

# What is Nonprofit Capacity and Why Does it Matter?

Nonprofits need certain capacities in order to deliver results. These include things like strong leaders, financial management, technology and office space, as well as softer things like communications, adaptability and relationships. And nonprofits' needs will change over time as organizations evolve. Grantmakers play a key role in helping nonprofits build and maintain their core infrastructure and other capacities — but it's not always easy to know what to support and why. This piece offers an overview of the elements nonprofits need to build and maintain in order to be effective and produce results.

## Understanding terms: nonprofit effectiveness, capacity and capacity building

GEO defines *nonprofit effectiveness* as “the ability of an organization or a network to fulfill its mission through a blend of sound management, strong governance, and a persistent rededication to assessing and achieving results.”

*Capacity* “is an abstract term that describes a wide range of capabilities, knowledge, and resources that nonprofits need in order to be effective.”<sup>1</sup> Capacity needs will vary depending on a range of factors such as the organization's size, lifecycle stage, program model, revenue base, or the capacities of complementary organizations working in the same community or field.

A list of common capacities follows. While all of these capacities are important, it may not be necessary for one organization to be equally strong on all capacities, and certain capacities may be more critical at certain points in the organization's lifecycle than others.

- **Leadership** — Build staff and board leadership, invest in talent development and executive transition planning. GEO believes strong leadership is essential to the success of any nonprofit organization.

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<sup>1</sup> Kevin Bolduc, et al.; edited by Lori Bartczak, *A Funder's Guide to Organizational Assessment* (Washington, D.C.: GEO and Fieldstone Alliance, 2005), 6.

- **Mission, Vision and Strategy** — Conduct organizational planning, assessment and development.
- **Program Delivery** — Execute program design, delivery and evaluation.
- **Fund Development** — Develop and implement fundraising strategy and plan for and execute other revenue-generating activities.
- **Financial Management** — Manage day-to-day activities and long-range plan to ensure financial health.
- **Communications** — Use marketing, online presence, media relations and social media to raise awareness and attract attention and resources to the organization or issue
- **Technology** — Build and use internal IT systems needed to facilitate the work.
- **Strategic Relationships** — Establish connections with colleague organizations, stakeholders and decision-makers that can help advance the mission and possibly spark collaboration.<sup>2</sup>

Nonprofits also need what [TCC Group](#) calls *adaptive capacity*, which is “the ability to assess, monitor, respond to, and create internal and external changes.”<sup>3</sup> Adaptive capacity, coupled with leadership, management and technical capacity are the key elements of nonprofit sustainability, according to TCC Group.

## Why invest in capacity?

Literature in the nonprofit sector does not offer a commonly accepted definition of *capacity building*, perhaps because it is so broad and multi-faceted. In an interview, Pete York, CEO of [Algorhythm](#) and formerly of TCC Group, offered a succinct definition: “Capacity building is any activity that strengthens nonprofit performance and impact.”

Just as we pay attention to the health of our bodies in order to live well, organizations require care and feeding in order to operate effectively. In listening sessions GEO hosted across the country, nonprofit leaders identified a number of reasons why investments in organizational capacity matter:

1. **Strengthening program delivery.** Investments in capacity can help develop leadership, infrastructure, evaluation capacity or other skills needed to design, implement and assess programs.

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<sup>2</sup> Adapted from Paul Connolly and Carol Lukas, “Strengthening Nonprofit Performance: A Funder’s Guide to Capacity Building,” Fieldstone Alliance, 2002, 140.

<sup>3</sup> Pete York, “The Sustainability Formula: How Nonprofit Organizations Can Thrive in the Emerging Economy,” TCC Group, 2005.

2. **Freeing up space for more strategic thinking.** Nonprofit leaders GEO spoke with feel hamstrung by limited bandwidth and the limits placed on funding. As one leader explained, “We don’t have capacity or time on a day-to-day basis to think about capacity. I think about big picture things on the weekends, but I’m struggling with that right now.” Dedicated capacity support can give nonprofit leaders the time and space they need for that big-picture thinking.
3. **Paving the way for organizational growth.** Grantmakers are often anxious to see their grantees have more impact, but this cannot happen without a strong base. An important first step in helping grantees grow their impact is shoring up organizational capacities.
4. **Positioning organizations to be better partners in collaboration.** Just as organizations need to start efforts to grow impact from a solid base, nonprofits will be better partners in collaborative efforts if their organizations are healthy. Grantmakers interested in seeing more collaboration among grantees should pay attention to the overall capacity of the individual players.

*“If we don’t have strong infrastructure, it’s like a train going without a track. We have the programs, but there’s no track to support them.” – a nonprofit leader in a GEO listening session*

## Conclusion

Nonprofits need certain capacities to meet challenges and thrive in changing and challenging environments — such as strong leadership, financial management, communications, and more. These capacities are built through dedicated funding and attention from nonprofits and grantmakers. We’ve heard time and again that nonprofits benefit from targeted, long-term and flexible funding for strengthening and growing their capacity.