HUMAN INTERACTION RESEARCH INSTITUTE *Founded 1961*

Using Behavioral Sciences to Help Nonprofit Organizations Handle Innovation and Change

DONOR PERSPECTIVES

ON NONPROFIT CAPACITY BUILDING

Thomas E. Backer, PhD
Alan N. Miller, PhD
Jane Ellen Bleeg

September 2004

Supported by the Annie E. Casey Foundation,
the Academic Sabbatical Leave Program of the University of Nevada, Las Vegas,
and the Human Interaction Research Institute

5435 Balboa Boulevard, Suite 115, Encino CA 91316 818/386-9137 C Fax: 818/386-9582 C E-mail: HIRILA@aol.com

Nonprofit capacity building is a topic of considerable discussion and activity among foundations in the U.S. But what are the perspectives of individual donors on capacity building for the nonprofits they support?

For donors involved in venture philanthropy approaches, such as those active with Social Venture Partners chapters across the country, this isn't a new topic at all (Shoemaker, 2004; Guthrie et al, 2003). In fact, one of the central tenets of venture philanthropy is that highly-engaged donors can (and should) themselves provide technical assistance to nonprofits they support, or underwrite capacity building provided by others.

But what about the great majority of American donors who are not part of such organized approaches? Our study, the first of its kind, gathered perspectives on nonprofit capacity building using both telephone and in-person interviews with a variety of individual donors across the country. Some are some relatively new to philanthropy, others have long family traditions in it. Some give relatively modestly, others are major donors in their communities. We also interviewed a small number of trusted advisors to donors (private bankers, trust attorneys, wealth managers, etc.).

We also asked these donors and trusted advisors about their views on place-based philanthropy - giving that concentrates on a particular neighborhood or community, and involves those living there actively in the philanthropic process. What we learned on this topic is summarized in a companion report (Backer, Miller & Bleeg, 2004).

Other research about capacity building has looked at the work of foundations in this area, but not at individual donors. In recent years, American foundations have been providing a wide range of funding and direct services to nonprofits under the label "capacity building." This support helps strengthen nonprofits, so they have a better chance to survive, grow and fulfill their missions. Capacity building helps nonprofits with staff development, board training, improved technology, better financial or fundraising procedures, and other aspects of creating healthy organizations.

In our study, we look not just at whether donors give money for nonprofit capacity building, but also at how they make any such decisions, and whether they partner with other donors, foundations, government, corporations, and so forth. Additionally, we examine what kinds of learning activities might be most appealing to donors who may want to know more about nonprofit capacity building. At the end of the report, we also compare what we learned with a recent evaluation of the pioneer Social Venture Partners group (Guthrie et al, 2003), and strategies for nonprofit capacity building used by its donors.

Background Since the 1980s, the field of philanthropy has become increasingly professionalized. Foundation staffs, especially at the larger foundations, have grown, as has attention to the professional development of these individuals. The knowledge base on philanthropic strategy and

practice also has expanded, along with the creation of academic centers and university study programs on philanthropy. Perhaps most importantly, the number of foundations in the U.S. has increased enormously, now totaling more than 62,000, according to recent statistics from the Foundation Center (Backer, 2004).

There has been a parallel growth in the number, role and visibility of individual donors, who give away billions of dollars a year directly - through checks they write or appreciated assets they donate as individuals, rather than through a foundation or other giving vehicle. In many cases, wealthy donors today may use a number of giving vehicles, each reflecting different philanthropic purposes. They may have family foundation or a donor-advised fund at a community foundation, do individual giving, be part of a giving circle, give through their company, and use other strategies, all at once.

Donors have become more than just check-writers or the name on the wall of a building. Individual philanthropy has become a more intentional and involved activity. Donors set specific goals to which their giving is tied, and bring skills from the business and professional world to managing their giving and providing input to organizations they support. Networking and support organizations have sprung up to help individual donors, ranging from giving circles like Social Venture Partners (SVP's activities are described later, as already mentioned), to service-oriented groups like More Than Money and the National Center for Family Philanthropy, to a variety of financial institutions and consultants under the general term "trusted advisors."

Capacity building for nonprofit organizations as an organized activity also has grown substantially over the last 15 years, and this recent growth has been driven significantly by foundations (Backer, 2000). Services to strengthen nonprofits so they can better achieve their mission are funded and in some cases actually delivered by foundations, in areas ranging from improving the use of technology to problem-solving on long-term fundraising strategy (Backer, Bleeg & Groves, 2004).

There has always been capacity building for nonprofit organizations, of course, as long as there have been nonprofits. Federal, state and local government grant programs have included technical assistance to grantees at least since the 1960s, and peer-to-peer assistance has always been in evidence. As far back as the 1950s, the Ford Foundation offered financial capacity building to arts nonprofits.

But the more recent leadership role of foundations has resulted in development of a national and community infrastructure, as well as a more sophisticated body of practice for nonprofit capacity building (see DeVita & Fleming, 2001; Connolly & Lukas, 2002, Blumenthal, 2003; Kinsey, Raker & Wagner, 2003; Grantmakers for Effective Organizations, 2004). This growth has been tied in part to the emergence of "venture philanthropy" (Backer, 2000), an increasing focus on performance of nonprofits (see Letts, Grossman & Ryan, 1998; Light, 2002) and greater attention to the capital needs and structures of nonprofit organizations (see Backer & Grossman, 2001; Miller, 2002).

Administration, finance, human resources and facilities are among the areas that can be enhanced by nonprofit capacity-building activities. These activities are now being evaluated for their impact

on nonprofit performance (Linnell, 2003), and innovative approaches are emerging all the time (Backer, Bleeg & Groves, 2004). There are several national associations devoted to this topic, and in many communities, entire infrastructures have emerged to support nonprofits through capacity building - free-standing centers, university-affiliated programs, individual consultants, etc. (Backer & Barbell, 2004).

There are three main types of capacity-building interventions for nonprofits:

1 - Assessment Effective measurement of the nonprofit's current needs and assets, and its readiness to undertake the kinds of internal changes capacity building will require, is essential to designing and implementing a capacity-building effort.

2 - Technical assistance and organization development consultation Whether provided by outside consultants or consulting firms, peer nonprofit managers, or staff of a foundation, the heart of capacity building is *technical assistance* (TA) on specific issues of fund raising, board development, staff development and so forth; and *organization development consultation* (ODC) on larger issues of strategic planning, mission shaping or conflict resolution. This category also includes more conventional educational interventions such as seminars or classroom-based courses.

3 - Direct financial support Capacity also is built for nonprofit organizations by providing them with direct operating or core funding, or funds for equipment purchase, facilities construction, etc.

If capacity building works, the results can be seen at three levels: (a) improvement in the capacity of the organization to do what it already does (program delivery capacity), (b) improvement in the organization's capacity to grow (program expansion capacity) and (c) improvement in the nonprofit's ability to sense needs for change, and respond to them with program improvements or innovations (adaptive capacity). All three types of improvements are needed for nonprofits to perform effectively.

Many capacity-building activities sponsored by philanthropy came about when foundations realized that their grantees didn't have the capacities needed to achieve program objectives. Especially at first, these initiatives may have created capacity-building interventions "on the fly," without much planning or analysis of past experiences. In other instances, programs for capacity building were created quickly after foundation leaders observed what others in philanthropy were doing and decided to emulate them. Now, as the nonprofit capacity-building field matures, a more strategic approach is unfolding in the foundation world, as seen in some of the reports mentioned above.

Moreover, in another recent study (Backer, 2004), we learned that foundations, especially smaller ones with few or no staff, in many cases do not use well the resources potentially available to them for building *their own* capacity. These resources include both those in philanthropy (such as the educational activities of regional associations of grantmakers), and those from the larger nonprofit community that could be accessed readily by foundations.

Explorations of ways individual donors become involved in philanthropy, and ways they develop their philanthropic expertise through peer-to-peer networking, education programs and other means, have also been conducted recently (Remmer, 2000; Siegel & Yancy, 2003). These exploratory studies indicate that the channels by which individual donors learn about philanthropy, including funding strategies for nonprofit capacity building, are small in number.

In another recently-completed HIRI research study (Backer, Bleeg & Groves, 2004), we learned from both a literature review and interviews with trusted advisors and donors that individual philanthropists (who collectively give far more money to nonprofits each year than do foundations) rarely were included in discussions of capacity building. And it seemed to these observers, with some exceptions, that donors did not typically think about or take action on capacity building. These observations led us to undertake the current study, adding also a brief look at the approaches donors would prefer for learning more on this topic.

How This Study Was Conducted The main steps carried out for this study were as follows:

(1) We created a set of interview questions on how individual philanthropists may think about and take action on nonprofit capacity building. The interview questions we used are presented in Appendix A (they include also questions used for the separately-reported look at donor perspectives on place-based philanthropy).

(2) We obtained interview nominees from the following sources:

(a) Philanthropists and trusted advisors interviewed about capacity building for "The Expanding Universe" study (Backer, Bleeg & Groves, 2004). Several donors were interviewed, along with trusted advisors such as senior executives from Northern Trust Bank, US Trust, The Capital Group, and Fiduciary Trust International.

(b) Donors and trusted advisors nominated by those individuals, several of whom also served as an informal advisory committee to this project.

(c) Donors nominated in "snowballing" fashion by our interviewees.

Our sample was not intended to be representative of all types of donors or advisors, but was deliberately selected to include a fair range of types of donors, as described below.

(3) We conducted interviews with 34 donors and trusted advisors. The interviewees were spread across the United States in Upstate New York, New York City, Chicago, Las Vegas, and Los Angeles. They included donors from a wide range of backgrounds, interests and giving levels (from moderate annual donations to very large philanthropic commitments). Trusted advisors interviewed included senior staff of private banks, wealth management firms and other financial institutions that serve the wealthy; and trust and estate planning attorneys.

Interviews were conducted by telephone, by e-mail and in person over a four-month period (late 2003-early 2004). Appendix B gives interviewee names, along with affiliations for the trusted advisors. Interviewees were promised anonymity with respect to any specific input they provided.

(4) We synthesized what was learned into this report, in order to share results with the broader philanthropic community. A draft of the report was shared with all 34 interviewees, to promote greater accuracy and completeness.

Study Findings Results from our study are presented in three stages - an overview of what we learned, four very brief case examples of donor activities in nonprofit capacity building, and a set of more specific findings.

Overview We learned from this study that nonprofit capacity building is a topic of inherent interest to many individual donors and their advisors, because they are smart, educated people who realize that strong nonprofit organizations (including ones they support financially) are more likely to achieve their goals. However, most of the people we interviewed had never used the term "capacity building" to describe their philanthropic work, nor were they familiar with the knowledge base just described in this report. So, while they're interested in the topic, they don't use that label to describe it, and in fact don't particularly *like* a term many of them see as "just jargon"!

Moreover, many of our interviewees knew nothing about the last 15 years of work by foundations in this realm, or about any activities of this sort that might have been undertaken by other individual donors. Often - though not always - they were not aware that funding support or services for capacity building were even available to nonprofits, including the ones they support.

This does not mean that capacity-building grantmaking by individuals does not occur, however. At least as judged from our small, informal sample, when an individual philanthropist does such grantmaking, it is typically quite informal and "below the radar screen" (though there are some exceptions, as discussed later)

Thus, our interviewees told us that even when the subject of capacity building is discussed in their circles (or between a donor and a trusted advisor), it is never called by that name. Indeed, in most instances we had to provide a definition of the term when we began the interview. However, once the definition was provided, some interesting activities and perspectives began to emerge.

With some exceptions, as already mentioned, individual donors and their advisors seem to have virtually no connection with the knowledge base or opportunities for learning and networking that might be afforded by foundations involved in capacity building. Some of the donors we interviewed are members of local or national philanthropic associations, or network more informally with their philanthropic peers (including those associated with the approaches to venture philanthropy that are strongly influenced by the attention venture capitalists give to strengthening the business ventures

in which they invest). However, no simple vehicle currently exists to offer a broad audience of donors information about effective capacity building as practiced in the foundation world.

Based on what we learned from this study, it is apparent that many donors would be interested in learning more about approaches to nonprofit capacity building. Trusted advisors could in some cases play a pivotal role in facilitating such learning.

However, it is equally clear that donors want these learning opportunities delivered in ways that fit with their convenience and learning styles. Peer networking is one strong preference. So too are information resources that can be accessed easily and quickly, for instance through the internet, or through very brief, journalistically-written summaries (ideally a page or two in length, and distributed through trusted resources). Seminars or other classroom-like experiences may be useful for some, but the majority of those we spoke with are not keen on these more traditional approaches to "donor education." Even that term has negative connotations for some.

Some donors do participate in the more traditional outlets for learning in philanthropy, such as conferences of local, regional or national philanthropic associations (including those oriented to the needs of smaller foundations, such as the National Center for Family Philanthropy or the Association of Small Foundations). The organizers of these learning events can consider including more coverage of both capacity building and place-based philanthropy. Moreover, there may be many creative ways to tie such events to the peer networking and easily-accessible information resources just mentioned. Making all these resources more known to trusted advisors could also increase the contact of donors with them.

In some cases, training or information about capacity building may not be enough, and it certainly could arrive too soon in terms of "learning readiness." For example, many wealthy people who are new to philanthropy need to "do their own personal growth work first," one donor told us. They need to learn how to become leaders in the areas they've chosen to support, and a number of leadership training programs are geared to this need. These leadership development programs may also provide opportunities for some training on the importance of and strategies for nonprofit capacity building.

Our interviewees also told us that prejudices must be overcome. Sometimes capacity building is labeled as just another overhead expense, and that may make it difficult for individual philanthropists to appreciate its value. Donors must see it in a larger context, and have some examples of its successes available to persuade them that it is valuable (as a long-term effort to reduce the expense base by making nonprofit organizations more efficient). Well-written, concise case studies would help - donors can learn a good deal about these strategies by observation. Case studies constructed as a kind of "peer-to-peer communication" may be especially valuable. Education for financial advisors also might be beneficial.

Four Case Examples Many of our interviewees gave us examples of their capacity building activities. Four brief case examples are provided here.

Case Example #1 A long-time philanthropist had given money for several years to an AIDS prevention education organization, based in San Francisco but working in Africa, and run by an Episcopal priest. The priest's wife, a nursing professional, served as secretary. When it became clear that the nonprofit was struggling and needed to expand, the philanthropist gave a $50,000 grant so the nonprofit could hire its first paid secretary and rent office space. Within the next year, the nonprofit received a $1 million grant from the William & Melinda Gates Foundation that transformed the organization's ability to provide its educational services. Thus an established donor relationship facilitated the capacity-building opportunity - but that term was never used by any of the parties to this grant!

Case Example #2 Another donor, again without calling it capacity building or referring to institutional philanthropic activity in this arena, has built the capacity of a particular nonprofit in the Los Angeles area substantially. The donor has given regularly to support the service programs of this nonprofit, but also recently made a grant that was focused on capacity building, specifically on setting up a second office for the nonprofit in a particular community where its services were urgently needed. The donor - who gives of his time to the nonprofit as well as contributing financially - not only provided the funds for this new office, but also found the office space and helped to engineer this important facilities expansion for the nonprofit.

Case Example #3 A donor in his 40s gives through his checkbook, his small but growing family foundation that family members operate, and his highly successful and growing company. Brought by a business friend on to the board of a medium-sized nonprofit, he and the friend then led a major effort to convince the staff and board they needed to think big, develop a larger, more sophisticated facility that would meet future needs, and embark on a capital campaign to make it happen. This was not an easy effort! Many board members were skeptical about the ability to raise the dollars and make the needed changes. Ultimately the campaign was approved, it was successful (the donor made a major contribution), and the nonprofit is regarded highly both in the region and nationally.

This same donor took a similar lead role with a home for severely ill babies and infants run by nuns. His influence and the work of many others led to an expanded capacity from 2 to 5 or 6 children at a time. Another way he helps involves inviting nonprofits to use his world-class headquarters for special networking and "friend-raising" gatherings of current and potential volunteers and funders. He covers all of the refreshment costs, and in addition to welcoming those invited by the nonprofit, invites his own contacts who might be interested. This enables nonprofits to attract invaluable new talent and resources to a special activity. And the donor says he secures enough new clients from the attendees at each of these events that their new accounts easily erase the expense to the company of hosting the events.

Case Example #4 Another donor integrates her own personal giving with that of her family foundation to help small, grassroots groups. She has personally supported the foundation's grantees, mostly quietly, for capital campaigns, to staff up for a project, or to help with executive transition. She has done a lot of start up funding as well. Through her capacity-building funding as an individual donor, she wants to support those organizations in which she has great confidence.

This donor is particularly oriented to helping fund capacity building through constructing a building the nonprofit will own in its service area. She feels that a building tells people in a neighborhood whether or not they matter, so for this she offers money, her name, the use of her house, whatever is needed. With capital campaigns, she waits until the response hits 75%, where they begin to "tucker out" — then she brings prospects to her house and says something nice about the group, hands the group her own personal check, and that rejuvenates the effort.

She also has strong relationships with much larger agencies that her foundation won't fund, for example, getting a building for one group so the executive director could then have the time and energy to "do the rest," in terms of programming, getting programs under one roof, and adding more than 50 day care slots for the neighborhood that needed it. She feels that this show of moral support is a key element of capacity building.

Specific Findings from Interviews Among the other specific findings from this study's 34 interviews are the following:

- When promoting the wider consideration of capacity building grantmaking by individual donors, interviewees felt it might help to focus the language used on a particular type of capacity - information technology, fund-raising, etc. "Nonprofit capacity building" is just too vague, they felt. Several interviewees reported having been approached by nonprofits they support with such requests for a very specific kind of capacity building (e.g., for a grant to buy new computers and software, or to fund a strategic planning activity with an outside consultant), and these requests were easier to understand because they were focused on a rather concrete outcome.

- Donors who ascribe more vigorously to venture philanthropy approaches are more likely to get involved with capacity building for the nonprofits they support, as can be seen in the work of the giving circles oriented to this philosophy, such as Social Venture Partners. Several interviewees felt that case studies documenting how SVP chapters have collectively addressed capacity building in their work would be useful, and not just for other SVP donors. SVP International, the coordinating body for the 22 SVP chapters in the U.S. and several other countries, might be approached to coordinate the development of several such case studies.

- Capacity building often isn't on the radar screens of some donors because they really don't understand how nonprofits operate - though other donors we interviewed obviously were quite knowledgeable about this subject. Before learning more about capacity building, they need more knowledge about how nonprofits do what they do, and how they are in certain ways quite different from for-profit ventures.

One interviewee suggested a donor learning activity that would begin with some brief, targeted lectures, and then move to a "bus tour" of local nonprofits - so that donors could see first-hand how they actually operate. The Liberty Hill Foundation in Los Angeles, a public charity which must do its own fundraising each year, offers such bus tours to its donors. These learning events are received with enthusiasm by donors, and are well-attended.

- Giving significant funding for capacity building, such as paying the salary of a development director, may be difficult for donors, often because it may be difficult to see the direct benefit that would come from such a grant (though some of our interviewees did grasp this quite well). Donors need to learn - framed in terms they understand - that an investment in capacity has leverage potential for the future performance of the nonprofit organization they want to support. Again, several interviewees said that well-framed case examples, combined with interaction with other donors who have had personal experiences in this realm, would be the most persuasive.

- Clever ways are needed to acknowledge capacity-building gifts by donors to nonprofits, such as funding a development director's position or purchase of technology. Interviewees used analogies from other realms of charitable giving, such as an orchestra player's chair named for a donor. Information resources that present such approaches in a straightforward format would be helpful.

- Misconceptions about capacity building need to be corrected among donors as new learning programs on this subject are developed. Just as one example, some donors have the misconception that a capacity- building grant would not be tax deductible. More dialogue with donors and trusted advisors would doubtless reveal many other misconceptions that need to be addressed.

- Our interviewees emphasized that their peers are more likely to be persuaded to look seriously at capacity building as a concept if they feel "personally connected" to stories of its success as a philanthropic strategy. These connections can be provided by testimonials from or interaction with other donors who have successfully done capacity-building grantmaking.

- Capacity building sometimes involves using the donor's leverage to bring new members to a board of directors of a nonprofit, for purposes of increasing representation of a community or issue, or for improving the organization's fund-raising or technical ability. This is a time-honored strategy that can sometimes be used to introduce the subject of capacity building to a donor, after which other approaches that may be less familiar can be presented.

- Donors who pay the overhead costs "out of their own pocket" for their small foundations are actually engaging in a kind of capacity building for the foundation itself, according to several of the donors we interviewed, because this enables the foundation to run more effectively (e.g., by having hired staff, technology support, and so forth).

- Trusted advisors can contribute in many ways to increasing donor awareness of and attention to nonprofit capacity building as part of their philanthropic strategy. According to our interviewees, a first step in that process would be to provide learning experiences for the trusted advisors themselves, through informational materials; seminars given by private banks or other financial institutions; or by professional associations of advisors on a local, regional or national basis.

- Advisors can assist in creating opportunities for donors to support capacity-building efforts for nonprofits, by suggesting that donors look to this kind of grantmaking when quick action is required. For example, if there is a liquidity event in the donor's financial portfolio, or the end of the tax year

is around the corner, some timely information about capacity building needs of a local nonprofit can be extremely valuable. Donors frequently are more receptive to suggestions by their advisors under such circumstances.

- A website providing basic information on capacity building for donors and their trusted advisors, coupled with a simple print publication on this subject, were recommended by some of those interviewed as having at least equal potential with more traditional educational programs to help donors and advisors learn about capacity building. Tie-ins to existing organizations that serve individual donors might help in disseminating such information (for instance, the Association of Small Foundations, the National Center for Family Philanthropy, and so forth).

- Many interviewees had favorable experiences collaborating with other funders (individuals or institutions) on a project, though again they tended not to see this in strategic terms. Usually they were approached by a peer, thought the collaboration made sense, and engaged in it without thinking about the collaboration at a more conceptual level. They also tended not to think of collaboration any more systematically than they had before their first experience. However, several interviewees felt that there is a role for some education here, particularly by making peers who've been involved in successful collaborations available for dialogue and consultation.

- Donors may learn more about capacity building by studying approaches to it that have worked in the nonprofits they support, or other nonprofits in the community they come in contact with - especially if these observations are coupled with reports from nonprofit leaders about the benefits their organizations have received from capacity building.

Comparisons with Social Venture Partners As mentioned at the beginning of this report, SVP has been a pioneer in bringing the organized methods of nonprofit capacity building to venture philanthropy, where a "focus on capacity building and infrastructure" is one of four core components (Shoemaker, 2004). In a recent evaluation of Social Venture Partners Seattle's first five years, Guthrie et al (2003) found that SVP donors provided a great deal of technical assistance consultation to their "investee" nonprofits, primarily in the subject fields of information technology and marketing. They also offered financial support to nonprofits, enabling them to hire consultants - primarily focused on outcomes development and evaluation. Evaluation results indicate that this assistance did have a positive impact on participating nonprofits.

The evaluation also showed that a key challenge for SVP capacity building was early assessment of capacity needs, both to permit prompt action and to benchmark progress. Guthrie et al (2003) recommend use of a modified version of the McKinsey Capacity Assessment Tool for this purpose. They also recommend that donors be educated about the long-term nature of most nonprofit capacity building, so that they are prepared to make multi-year funding commitments and adjust their expectations about "quick successes."

The evaluation results also indicate that as a result of their SVP experience, donors were more likely to be willing to fund general operations, a key aspect of nonprofit capacity building. The SVP experience also makes it clear that it may be easier to get donors focused on capacity building after they've actually had field contact with nonprofits, so that they can see how different these organizations are from the business models donors are more likely to know. Shoemaker (2004) asserts that such field learning can be as important as networking with peers to shape attitudes and actions about capacity building.

Finally, Guthrie et al (2003) suggest that donor education and nonprofit capacity building activities can be merged, as has been the case for SVP. Most stages of SVP activities do both. Nonprofit capacity building is seen as a "rich, practical training ground where new philanthropists get hands-on experience not just about the mechanics of grantmaking, but also about the culture of nonprofits and the issues they work on" (p. 32).

Some Next Steps This modest study has only begun to explore the complexities of donor perspectives on nonprofit capacity building. The findings do suggest that good examples of individual donors approaching this subject exist, and that there is potential for much further learning and development.

A first step in examining further what might be done to increase donor ability to reach philanthropic goal through capacity building might be to gather a small group of philanthropists, trusted advisors, foundation staff, nonprofit leaders and leaders in the world of nonprofit capacity building. This "brainstorming group" could start with this report and then build on it to define major issues that will shape any future expansion activity.

Some particular areas worth exploring further are:

(1) Donor learning approaches on capacity building that focus on donors with multiple philanthropic vehicles (based on the assumption that educating them might increase the spread of this knowledge because of their multiple contacts in the world of donors).

(2) The relationship between efforts to promote capacity building for smaller foundations (Backer, 2004) and those addressing individual donor activities.

(3) Donor learning approaches that draw on the special potential of trusted advisors who also happen to be significant donors themselves. These "dual passport holders" can talk peer-to-peer with other donors on these new and unfamiliar subjects and encourage them in very productive ways.

(4) Donor learning that utilizes a "concierge" approach, in which a range of resources (learning materials in print or internet form, peer-to-peer networking, professional consultation, seminars,

contacts with philanthropic associations, etc.) are offered to donors in a customized way that responds to their particular needs at a particular point in time. While such an approach is expensive, it also may be much more likely to be effective in promoting real action and involvement by donors.

(5) Donor learning about nonprofits that is combined with donor provision of capacity-building services, following the model developed by SVP. Some donors bring much more than money to the table in their potential for assisting nonprofits with capacity building. They may offer tremendous business and community knowledge, invaluable contacts across sectors, as well as deep commitment that helps draw others to support the nonprofit. They can coach a nonprofit's staff and board members to think bigger, smarter, more creatively, and take risks.

From a larger perspective, the leading-edge donors and approaches to capacity building identified both by this study and by the SVP evaluation suggest that these donors have much to share with other donors who are not as knowledgeable or risk-taking. Their experience and their enthusiasm can be used in peer learning opportunities to fire up other donors with their success stories.

At the same time, such donors can also help funders - including foundations that do not yet support capacity building - understand better how nonprofit capacity building works, and what expectations for results are and aren't realistic. As one example, the donor in one of the case examples presented above also noted that he can accomplish with his company in a few weeks change that can take years in nonprofits, especially small, grass roots groups.

Enthusiastic donors always have taken on leadership roles in their communities. The results of this study suggest they also can do so informally, by encouraging other donors (and/or foundations) to become involved in nonprofit capacity building. Additionally, they can participate in donor learning activities on capacity building offered by various groups in the community. Such approaches can result in stronger, more effective nonprofits serving community needs.

References

Backer, T.E. (2004). *Capacity building for smaller foundations: Shoes for the cobbler's children.* Baltimore, MD: Annie E. Casey Foundation.

Backer, T. E. (2000). *Strengthening nonprofits: Capacity building and philanthropy.* Encino, CA: Human Interaction Research Institute.

Backer, T.E. & Barbell, I. (2004). Models for local infrastructure. *The Nonprofit Quarterly*, 12, Special Issue, 50-56.

Backer, T.E., Bleeg, J.E. & Groves, K. (2004). *The expanding universe: New directions in nonprofit capacity building*. Washington, DC: Alliance for Nonprofit Management.

Backer, T. E. & Grossman, A. (2001). *Helping nonprofits handle innovation and change: The Human Interaction Research Institute at 40.* Encino, CA: Human Interaction Research Institute.

Backer, T.E., Miller, A.N. & Bleeg, J.E. (2004). *Donor perspectives on place-based philanthropy*. Encino, CA: Human Interaction Research Institute.

Blumenthal, B. (2003). *Investing in capacity building: A guide to high-impact approaches*. New York: Foundation Center.

Connolly, P. & Lukas, C. (2002). *Strengthening nonprofit performance: A funder's guide to capacity building.* St. Paul, MN: Amherst H. Wilder Foundation.

DeVita, C. & Fleming, C. (Eds.) (2001). *Building capacity in nonprofit organizations.* Washington, DC: Urban Institute.

Grantmakers for Effective Organizations. (2004). *Funding effectiveness: Lessons in building nonprofit capacity*. San Francisco: Jossey-Bass.

Guthrie, K. et al. (2003). *Transforming philanthropic action: An evaluation of the first five years at Social Venture Partners Seattle.* San Francisco: Blueprint R&D.

Kinsey, D.J., Raker, J.R. & Wagner, L.D. (2003). *Capacity building for nonprofits.* San Francisco: Jossey-Bass.

Letts, C., Grossman, A. & Ryan, W. (1998). *High performance nonprofits: Managing upstream for greater impact.* New York: Wiley.

Light, P. & Hubbard, E. (2002). *The capacity building challenge.* Washington, DC: Brookings Institution.

Linnell, D. (2003). *Evaluation of capacity building: Lessons from the field.* Washington, DC: Alliance for Nonprofit Management.

Miller, C. (2002). *Linking mission and money: An introduction to nonprofit capitalization.* New York: Nonprofit Finance Fund.

Remmer, E. (2000). *What's a donor to do? The state of donor resources in America today*. Boston: The Philanthropic Initiative.

Shoemaker, P. (2004). Recent developments in venture philanthropy - the SVP case. Presentation to UCLA School of Public Policy and Social Research, May 27.

Siegel, D. & Yancey, J. (2003). *Philanthropy's forgotten resource? Engaging the individual donor.* Mill Valley, CA: New Visions.

Acknowledgments

We would first like to thank our informal advisory committee for their assistance with this study: Steve Buster, Peter Haight, Allison Sampson and Jean Tardy-Villernaud. Their generosity, both in meeting with us at the beginning of the study to define its purposes, and in providing contacts for some of the interviews we conducted, is much appreciated. Terri Ruddiman of the HIRI office staff helped coordinate the project. Ira Barbell of the Annie E. Casey Foundation provided many insights along the way, helping to shape the study's direction of inquiry and also the form of its results.

Finally, we thank our 34 interviewees, who assisted us in learning about nonprofit capacity building and place-based philanthropy as seen through the eyes of donors, in ways we believe will benefit the philanthropic, nonprofit management and nonprofit capacity-building fields in many ways.

This project is part of the Human Interaction Research Institute's (HIRI's) program of philanthropy studies, which also includes a national capacity building and philanthropy database project (managed by co-author Jane Bleeg), research about how small foundations can collaborate with each other, a study of capacity-building approaches smaller foundations can use for themselves, several studies of community infrastructure for capacity building, and work on approaches foundations around the world use to promote "stakeholder interactions" (who they bring to the table to help them shape their philanthropic strategy). Co-investigator Professor Alan Miller participated in the project as part of an academic sabbatical leave from the University of Nevada, Las Vegas. More information about HIRI's work in this area is available at www.humaninteract.org.

The project also was supported in part by the Annie E. Casey Foundation, in connection with its *Place-Based Philanthropy Initiative*. This initiative seeks (a) to engage funders in ongoing learning and sharing around characteristics of effective philanthropic practice, including a focus on place; (b) to increase the capacity of funders to engage in effective philanthropic practice that improves results for disadvantaged children and families; and (c) to increase the philanthropic resources - both financial and human - that advance the mission of improving results for disadvantaged children and their families.

Appendix A

Donor Perspectives Study - Interview Questions

1. Is capacity building for nonprofit organizations "on the radar screen" for you as a donor?

2. What are your experiences, if any, with supporting capacity building activities of nonprofits?

3. Who helps you to make decisions about any such support (family members, trusted advisors, etc.)?

4. Do you concentrate your giving on a particular place (like a neighborhood within your city)? If so, does that affect how you think about capacity building?

5. Have you supported nonprofit capacity building in partnership with other funders, and if so, how did that work out?

6. In general, what have been your experiences in partnering with other funders?

7. What might help donors learn more about topics like nonprofit capacity building or place-based philanthropy (seminars, print materials, websites, guidance from trusted advisors, etc.)?

Appendix B

Donor Perspectives Study - Interviewees

Jerome Blut, estate and trust planning attorney
Suzanne Booth
Steve Buster, U.S. Trust
Catherine Carlson
Nancy Castle
Arunas Chesonis
Mel Clark, Northern Trust Bank
Abigail Disney
Martin Early
Robert Egleston
Frank Ellsworth, Japan Society
Susan Grinel, Jewish Community Foundation of Los Angeles
Peter Haight, Fiduciary Trust International
Jeanne Kracher, Crossroads Fund
Barbara Marcus, Brown Family Office
Aaron Mendelsohn
Kathy & Ted Nixon
John Orders, consultant
Peter Pennekamp, Humboldt Area Foundation
Joy Picus, consultant
Ellen Remmer, The Philanthropic Initiative
Tom Safran
Allison Sampson, The Colburn Foundation
Barry Sanders
Joan Seidel, personal money manager
Abby Sher
Jeff Shields, US Trust Northern California
James Allen Smith, The J. Paul Getty Trust & Georgetown University
Kim Smith
Jean Tardy-Vallernaud, JTV Financial Source
Roger Thomas
Robert Wahlgreen
Jeff Weissglass
Chris Wilson
Amelia Xann, Jewish Community Foundation of Los Angeles