

Capacity Building for Smaller Foundations: Making an Investment in Ourselves

Leaders and staff of smaller foundations work in a delicate environment, with unique challenges to our effectiveness as grantmakers for our communities. Smaller foundations are defined as those with little or no professional staff resources.

Many of us know a story about a smaller foundation that sadly lost its way after the excitement around its formation. In contrast, we also know cases of a smaller foundation that found its way, becoming a good grantmaker, and perhaps a philanthropic leader in its community.

There are smaller foundations like this all of us can name instantly. These foundations incisively identify and communicate the problems we all want to rally around and solve. Their leaders are the colleagues from whom we seek advice, and who attract many of us to join with them on a philanthropic initiative.

What's needed to become one of those leading smaller foundations, and to maintain that success?

It's not a requirement to have a large staff, or to have huge financial assets, to become a philanthropic leader for our community and its causes. Smaller foundations, in a similar way to what many larger foundations do, can build up their strengths and competencies to provide greater levels of grantmaking impact for society. It is the developing and rounding-out of these strengths and competencies that

have a label of "capacity building." By becoming better equipped with the tools and knowledge of grant-making, we increase our "capacity" and we make better grants for our communities and causes. Serving as staff of a private foundation means that we must approach capacity building sensitively with our boards as well as with our communities.

In this paper, I seek to address questions that those who lead smaller family or private foundations might want answered on this subject:

What is "capacity building" all about?

How can we learn about capacity building from our grantees?

What results can we expect from paying attention to our own capacity building?

What kind of questions might my foundation's donor or board ask about this subject?

How do we find capacity building resources for my foundation?

What obstacles do we face and how can they be overcome?

My Experience in Three Sectors: The Parallels and Intersections Before addressing these questions, I'd like to say a little about my own background, and how it is

relevant to the questions I've just raised. My experiences in three sectors have blended together in ways that help me build the capacity of the foundation I help to lead, and that also position me to be an advocate for other foundations to do the same, in whatever ways fit for them. I spent 13 years in finance, including years as a banker with Bank of America. For the last 15 years, I have had tours of duty as a nonprofit executive, fundraiser and consultant to nonprofits, all of which have informed my last five years as the senior staff executive for a private foundation.

In my role as executive director of the Colburn Foundation, I often serve the foundation as the "go-between" for the grantees and our board. With our portfolio of grantees, we often have a frank dialogue about the strengths or challenges in their organization. As a foundation grantmaker, you expect applicants to have a well-honed vision, to know their constituency and position in their field, and to have a leadership role in addressing a specific need or issue in our society. As a result, a foundation board has a sense of the applicant organization's "capacity" and through grantmaking, foundations hope to help nonprofits be as effective as possible.

If smaller foundations are to make effective grants for our communities and causes, a reference to the business cycles of the private sector, the nonprofit sector, and the grantmaking sector must be made. It is important to acknowledge that smaller foundations have many unique operating dynamics requiring a business perspective that fits with the smaller foundation structure.

As foundations, through our grantmaking, we all share the goal of serving and improving our communities. Through my own journey as executive director of a private foundation since its inception five years ago, I've made

some discoveries that I will share with you in this short paper. I will specifically address the needs of smaller foundations because those are the ones I know best, and they are somewhat different than those of large national foundations.

But the place to start is with defining the term, so that foundation leaders (an executive director, donor, or trustee) can share these ideas with a board or donor, and recommend the allocation of scarce foundation resources to build its own capacity. Let's face it, the term "capacity building" is not common or understood equally by those of us involved with smaller foundations!

What is "Capacity Building" All About?

The standards we expect of our grantees serve as a model for us to understand "capacity building" more deeply. We can learn a lot from our grantees. As funders, our objective is to support grantees that demonstrate organizational effectiveness, quality accounting and fundraising systems, strong programs with objective evaluation tools. We want to help our grantees grow into well-managed and insightful leaders operating at the highest levels of quality in their fields. This is the "capacity building" we look for in their funding proposals to us. We sometimes fund education or technical assistance for nonprofits to support this kind of growth.

Capacity building also applies to smaller foundations, and we need to take advantage of these resources as well. For us, capacity building means finding the assistance we need to help our foundations define philanthropic strategies and support those strategies with the most effective grants.

Capacity building for foundations means that we embrace the idea of investing in ourselves. With some guidance, smaller foundations may

also embark on building our capacity in many ways. One of the most obvious ways to find capacity building help is to access some of the same resources as do the nonprofits we fund.

For example, consultants who are experts in your field of interest can help you gauge your foundation's progress in grantmaking. These consultants are often the same people hired for similar projects at your grant organizations.

Another resource is the leadership of other foundations who can offer valuable information and experience. If you need introductions to your foundation colleagues, the local service associations for foundations can help.

The most effective grantmaking foundations also tend to be those open to sharing how they became clearer in their focus or why they structure grants in a certain way. Many of these are larger staffed foundations that are actively involved in accessing a range technical assistance because they also want to improve their decision making and hone in their strategic direction.

Larger foundations may access these real-world capacity building skills from their peers, special project consultants, research centers, philanthropic and technical assistance associations and from their own grantees. Larger foundations also may dialogue with a range of nonprofits to gather activity and outcome data. This information informs foundation assessments about their community's needs and how they can be most effective with specific grantmaking support. These knowledge tools are as available to smaller foundations as the larger foundations.

A foundation's investment to gain knowledge about their field of interest are key factors to (1) ensure precious grant funds are employed

in the sectors of society where they are needed most, and (2) ensure that individual grants are made to nonprofits most capable of effecting improvements in our communities.

How Can We Learn about Capacity Building from Our Grantees? Nonprofits, many of whom are our grantees, access hundreds of programs and organizations throughout the country to improve their effectiveness. As is often the case, foundations fund these knowledge endeavors because we want to make grants to well managed, trusted and insightful leaders in their field. Nonprofits seek out best practices and to learn about the problems and upcoming needs they are addressing through their organizations in an ever-changing environment. Support for this knowledge gathering and skill building for nonprofits is packaged in grant applications to us as "capacity building."

Foundations want to stretch every grant dollar to its fullest impact, so it is imperative that we also engage in testing our assumptions about community funding needs and how we process our grants. Outreach success, organizational financial analysis skills, grants processing efficiencies, and our approach to funding issues require training, knowledge gathering, and skill building too. We need the same attention to "capacity building" as we require from our grantees!

Annual tax and distribution pressures make starting a foundation a fast-paced learning experience for the original donor. Decisions about the organization's structure may take place before the founder has an opportunity to understand their full range of grantmaking strategies and processes.

Most foundation startups hire outside experts first to set up the organizational structure,

with expert specialists in the legal and financial areas. These experts manage the asset management strategy and investment markets, tax laws and legal issues and often remain through the life cycle of a foundation. Then the next hire is typically the senior administrator or support person to the founder for grantmaking activities.

This second round of administrative or organizational leadership hires may be a donor's private banker, former politician, nonprofit executive whose board they serve on, a close friend they have watched volunteer in the community, a well-seasoned worker in the field of their mission, or a good fundraiser whom they admire and who has succeeded in making their giving experience very satisfying. What's needed is a person who is discreet, trusted, respected in the field and the community, and generally astute with financial matters.

The first assignment for a new foundation executive director is to make smart grants, but to also keep overhead low – a highly valued principle brought from the business sector to the nonprofit sector because the assumption is that the hard part was getting the funding and that grant making should be obvious and simple. This often does not turn out to be the case, and that's where capacity building comes in.

As the life cycle of a new foundation progresses, foundation leadership can find themselves in the early stages of grant distribution pressures before having adequately defined their philanthropic grantmaking processes, focus, and scope. In some cases, the roll-out of a new foundation is executed under great time pressures because of a liquidity event in the life of a private donor. This time pressure can overshadow the learning curve and can result in the grantmaking activities being relinquished to

the initial incubation advisors, such as lawyers and accountants.

Relinquishing grantmaking responsibilities is particularly likely to happen when a smaller foundation's leadership changes because of the death of the original donor, without adequate time to "seed" the leadership succession. When inexperienced or younger leadership comes aboard, they may want to seek outside help, but do not know where these resources exist.

As time progresses, new leaders begin to ask themselves questions like: What resources are out there to assist me in leading this foundation? Am I interpreting the founder's vision in the best way or could I improve on the methods in which the founder handled the grantmaking? Should we become more or less formal with our grantees or our application processes? Do we have enough knowledge to make the best grantmaking decision?

At some point, after the organizational structure, first hires, tax and legal hurdles are dealt with, and we have a cycle of grants behind us, we begin to question how we are actually doing as grantmakers? We ask ourselves "could we be more effective in impacting the issues we care about?"

What Results Can We Expect from Paying Attention to Our Own Capacity Building?

As staff, I have the obligation to ensure that our grants are effective and that our assumptions about needs and best-practices are constantly questioned, tested and improved. Access to the information and statistics that are commonplace in larger staff foundations can also play an important part in the development of a smaller foundation's long term strategy development.

To become a philanthropic visionary or leader in your community, you must have access to high quality current data. If you are a smaller foundation and you are considering a modification in your focus area, you need an informed understanding of the changes in your environment, in nonprofit management, in the needs of your community or field of interest.

An openness to capacity building does not have to be overwhelming or expensive for the smaller foundations. By accessing philanthropic networks - through peers, friends, the internet, consultants, wealth advisors or associations, you will save time. All of these resources will help match you with the exact connection you need for your specific area of capacity building.

Because this is an individualized clearinghouse process, these resources can recommend a consultant, a peer, or a program for your specific foundation. These resources will connect you with other donors who share your field of interest or who are asking the same questions. You will quickly find that these resource avenues all share your commitment of continually improving grantmaking effectiveness by revisiting the areas we fund and our own organizational weaknesses.

With assistance in our own capacity building, a smaller foundation can become a participant in the issues dialogue with larger foundations and philanthropic thinkers. By accessing the hundreds of programs and organizations available to foundations, smaller foundations will have doors opened to enable us to share sources of information. As a result, we will become better “givers” to our causes and community. Investing in ourselves will ensure that smaller foundations reach higher levels of effectiveness.

By accessing capacity building support systems, smaller foundations will develop the skills to become philanthropic leaders. For instance, there are many formally-organized, staffed funder networks in the U.S., bringing together foundations with common interests. There also are a number of more informal groups, such as the LA Arts Funders Group in Los Angeles. With rotating hosts organizing the meetings, this group of foundations that fund in the arts gets together every few months to discuss issues of common concern, and do peer-to-peer problem-solving. One recent session was focused on creating and sustaining partnerships in the arts. Smaller foundations are active members of this group. As a result, ***smaller foundations are more ready to partner and collaborate with larger foundations***, and larger foundations are more receptive to collaboration as well.

Another skill-set to be gained after connecting with other foundation colleagues is confidence. A small foundation requires confidence to try a new focus area or a new type of grant. Through connections with other grantmakers, ***smaller foundations will no longer operate in isolation***.

In the *Shoes for the Cobbler's Children* paper that is a companion piece to this paper (described further below), four core competencies, or capacities smaller foundations need to develop are described: legal, financial, governance and philanthropic. By observing transformations happening at a number of large foundations today, smaller foundations can enhance their own operations so that their legal, financial and governance capacities are structured to support philanthropic activities (grantmaking, convening, etc.), and vice versa.

By acquiring skills for grantmaking or issue collaboration, and through regular dialogue

with your grantmaking network, smaller foundation leadership will also have *the real-world tools, that the larger foundations have*, to reach more deeply into their cause or their community.

Through dialogue and knowledge gathering, *smaller foundations will identify and perhaps attract other philanthropists to the field of interest*. As a result, grantees will have a more diverse base of donors and smaller foundations will be liberated to be more diverse as well. *The notion of dependency on one foundation's support, which could be your foundation, will be lessened through collaborative funding*.

With a deeper and broader base of knowledge, *smaller foundations can be more impactful with their grants and become "agents of change" in their communities*.

What Kind of Questions Might My Foundation's Donor or Board Ask about This Subject? I have constructed some questions that the donor or boards of smaller foundations may ask about the subject of capacity building, and that foundation leaders may need to ask themselves from time to time. I have also provided an example of the path one might take to find answers.

A foundation might have a grantee in its portfolio that it has funded for years, so how often should I conduct a site visit of that grantee and what should I be looking for?

A helpful resource might be a conversation with a group of foundation colleagues on their operational policies. We can find and develop these collegial relationships through a variety of formal and informal methods. Contacting your local Regional Association of Grantmakers and speaking with a person there who can serve as your "ombudsman"

would be one way. The Regional Associations have a number of relationships and could "connect" you to a few sources. Another method might be to connect with your peers through friends who may know of other friends who operate family foundations.

Are there other foundations funding our field of interest?

Once again, connecting with your Regional Association is one method. Another method is to use the internet, looking on various sites in the same way nonprofits research prospects for funding. You could also engage a consultant in philanthropy for this research, therefore protecting your foundation's identity.

We want other foundations, large and small, to learn about, and perhaps fund, our focus area. Should we explore collaborations with other foundations?

Opening a dialogue with your grantees might be the place to start. They can facilitate an introduction for you to like-minded funders. Again, the internet and your local Regional Association might be another area of research for your self-examination process. Enrolling in a funders research workshop at your local center for nonprofit management might be one way to improve upon your research skills.

What information do other grantmakers require in their grant applications? What is the level of due diligence for other grantmakers and how does it compare to our level? What periodic reporting do other foundations require?

Your RAG would be an ideal place to start here. They often have template forms and procedural manuals for foundation members. Or, your Regional Association can recommend a consultant to work with you and

your board to discuss these issues and review best practices in other similar size foundations or foundations who fund your area of interest.

After years of a funding investment, how do other funders evaluate grantee or issue progress? What evaluation do they require from the grantee when they make the grant?

Your local Regional Association can refer you to specialist consultants that can work with your foundation and the grantee to design evaluation tools specifically addressing the issues your grantee is trying to tackle. You can also take a workshop to learn more about the value of evaluation tools for nonprofits or attend field-specific conferences about new trends or issues to evaluate in your field of interest.

What experience can other foundations share with us about the occasional need to “sunset” a grantee relationship or a field of interest?

Once you have developed a group of colleagues in your network, a discreet inquiry to them may give you some good resources and examples of what to avoid and lessons learned.

What role do other foundation boards have in comparison to our foundation board? How have other boards dealt with leadership succession?

There are specialist consultants who provide you with a range of structures present in other similar foundations. They can guide you through the research necessary to inform your future options. Every foundation board has unique characteristics and levels of involvement. Each board reflects the life cycle of the organization as well as the counter-point to its staff at that particular moment in time.

Can other foundations share their executive director job description and salary range?

All of this information is available through specialist consultants, your peers and your local Regional Association. A local community foundation may also be a valuable resource on these topics.

There are many more questions that will be raised for foundation leaders or their boards over years of grantmaking. The major categories of resources are listed in the companion piece to this paper, *Capacity Building for Smaller Foundations: Shoes for the Cobbler’s Children* as local philanthropic networks (organizations and peers), consultants, your grantees, and the internet. As your own network grows, you will enjoy the dialogue, collegiality and the support for your common objectives of becoming more effective grantmakers.

How Do We Find Capacity Building Resources for My Foundation? The task of finding all of the resources we need to improve our effectiveness as grantmakers may initially feel overwhelming but, as you will read in *Shoes for the Cobbler’s Children*, there are many low-cost and comfortable ways to access the exact information you need.

Following are a few resources for readers wanting to learn more about information and technical assistance available to smaller foundations:

Association for Small Foundations
www.smallfoundations.org - a national membership organization for donors, trustees and staff of small foundations, offering a variety of knowledge products and services

National Center for Family Philanthropy www.ncfp.org - a national membership organization for individual donors and family foundations, offering a variety of knowledge products and services

Foundation Center www.fdncenter.org - publisher and national information center for foundation-related knowledge, with a number of regional information centers based in local communities

Council on Foundations www.cof.org - national membership organization for foundations, with a number of publications and services directed to smaller foundations

Regional Associations of Grantmakers www.givingforum.org - many communities and regions across the country have these local membership organizations for foundations; the Forum of Regional Associations of Grantmakers is their national membership organization

Community Foundations www.cfamerica.org - many community foundations offer information and services to smaller foundations in their area; Community Foundations of America is their national membership organization

To learn more about the Annie E. Casey Foundation's work on community-based philanthropy, much of it involving collaborations with smaller foundations, or to get a copy of the companion piece to this paper, *Capacity Building for Smaller Foundations: Shoes for the Cobbler's Children*, please contact: Marci Weiner, 410/223-2987, mweiner@aecf.org.

What Obstacles Do We Face and How Can They be Overcome? After setting out examples of so many resources, one could

conclude that asking for help to become a better grantmaker is easy, but as we all know from the smaller foundations, it is very difficult for some of us. Let's explore the reasons that may have contributed to non-engagement with these resources.

In the early years of a family or private foundation's life cycle, the original founder is very involved. The benefactor placed all of the funds in this foundation vessel and has a background of probably running a major private sector business. Therefore, there is a heightened concern about overhead costs. As I described above, many of the avenues for help include no cost options, such as the internet and peer connections. We must overcome the impression that resources can only be accessed with high cost or large staff.

A benefactor may create a foundation after many years of being an active individual donor. Therefore, they may believe that knowing how to make grants should be obvious, and certainly much easier than earning the funds which created the assets for the foundation! For many wealthy people, there is a culture of operating quietly and privately, and not risking exposure of their mis-steps among peers. We must encourage foundation leadership to more openly interact with their peers, and to value the learning experience.

There are other factors that may also interfere in receptivity to technical assistance. First, benefactors may have made donations in a certain way for many years, and unless questioned, believe their method of giving is the most effective method. Second, foundation leadership often have many interests and demanding schedules, resulting in a simple perceived lack of time. Third, because new or smaller foundations have no idea all of these support resources exist, they do not proceed on the road of capacity

building, self-examination, collaboration, or re-focusing.

To access capacity building tools, foundation leadership must embrace the idea of becoming a more effective grantmaker and commit to investing in their own knowledge gathering skills.

As smaller foundations, with a very different environment than the larger foundations, we must commit to increasing our capacity. We must commit equally to disseminating information about capacity building to our peers, and encourage an open learning environment where questions are embraced until answers are found, and lessons are shared.

As smaller private foundations, we too can become today's leaders along with the larger foundations. We will be the educators of the next generation of philanthropic leadership and we need to educate ourselves for that profound role and responsibility. The next generation will take the reins from us, hopefully having experienced our commitment to capacity building. They will encourage a culture of openness and knowledge gathering.

Capacity building is a win-win for philanthropy and for the advancement of society.

Acknowledgments

Thanks are extended to my colleagues Thomas E. Backer, Human Interaction Research Institute, and Ira Barbell, Annie E. Casey Foundation for all their helpful input to this paper.

May 2004

ANNIE E. CASEY FOUNDATION

***written by:* Allison Sampson, Executive Director, Colburn Foundation; Senior Research Scientist, Human Interaction Research Institute; and independent consultant to nonprofits**