capacity 1.0: Knowledge and Skills

Early conceptions of capacity focused on the knowledge and skills individuals within nonprofit organizations needed to carry out discrete tasks. While the list of topics is long, the knowledge and skills that featured most prominently were program skills (how to buy land for conservation purposes, how to better teach geometry, how to implement a water system); fundraising skills (prospecting, cultivation, stewardship); and basic organizational skills (visioning, governance, strategic planning, evaluation).



Capacity 2.0: Organizational Functioning

Recognizing that knowledge and skills needed to be contextualized within their operating environments, researchers and practitioners began to establish organizational frameworks of capacity. These frameworks included TCC Group's Core Capacity model (leadership, adaptive, management, and technical capacities, along with organizational culture); Elements of Effectively Managed Organizations (EEMO) (Allison & Kaye, 1997); and 10 Nonprofit Funding Models (Foster, Kim, & Christiansen, 2009).

Frameworks helped organizations and capacity builders understand organizations as a linked set of capacities that are best understood in relation to each other. For example, while many nonprofits may initially approach capacity by saying they have a need to improve fundraising, deeper analysis frequently finds that underlying this desire is a more fundamental need to articulate a compelling vision for the organization or to build an effective board. Framed in this holistic context, the scope of capacity expanded to include more nuanced elements such as: management assistance (effective and efficient deployment of skills and resources); assessment (more internal evaluation); data-driven decision-making; and governance (shared leadership, generative roles of boards).

The frameworks also led to the prioritization of some capacities over others. Sometimes this prioritization was based on experience or instinct; in other cases it was derived from research and testing. Regardless of how it was organized, the prioritization process led to questions about sequencing capacity development, linkages between capacities, scaling changes in capacity, and increasing nuance about different types of capacity. For example, in TCC Group's Core Capacity model, leadership and adaptive capacity are considered "first among equals." Management and technical skills are seen as secondary in priority as their specifics derive from a compelling vision, inspiring people in service of it, and understanding if and how that vision is being achieved. This has implications for the timing of activities like strategic planning, board development, and programmatic assessment, relative to more technical forms of skill development like diversification of funding sources or improved use of social media.

Capacity 3.0: Organizational Actualization

In Maslow's hierarchy of needs, once an individual meets the physiological basics, has safety, experiences love and belonging, and achieves esteem of self and others, she can experience self-actualization, the realm of morality, creativity, and problem solving (McLeod, 2007). This actualization includes a transcendence of the self, often in the form of appreciating one's connection to others and place in a larger social fabric.

Today's organizations are moving towards organizational actualization—to meet their own internal capacity needs *and* to contribute to the capacity of the larger social ecosystem. This is the capacity framework to which the social sector needs to aspire. Organizations must ask, "What is our capacity to play an effective ecosystem framed role?" If Capacity 1.0 was about knowledge and skills for one's own work, and Capacity 2.0 was about an organization's effective functioning as an individual entity, the defining end in Capacity 3.0 is about organizational actualization—realizing the potential of the organization as a deliberate and effective player contributing to complex change processes that reach beyond their own direct influence.

Rather than a complete overhaul of the notion of capacity, we believe that many of the fundamentals of previous capacity-building work remain solid. Boards still need to carry out fiduciary oversight; organizations still need to raise sufficient funds to do their work; and leaders still need to provide a vision and guide a coherent strategy. Likewise, organizational frameworks (hallmarks of Capacity 2.0) remain valuable for conceiving how and what is included in capacity conversations and how to understand those nuances that emerged through building and exploring the frameworks.

Yet there is a new realm of exciting and challenging capacity needs related directly to the notion that it is no longer enough to be organizationally sound without a connection to a larger ecosystem, and that it is time for the field to name these capacities and explore them systematically and collaboratively. The capacities we have identified that should sit more prominently in capacity-building work (and we acknowledge there are likely others) can be grouped into three broad areas that are described in the "Key Capacity Areas for Capacity Building 3.0" table on the next page.

- **Capacity to *understand* the ecosystem.** Organizations will need to enhance their capacity relative to how they understand and receive feedback from their operating ecosystems. This includes shifting perspective and skills relative to data collection and evaluation methods, analyzing power structures, and ensuring sensitivity to issue and organizational lifecycles.
- **Capacity to *respond* to an ever-evolving ecosystem.** It has been said that the only constant is change. Social-sector organizations will need the skills to proactively operate in a fluid environment. These include developing change-management skills, engaging the ecosystem through advocacy, and focusing on creating shared value across stakeholder groups.

At a higher level, it will require collaborative skills with a range of partners while simultaneously managing a defined leadership role. This will necessitate an ability to communicate in multiple sector “languages” and meet partners in co-defined outcome arenas.

- **Capacity to structure itself in response to its ecosystem.** Not only do organizations need adaptive skills, they need to consider adaptive structures—ones that maintain core identities, but are fluid around the edges, sometimes ceding decision-making and implementation, sometimes leading it. Structures include formal and informal coalition and network designs, as well as other forms of collective governance and shared leadership. For many organizations it may also mean capacity to function as an actor within a defined or emergent movement.

KEY CAPACITY AREAS FOR CAPACITY BUILDING 3.0		
How an organization understands its ecosystem	How an organization responds to its ecosystem	How an organization structures itself in response to its ecosystem*
<ul style="list-style-type: none"> ■ R&D Evaluation and Learning ■ Power Analysis ■ Network Analysis ■ Organizational Lifecycle ■ Issue Lifecycle 	<ul style="list-style-type: none"> ■ Change Management ■ Advocacy ■ Inter-Reliant Funder Capacity and Non-Grant Funder Activities ■ Creating Shared Value ■ Collaborative Skills ■ Defined Leadership Role 	<ul style="list-style-type: none"> ■ Coalition and Network Functioning ■ Collective Governance/ Shared Leadership ■ Capacity to Function as Movement Actors

* Coalition and Network functioning is from Raynor (2011); Collective Governance/Shared Leadership is adapted from the Management Assistance Group’s Network Leadership Innovation Lab; Capacity to Function as Movement Actors is from Grantmakers for Effective Organizations (2013).

An Evolution in the How

As any college student can tell you, there is a distinct difference between a professor who simply knows about an issue and a professor who can effectively teach that same issue. Likewise, understanding capacity-building frameworks, ideas, theories, and concepts does not necessarily translate to effective capacity building. For that you need methods. How to build capacity continues to evolve through new techniques, advancements in technology, and, quite frankly, experience. Similar to the *what*, the evolution of the *how* can be seen entering 3.0 development.

Capacity 1.0: Resources, Training and Consulting

The modernly defined process of executing capacity building largely started in the 1950s, building off the group dynamics work of researchers such as Kurt Lewin. The process was grounded in a counterforce to laboratory-based training—bringing the work of organizational improvement within the organization and individuals in the organization. Starting in the 1970s, the United Nations and others in the social sector began to undertake systematic efforts to build institutional capacity. The United Nation’s 1992 “Agenda 21” platform further catalyzed the capacity-building movement and efforts for building capacity in the social sector became more robust.

Base elements of Capacity 1.0 included creating buy-in to the concept of capacity building, targeting individual participants, disseminating knowledge and information, and being led by experts. Each of these is elaborated upon in the table “Capacity 1.0: Base Elements” on the next page.

TRADITIONAL CAPACITY-BUILDING METHODS	
<ul style="list-style-type: none">■ Organizational Assessment■ Training/Workshops■ Consulting■ Coaching	<ul style="list-style-type: none">■ Peer Mentoring■ Peer Exchange■ Referral of Resources (e.g. books, articles, etc.)

CAPACITY 1.0: BASE ELEMENTS

Creating Buy-in to the Concept

To many, building capacity seems like an obvious mechanism for enhancing performance. However, the difficulty of attributing changes in organizational capacity to changes in performance, as well as a preference for directly confronting problems, have been historic obstacles to generating buy-in to capacity building. Building buy-in is a critical aspect of effective capacity-building delivery, both as a way to secure necessary resources and because it leads to more engaged participants.

Targeting Individual Participants

Capacity building targeted those individuals within an organization that seemed to need specific skills. The individuals could sit anywhere in the organization, and frequently the intervention targeted those needing specific technical skills, such as fundraising, financial management, and board skills.

Disseminating Knowledge/Information

In the CB 1.0 “How,” the approach was about giving people better and more information. The most common approach was largely through trainings to groups of participants. Other activities included targeted consulting services as well as developing and giving access to better libraries of resources.

Letting Experts Lead

The process of information distribution was led by an expert who imparted of his or her knowledge to participants. The expert was not necessarily grounded in a thoughtful pedagogy or a framework of building institutional capacity, but was valued for his or her expertise.

Capacity 2.0: Professionalized Technical Assistance

As capacity building grew in prominence and sophistication, the techniques and methods grew alongside it. These were spurred by an increasingly professionalized nonprofit sector. Many of those coming into the sector or operating within it received education on nonprofit performance. For example, the number of nonprofit-management programs has greatly increased in the last 15 years, and is now graduating hundreds, if not thousands of students each year. In the business sector, pressure from students in the 1990s led to increased attention to corporate social responsibility in business curricula. Foundations made a clear shift to notions of “strategic philanthropy” and made learning and continuous improvement a more deliberate aspect of their work.

Alongside the professionalization of the social sector, there was a more concerted effort to build the capabilities of capacity builders. A number of professional associations took on more focused capacity-building roles. For example, the Alliance for Nonprofit Management emerged in 1998

and a broader MSO movement developed in state alliances for nonprofits. The Center for Effective Philanthropy built on its work measuring grantee and donor perceptions to study the extent to which foundations actually employ strategy in their work and how CEOs perceive, measure, and drive performance. Grantmakers for Effective Organizations (also started in 1998) convenes sector-wide conversations on scaling social impact, including philanthropy's role in supporting nonprofit scaling, and the grantmakers' role in supporting movements. Net Impact is a nonprofit comprised of 50,000 members and 300 chapters that advocates for business schools to continually develop their social-responsibility coursework. It provides students with the tools they need to help their future employers adapt to their role as corporate citizens.

Base elements of Capacity 2.0 included using diagnostic tools, getting teams involved, and diversifying capacity-building activities and support types. Each of these is elaborated upon in the table "Capacity 2.0: Infrastructure Evolution."

CAPACITY 2.0: INFRASTRUCTURE EVOLUTION

Using Diagnostic Tools

Capacity builders began using tools to assess the needs of an organization. These tools, such as TCC Group's Core Capacity Assessment Tool, can be used by organizations on their own or in conjunction with a broader set of capacity-building activities.

Getting Teams Involved

It has become cliché—the excited training participant returned to their organization with lofty improvement ideas running smack into the cold hard reality of daily life and rigid organizational structures. To combat this, capacity-building programs started to reach beyond individual participants to include groups of organizational participants. As noted in an article from the Council of Nonprofits, "Since people remember and respond to learning new things better when they are in a group, effective capacity building often benefits from a "collective" approach (Chandler & Bartczak, 2014).

Diversifying Activities and Support for Capacity Building

Activities in the capacity-building toolkit became more diverse and responsive to individualized support, recognizing that not one strategy fits all. This included robust coaching activities and activities that engaged peers, such as exchanges and mentoring. Many grantmakers took longer views on building capacity for grantees, recognizing that the impact of one-time workshops on fundraising or management, and even many short-term consulting engagements, could not be expected to produce significant changes in capacity (Bartczak, 2013). This led to more nuanced approaches to supporting capacity building, such as indirect funding like operating funds or multi-year cohort capacity-building initiatives.

Capacity 3.0: Targeted Performance Optimization

Grounded in a wealth of experience and armed with new technologies and information, the field is now looking toward increasingly sophisticated and tailored methods of helping organizations and ecosystems actualize their performance. While we expect that the field will continue to innovate, there are a number of important methods that have begun to emerge for building organizational capacity in today's ecosystem driven environment. These include:

- **Creating effective consumers of capacity building.** It is no longer such a problem to convince organizations of the value of capacity building. Efforts have now turned to helping them become good consumers of that capacity building—deciding when, where, and how building capacity will be most effective. A 2010 article by Judith Millesen and colleagues explained four different theories that may underlie the incentive for capacity building, concluding there is a complex rationale for capacity building, depending on the stakeholder group, and they further note that it is likely to evolve over time (Milleson, Carman & Bies, 2010). As part of enhanced consumption of capacity building, organizations should not think distinctly about program capacity and organizational capacity, but must integrate the two. Funders will continue to explore new ways of delivering capacity building for grantees, such as more systematically enmeshing program and capacity-building support for organizations. And grantmakers, including those in the corporate sphere, will begin to see their own internal capacity as a legitimate and necessary focus of attention.
- **Including change management support.** Capacity building alters not only the capacity but the rhythm of organizations. Effective capacity-building services will consider how to support organizations through a change process. They will recognize how status quo structures, cultures, and practices can impede the success of capacity-building efforts and work to soften these elements before solidifying them in new ways that are appropriate for new capacity (Burnes, 2004).
- **Getting systems involved and cross-sector leveraging.** Next-generation capacity building engages entire ecosystems in aspects of the capacity-building process, including diagnosis, implementation, evaluation of capacity-building services, and engagement of organizational teams. Ecosystems can include participants such as government, companies, funders, and elected officials. With many corporations more strategically leveraging employees to help nonprofits, foundations looking to partner and drive change, and nonprofits adopting more business-like practices, the opportunity arises for capacity-building services that leverage cross-sector partnerships. Such partnerships in turn enhance the value of capacity building for each stakeholder group.

- **Engaging diversity, equity and inclusion.** While sensitivity to aspects of culture (cultural competency) has long been recognized as important, CB 3.0 requires a more dedicated and deliberate sensitivity to cultural issues within organizations and across organizations.

As workplaces continue to become more diverse in terms of race, ethnicity, gender, religion, education, socio-economic background, and more, it is no longer sufficient for capacity builders to help organizations cope with diversity. They need to have the skills and knowledge to help organizations actively leverage that diversity for improved outcomes. With the increasing number of nonprofits and funders actively concerned with diversity, equity, and inclusion (DEI), the tools of capacity building must adapt to incorporate diverse voices, foster inclusion as an ongoing practice, and serve a larger equity agenda. For example, the D5 Coalition has commissioned a series of research projects about DEI practices, including a comprehensive overview of foundation DEI programs, policies, and practices.

- **Creating targeted diagnosis and entry.** We believe one of the hallmarks of CB 3.0 to be a detailed assessment of an organization's past, present, and future organizational realities. In a 2014 interview featured in *Nonprofit Knowledge Matters*, Lori Bartczak, Vice President of Programs at Grantmakers for Effective Organizations, explained that a "contextual, continuous, and collective" approach allows grantmakers to provide effective capacity-building support:

[We have] learned that one solution does not fit every problem, because each leader and organization is unique, and circumstances are always changing, so capacity building has to be contextual, *i.e.*, tailored to meet the unique characteristics and needs of individual nonprofits ... influenced by variable characteristics such as the organization's geography, life-cycle stage, and revenue sources, among other factors.

It is not about selecting either an assets or deficits approach. Capacity must be built starting from where an organization is now, understanding where it has come from, and strategizing about where it is going. No longer can a false dichotomy exist between strategic planning and capacity building; all capacity building must be strategic in both its intent and its positioning. In the nonprofit stakeholder profile found in the appendix of this report, we share an example of a six-step process for conducting a detailed diagnosis and capacity-building assessment. While it is found in the nonprofit section, the six steps could easily apply to all organizational types. It includes an analysis of where an organization sits within the larger ecosystem and investigates who in the organization needs to change.

- **Analyzing your place in the ecosystem.**

Gone are the days in which an organization, whether a nonprofit, a funder, or a company, could sit in an ivory tower and plan its strategy without understanding the strategy of other actors in its space. CB 3.0 grounds the roles of social-sector actors in an ecosystem context from the outset. It is important that each entity consider where it fits in a larger web of impact. Its leaders need to understand the roles they wish the organization to play in its ecosystem. This should flow from a clear-eyed analysis of that ecosystem, the strategies of its principal actors, and the influence of them on the organization in question. The mix of factors needed to enact change should be considered when it comes to distribution of resources, timing of change, and readiness of any one of the players to make that change.



A Nested Place in the Ecosystem

- **Directing focus inward and outward.** Capacity building has primarily been seen as something that funders looked outward to provide to grantees and that nonprofits looked inward to provide for themselves. Businesses had proven management processes they pushed out to others to adopt and capacity builders passed along those processes in contextualized packages. In CB 3.0, all actors simultaneously focus inward on their own capacity and seek to outwardly enhance the capacity of their entire network of stakeholders. Nonprofits manage expectations of donors and are able to provide feedback on what is working through tools like the Center for Effective Philanthropy's Grantee Perception Reports. Businesses listen to stakeholders about what effective corporate citizenship means in a given context and those stakeholders demand accountability. The process is one in which the actors in the social sector must be committed to building their own capacity and providing capacity support to their ecosystem.
- **Assessing capacity-building progress.** Both those doing capacity building and those working to build capacity need to frequently assess what is working and why. This requires clearly defined intent behind capacity-building efforts as well as thoughtfully developed indicators of progress. Ideally this will be done as part of a capacity-building planning process. Good assessment processes will obtain feedback from multiple stakeholders, not just the individuals directly involved. Assessment should also include elements of quality judged against best practices in the field. Finally, feedback from capacity-building assessments should be rapid enough that changes can be made to improve the on-going work.

CAPACITY 3.0: FINDING LEVERAGE

Creating Effective Consumers of Capacity Building

Including Change-Management Support

Getting Systems Involved and Cross-Sector Leveraging

Engaging Diversity, Equity, and Inclusion

Creating Targeted Diagnosis and Entry

Analyzing Your Place in the Ecosystem

Directing Capacity Building Inward on the Organization and Outward on the System

Assessing Capacity-Building Progress

Conclusion

The world has changed, but the social sector's understanding of capacity and capacity building have not kept pace. Nonprofits, funders, and companies are acting together more often, whether forced by budget cuts or drawn by the promise of collective impact. Our frameworks for conceptualizing capacity and the processes needed to build it for a networked world need to catch up.

In a Capacity Building 3.0 world, all of the stakeholders in the sector should be candidates for capacity building. This *who* of capacity building includes nonprofits, funders, businesses, government, and MSOs. Further, unique combinations of these actors coming together creates a need to increase corresponding network capacity.

Key capacities go beyond individual skills or even organizational skills in Capacity Building 3.0. The *what* of capacity building includes the ability to understand the ecosystem in which the organization is operating, the skills to respond to that ecosystem, and the structures for operating within that ecosystem.

In a Capacity Building 3.0 world, the execution of capacity building should include thoughtful analysis and draw on every actor as both a capacity builder and capacity-building recipient. The *how* of capacity building will include embracing change-management support, engaging diversity, and strategically positioning the work within an ecosystem context rather than solely an individual or organizational context.

The work of capacity building is not just the domain of consultants or MSOs. Capacity Building 3.0 is the domain of every actor in the social sector. Each must intentionally commit to responsibly position itself and effectively execute activities in its defined ecosystem of social good. But that is not all—each actor must also commit to helping other actors in their ecosystem do the same. By focusing on the *who*, the *what*, and the *how* of capacity building, TCC Group believes the field can significantly advance the important role of capacity building, thereby advancing social impact addressing the numerous issues of today’s complex world. We look forward to working with our colleagues in the sector to make this a reality.

CAPACITY BUILDING 3.0 FOR THE SOCIAL SECTOR			
	Who	What	How
CB 1.0	Individuals	Knowledge and Skills	Technical Assistance
CB 2.0	Organizations, Primarily Nonprofits	Functionality and Effectiveness	Sequenced Interventions Cohorts
CB 3.0	Organizations, Groups of Organizations Systems, Movements	Actualization, Relational Contextualization, and Embeddedness Funder Capacity Network Capacity Corporate Capacity Coalition Capacity	Effective Consumers Targeted Capacity Building with Systems Engaging Diversity Change Management Support Inward and Outward Focused Assessing Progress

Appendices

Stakeholder Profile: Funders

Funders are distinctive actors within social ecosystems. They are primarily identified with their ability to make grants of money, but they also have other tools like voice, knowledge, and reputation. Applying this range of tools requires particular forms of capacity, which only partly overlap with those of other actors. But, too often, funders overlook the need to build their *own* capacity. As a result, they miss opportunities to leverage the full range of their assets toward social impact. Part of Capacity Building 3.0 is acknowledging the *what* of Funder Capacity, defining the *who*, and clarifying the *how*.

There are many ways to define and classify the full range of roles that funders play. GEO, for example, uses the rubric of Investor, Broker, Learner, Connector, Influencer with respect to funder roles in supporting movements (Grantmakers for Effective Organizations, 2013). At TCC, we have found it helpful to think in terms of four roles that funders play in their work more generally: Investing (of financial and human capital), Including (engaging diversity and practicing stakeholder engagement), Informing (leveraging the knowledge the foundation has internally and sharing it externally), and Influencing (using reputation and other assets to shape outcomes directly). In the table on the next page, we group distinctive funder capacities within these four categories.

What are the ways that funders can better participate in social ecosystems, and the capacities associated with those forms of participation?

Funder Capacities: Expanding Role in the Social Ecosystem

Investing

Grantmaking: Managers ensure the grantmaking process operates effectively and efficiently.

Organizational Development: Staff are knowledgeable about organizational development to help grantees.

Including

Creating Networks: The funder connects partners to discuss or help solve a problem.

Advancing Diversity, Equity, and Inclusion: The funder has policies, practices, and programs that advance diversity, equity, and/or inclusion internally and among its grantees.

Informing

Communications: The funder is able to communicate its value proposition and that of its grantees clearly and effectively, both internally and externally.

Field Learning: The funder learns from and uses resources in the larger field about its issue areas to inform its leadership. It gathers expert knowledge and understands the technical elements of its content.

Programmatic Learning: The funder assesses the needs of clients and uses program evaluation as a learning tool.

Influencing

Innovation and Experimentation: The funder investigates and implements new and innovative ideas with calculated risk.

Leader Vision: Funder leaders persuade board and staff, facilitating action and navigating internal relationships to create buy-in and get things done.

External Leader Influence: Funder leaders persuade community leaders and decision-makers to take action, navigating external relationships to create buy-in, establish partnerships, and leverage resources.

Stakeholder Profile: Corporate Citizens

Companies have a wide range of tools and resources to address those issues that are not available to other types of actors, including: thousands of skilled employees with unique talents in multiple locations; influential executives who can influence policy and command audiences with a range of national and world leaders; products and services that can be adapted for specific needs; and equipment that can be mobilized quickly for disasters and specialized needs.

Although still important, philanthropic donations from companies are now aligned with the broader range of tools and resources to help significantly increase the impact of a company's corporate-citizenship initiatives. And with that evolution, companies need to develop their internal capacity to work more collaboratively with a range of partners that bring complementary skill sets and to evaluate and measure their efforts in order to more effectively communicate with their various stakeholders around the globe.

TCC Group has identified four core elements that are essential for a company to be an effective corporate citizen within the social ecosystem. While companies are capable of leveraging significant resources and skills to address social-sector issues, most companies develop approaches that have limited effectiveness due to inadequate capacity in the core elements and/or lack of understanding about the importance of each element.

What are the ways that corporate citizens can better participate in social ecosystems, and the capacities associated with those forms of participation?

The Fundamentals

Strategy: The element of strategy refers to a broad set of social issues that form a citizenship platform and program portfolio for the company. Goals and roles for both the company and the citizenship department (in partnership with the foundation/community involvement team) to address these issues are clarified through the strategy, and the issues are informed by the concerns of stakeholders (external stakeholders and employees) in the ecosystem. Any individual program ideally stems from this wider strategy, rather than serving as a standalone initiative, and has clear goals for how it will impact its designated social issue(s) and meet the needs of the ecosystem and the expectations of stakeholders.

Integration: Integration refers to the need for citizenship issues to be shared and adopted across the company, rather than siloed within a foundation or independent corporate-citizenship department. For a company to be a successful corporate citizen, the issues within its citizenship platform need clear roles, goals, and accountability across business units, regions, and levels of seniority within the company.

The Accelerators

Leadership: This element refers to the true engagement of leaders in the creation and implementation of the company's citizenship platform. Successful leadership entails more than approving grants or speaking on behalf of citizenship issues. Leaders understand the business impact and ROI. They ensure that the issues are integrated into business decisions and day to day activities (such as performance reviews and resource allocation) and tracked to ensure they are achieving strategic goals. Leaders must champion citizenship issues by prioritizing them as business issues, rather than simply citizenship concepts.

Culture: Culture is an element that stems from the success of the other three elements—strategy, integration, and leadership—and ensures citizenship issues align with and reinforce company values. Leading corporate citizens, like IBM and Starbucks, built their companies around strong corporate citizenship cultures; companies without that historical foundation need strong leadership to ensure its development.

Stakeholder Profile: Nonprofit Organizations and Networks

There are multiple ways that nonprofits have received capacity-building support: cohort-based workshops, technical assistance from consultants, and restricted grant to purchase assets or equipment, to name a few. The limitation of this type of support often lies in the fact that most nonprofits can't easily answer the question: "capacity for what purpose?" It's not simply a matter of identifying which capacity within its many challenged areas is a priority because often a nonprofit's isolation may interfere in recognizing its true capacity needs. The central element of Capacity Building 3.0 for nonprofits is arriving at a data-driven and ecosystem-informed target(s) for improvement. The process described below has been very effective for a number of nonprofits in discerning the capacities they most need to develop.

What are the ways that nonprofits can better participate in social ecosystems, and the capacities associated with those forms of participation?

Positioning Capacity Building

1. Organizational Model: The first step is clarifying aspirations regarding the business model and how the current model relates to the desired state. This includes defining a “community” to which the organization belongs, identifying growth ambitions, and clarifying the funding model.

2. Lifecycle Stage: Step 2 involves defining the organization’s lifecycle stage. Rather than a human or product lifecycle approach, many nonprofits find it more helpful to use a lifecycle model that focuses on their core program, their infrastructure, and their aspirations beyond their core program (sometimes called “impact expansion”).

3. Priority Capacities: In Step 3, the nonprofit identifies the capacities that are most important given its organizational model and lifecycle stage. These may be areas where there is the greatest gap between current status and aspiration, but might involve fortifying an already strong capacity area. This stage frequently requires the nonprofit to think about stages of capacity building, thereby fostering priority decisions about sequencing within capacity building.

4. Change Agents: Once the target capacity has been identified, Step 4 identifies where the capacity needs to be strengthened and which change agents within the organization need capacity improvements. The “who” could be an individual within the organization, a team, or a group of change agents.

Executing Capacity Building

5. Capacity-Building Activities: Step 5 moves into executing capacity-building activities. The execution steps start with identifying how ready the change agents are to undertake capacity building, the kinds of support they will need, and how they can best learn or develop skills. On-site, in-person meetings with those involved in building new capacity is essential to ensure the organization embraces change.

6. Capacity-Building Resources: The final step in the process is identifying the necessary resources for capacity building. The organization should consider which is the most cost-effective model for funding capacity building and what sources might have an interest in supporting its capacity enhancements. An organization that can articulate the “what, how, and who” in its request for support will have a much better shot at success in funding its capacity-building activities.

Stakeholder Profile: Management Support Organizations

To stay on top of their field, professionals who provide capacity-building services must strive to strengthen their internal capacity while improving the quality of the services they offer. There are numerous roles that organizations can play to help increase the effectiveness of management support organizations (MSOs). Specifically, ecosystem-oriented organizations can focus on the following MSO leadership development, business planning, and evaluation tools:

- Provide leadership-development opportunities for MSO leaders, such as running an institute for emerging leaders and creating mentoring programs.
- Offer nuts-and-bolts business planning tools for MSOs, such as a business planning model that describes the typical lifecycle stages of an MSO, explicates business and revenue models, and explains how to set prices and establish billing and cost-accounting systems.
- Create an organizational-assessment instrument that is research-based and customized for MSOs.
- Enhance tools and systems for evaluating MSO work that are standardized, and disseminated widely.
- Help MSOs communicate their value to clients and funders.
- Spread knowledge of innovative practices.
- Provide funder education and outreach.

MSO Case Study: Murdock Charitable Trust

One funder that has seen the need for ecosystem thinking is the Murdock Charitable Trust, which supported the capacity building of five state-level nonprofit service organizations in the Northwest United States from 2007-2013. These organizations grappled with issues of identity (being a state association of nonprofits compared to a management support organization); role (advocate, sector convener, or capacity builder); and effectiveness. Dedicated to monitoring their own success and recognizing the value of learning within their own ecosystem, the organizations began implementing shared data collection efforts on key practices and outcomes for the sector in their states.

TCC Group was engaged by the Trust to evaluate its “Building the Capacity of Nonprofit Support Organizations” Initiative. TCC Group assessed the impact of capacity building over a three-year period in five large organizations in Montana, Idaho, Oregon, Washington, and Alaska. The evaluation explored the organizations’ capacity-building efforts and how they fit into a larger framework of serving the nonprofit community. Grantees built on the work, committing to continuous learning from the data. The final year of the evaluation focused on building the capacity of the organizations to conduct evaluations of their future activities.

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This is an ongoing conversation, and we hope to have helped organize a few of the disparate strands. We look forward to participating with our social-sector colleagues in a more targeted and nuanced dialogue about the future of capacity building. The needs of the day demand no less.

Have a reaction to CB 3.0? Email us at cb3.0@tccgrp.com or share it on twitter using [#cb3.0](https://twitter.com/cb3.0)
Calling all members of the social sector: Have something to contribute to the evolution of capacity building? We would love to hear from you!

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About TCC Group

At TCC Group, we are passionate about helping the social sector achieve greater impact. Since 1980, we have developed strategies and programs that enhance the effectiveness and efficiency of foundations, nonprofits, and corporate community-involvement programs. From offices in New York City, Philadelphia, and San Francisco, we work with diverse clients, from large funders and nonprofits to smaller organizations that want to tap our knowledge to determine pragmatic ways to solve everyday problems.

Our unique strength as a firm lies in our ability to assist clients at all stages of development across the interlocking areas of planning, execution, and evaluation. Our approach is data-driven and outcomes-based, draws from the knowledge of in-house program management and evaluation teams, and ensures that our clients develop actionable and measurable strategic goals to communicate effectively with their stakeholders.

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